



# AUSTRALIAN PHARMACEUTICAL INDUSTRIES LIMITED

2016 HALF YEAR RESULTS PRESENTATION

THURSDAY 21 APRIL 2016



## 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 & STRATEGIC PRIORITIES

STEPHEN ROCHE  
CEO & MANAGING DIRECTOR



# Group performance

## Growing profit and earnings for shareholders

- Underlying\* NPAT \$25.3m, up 18.1% on pcp
- EBIT of \$44.6m, up 15.6% on pcp
- Revenue up 4.4% to \$1.788bn
- ROE improvement by 210 bp on pcp to 9.54%
- ROCE improvement by 58 bp on pcp to 12.51%
- Cost of doing business decreased 16 basis points
- Interim dividend declared of 2.5 cents/share; up 25% on 1H15
- Increased financing costs due to increased safety stock to protect sales following SAP installation

## Organic growth from investments

- Delivering sustainable growth from core assets
- Successfully transformed business to retail growth focus while maintaining earnings from pharmacy distribution business

# Strategic priorities aligned with key assets



## GROUP FINANCIALS

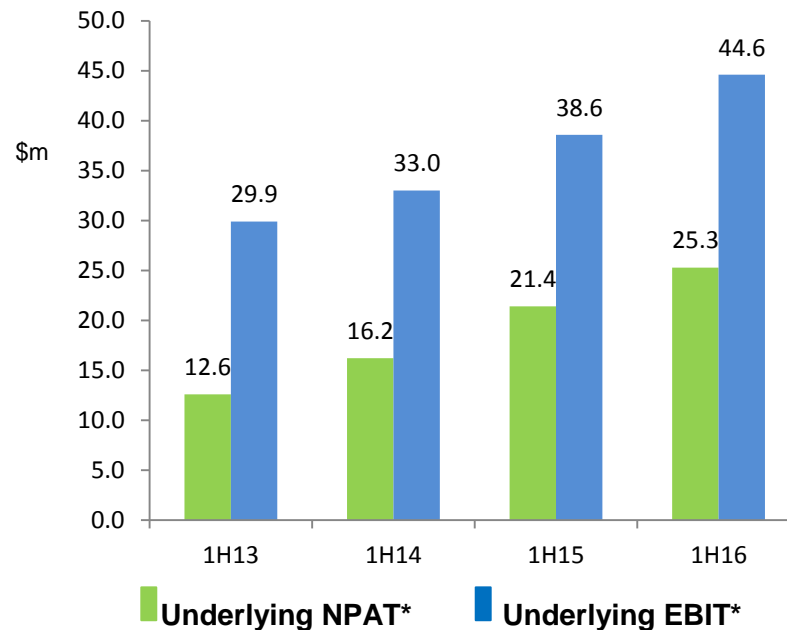
PETER MENDO  
CHIEF FINANCIAL OFFICER



# Half Year financial overview

## Growth trend in earnings and profit continues

- Operating business delivering growth and efficiencies
- Revenue growth of 4.4% driven by Priceline/Priceline Pharmacy
- Gross profit of \$237.9m, up 4.7%
- EBIT growth remains strong with 15.6% increase on pcp
- Underlying NPAT growth 18.1% on pcp

