

AUSTRALIAN PHARMACEUTICAL INDUSTRIES

ACQUISITION OF CLEARSKINCARE CLINICS

25 JUNE 2018



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SUMMARY TRANSACTION OVERVIEW



Adjacent market opportunity with common customer
Entry to a high growth market with a scalable business

OVERVIEW OF CLEARSKINCARE CLINICS



Differentiated market offer in beauty services category
Established, growing national network
Complementary skincare product brand

COMPELLING STRATEGIC RATIONALE



API's established capability to deliver network growth
Diversifies the API business into services market

FINANCIAL SUMMARY



Debt funded over 3 year acquisition structure
Established earnings and cash flow

Summary Transaction Overview



Clearskincare Clinics

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Scalable acquisition in growing market

CREATES API AS A LEADING HEALTH & BEAUTY PRODUCT AND SERVICES BUSINESS

- Clearskincare Clinics is an established national beauty services business
- Differentiated by its unique skin services offering
- Operates with health professionals in a regulated environment
- Strong strategic fit with API's existing core customer









A BETTER BALANCED BUSINESS

- Delivers an established business with a growing earnings base
- Expands API's services offering into new and expanding category
- Domestic market still in development with increasing adoption rates
- Adds a retail services business to strong product retailing portfolio

SCALABLE ACQUISITION FOR API TO DELIVER MORE VALUE





- Existing API operational capabilities are a natural fit in clinic growth
- Network development capacity to increase speed of roll out
- Marketing expertise covers the same customer base
- Deliver broader benefits in supplier partnerships

INCREASING API INVESTMENTS IN GROWTH ASSETS

ASSET	REACH	PROFILE
API pharmaceutical distribution network 	+3,000	Stable
Pharmacy banners and groups   	+900	Stable
Priceline/Priceline Pharmacy network  	466	Growth
Clearskincare Clinics (Australia & NZ) Clearskincare Clinics <small>SKIN, LASER + ACNE EXPERTS</small>	44	Growth
API Consumer Brands (Australia & NZ)  	National	Growth

Transaction summary

STAGED ACQUISITION TO DELIVER VALUE

-  Staged purchase agreement through to September 2021 to ensure operational consistency and accountability to drive performance
-  Debt funding for first tranche payment and transaction costs in new \$65m medium term facility; includes products business at 100% ownership
-  Purchase price reflects a 7.6x weighted average EBITDA multiple over three years
-  Achievement of agreed growth performance hurdles could trigger a capped payment of up to \$20 million by the time of the last payment in September 2021

JULY 2018	SEPTEMBER 2020	SEPTEMBER 2021	SUMMARY
API payment of \$61.6m through debt funding	API payment of \$32.9m	API payment of \$32.9m	Total paid for 100% ownership - \$127.4m
<ul style="list-style-type: none"> ▪ API takes 50.1% stake in clinic business ▪ API takes 100% of product business ▪ Existing owners and management to remain in place ▪ Initial phase to systemise the business to enable faster, more profitable roll out 	<ul style="list-style-type: none"> ▪ API shareholding rises to 75.1% 	<ul style="list-style-type: none"> ▪ API assumes full ownership 	<ul style="list-style-type: none"> ▪ Clinics transition to a franchise model ▪ Current owners to have completed contractual obligations ▪ Total additional capped performance payments if hurdles are met (up to \$20m)

Overview of Clearskincare Clinics



Clearskincare Clinics

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Clearskincare Clinics

1997

Business founded by Dr Philippa McCaffery

2002

Clearskincare product range launched "Skin Gym"

