

AUSTRALIAN PHARMACEUTICAL INDUSTRIES

2018 HALF YEAR RESULTS PRESENTATION

THURSDAY 19 APRIL 2018



Important Notice

The material in this presentation is of general information about API's activities current at the date of the presentation. It is information given in summary form and does not purport to be complete. Nothing in this presentation should be construed as a recommendation or forecast by API or an offer to sell or a solicitation to buy or sell shares. It does not take into account the investment objectives, financial situation or needs of a particular investor. These should be considered with or without professional advice when deciding if an investment is appropriate.

This presentation contains certain non-IFRS measures that API believes are relevant and appropriate for the understanding of the business. Refer to Appendix 1 for further information.

GROUP PERFORMANCE

RICHARD VINCENT

CEO & MANAGING DIRECTOR

Management Overview

BUSINESS FOCUS

- Delivered slightly ahead on revised earnings guidance with steady business performance
- Management priorities are to deliver
 - Strong customer propositions in an evolving market
 - Profitable organic growth from core assets
 - Sustained improvements on balance sheet
- Assess prudent scalable acquisitions



Soul Pattinson Chemist


Pharmacist Advice



CLUB  PREMIUM

Business Progress

BUSINESS UPDATE

1. Develop stronger customer propositions in an evolving market
 -  New Priceline Pharmacy leadership and restructure with increased focus on differentiating product offer and building loyalty program
 -  Investment in banner brands and independent pharmacy services to maintain market position and returns
2. Profitable organic growth from core assets
 -  Cost base adjusted with re-engineered support service teams
 -  Consumer Brands product portfolio investment beginning to realise value
 -  Industry focus on Government reform to allow CSO wholesalers to deliver on the National Medicines Policy
 - Consumer Brands product portfolio investment beginning to realise value
3. Sustained improvements on balance sheet
 -  Ongoing working capital and debt improvements on the pcg
4. Assess prudent scalable acquisitions
 -  Using API's existing capabilities and balance sheet to provide higher growth, higher return opportunities for shareholders

Financial Highlights

	1H17	1H18
Revenue	\$2015.4m	\$2009.3m
Underlying ¹ EBITDA	\$62.3m	\$58.7m
Underlying ¹ NPAT	\$29.1m	\$26.8m
Underlying ¹ ROCE	15.23%	15.41%
Underlying ¹ ROE	10.56%	9.22%
Underlying ¹ EPS	6.0¢	5.4¢
Dividends	3.5¢	3.5¢

¹ Refer Appendix 1 for definition

MODERATED PROGRESS IN PREVAILING CONDITIONS

-  Challenges in retail environment will persist through 2018
-  Store network growth to continue with pipeline strong for CY18
-  Requirement to address exclusive distribution in pharmacy
-  Financial management focus to further improved debt and balance sheet