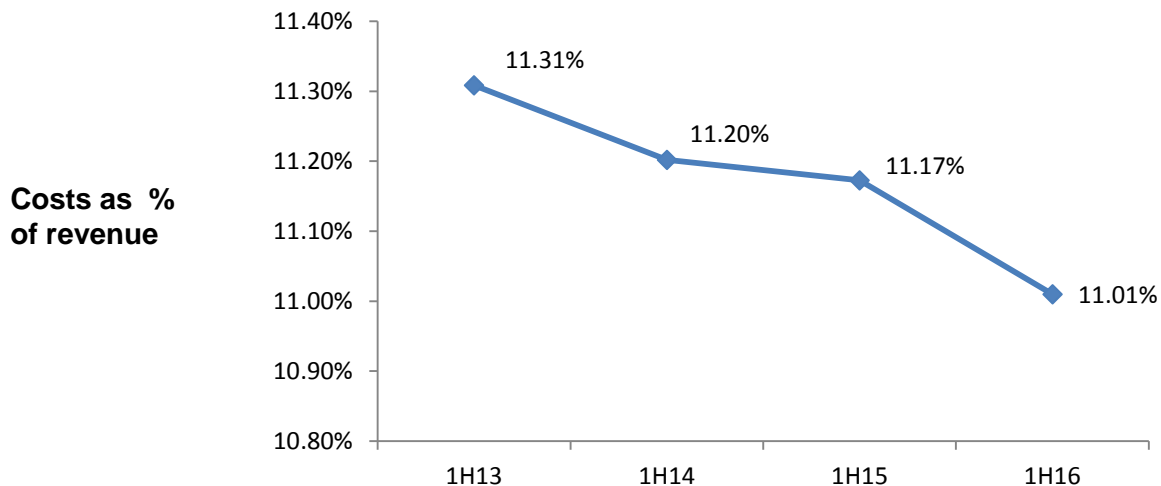


\* Refer Appendix 1 and 2 for definitions and reconciliations

# Cost management

## Operating costs – complementing growth

- Reductions achieved despite rising costs in wages and rent
- Continue to manage down overall cost of doing business
- Distribution costs continue long term downward trend despite volumes increasing
- Expenses now include the depreciation of SAP in 1H16





# Working capital

A\$m	1H16	FY15	1H15
Trade & other receivables	533	592	519
Inventories	383	364	328
Trade & other payables	528	666	572
<b>Net Working Capital</b>	<b>388</b>	<b>290</b>	<b>275</b>
Trade debtors days	34.6	39.9	38.0
Inventories days	40.9	40.2	36.3
Trade payables days	38.0	54.1	47.6
<b>Cash Conversion Cycle</b>	<b>37.4</b>	<b>26.1</b>	<b>26.7</b>

- Held more inventory through Seasonal trading period following SAP implementation to protect sales
- Timing of inventory build and pre-paid creditors had effect on reported days ratios

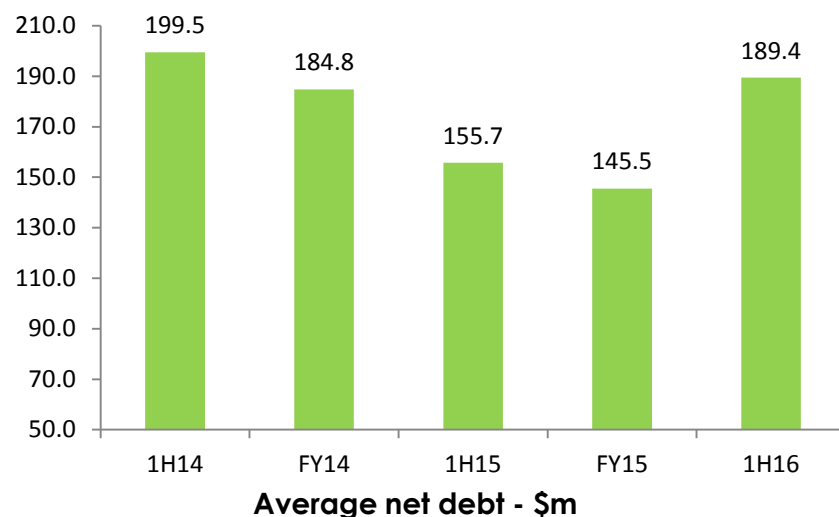
# Cashflow

A\$m	1H16	1H15
Cash generated from trading operations	58.8	48.2
Movement in working capital	(97.2)	18.9
Movement in other operating activities*	(3.0)	(2.7)
Net capital expenditure	(7.8)	(14.9)
<b>Free cash</b>	<b>(49.2)</b>	<b>49.5</b>
Debt increase/(reduction)	61.9	(36.5)
Dividend	(12.2)	(9.8)
<b>Net movement in cash</b>	<b>(8.5)</b>	<b>(9.9)</b>

- Strong cash generation from trading operations
- Expect to normalise cash during 2H16 to FY15 levels