2005

Current model of clinic roll out commences

2010

Expansion into all mainland east coast states

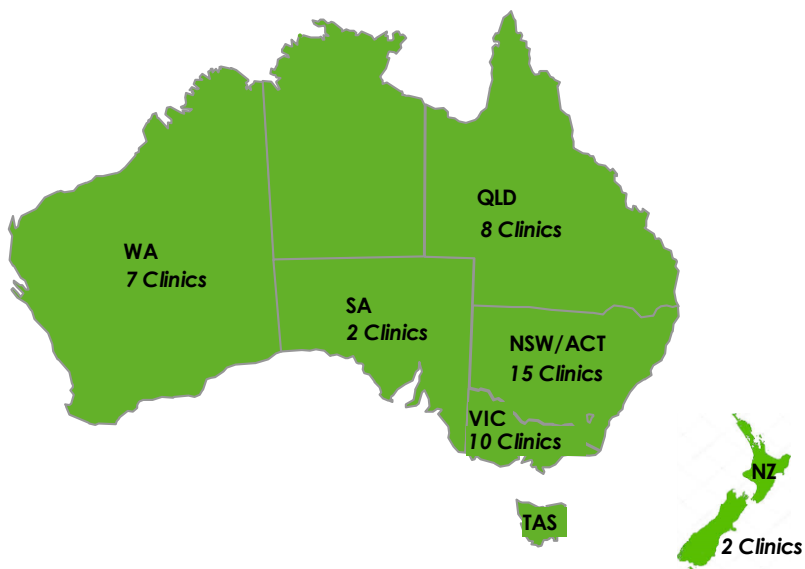
2017

44 clinics across Australia and New Zealand

Clearskincare Clinics

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National network



Ownership:

Combination of company-owned and local manager-owned clinics with an intent to decrease company ownership

Customer services:

Various advanced skin therapies; laser hair removal, cosmetic injectables; specialist skincare product range

Support functions:

Support office based in Sydney that provides clinical, marketing, financial and operational services



“ In the crowded landscape of beauty, cosmetic and plastic surgical treatments, my philosophy has been to seek out treatments for acne, anti-ageing and scarring that really work, and offer them at prices everyone can afford.

Dr Philippa McCaffery
Clinical Director & Founder of Clearskincare Clinics

Clearskincare Clinics profile

Clearskincare market position

Clearskincare Clinics provide a range of skincare services that fill a gap between general practitioners and more specialised dermatologists

Range of treatments	<ul style="list-style-type: none">- Treatments for acne, scarring, pigmentation, wrinkles & fine lines, capillaries & redness, open pores and skin textures- All skin consultations reviewed by a doctor
Extension services	<ul style="list-style-type: none">- Beauty treatments have expanded to include fast growing segments of laser hair removal and cosmetic injectables which have significant potential upside
Accessible	<ul style="list-style-type: none">- 44 locations combined across Australia and New Zealand- Domestic market has significant room to expand
Affordable	<ul style="list-style-type: none">- Treatment pricing has opened the category to new consumers in metropolitan and regional locations

Growth trend in beauty services

Estimated market size more than \$1bn*

- ✔ **Social factors** driving expansion of market
- ✔ Growing **acceptance** and de-stigmatisation
- ✔ **Convenience** and availability increasing
- ✔ High service **effectiveness** and **customer satisfaction**
- ✔ Growing focus and spend on **health and beauty services**
- ✔ Increasing **affordability** of procedures
- ✔ Ongoing product and service **innovation**
- ✔ Adoption by **women of all ages**

* 31 May 2016 Cosmetic Physicians College of Australia media release

Clearskincare Clinics services and revenue split

	Description	Key services	Relative market position
Skin Treatments	<ul style="list-style-type: none"> • Unique skin and acne assessment and treatment protocols • All treatments are medical grade and reviewed by medical doctors 	<ul style="list-style-type: none"> • Acne SGA • Fractional skin resurfacing • Laser red vein removal • Microdermabrasion • RF skin services • IPL rejuvenation • LED light therapy • Needling and skin peels 	Optimised
Laser Hair Reduction	<ul style="list-style-type: none"> • Industry leading medical grade lasers, providing safe, quick and affordable treatments 	<ul style="list-style-type: none"> • Laser Hair Removal/IPL <ul style="list-style-type: none"> – Legs – Arms – Underarms – Brazilian 	Underweight
Cosmetic Injectables	<ul style="list-style-type: none"> • Reduction of wrinkles and restoration of facial volume via injections of specialised compounds 	<ul style="list-style-type: none"> • Anti-wrinkle treatments • Dermal fillers 	Underweight
Product	<ul style="list-style-type: none"> • Skincare products that are used in the clinics to complement Laser Hair Removal (LHR) and skin treatments are sourced from the current product business 	<ul style="list-style-type: none"> • 25 products • 20 skin peels 	Optimised

