



25 June 2018

## API to acquire Clearskincare Clinics

- Australian Pharmaceutical Industries Limited (API) has entered binding agreements to acquire the assets of Clearskincare Clinics (the Acquisition) for \$127.4 million, to be paid in instalments over three years.
- API will initially acquire a 50.1% controlling interest in the clinic business and will take 100% ownership of the skincare products business. It will move to 100% ownership of the clinic business by September 2021.
- Coupled with API's existing business the Acquisition creates a leading Australian health and beauty services and products business.
- The Acquisition is highly compelling and complementary, delivering API shareholders a more diversified business with accelerated growth potential, given:
  - API's ability through its systems and scale to enhance Clearskincare Clinics' profitability;
  - a clear understanding of the customer demographics reflecting API's current retail business; and
  - API has strong operational capabilities in network growth, retail marketing and consumer goods development, which will accelerate Clearskincare Clinics' already strong earnings position.
- Clearskincare Clinics is a leading provider of non-invasive aesthetic services such as laser hair removal, skin treatments and cosmetic injectables with 42 clinics in Australia and 2 in New Zealand and an exclusive skincare product range.
- The initial Acquisition and associated transaction costs will be funded through debt facilities established for the Acquisition.
- Clearskincare Clinics has a demonstrated track record of growth, generates strong cash flow and it is anticipated to be earnings per share accretive for API in FY19, with ongoing earnings' growth in future years from current and new clinics.
- The completion of the initial 50.1% controlling interest is expected to be no later than 31 July 2018.

API has entered into binding agreements to acquire the assets of Clearskincare Clinics for a total cash consideration of \$127.4 million, creating a leading Australian health and beauty products and services business. The Acquisition will be initially funded through debt facilities that have been established specifically for this purpose. Under the terms of the agreements, an additional capped cash consideration payment of up to \$20 million may be payable subject to certain performance hurdles being met in 2020 and 2021.

The Acquisition is highly compelling and complementary. It delivers API shareholders the next stage of API's development strategy through having a more diversified business with accelerated growth potential due to accessing an early stage, rapidly growing market with professional healthcare services.

API Managing Director and CEO, Richard Vincent, said: "The Acquisition fulfils our criteria for aligning with a robust business in a burgeoning sector of the health and beauty market, that is services-based and away from government funding, and to which we can add further value for customers, clinic teams and shareholders.





“Clearskincare Clinics is a disciplined, high-quality operation with a strong track record of profitable growth that fits with our proven complementary skill base.

“We expect to build scale and profitability because of our operational capabilities in franchising, network development and consumer products management. Also, API's Priceline Pharmacy business and Clearskincare Clinics share the same core customers, which will enable us to leverage our marketing assets across both businesses.

“In the medium term, we see significant opportunities to increase the Clearskincare Clinics' network size and increase the market penetration of Clearskincare Clinics' services and products, in particular by using our existing customer relationship management capabilities.

“The strong market position Clearskincare Clinics currently enjoys is testament to the excellent work of management to date and I am delighted the two founders have agreed to continue their work under API's ownership,” Mr Vincent said.

Clearskincare Clinics founder and Clinical Director, Dr Philippa McCaffery said: “Both my business partner Alama Longes and I are delighted to be joining API because the fit between the businesses works so well. Together we can take the Clearskincare Clinics experience to more customers across Australia and the skills of both businesses will really deliver on our growth potential.”

API and Clearskincare Clinics share a clinical-retail focus (across similar retail network locations) and are both experienced in operating with health professionals in regulated delivery environments.

“Having conducted a thorough due diligence process of the market and Clearskincare Clinics we are confident we have the right business with an established market position. The structure of the Acquisition ensures we transfer the requisite knowledge and skills onto API's management while also utilising our balance sheet strength for the benefit of shareholders.

“The Acquisition is an excellent opportunity for API and it will operate as a separate business unit reporting to me so the day-to-day operational focus of the management teams in existing businesses will continue unchanged,” Mr Vincent said.

### **About Clearskincare Clinics**

Clearskincare Clinics has a focus on specialty skin, anti-ageing, and acne treatments, which represent a significant proportion of its revenue mix. It has continued to invest in developing and introducing proprietary skincare products, particularly for anti-ageing and acne treatments. Per capita consumption of aesthetic skin treatments in Australia is amongst the highest in the world, due in part, to Australia's relatively harsh climate.

Clearskincare Clinics has grown from 2 clinics in June 2005 to 44 clinics currently. It has a national presence in Australia and has established a foothold in the New Zealand market.

The Clearskincare Clinics brand is synonymous with quality and safety and will be retained under API's ownership while leveraging the capabilities of both Clearskincare Clinics and API.





## Outlook for the Acquisition

After accounting for interest costs on new debt facilities, API expects the impact of the Acquisition to be EPS<sup>1</sup> positive in FY19. It is expected to generate pro forma revenue and EBITDA of approximately \$48 million and \$14 million respectively in FY19 (before allocation to minority interests).

Enhanced marketing and efficiencies between API and Clearskincare Clinics and growth of the Clearskincare Clinics network are anticipated to further drive increased profitability in future years.

API expects Clearskincare Clinics' strong cash generation to continue which will support investment in network expansion and contribute to paying down the Acquisition debt. The \$127.4m purchase price for the Acquisition equates to an EBITDA multiple of approximately 7.6x over the course of the three years while the initial payment represents an EBITDA multiple of 8.9x on the FY19 forecast.

## Funding and completion

The acquisition of the initial 50.1% controlling interest in the clinics, 100% of the skincare product business and associated transaction costs will be funded through a new medium term facility of \$65 million. The balance of the transaction funding in 2020 and 2021 will be determined by the company at the time. The funding strategy for the Acquisition reflects API's commitment to maintaining a strong balance sheet and financial flexibility.

The staged ownership transition will occur between 2018 and 2021:

- July 2018 API pays \$61.6 million and receives the initial 50.1% controlling share in the clinic operations and 100% of the skincare product business;
- September 2020 API pays \$32.9 million and its stake raises to 75.1% of the clinic operations;
- September 2021 API pays final instalment of \$32.9 million to assume full ownership of the clinic operations; and,
- an additional capped cash consideration payment of up to \$20 million may be payable subject to certain performance hurdles being met in 2020 and 2021.

## Summary

Richard Vincent said: "This is the right sized acquisition for API to build on and securing such a high quality business to which we can add value will be a great addition for our customers and shareholders."

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<sup>1</sup> EPS accretion statement is prior to the consideration of any potential amortisation charges arising from the purchase price allocation exercise