\* Includes \$4.4million proceeds from sale of shareholding in CH2

# Debt metrics



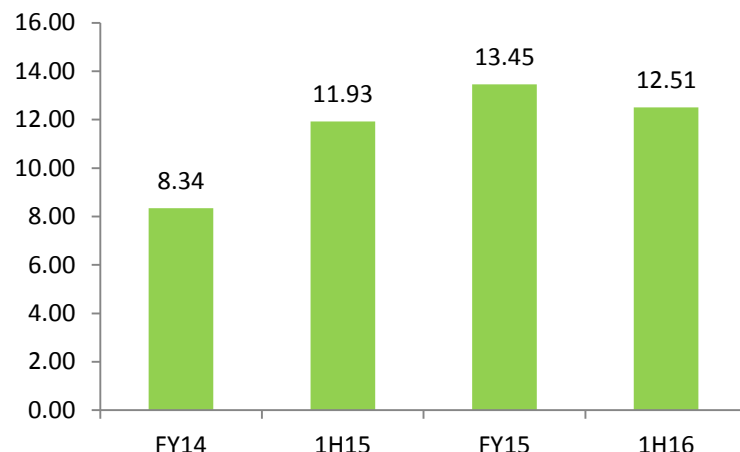
- Average net debt increased with working capital strategy
- Improvement in debt metrics expected during 2H16
- Interest cover remains strong

A\$m	1H16	FY15	1H15
Net Debt <sup>#</sup> /(Net Debt + Equity)	21%	12%	13%
Net Debt <sup>#</sup> /Underlying* EBIT	1.8x	1.0x	1.1x
Underlying* EBIT/Interest	5.4x	5.2x	4.6x

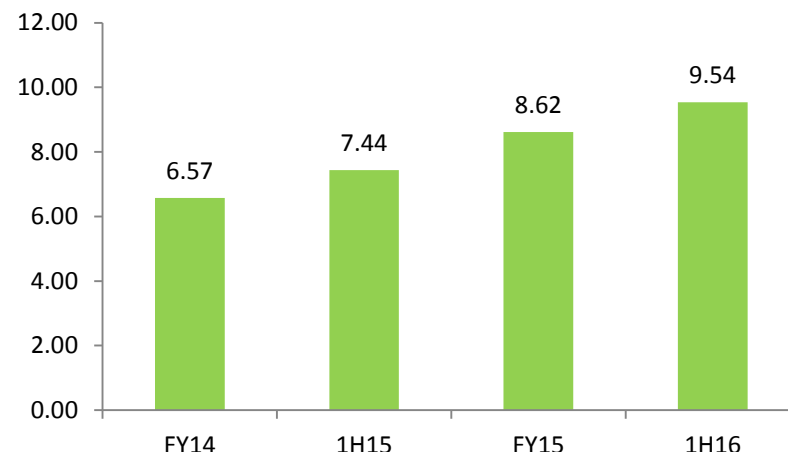
<sup>#</sup> Net debt includes annual insurance premium funding and finance lease liabilities

\*Refer to Appendix 1 and 2 for definitions and reconciliations

# Capital metrics



Underlying ROCE\* %



Underlying ROE\* %

- Return on Equity CAGR is 18.9%
- Return on capital employed CAGR is 16.3%
- Favourable benchmark to ASX 200 median ROE 4.9% and ROCE of 12.0%

\* Refer Appendix 1 for definitions

# Capital management update

## Working Capital

- Working capital will normalise given inventories and creditors impact in 1H16
- Free cash turnaround expected

## Capex

- Capex tracking as expected at approximately \$19m for FY16
- Primarily stay-in-business capex of \$15m for FY17

## Debt

- Further debt reduction will return through 2H16
- Reported net debt target of \$70m at end FY16