Clearskincare Clinics

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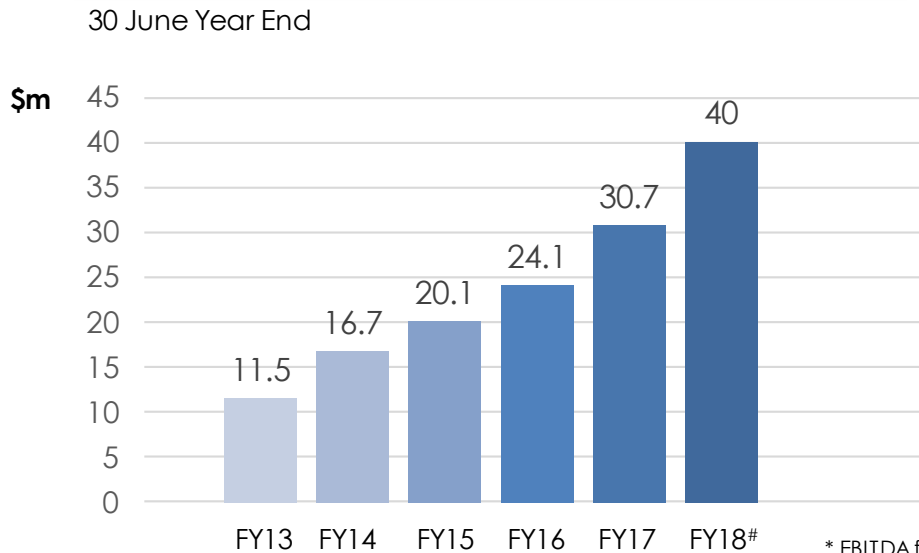


Clearskincare Clinics growth

FINANCIALLY ATTRACTIVE INDUSTRY AND CLINIC MODEL

- Consistent growth profile with low market penetration
- Service mix has scope to improve margins
- Business generates strong cash flow
- EBITDA margins +28% to revenue
- FY19 EBITDA forecast c\$14m*

Clearskincare Clinics revenue (\$m) FY13-FY18#



* EBITDA forecast is on 100% basis
Current forecast for FY18 financial year

Opportunity for improving the business returns in a growth market

Differentiated brand with demonstrated growth profile on a range of beauty treatments

Profitability of current business has scope for improvement with modest capital investment

Clinical set up can be further systemised to broaden roll out plans

Fast growing market characterised by limited accessibility and increasing adoption rates

Compelling Strategic Rationale



Clearskincare Clinics

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Compelling fit for API

A DIFFERENTIATED OFFER WITH THE SAME CUSTOMER BASE

- Clearskincare has an established position in specialised skincare services
- Clear overlap in the core customer base with API's existing businesses
- Operates with health professionals in a regulated environment
- Retail network with growth potential

AN ESTABLISHED BUSINESS

- Clearskincare has strong clinical and operational experience
- A clinic ownership model that can be grown into a franchise model
- Current business can derive greater profitability from investment

A GROWING AND FRAGMENTED INDUSTRY

- The industry is still largely fragmented with few major players
- No brand has decisive market share
- New markets are still opening up
- Consumer adoption of beauty services is increasing

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Expands services in API's business

SIGNIFICANT EXTENSION INTO SERVICES MARKET

- Services are an important differentiator in the current retail market
- Consumers looking for more accessible beauty services

Clearskincare Clinics
acne, skin + laser experts

api

Health & Beauty focus

- Strength in clinical skin services
- Experience with health professionals and regulated markets
- Strengthens market leading health and beauty position
- Extends service-based retail
- Experience with health professionals, franchising and regulated markets
- Common supplier connection

Strength in franchising

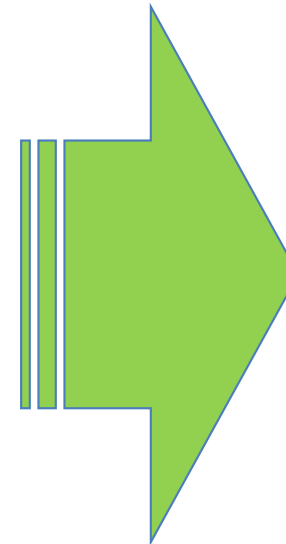
- Clinic model established for franchising beauty services
- Expected franchisee demand
- More than 300 current franchises
- 15 years of franchising expertise

