Monday, 12 July 2021

STRATEGIC REVIEW AND TRADING UPDATE
API'S 2021 FULL YEAR RESULTS

Australian Pharmaceutical Industries (ASX:API) today provided an update on its recent annual strategic review and its anticipated financial results for the year ending 31 August 2021. This update outlines API's decision to exit its manufacturing operations in New Zealand allowing API to focus resources and investments on its distribution and retail businesses.

Strategic Review

Following its detailed strategic review, the API Board has decided to increase the focus of the company on its Pharmacy Distribution and two retail businesses, Priceline Pharmacy and Clear Skincare. As a result, API will cease manufacturing personal care and over-the-counter products in New Zealand and outsource their manufacture. The personal care and over-the-counter ranges that form the Consumer Brands business of API will continue to be a valuable part of API's branded and private label product offers.

API's CEO and Managing Director, Mr Richard Vincent said:

"We anticipate that Consumer Brands will generate in the order of $5 million incremental earnings before interest and tax (EBIT) per annum after we have wound down manufacturing in New Zealand by the second half of FY23. By moving to outsourced contract manufacturing we will generate lower cost of goods and have greater continuity in product supply, both of which have been impeded by COVID related impacts.

"Taking into account the proceeds from the sale of the plant, we anticipate a net effect of $24.5 million at the EBIT level. This one-off charge contains the carrying value of plant and equipment, inventory, employee and make good costs. These items will be largely non-cash adjustments to API's result and reported as underlying adjustments, with the decision to cease manufacturing to result in a positive cash contribution of $9.7 million in the current year. The cost incurred to cease manufacturing in New Zealand will have no impact on the likely dividend payment.

"By simplifying our operations and focussing on our two retail-facing businesses it will allow us to escalate our investment in our digital capabilities and accelerate the initiatives that will improve our customer experience in both our Priceline Pharmacy and Clear Skincare networks. I intend to provide more detail on this strategic review, and particularly the focus on our two retail businesses, at an Investor Day to be held after our FY21 full year results announcement.

Trading update

API advises that the current and recent lockdowns during June and July caused the temporary closure of 72% of the non-pharmacy company-owned Priceline stores, and 75% of the Clear Skincare clinic network.

"We said at the half year that absent of enforced trading restrictions, we expected further improvements in our retail performance in the second half, providing guidance that our full year underlying EBIT result would be around $75 million. Until the most recent restrictions began in late May 2021, we were on track to achieve that number with Clear Skincare recording double digit sales growth, positive like-for-like sales growth in the majority of Priceline Pharmacy stores, growth in register margins and basket sizes and steadily improving like-for-likes in CBD stores. It is now clear that we need to revise our forecast to reflect the impact of the latest enforced closures.

"On the basis that there is a relaxation of the existing COVID-19 restrictions in place including New South Wales by the end of July 2021 and no new restrictions between now and our financial year end on 31 August 2021, API now expects its full year underlying EBIT to be circa $66 million to $68 million, and its reported EBIT to be in the range of $31 million to $33 million (unaudited). In the event that the restrictions remain in their current form beyond the end of July the impact is a reduction of approximately $1 million in EBIT per week of extension.

"The difference between underlying and reported numbers is due to ceasing the New Zealand manufacturing operations and also includes costs associated with closing a further nine Priceline company-owned stores as we recalibrate our store network based on changes to customer foot traffic and ongoing profitability.

"We will continue to actively review each Priceline company-owned store as they approach end of lease to ensure we have a robust and sustainable network based on the effect COVID has had on our customers' working and shopping patterns," Mr Vincent said.

Progress on Sydney distribution centre development

In addition, API confirmed that the build of its new Marsden Park distribution centre in north-west Sydney, at a cost of $50 million, remains on time and within budget. It is anticipated that this highly automated distribution centre will deliver a 20% improvement in cost per unit with annualised savings in the order of $8 million EBITDA, flowing from the start of FY23.

API's full year results for FY21 are scheduled to be announced on 19 October 2021.

Announcement authorised by the API Board.

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