

# Australian Pharmaceutical Industries First Half Results FY 10

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## Important notice

The material in this presentation provides 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.

# Welcome



## 100<sup>th</sup> Birthday – 19 April 2010



# Contents

1. Overview
2. First Half Results FY10
  - Financial Overview
  - Divisional Overview
3. Outlook

# 1. Overview

Business continues to strengthen, potential remains.

## Business continues to strengthen

- One of Australia's leading, mass market health & beauty retailers
- Australia's leading pharmaceutical distributor
- Revenue up 6.7% to \$1.85b
- Group NPAT up 54% to \$10.3m
- Group NPAT up 29% after removing effect of capital raising
- Solid operational performance in a mixed economy
- Strong focus on Working Capital management has delivered benefits
- Revitalise, our Supply Chain initiative, is expected to deliver projected savings, in line with previous guidance
- Fully franked interim dividend of 1 cent per share declared (1H'09 nil)

# API will capitalise on further potential

- Recent \$150m equity raising has significantly strengthened API's balance sheet
- Pharmacy Division continues to record increased market growth
- Priceline brand still growing franchisees and customers:
  - Most intense retail environment experienced
  - Comparable store growth up 2%
  - Clubcard jointly awarded Most Effective Customer Relationship Management Program in Australia : now 3.1m members
- Confident in our ability to manage any PBS change
- Revitalise program to consolidate Supply Chain is expected to deliver savings in FY11 of \$10m and \$18m in FY12.

## 2. First Half Results FY10

API records strong growth and increased profit in a mixed economy

# First Half Results FY10

Financial overview

# First Half FY10 Key Financials (Group)



## Underlying performance improvement demonstrated during Revitalise transitional year

- Revenue up 6.7% to \$1.85b
- NPAT up 54% to \$10.3m and 29% after removing the effect of equity raising
- EBITDA up 2.8% to \$30.6m
- EBIT up 17.5% after excluding \$3.8m of additional costs associated with supply chain “Revitalise” rollout
- EPS up 13.0% to 2.6c
- Interim Dividend of 1 cent per share declared

	FY10 H1	FY09 H1	%
Revenue	\$1.85b	\$1.73b	↑6.7
EBITDA	\$30.6m	\$29.8m	↑2.8
EBIT	\$21.6m	\$21.6m	↔
NPAT	\$10.3m	\$6.7m	↑54.5
EPS	2.6 c	2.3 c*	↑13.0
DPS	1.0 c	Nil	

\* Earnings per share restated for entitlement offers announced 21/10/09 and completed 17/11/09

## Investing in our supply chain - Revitalise

- Continued investment in the “Revitalise” project to enable supply chain efficiencies:
  - Melbourne site supporting Retail from September. Expect roll in of Pharmacy in second half
  - Brisbane site operational March 1
- Retail new store development of \$2.0m