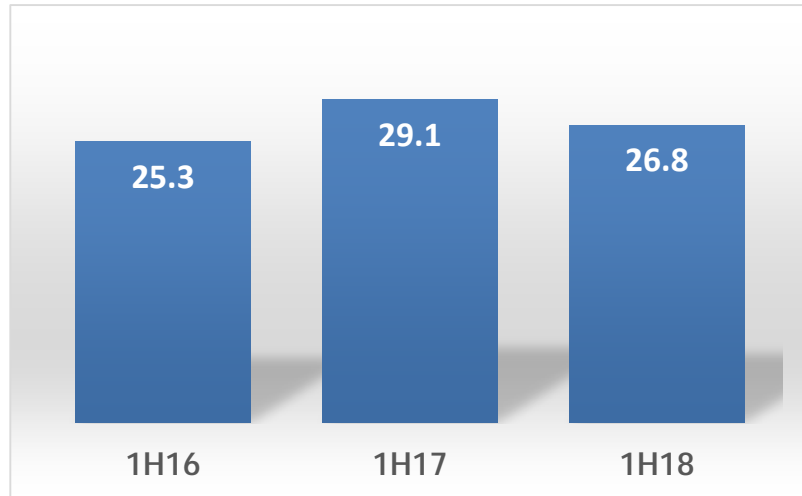
FINANCIAL RESULTS

PETER MENDO

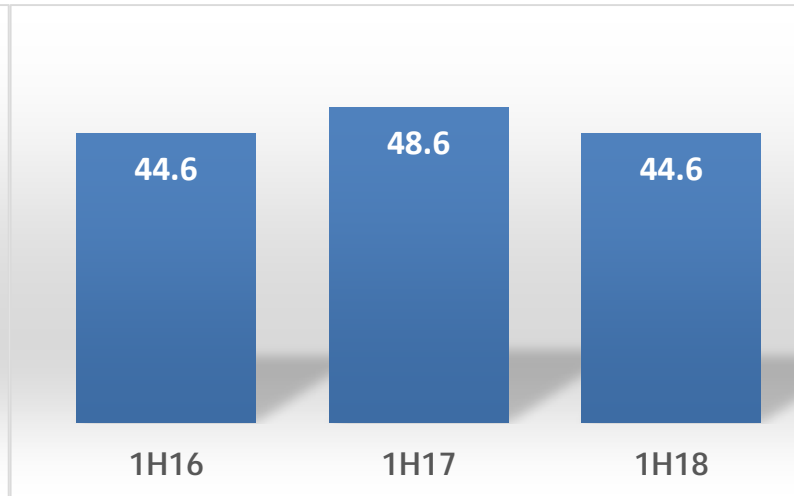
CHIEF FINANCIAL OFFICER

Financial Overview

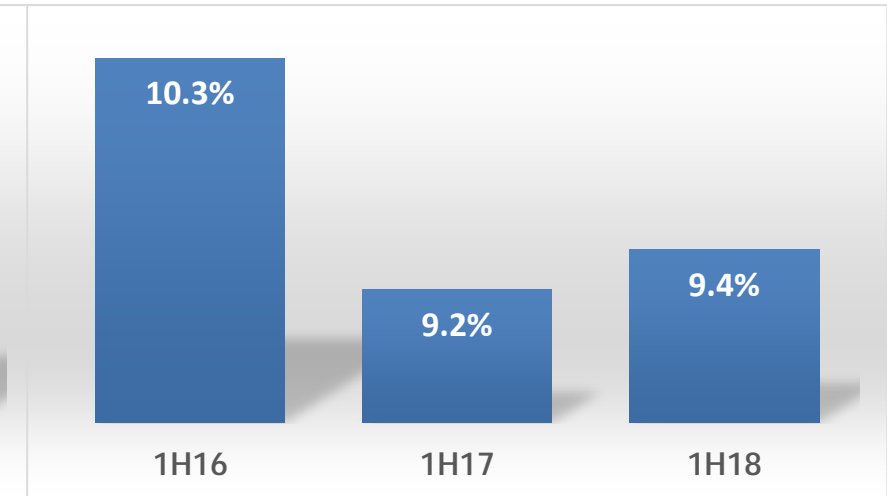
Underlying¹ NPAT \$m



Underlying¹ EBIT \$m



Underlying¹ CODB² (% of revenue)









FOCUS ON FUNDAMENTALS

- Business performance was down on 1H17 as flagged; benefits of continued balance sheet improvements assisted net profit result
- Re-engineering business structure will take further costs out over time; investments and underlying costs led to a slight increase in CODB
- Further opportunity to refine cost management to combat constrained retail environment

¹Refer to Appendix 1 for definition; ² Cost of doing business excludes depreciation

Financial Management

COST MANAGEMENT CHANGES





-  Underlying adjustments of \$2.6m relate to business restructuring and costs for strategic business growth (Retail, IT & Finance)
-  Overall salaries and wages were down compared to the pcp, with rationalisation of support office structures
-  IT infrastructure is moving to operating expenses; accounts will reflect a commensurate reduction in capex and depreciation
-  Significant opportunity for growth in NZ business has been secured with investments in product development - pay back within 12-24 months
-  Priceline Pharmacy network cost increased as we increased corporate store numbers in well-located cluster
-  Further cost-out initiatives in place to address constrained retail environment in near term