## Dividends

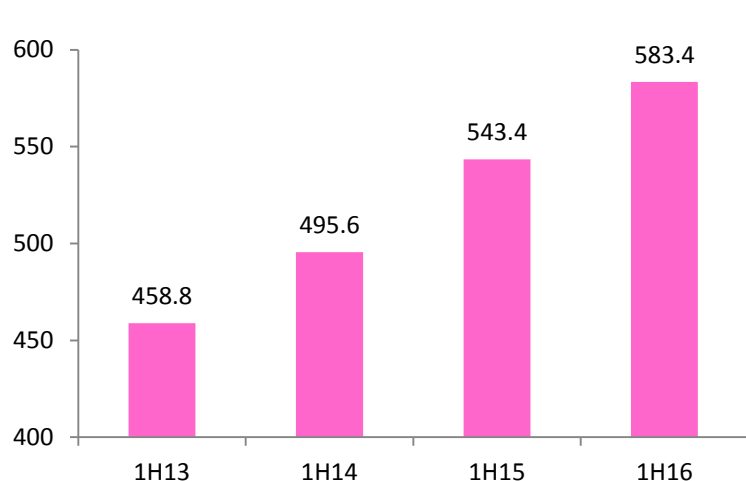
- Current payout ratio 53% for 1H16
- Further capital management strategies to be considered by Board at full year

# OPERATIONAL SUMMARY

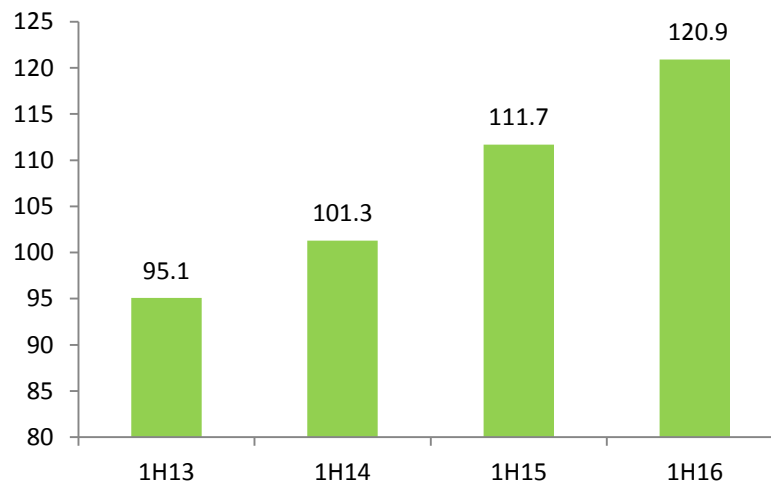
STEPHEN ROCHE

CEO & MANAGING DIRECTOR

# Retail summary



Retail register sales\* - \$m



Gross profit - \$m

## Key indicators

- Total retail network sales up 7.1%\*
- Comparable store retail sales +2.4%\*
- Dispensary LFL volumes +3.5%
- Gross profit +8.2%
- Forecast 440 stores at the end of FY16



\*Retail network sales at register but excludes dispensary sales. Retail sales made by franchise stores do not form part of the financial results of the consolidated entity. Refer to the 2016 Appendix 4D lodged with the ASX for recorded segment revenue

# Integrated assets amplify difference



## SISTER CLUB

6.1 million total members  
2.5 million email addresses  
Represent 42% total sales and spend 41% more than non-members



## CATALOGUES

Over 7 million/month reaching 75% of all households  
Online catalogue includes website integration



## MEDIA

Dedicated national TV campaigns  
Integrated with catalogue offers  
Access print, radio, TV & digital



## SOCIAL MEDIA

Facebook 220k; Instagram 180k  
High fan engagement vs competitors



## ONLINE

Monthly visits 1.76 million  
Average monthly page impressions 11 million



## MAJOR CAMPAIGNS

Own major health and beauty media campaigns including; Festival of beauty, Beauty School, Health Tracker, Biggest Blood Pressure Check, Virgin Australia Melbourne Fashion Festival



## AMBASSADORS

Align iconic talent across health and beauty  
Maximises each major campaign



# Widest range complemented by service

## Win on product range and choice



4900 COSMETICS PRODUCTS



3000 SKINCARE PRODUCTS



2750 HAIRCARE PRODUCTS



590 FRAGRANCES



3700 MEDICINAL HEALTH



1300 VITAMINS & SUPPLEMENTS

### OUR Beauty Service



- > Trained Beauty Advisors in every store
- > Foundation Colour Matching
- > Product recommendations
- > Personalised consultations