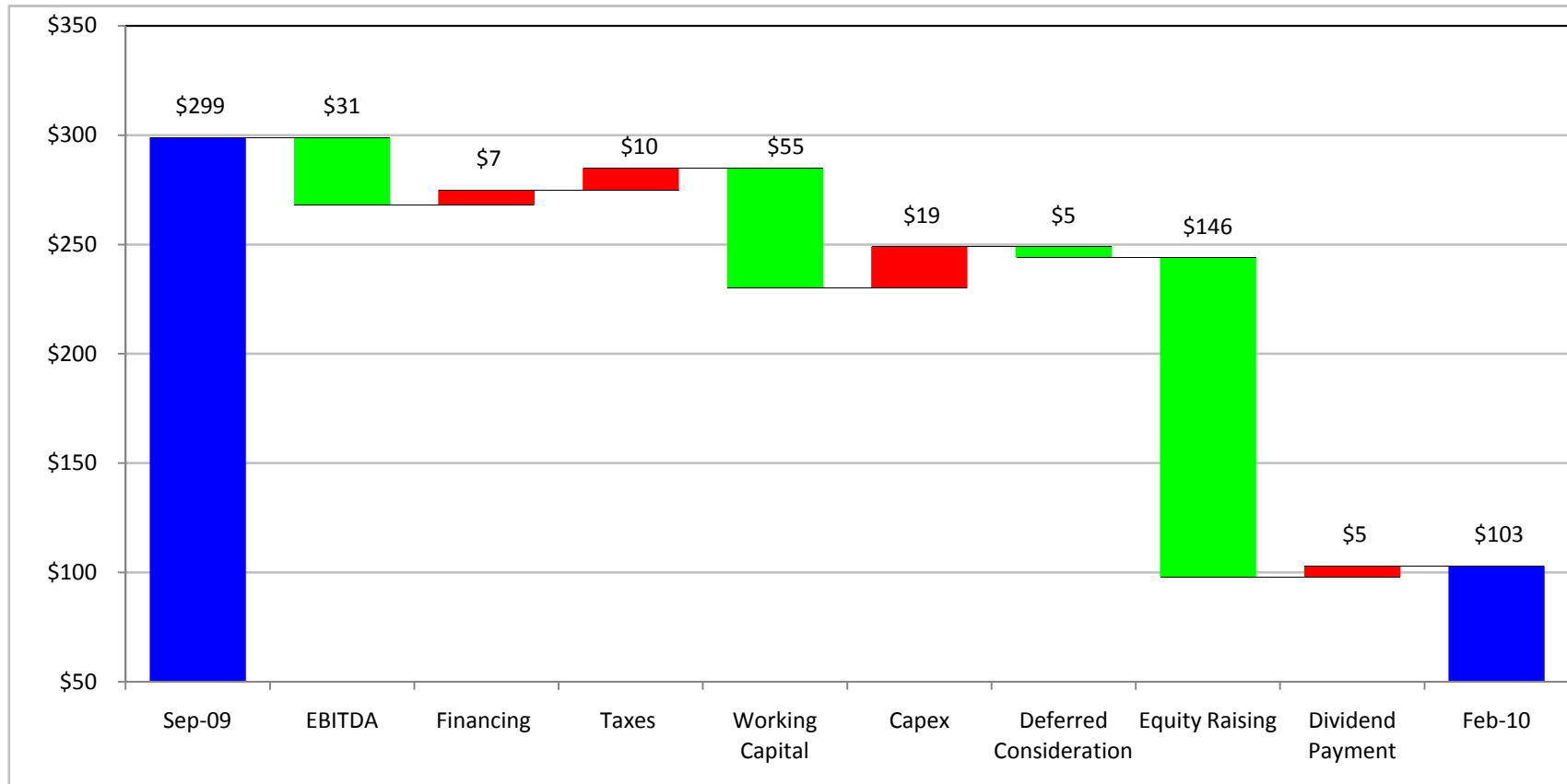
A\$m	FY10 1H	FY09 1H
Supply Chain	14.0	13.5
Pharmacy	1.5	1.0
Retail	2.5	4.0
Other	0.5	0.5
<b>Total</b>	<b>18.5</b>	<b>19.0</b>

## Strong operational cashflow production

- A focus on working capital resulted in improved cashflow with \$69m generated from operations
- Continued focus on reducing customer credit terms
- Some duplication of stock upon change over of Brisbane Distribution centre on March 1. Extended payment terms received on additional stock

A\$000	FY10 H1	FY 09 H1
Operating	69,044	16,540
Investing	(13,739)	(18,566)
Financing	(21,856)	(13,075)
Net Movement	33,449	(15,101)

# Net Debt Movement – Half Year



# Capital Management

## Balance Sheet further strengthened

- \$146m proceeds from capital raising
- \$55m net reduction in Working Capital
- \$196m reduction in net debt during the period
- Improvement in interest rate coverage and gearing
- Securitisation facility to be recorded on balance sheet at 31 August.

