



## API CEO & MANAGING DIRECTOR 2021 AGM ADDRESS

Thank you, Ken and good afternoon, everyone.

It has been a challenging but satisfying year as we have navigated through another 12 months of the pandemic whilst turning our collective resources to assessing the various takeover proposals. As shareholders know, our retail business units have ridden successive waves of mandated government restrictions and subsequent re-openings and more recently voluntary community based Covid restrictions. I am proud of the resilient and agile leadership the API team has demonstrated in challenging times. I am pleased to say that Covid has accelerated changes to our business that position API well for the future, and I will elaborate on these changes during my update.

I will start by recapping our strategy and key strategic initiatives, followed by an overview of our 2021 financial results and key operational highlights plus an update on the Priceline Sisterhood, before concluding with current trading and the year ahead.

First to our strategy.

API has a portfolio of four highly complementary and synergistic businesses that will continue to deliver shareholder growth. Our Pharmacy Distribution business is a critical component of our strategy, benefitting from an ageing population, it generates significant cashflow that in turn underpins essential investments in our retail businesses. It is a robust business that has proven that it can withstand floods, fires and pandemics, as well as providing us with close relationships with community pharmacists, many of which then join our brands, Priceline Pharmacy, Soul Pattinson Chemist, and Pharmacist Advice.

Our two retail businesses, Priceline Pharmacy and Clear Skincare, are API's growth engines. Network growth combined with new and complimentary health and wellness services make both of these businesses attractive for the future. Our focus is on continuing to innovate and differentiate their respective offerings.

In what represents a significant evolution of our strategy, we have extracted the SisterClub loyalty program from the Priceline Pharmacy business, together with our digital assets and data scientists and formed a dedicated business unit – our Digital Hub. The Digital Hub allows us to merge the customer data from our Clear Skincare business with the Priceline Pharmacy Loyalty program so that we can leverage the combined customer analytics across both businesses. Through the Digital Hub, we are accelerating investments in health as well as beauty, taking a holistic view of our customer insights and offerings to optimise value from the platform we've built.





And in relation to another key strategic initiative, we said at the FY21 half year that we would conduct a strategic review of our Consumer Brands business. That review resulted in a decision to close our operations in New Zealand and outsource the manufacturing of our range of over-the-counter medicines and sell the personal care brands business. This initiative is proceeding to plan.

I want to emphasise that the Consumer Brands business remains a key strategic pillar. We will continue to expand our range of private label and own brands, but we will source those items externally, generating increased returns. And importantly, exiting manufacturing will simplify the execution of API's strategic plans.

So, to the financial highlights for the year.

As Ken has outlined, overall revenue was virtually unchanged. Underlying EBIT increased by 15.3 per cent to \$70.1 million and Underlying NPAT increased 25 per cent to \$39.3 million. This was achieved despite the impact of lockdown restrictions on our retail network, resulting in stores and clinics being closed for significant periods of the year. It also reflects a series of restructuring initiatives, which resulted in our cost of doing business remaining relatively consistent with the prior year at 8.8 per cent. This was despite the FY21 cost base containing a large investment in new employees for our expanding Clear Skincare Clinic network.

If you look at our cash generation and investments during the year, you will note that we were not at all distracted nor unnerved by Covid impacts, focusing on investments that will drive future returns. We continued to build our two retail growth engines, and we made the investments necessary to extract further cost savings from our Pharmacy Distribution supply chain.

Our capital expenditure for the year totalled \$78.7 million, including \$42.9 million on the combination of the final payment for the acquisition of Clear Skincare and the ongoing expansion of the clinic network. And we spent \$23.3 million on our state-of-the-art NSW distribution centre at Marsden Park which remains on time and on budget although Omicron impacts are challenging the timeline.

The overall impact of these investments, partially offset by very strong cash generation during the year, saw our net debt move from \$18 million at August 2020 to \$99.9 million at August 2021.

Turning now to our Business Unit review, I will start with Pharmacy Distribution.

Pharmacy Distribution revenue was up 3.6% on the prior period to just over \$3 billion for the year, with prescription medicines volume driving much of that growth.

I am pleased to report that our inventory optimisation program has resulted in improved "in stock" positions of high volume, high margin lines, generating both revenue and gross profit growth at a critical time, when we were successfully transitioning our generic pharmaceutical range to Arrotex for our retail brands.



Now to Priceline Pharmacy.

Total Retail Register Revenue was \$926 million, 14.4 per cent down on the prior year. That decline was due to enforced lockdowns of our non-pharmacy stores, combined with material falls in foot traffic to CBD stores, and the decision to re-configure our company store network and permanently close an additional ten non-pharmacy stores. We concluded that these stores would not deliver an adequate return because of a combination of permanently reduced patronage and unrealistic rental expectations on the part of some landlords. Having said that, the majority of our negotiations with landlords, particularly the major property trusts, were reflective of the new reality we jointly face.

Total network revenue, which includes the dispensary, was only down 3.3 per cent, which is evidence of the strong demand for scripts throughout the year.

When we exclude the performance of our CBD stores and adjust for the impact of lockdown restrictions, like-for-like sales were up by nearly one per cent and were even higher in those states and local government areas where Covid restrictions were less severe. Again, this points to the underlying resilience of our Priceline Pharmacy business model.