### OUR Health Service



- > In-store Women's Health Checks with a pharmacist
- > 60 exclusive Digital Health Kiosks
- > Online Health Tracker program with free meal and activity planners



api



# Core business strengths

## Leveraging Health & Beauty advantage

Category	Growth#
Colour cosmetics	14.1%
Skincare	16.4%
Medicinal health	17.6%
Vitamins	17.1%

## Compelling model for business partners

Franchise store LFL growth*	3.4%
Store network size	425
Brand awareness	95%
Website sales on pcp	42%
Dispensary program customers	+110,000

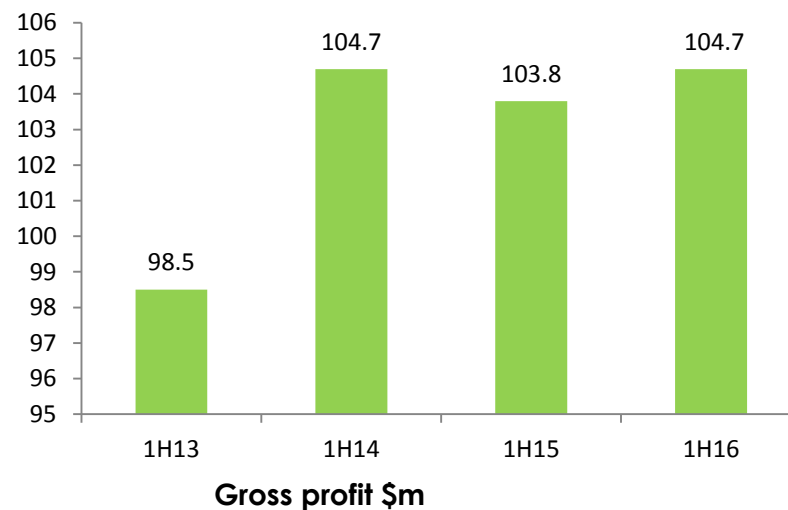
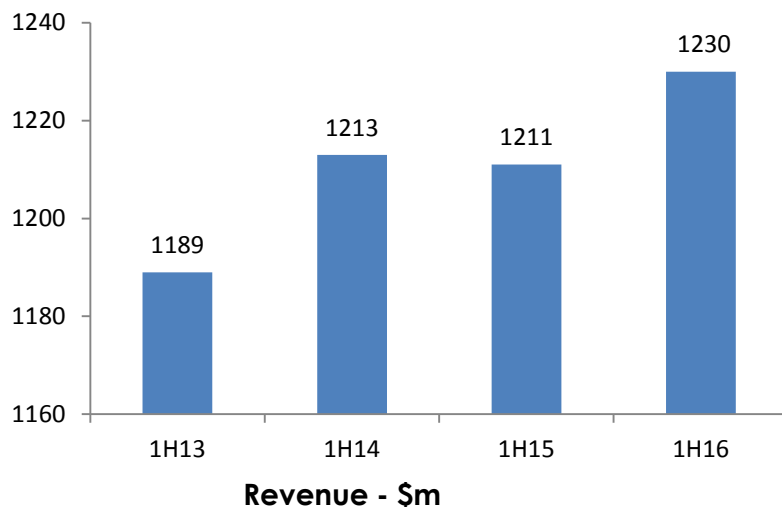
# Nielsen data to 6 March 2016 – MAT market share pharmacy & grocery.

\*Retail network sales at register but excludes dispensary sales. Retail sales made by franchise stores do not form part of the financial results of the consolidated entity.

Refer to the 2016 Appendix 4D lodged with the ASX for recorded segment revenue

The advertisement features the Priceline Pharmacy logo at the top, followed by the 'foundation FINDER' title. Below this, it says 'FIND YOUR EXACT FOUNDATION SHADE MATCH'. A paragraph explains that the service is available in-store or online, requiring an appointment with a Beauty Advisor. A row of seven foundation shade swatches is shown. A woman is pictured holding a handheld device, with a 'hot new now' badge next to it. Text at the bottom states 'We have a trained Beauty Advisor in every store.' and provides booking information: 'BOOK A SESSION IN-STORE OR ONLINE AT bookings.priceline.com.au'. The Priceline Pharmacy logo is at the bottom right.