A\$000	FEB 10	AUG 09
Cash	39,279	5,856
Net Debt	(34,586)	(971)
\$300m Securitisation Facility (Off Balance Sheet)	138,000	300,000
Net Debt (Off / On Balance Sheet)	103,400	299,029
EBITDA / Net Interest	4.4x	3.0x
Net Debt <sup>1</sup> / (Net Debt + Equity)	15%	41%

1. Net Debt includes \$300m off balance sheet Securitisation Facility

# First Half Results FY10

Divisional overview

# Pharmacy Divisional Review

## Continued revenue growth with management focus on working capital

- Sales growth of 7.4%
- EBIT up 8.7% to \$26.8m
- Control of working capital and customer trading terms
- CSO continuation planned in 5<sup>th</sup> Guild Government agreement
- Consumer Brands (NZ) trading profitably but below expectations due to costs of product rework.

	FY10 1H	FY09 1H	%
External Sales	\$1.43b	\$1.33b	↑7.4
EBITDA	\$31.4m	\$29.1m	↑7.9
EBITDA % Sales	2.2%	2.2%	↔
EBIT	\$26.8m	\$24.7m	↑8.7
EBIT % Sales	1.9%	1.9%	↔



# Retail Divisional Review

## Intense Competition – continue to strengthen leading mass market health and beauty brand

- Slower retail environment experienced with consumer caution restraining spending:
  - Retail Sales up 5.3%
  - Comparable store sales 2.0%
  - Revenue split:  
Franchise 55% : Corporate 45%
- EBIT impacted by additional \$3.8m of costs associated with supply chain rollout
- \$2.9m investment in brand development in first half FY10

	FY10 1H	FY09 1H	%
External Sales	\$333.7m	\$328.0m	↑ 1.8
EBITDA	\$7.0m	\$10.8m	↓35.2
EBITDA % Sales	2.1%	3.3%	↓1.2
EBIT	\$3.2m	\$7.6m	↓57.9
EBIT % Sales	1.0%	2.3%	↓ 1.3



# Retail Divisional Review

## Brand momentum – stores and customers continue to grow

- 325 Priceline stores (208 franchised) – 14 opened YTD
- Controlled expansion with an aim of 400 stores in 2011
- ClubCard – one of the largest retail loyalty programs in Australia
- ClubCard members – over 3 million members and growing
- Market place is at unprecedented competitive levels

The graphic features a pink background with a white plus sign between a ClubCard and a gold coin. Below this, it says 'Spend \$1\*' followed by 'Collect 1 point' with a small heart icon. Then 'Every 100 points\*\*' with an equals sign leading to a '\$3 clubcard voucher' image. A 'plus more' box lists benefits: VIP shopping days, exclusive discount offers, free samples, health/beauty/baby magazines, and a bonus offer. A 'Join Clubcard now' call to action is at the bottom right. The Priceline logo and tagline 'I just love being rewarded' are at the bottom left.

clubcard + 

Spend **\$1\***

Collect **1 point**

Every **100 points\*\***

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- Exclusive discount offers
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\*Excludes prescription purchases and a minimum of \$5 must be spent per transaction. \*\*Points need to be earned per quarter which consists of 3 months.

## Transition on Track

- FY10 strategy is to continue to invest in our supply chain during the transitional year to ensure we extract maximum efficiencies in FY11 and FY12
- Transition timetable managed to ensure efficient supply in peak periods of Easter and Christmas
- 1<sup>st</sup> Half additional costs of \$3.8m were incurred in Dandenong distribution centre relating to the Retail “go live” and preparing for roll in of the Pharmacy Division in second half.
- Brisbane DC commenced operation on March 1. Increased stock on hand at 28 Feb to ensure non interrupted service delivery
- Sydney DC has implementation plan for partial go live second half
- Implementation program continues to timetable
- Expected annualised savings of \$10m in FY11 and \$18m in FY12 maintained

# Outlook

- Strategy continues to balance investment in the Priceline brand and in driving efficiencies across the Group
- Ongoing investment in Revitalise continues and will leverage both Priceline and Pharmacy, providing earnings uplift in FY11 and FY12
- Remain cautious on the Australian retail environment in 2H10 given:
  - The potential impact of any further interest rate rises; and
  - Consumers and retailers trading without the assistance of the prior year Government stimulus assistance
- Full year earnings guidance reconfirmed at NPAT of \$24.6m. Assuming no material change to the regulatory environment or further reductions in consumer demand





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