Working Capital

Summary \$m	HY17	FY17	HY18
Trade Receivables	631	682	609
Inventories	363	399	404
Trade Payables	653	805	702
Net Working Capital	340	276	311

Key Metrics	HY17	FY17	HY18
Trade Debtors Days	33.9	40.6	36.0
Inventory Days	33.7	37.2	37.7
Trade Payables Days	40.6	55.8	49.6
Cash Conversion Days	26.9	22.1	24.0

CASH CONVERSION REMAINS STRONG

-  Cash conversion remains the focus and is more than 10% better than the pcip
-  Continued trend for cash conversion cycle to be in the low-to-mid 20 days
-  Inventory increased on pcip due to increases in PBS volumes and major sales events
-  Inventory trend through the year is similar to FY17 level

Cash Flow & Debt

Key Metrics	HY17	FY17	HY18
Reported net debt \$m	57.4	(7.2)	25.1
Net debt ¹ /(net debt + equity)	9.5%	(1.3)%	4.3%
Net debt ² /EBIT	1.2x	(0.1)x	0.6x
EBIT/interest	7.6x	6.9x	7.0x

REPORTED NET DEBT REDUCES FURTHER ON PCP

- Reported net debt reduced by \$32.3m on pcpc
- Net debt coverage remains strong on all metrics
- Cash from operations was in line with 1H17
- Capex to ramp up in second half

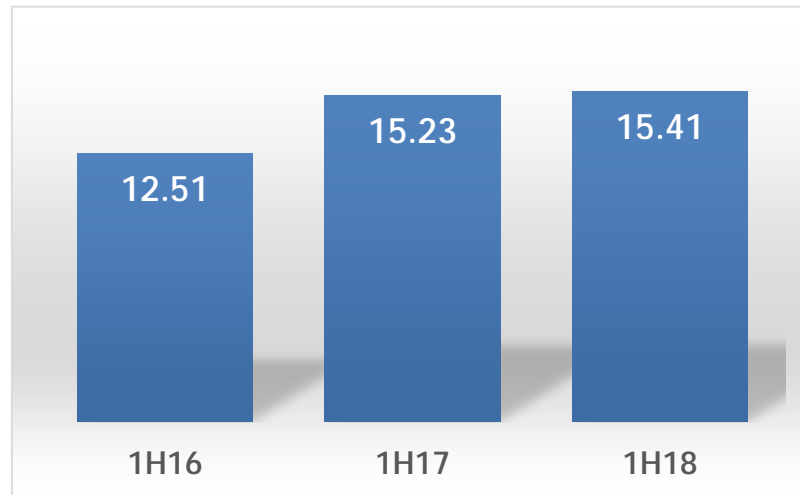
\$m	HY17	FY17	HY18
Cash generated from operations	21.1	129.8	22.8
Net capital expenditure	12.4	27.8	8.0
Free cash	8.7	102.0	14.8
Debt increase/(dec) including leasing	42.4	(18.8)	19.6
Dividend	(17.1)	(34.3)	(17.2)
Net movement in cash before interest & tax²	34.0	48.9	17.1

¹ Net debt includes annual insurance premium funding and finance leasing liabilities

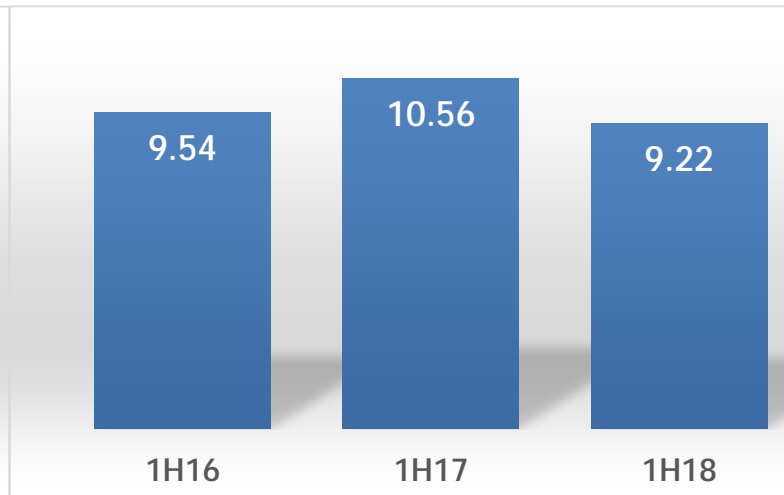
² As per the Appendix 4D Consolidated Statement of Cash Flows, excluding interest and tax