# Pharmacy Distribution summary



## Key indicators

- Underlying Pharmacy Distribution revenue growth\* of 7%
- GP margin steady at 8.5%
- Independent offer growing customer base
- Investment in services provides sustainable returns

\*Refer Appendix 1 for definition

# Pharmacy Distribution summary

## Integrated business driving value

- +750 Club Premium members of independent program and growth continues
- Soul Pattinson and Pharmacist Advice support strong local community pharmacy offer
- Steady growth rate maintained with profitable sales at pharmacy level
- Supporting broadening of service-based community pharmacy model

## Key industry issues

- Independent Review of Pharmacy Remuneration and Regulation commenced
  - Actively engaged with the review panel
  - Discussion paper to be issued at end of April
- Review to have final report in March 2017



# New Zealand summary

A\$m	1H16	1H15	%
Sales	23.4	20.9	+12.1%
Gross Profit	12.2	11.7	+4.2%
GP Margin	52.1%	56.0%	-

## Key indicators

- Growth generated from supplying private label products to Australian market
- Further opportunities remain for expansion of product range into Australia
- Sustaining local position as key supplier in domestic New Zealand market



# SUMMARY AND OUTLOOK

STEPHEN ROCHE

CEO & MANAGING DIRECTOR

## In summary

### Focus on strategic plan

- **Integrated business will be further leveraged to deliver growth and efficiencies from existing assets to maximise shareholder returns**

### Benefits to continue in 2H16

- **FY16 trading to remain at current levels and Priceline/Priceline Pharmacy store growth on track**
- **Ongoing growth in shareholder returns with balance sheet improvement during the period**

\* Outlook is subject to:

- no material change in consumer or customer demand
- a stable economic climate
- no unforeseen adjustments to the regulatory environment or reforms to the Pharmaceutical Benefits Scheme



# AUSTRALIAN PHARMACEUTICAL INDUSTRIES LIMITED

THANK YOU





# Appendix 1

## 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 29 February 2016.

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:

Non-IFRS measures used in describing the Business Performance include:

- Earnings before interest tax (EBIT)
- Earnings before interest, tax, depreciation, amortisation (EBITDA)
- Free cash
- Comparable Store Growth
- Interest cover
- Return on capital employed (ROCE)
- Return on Equity
- Underlying Pharmacy Growth
- Retail register sales

In addition to the above the following non-IFRS measures are used by management and the directors to assess the underlying performance of the Group during the period.

- Underlying NPAT
- Underlying EBIT

The directors consider that these performance measures are appropriate for their purposes and present 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 (includes late fee income from overdue trade debt)
- 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 – Borrowings less cash on hand
- Return on capital employed (ROCE) – underlying EBIT / Equity plus Net Debt - Tax
- Return on equity (ROE) – underlying NPAT/Equity
- Underlying Pharmacy Revenue Growth – Revenue computed on volumes before PBS price changes that occur on 1 April and 1 October each year
- Retail register sales – Sales recorded at the register of all franchise and company owned stores which exclude dispensary sales. Register sales made by franchisees do not form part of the result of the consolidated entity
- Retail network – franchise and company stores in the Priceline/Priceline Pharmacy brand
- Underlying EBIT – EBIT calculated as above without including one-off impairment or other one-off charges and associates contributions that have been detailed in financial periods under review. Refer page 27 for prior comparable period
- Underlying NPAT – NPAT calculated with the same exceptions as underlying EBIT. Refer page 27 for prior comparable period.

## Appendix 2 – 1H16 Income Statement

\$M AUD	1H16	1H15
Revenue	1,788	1,712
Gross profit	237.9	227.2
Other Income	3.7	2.7
Operating Costs	183.9	182.2
Depreciation	13.0	9.1
EBIT	44.6	38.6
Financing costs	8.3	7.0
Tax Expense	11.0	10.1
NPAT pre associates	25.3	21.4
Loss on Associates	2.4	0.1
NPAT	22.9	21.3



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