Common target demographics

- Core customer demographic of women 18+
- Established customer database
- Women's health and beauty retail brand
- Understand customer base
- Largest health and beauty loyalty program

National footprint

- 44 stores nationally
- Opportunity for expansion
- Priceline Pharmacy network of 466 stores
- Network development team
- Strong landlord relationships



Diversity in an adjacent market

- Develops API's business in a complementary acquisition that will deliver incremental shareholder value
- Creates earnings diversity in a similar market not constrained by Government funding or regulation
- Service delivery type and regulations make disruptive entry and online competition highly unlikely

Tangible steps to achieve growth plans

THE MARKET HAS STRONG UNDERLYING GROWTH DRIVERS

- Expansion and accessibility is driving higher adoption of services by consumers
- Proven effectiveness and customer acceptance of new services
- Consumer trend for services expenditure

OPERATIONAL DISCIPLINES TO IMPROVE ROLLOUT

- Systemise current business to allow for scale growth
- Leverage API's supplier and customer marketing experience

IMPROVE UNDERLYING BUSINESS PERFORMANCE

- Grow foot traffic with better marketing of service offering
- Improve margins through efficiencies
- Drive greater EBITDA from existing network

CONTINUED ROLL OUT OF NEW CLINICS

- New potential sites identified
- Activate potential franchisee pool
- Attractive services for retail landlords

API CAPABILITY CAN ACCELERATE GROWTH

- Retail, franchise and healthcare expertise will add to existing business acumen
- Scope for introduction of new products and services

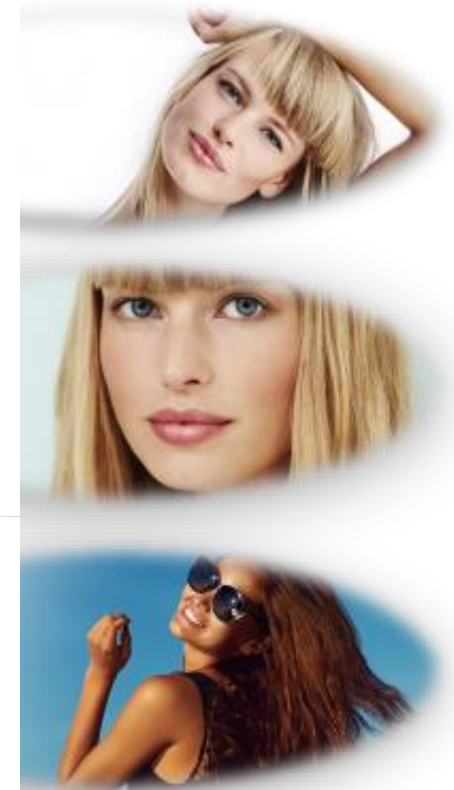
Clearskincare Clinics

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SKIN
PEEL
TREATMENT

ACNE &
BREAKOUT
TREATMENTS

LASER
HAIR
REMOVAL



Financial Summary



Clearskincare Clinics
acne, skin + laser experts 

Positive financial impact

Delivers immediate earnings to API	Accretive to key shareholder measures	Adds to API's ability to generate cash	Financial metrics based on a conservative outlook
<ul style="list-style-type: none"> FY19 contribution to revenue and EBITDA expected to be \$48m and \$14m respectively (based on a 100% contribution) API's share of EBITDA in FY19 expected to be c60% 	<ul style="list-style-type: none"> Earnings per share, dividends per share and return on equity will all be accretive from FY19 EBITDA multiple over the three years of the transaction expected to be approximately 7.6x FY19 EBITDA multiple is 8.9x 	<ul style="list-style-type: none"> Cash generation proven to be strong Anticipate initially using cash generated to reinvest in business expansion 	<ul style="list-style-type: none"> Realistic opportunities to deliver on the upside Revenue and cost synergies are conservative in the investment case Integration team appointed to extract more value

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