Capital management

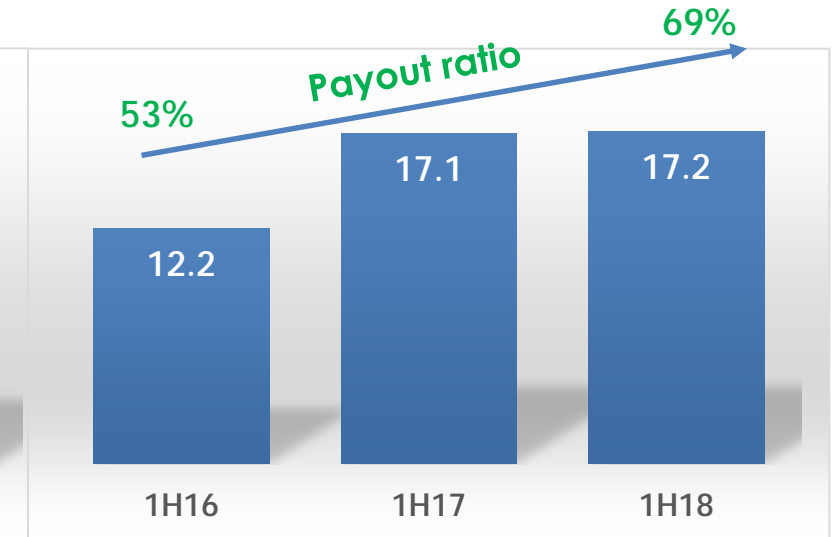
Underlying¹ ROCE%



Underlying¹ ROE%



Dividend paid \$'m



RETURNS TO SHAREHOLDERS

- Underlying ROCE trending up; underlying ROE in line with change in NPAT
- Confidence in business performance means dividend in line with last year
- Payout ratio has consistently improved year-on-year reflecting sustained performance