Most pleasingly from our perspective, whilst overall basket size was up 3.9 per cent, our SisterClub basket size was up 6 per cent. The spend of our 7.5 million SisterClub members is now 35 per cent higher than non-members.

We were very active with our digital and health offerings during the year, launching the Priceline Health app which supports the transition to electronic prescriptions and online Covid and flu vaccine bookings creating one seamless health and beauty journey for our SisterClub customers. All of this was timely as our brands began administering Astra Zeneca, Pfizer and Moderna vaccines.

And our online sales remain elevated, up 62% on FY19 with click and collect order fulfilment now taking an average of only two hours.

Moving to Clear Skincare.

Despite enforced closures, particularly those in New South Wales and Victoria, we saw both revenue and gross profit grow significantly (36% and 43% respectively) as we expanded the network. Since we acquired this business, we have reshaped the services offered to customers, bedded-down systems, and refined processes to create the right platform for profitable, longer-term growth. The outlook for this business remains very strong due to significant untapped demand for high-margin, non-invasive cosmetic services.

In the 2021 financial year we opened 19 new company-owned clinics, taking the total number to 86 at year-end. We are one of the largest networks in the market, and we intend to grow that position.



The significant demand for Clear Skincare services post-lockdowns confirms that for many Australians these treatments are part of their on-going health and beauty routine, and we can be very confident of a similar reaction as we open new clinics in under-served geographies.

And finally, to Consumer Brands.

This division was particularly hard hit by a significant drop in the sale of high margin cold and flu remedies as social distancing and better hygiene behaviour reduced infection rates in the community. As a direct result, revenue was flat at \$63.3 million however gross profit declined to \$13.5 million.

Looking ahead, the move to cease manufacturing and outsource supply will lead to an incremental EBIT of \$5 million per annum by the second half of the 2023 financial year as well as simplify our broader API business.

Turning now to current trading and the year ahead.

I am pleased to say that our Pharmacy Distribution business has traded strongly through the first half of FY22 on the back of market share gains, Pfizer volume returning to the wholesale channel, and increased demand for Rapid Antigen test kits and products that relieve the symptoms of Omicron.

Our Pharmacy Distribution business, which benefits from certainty of funding out to 2025, will continue to generate the cash required to fund our growth strategy. Our new Sydney DC will generate significantly greater efficiencies when it goes live towards the end of this financial year with savings in the order of \$8 million EBIT per annum early in next financial year.

The story is not as clear cut for our two retail businesses.

In the lead up to Christmas, following the lifting of state-based restrictions, our Priceline pharmacy and non-pharmacy stores sales were improving week on week with colour cosmetics, skincare and fragrances demonstratively stronger.

Omicron has changed this picture, with consumers voluntarily choosing to restrict their shopping to essential needs and visits. Frustratingly, foot traffic, particularly in the major shopping centres, has fallen since then and like most retailers, our stores and clinics have been challenged by the absence of staff, unavailable due to the pandemic and isolation requirements.

That said, demand for Rapid Antigen Test kits, cold and flu treatments and analgesics have boosted sales, and we remain on track to open a minimum of 20 new Priceline Pharmacies in FY22. It is worth noting that we have the strongest pipeline of prospective franchisees we've seen in over three years.



The experience of our Clear Skincare business is similar to Priceline Pharmacy. Bookings immediately returned to pre-Covid levels post restrictions and our clinics were overwhelmed with clients. However, post-Christmas, we have experienced an elevated level of cancellations and less walk-ins and this trend is unlikely to change until the Omicron wave subsides.

As shareholders would appreciate, the current situation is fluid and constantly evolving. Whilst I am very confident that our retail businesses are well positioned for future growth and our pharmacy distribution business will continue with its current trajectory, there are too many unknowns to allow me to provide reliable guidance for the current year. We have travelled in line with our forecasts in the lead up to Christmas, and while confident in our ability to adapt to the ever-changing Covid situation, predicting an outcome for our financial year would not be prudent.

Before I hand back to Ken, we should all be very proud of the Sisterhood Foundation and I would like to provide you with a quick summary of the latest achievements of the Foundation and our Fabulous Five Priceline ambassadors - Ita Buttrose, Sarah Jane Adams, Tanya Hennessy, Lindy Rama-Ellis and Chrissie Swan, who each created their own lipstick shades for our major 2021 fundraiser, "Smile for a Sister".

I am delighted to let you know that thanks to their efforts, and those of our Priceline staff, franchisees, suppliers and customers, the Foundation raised over \$1.1 million for our chosen charities: PANDA, Raise, Dementia Australia, Look Good Feel Better and Motherless Daughters.

The Priceline Sisterhood Foundation has now raised more than \$8 million for deserving causes since its inception.

Finally, I would like to acknowledge our people. API is a microcosm of our community and at times we have battled with Covid-related absenteeism of more than 20% of our workforce. Our teams have worked tirelessly as we've leant into the challenges of Covid to ensure no Australian community has been denied timely access to vital medicines and healthcare services. It has been an absolute privilege to work with such a dedicated team and I want to publicly acknowledge each and every one of them.

Thank you to the API team across Australia and New Zealand and may I finish by thanking you, our shareholders for your ongoing support of API.

And on that note, I will hand back to Ken.