Thursday, 28 October 2021

2021 FULL YEAR RESULTS
COVID IMPACTS ON RETAIL BUSINESSES CONTINUED
UNDERLYING NPAT UP 25%

Financial Performance

- Total revenue was $4.0 billion, slightly down by 0.4% on the prior corresponding period (pcp)
- Reported Earnings before Interest and Tax (EBIT) was $27.8 million, up $22.2 million on the pcp
- Underlying EBIT was $70.1 million, up 15.3% on the pcp
- Reported Net profit after Tax (NPAT) was $1.1 million, up $8.2 million on the pcp
- Underlying NPAT was $39.3 million, up 25.0% on the pcp
- Fully franked final dividend of 2 cents per share

Strategic & Operational Summary

- Prescription medicine sales grew 3.6%, reflecting the resilience of our pharmacy business through COVID and improved in-stock positions of PBS medicines
- COVID forced the temporary closure of all of our non-pharmacy Priceline stores and 84 Clear Skincare clinics. In total, COVID impacted EBIT in excess of $30 million based on FY19 trading levels
- NSW distribution centre development remains on budget and to schedule
- Separation of our SisterClub and digital assets to form a new digital hub, supporting both our retail businesses

Outlook Summary

- Both retail businesses have bounced back strongly post lockdowns and the Priceline Pharmacy network has delivered and booked over 250,000 COVID vaccinations
- FY22 pipeline of potential Priceline Pharmacy franchisees strongest it has been for the past three years
- Recalibration of Priceline company stores over the past two years will improve profitability by $3.4 million from FY22
- New automated DC will deliver $8 million EBIT from the start of FY23
- Return of Pfizer to CSO wholesalers will add $4 million EBIT from FY22
- Consumer Brands exit of manufacturing to result in $5 million incremental EBIT from mid FY23

API's CEO & Managing Director, Richard Vincent said:

"These results reflect the ongoing impact of pandemic-related lockdown restrictions and lower CBD foot traffic on API's retail businesses in Australia and New Zealand compared to FY20, which was significantly less impacted by COVID.

"However, the fact that we were able to exceed the profit guidance provided on 12 July, with underlying EBIT $7.0 million higher than anticipated at that time, reflects the impacts of a number of operational initiatives undertaken during the half and the strength of our business model.

"Both our retail businesses, Priceline Pharmacy and Clear Skincare are primed and ready for growth, which we are witnessing since restrictions began to ease. During the financial year, despite lockdowns, we added another 19 Clear Skincare clinics, taking the network to 86.

"At Priceline the focus was on repositioning the store network for growth, maximising our brand leverage introducing 59 new and exclusive brands over the year, and investing heavily in our digital capabilities and in-store health offerings. We closed 9 company owned stores that we deemed would be unprofitable moving forward due to the combination of unrealistic rental expectations and reduced foot traffic, whilst increasing our franchised Priceline Pharmacy network."

Operational Performance – Pharmacy Distribution

Pharmacy Distribution revenue increased on the back of prescription medicine growth of 3.6% on the pcp. This performance is a result of a number of initiatives to improve the availability of PBS medicines, which led to the expansion of API's independent community pharmacy distribution business, resulting in gross profit increasing to $217 million, up 2.8% on the pcp.

"Pharmacy Distribution has once again proven to be a formidable cash generating business supporting further investment in our retail initiatives.

"We expect our $50 million highly automated Marsden Park distribution centre will deliver annualised savings of $8 million at the EBIT level from FY23," Mr Vincent said.

Operational Performance – Priceline Pharmacy

Total network sales for the year ending 31 August 2021 were $1.98 billion, down 3.3%. Retail register revenue was down 14.4% to $926 million, however gross profit was up 5.5% to $216 million on the pcp.

When CBD stores (which were severely impacted by work from home practices) are excluded, like-for-like sales in the Priceline Pharmacy network were up 0.8% relative to FY20.

“Mandated store closures as a result of COVID lockdown restrictions and the emptying of our major CBDs has hit us particularly hard, given the nature of our retail footprint, which we have now altered to reflect new trading realities and the likelihood of more flexible work practices.

“The good news for us is that we continue to see our average basket size increase year on year and up 3.9% this year, helping to offset some of the COVID in-store impacts. The like-for-like growth we experienced in non-CBD stores occurred despite much reduced demand for colour cosmetics and fragrances during the prolonged COVID restrictions.

“Priceline Pharmacy changed its health app to MedAdvisor during the 2nd half of FY21 to help drive escript volumes. The app also integrates SisterClub loyalty functionality allowing members to access their points and personalised offers. And we have partnered with Roy Morgan to use their Helix Personas customer analytics tool, and with Google analytics to broaden our digital capability which will drive our customer insights and targeted offering to our 7.5 million SisterClub members.