¹Refer to Appendix 1 for definitions

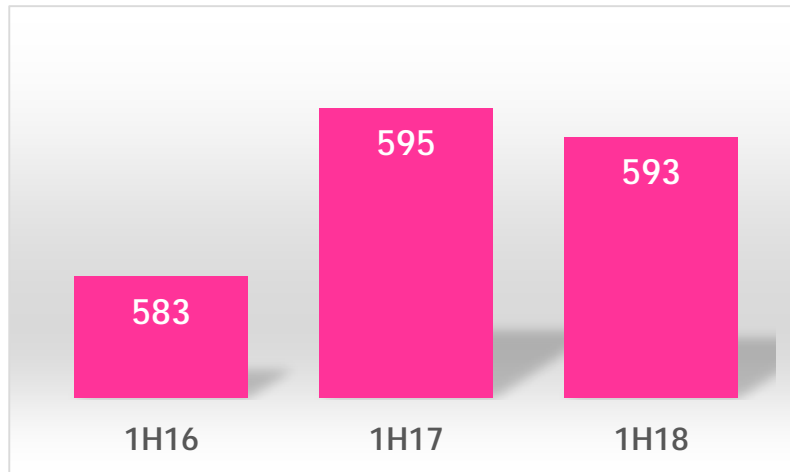
OPERATIONAL SUMMARY

RICHARD VINCENT

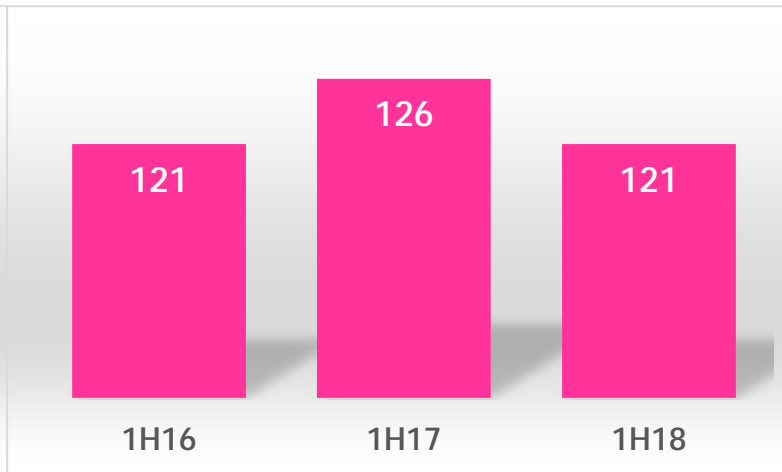
CEO & MANAGING DIRECTOR

Retail Results

Retail register sales² \$m



Retail GP \$m



TOUGH CONDITIONS SLOW SALES

- 💖 Total network retail sales¹ up 2.1%, retail register sales² -0.3%
- 💖 Comparable store growth at -1.7%
- 💖 Network up to 466 stores from 450 in the pcp
- 💖 Footfall strong – conversion and basket size focus to tackle price deflation
- 💖 Overall market share stable; positive trend in health categories

¹ All network retail sales recorded at register, stated on a financial period basis including dispensary

² Retail register sales stated on a financial period basis but excludes dispensary sales. Retail sales made by franchise stores do not form part of API's financial results.

Customer Priorities

REINVESTMENT IN SALES DRIVING ACTIVITIES

Increased emphasis on key promotional programs while enhancing margins for franchise and company stores

- 📈 Key promotional tactics with high customer volumes extended in duration
- 📈 More selective product, range and category choices to deliver improved margin
- 📈 Marketing tactics to highlight exclusive product and sales opportunities

LOYALTY PROGRAM LEVERAGE

- 📈 Sister Club database continues to grow and remains major source of customers – accounting for more than 50% of sales
- 📈 Loyalty communications emphasise brand value and sales opportunities
- 📈 Digital transformation program continues through FY18-19



HOTTEST OFFERS

Discover the hottest offers right now



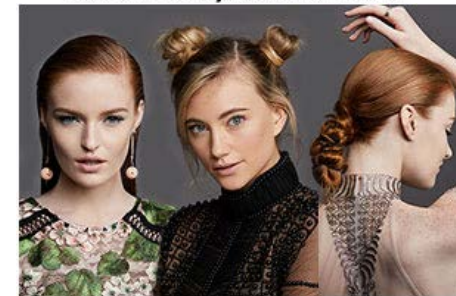
GET YOUR MAKE UP DONE

Book your FREE consultation with our talented Beauty Advisors in store



MAKEUP TIPS

Straight from the runway



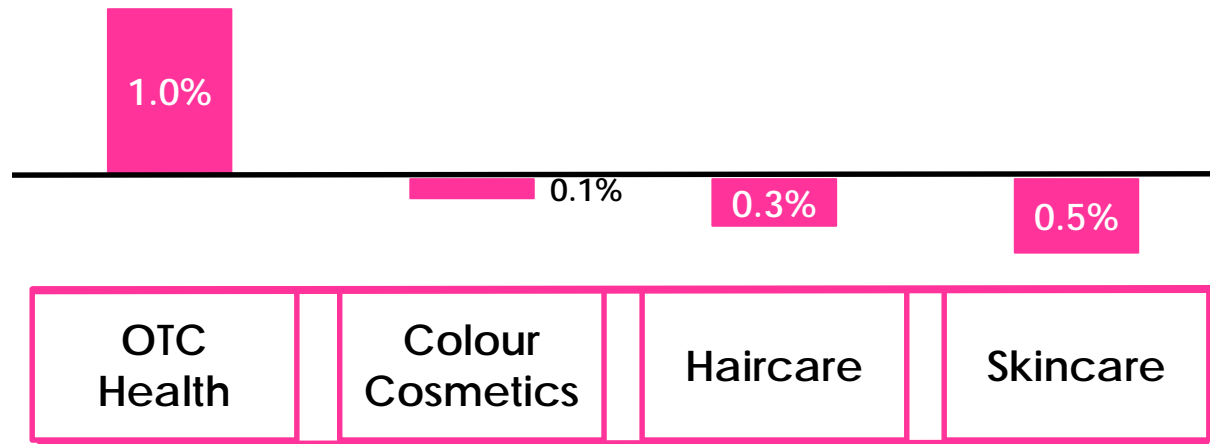
HAIR TRENDS

Discover the hottest hair trends straight from the runway






Retail Market Position

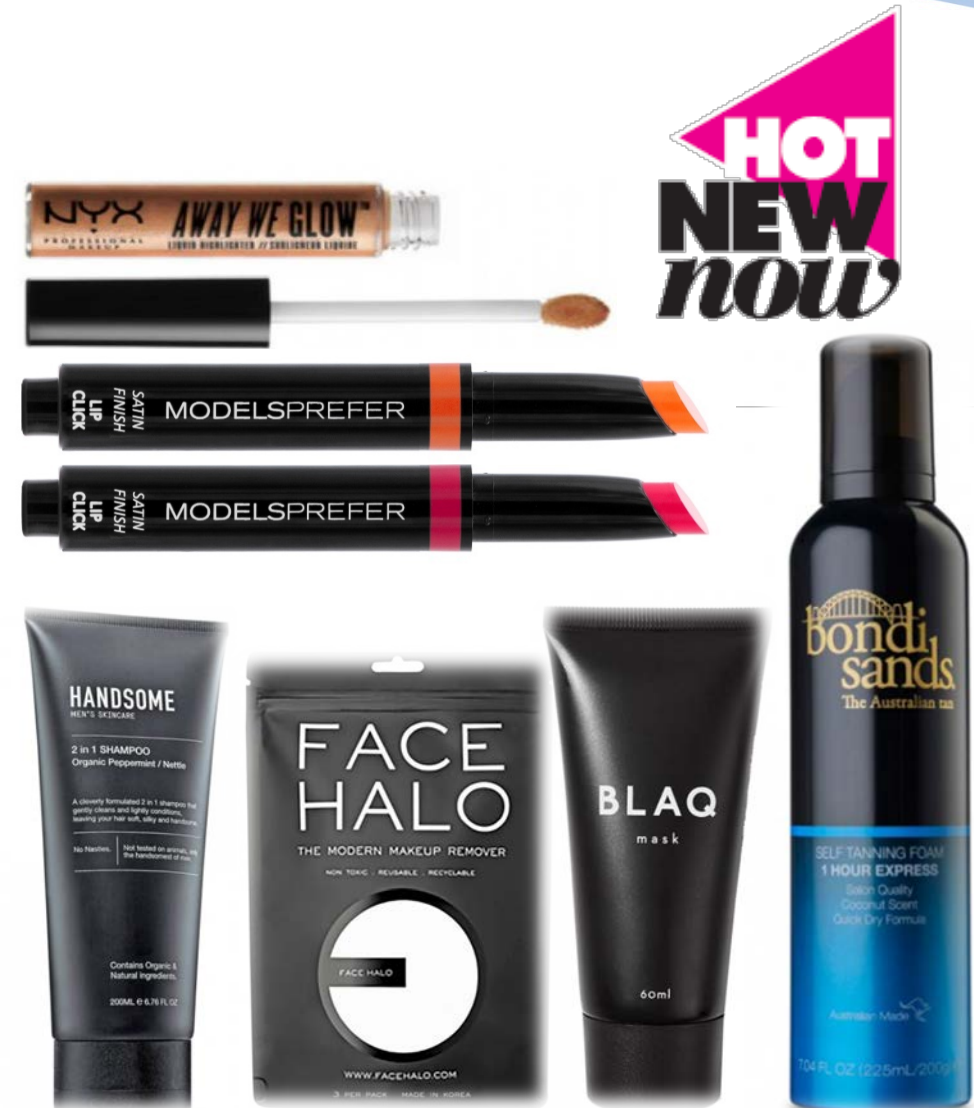
STABLE HEALTH AND BEAUTY SHARE - CATEGORY MAT GROWTH¹ %



Merchandise position improving through the period, last quarter market share steady and product developments continue.