“The creation of a centralised digital hub has brought together our online, in-store technology investments, and loyalty platform, providing Priceline Pharmacy with a major point of difference to other community pharmacies. We have invested in innovations that will provide a more personalised, curated experience for our Priceline customers and our new eCommerce platform will be launched by the end of FY22,” Mr Vincent said.

Priceline Pharmacy launched 59 new and exclusive health and beauty brands during the year, including *Boots No7*, the UK’s favourite skincare range.

Operational Performance – Clear Skincare

API advised that its clinic network was severely impacted by COVID-related mandatory closures with 84 clinics closed at times during the year, 98% of the network. Out of a total of 363 trading days, the clinic network was fully operational for 211 days, 58% of the normal trading window.

“Despite protracted lockdowns, our expanded store network saw revenue grow 36% and gross profit increase by 43% on the prior year, indicating the potential for this business post-COVID.

“After the earlier COVID lockdowns, we saw demand recover strongly as clinics re-opened reflecting significant pent-up demand for non-surgical aesthetics from trusted providers like ourselves. We expect that experience to be repeated on a larger scale, given the extent of the restrictions in NSW and Victoria and our forward bookings. In addition, our network expansion program is well advanced as are our marketing activities targeting Priceline SisterClub members.

"The launch of new Clear Skincare products, such as Micro Polish with Glycolic exfoliator cream and a larger copper peptide serum, are clearly resonating with consumers. The average value per customer has increased by 57% since we acquired the business, a CAGR of 16.2%. We'll see steadily increasing profit growth from the Clear Skincare business in years to come as our new clinics move to profitability and we expand our service range in clinic," Mr Vincent said.

Operational Performance – Consumer Brands

Following a strategic review, API announced on 12 July 2021 that it would cease the manufacture of personal care products and over-the-counter medicines and instead outsource their supply.

"I am pleased to announce that our exit strategy is progressing well, with the sale of our pharma plant now unconditional and we have begun the process of selling our personal care brands," Mr Vincent said.

The sale of the New Zealand pharmaceutical manufacturing plant did not complete in FY21. The plant is now the subject of an unconditional contract of sale and as a result, cash proceeds of approximately $11.5 million are due to be reported in the FY22 half year result.

"As reported in July, we anticipate that Consumer Brands will generate in the order of $5 million incremental EBIT per annum by the 2nd half of FY23 as a result of this decision to move away from manufacturing and focus on our two major growth engines, Priceline Pharmacy and Clear Skincare" Mr Vincent said.

Dividend

The API Board has resolved to pay a fully franked final dividend of 2 cents per share, representing a payout ratio of 44% of underlying NPAT. The dividend is to be paid on 15 December 2021 and the record date for the dividend is 12 November 2021.

Outlook

API retains full confidence in the growth potential of its two retail businesses assuming COVID trading restrictions remain lifted and volumes in its Pharmacy Distribution business will increase due to the returning of the Pfizer business.

"Our suburban retail businesses have rebounded strongly since COVID restrictions have eased. In most instances our negotiations with CBD landlords to achieve acceptable rental outcomes were fruitful. Where negotiations failed to yield sensible commercial outcomes, we closed non-pharmacy company owned stores. As a result, our Priceline company store network will be more profitable in FY22. Our pipeline of potential franchisees is the strongest it has been for three years and we have plans to expand our suburban footprint. In total, we expect to open a minimum of 20 new Priceline Pharmacy stores in FY22.

"Also, our franchise partners are now benefitting from the Federal Government's decision that all approved community pharmacies will be able to administer COVID vaccine doses, meaning our Priceline Pharmacies are participating and we have already administered or have bookings for over 250,000 vaccines to date. I am proud of the way our pharmacists have leant into the challenge of vaccinating as many people as possible.

"We applaud Minister Hunt's decision to utilise community pharmacies in the booster program and remain hopeful that the Federal Government will enlist the CSO distributors to supply those booster doses in the coming year, given it is clearly the most reliable, efficient and cost effective model.

At the pharmacy distribution level, the return of Pfizer to the CSO wholesaling system will add $4 million EBIT from FY22 onwards and our new distribution centre will contribute $8 million at the EBIT level per annum from FY23.

"At no stage have we let COVID distract us from making the necessary investments for future growth. Our strong working capital management focus continues to generate the cash required for the expansion of our Clear Skincare network and our on-going digital investments across both our retail businesses. At the same time, we have reset costs and built new revenue streams that will enable us to take full advantage of a normalising retail environment in FY22," Mr Vincent said.

Announcement authorised by the API Board.

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