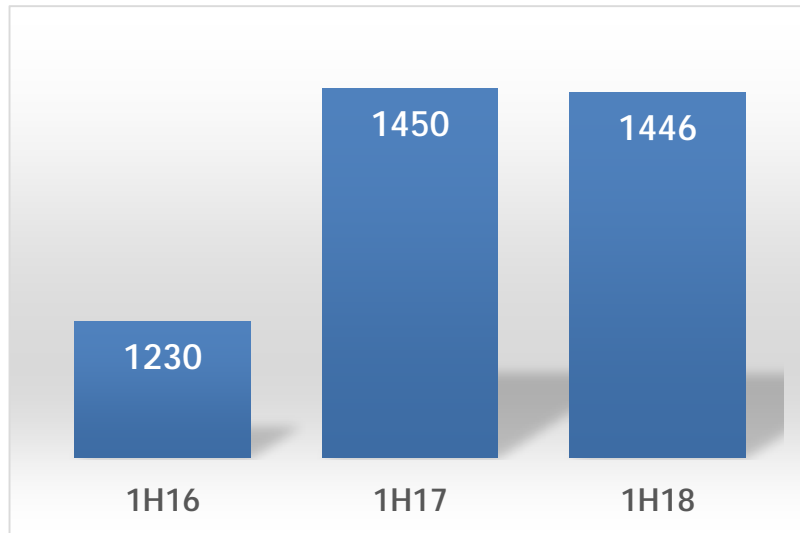
-  In stock position improved 130 basis points from pcp
-  New product pipeline strong with key trends covered
-  New developments to expand range with key brands through calendar 2018

¹ AC Nielsen to 04/03/18

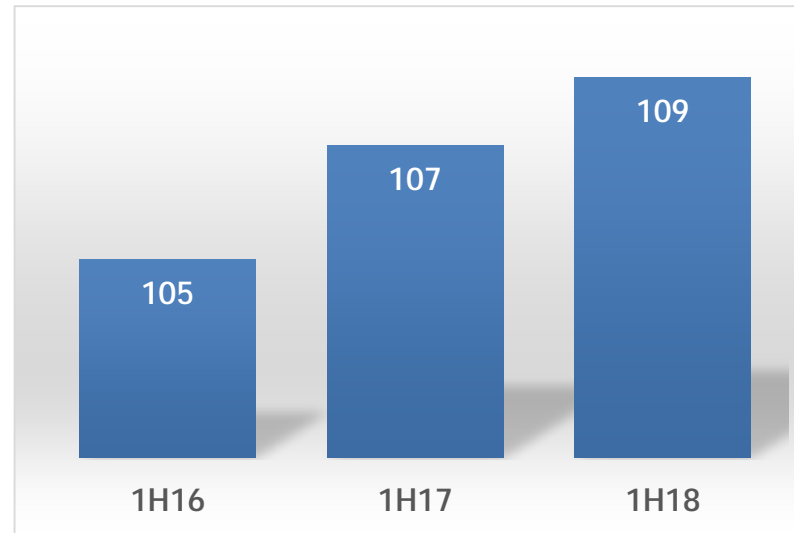


Pharmacy Distribution Results

Distribution Revenue \$m



Distribution GP \$m



FY17 GAINS CONTINUE INTO 1H18

- Underlying¹ growth was strong at 9.8%
- Independent pharmacy gains made in FY17 have flowed into 1H18
- Reinvestment in independent pharmacy and banner brands assisting with market gains and ongoing growth

¹ Refer Appendix 1 Definitions



Pharmacy Distribution Market

MARKET DYNAMICS

- Improved financial results achieved through a more competitive trading period
- Expect ongoing volume growth in future
- Efficiency of network to be reassessed and scoped for future requirements
- Exclusive distribution on selected PBS-funded pharmaceuticals
- Constructive dialogue with government
- Preparations starting for 2020 funding agreements
- Continuing move to services requires further assistance for pharmacies



Consumer Brands



POSITIVE MOMENTUM WITH CONTRACT GROWTH

- Established as one of the most significant OTC health suppliers to local market
- Earnings growth back on track
- Investments in product range and developing stronger supply relationships
- Profitable growth in contract manufacturing volumes in place with capacity allocated for the remainder of 2018
- Branded toiletry products (eg Only Good) performing well in NZ and promising opportunity in major grocery market in Australia
- Further growth expected in Consumer Brands as contracted volumes grow and opportunities for expanded role in supplying broader markets developed

FY18 Outlook

TRADING CONDITIONS

- Current trading conditions expected to persist through FY18
- Sales-generating focus for Priceline Pharmacy network; overall store number growth to continue
- Working capital and cash focus with further cost-out initiatives in 2H18
- Scalable acquisitions are achievable
- FY18 underlying result expected to be marginally above FY17, assuming the current trading conditions do not deteriorate further



Appendix 1 ASIC

ASIC Regulatory Guide 230 Disclosing non-IFRS financial information

In December 2011 ASIC issued Regulatory Guide 230. To comply with this Guide, Australian Pharmaceutical Industries Limited is required to make a clear statement about the non-IFRS information included in the Profit announcement and Half Year presentation for the period ending 28 February 2018.

In addition to statutory report amounts, the following non-IFRS measures are used by management and the directors as the primary measures of assessing financial performance of the Group and Individual Segments:

- Underlying Earnings before interest tax (EBIT)
- Underlying Earnings before interest, tax, depreciation, amortisation (EBITDA)
- Free cash
- Comparable Store Growth
- Underlying Return on capital employed (ROCE)
- Underlying Return on Equity (ROE)
- Pharmacy Growth
- Underlying Pharmacy Revenue Growth
- Retail register sales
- Cost of Doing Business (CODB)
- Underlying Cost of Doing Business (Underlying CODB)
- Underlying NPAT
- Underlying Earnings per share

The directors consider that these performance measures are appropriate for the purpose of presenting meaningful information on the underlying drivers of the continuing business.

Many of the measures used are common practice in the industry within which Australian Pharmaceutical Industries Limited operates. The Profit Announcement and Full Year presentation has not been audited or reviewed in accordance with Australian Auditing Standards.

Appendix 1 Definitions

- EBITDA - Result from operating activities before Depreciation and Amortisation
- EBIT – Result from operating activities
- Underlying EBITDA – EBIT calculated as above without including one-off impairment or other one-off charges
- Underlying NPAT – NPAT calculated with the same exceptions as underlying EBIT
- Free Cash – Cash generated from operations less capital expenditure. It does not include financing costs and tax paid
- Comparable Store Growth - Sales performance compared to last period for stores trading in the retail network greater than one year
- Interest Cover – Result from operating activities divided by net financing costs
- Net Debt or Net Cash – Borrowings less cash on hand
- Underlying Return on Capital Employed (ROCE) – Underlying EBIT/Total Capital Employed
- Underlying Return on Equity (ROE) – Underlying NPAT/Equity
- Retail network – franchise and company stores in the Priceline/Priceline Pharmacy brand
- Retail register sales – Sales recorded at the register of all network stores which excludes dispensary sales. Register sales made by franchisees do not form part of the result of the consolidated entity
- Cost of Doing Business (CODB) – total operating expenses, excluding cost of sales, depreciation and amortisation as a percentage of total revenue for the period
- Underlying Cost of Doing Business (Underlying CODB) – total operating expenses as above, without including one-off impairment or other one-off charges, as a percentage of total revenues for the period
- Underlying Pharmacy Revenue growth – revenue computed on volumes before PBS price changes that occur on 1 April and 1 October each year and it is also excluding Hepatitis C medicines revenue
- Underlying Earnings per Share – underlying NPAT/weighted average number of shares on issue during the period

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