



Full year results 2004/5

Monday 27 June 2005

Introduction

- Overview results & key issues (Jeff Sher)
- Detailed financials (Chris Gardoll)
- Scorecard (Jeff Sher)
- Retail gains (Phil Smith)
- Pharmacy Distribution (Stephen Roche)
- Industry issues (Stephen Roche)
- Strategic initiatives (Jeff Sher)
- Summary (Jeff Sher)

Overview results

- Revenue up 16.3%
 - Driven by retail division growth and increased market share in pharmacy distribution
- EBIT up 65.0%
 - Expense control
 - Inclusion of NPR
- NPAT up 61.1%
- EPS up 50%
- Final dividend of [6.75 c]

Key issues affecting results

- Closure of Kingsgrove manufacturing
 - Redundancy \$2.1m
 - Assets write off \$2.2m
 - Stock write off \$1.5m
 - Sale of Property at Kingsgrove \$11.2m
- Halas Dental Performance
 - Loss of major contract
 - Underperformance generally
- One-off transaction costs
 - Integration process \$1.5m
 - Sale of non-core assets
- A year focused on integration and clean up
 - Development of a shared service platform



Detailed financials

FINANCIAL SUMMARY

	2005 (\$000)	2004 (\$000)	Change %
Sales Revenue	3,424,634	2,944,060	16.3
EBITDA	70,739	45,507	55.5
EBIT	54,255	32,889	65.0
Profit before tax	43,917	27,380	60.4
Profit after tax	29,721	18,444	61.1

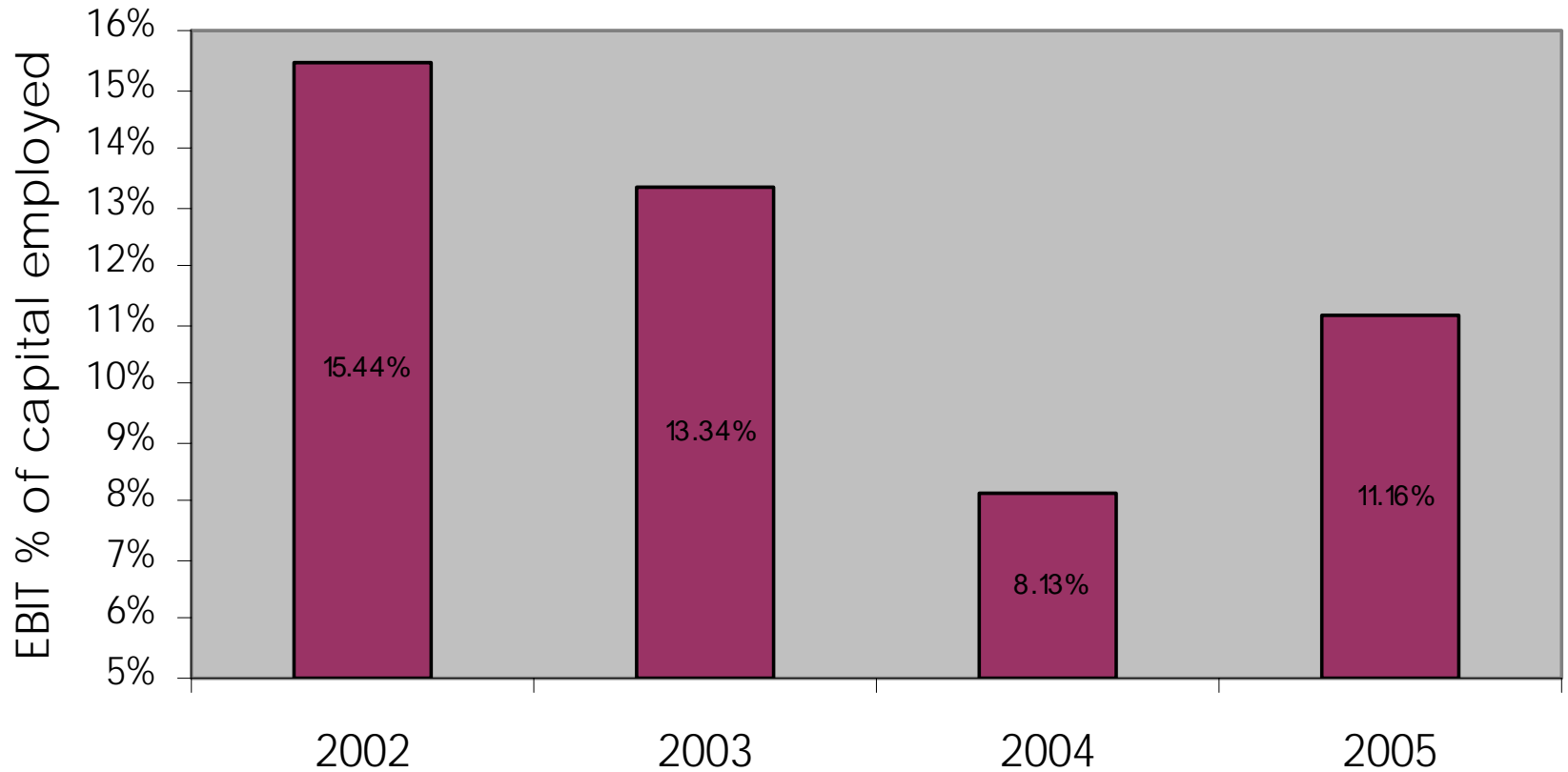
YEAR ON YEAR – ONE OFF COSTS

2005	Profit (+) / loss (-)	2004	Profit (+) / loss (-)
Manufacturing	-\$17.96m	Manufacturing	-\$9.85m
Redundancy	-\$1.50m	Redundancy	-\$2.10m
Profit on disposal	+\$5.02m	IT development/ salary	-\$1.56m

Segment results

Segment	Revenue (\$m)	Growth	EBIT (\$m)
Pharmacy (Aust)	2,122	6.7%	48.2
Pharmacy (NZ)	623	9.3%	2.4
Retail (seven months)	255	11.6%	19.2
HSA	286	19.2%	2.2
Halas Dental	94	-3.1%	0.2
Manufacturing (Aust)	14	-11.2%	-18.0
Manufacturing (NZ)	33	-4.3%	-1.0

Return on capital employed



Balance sheet

- Working Capital improvements
 - In early stages of implementing changes
- Borrowings decreased
- Improvement in debtor days
- Inventory focus
- Freedom and Aspire programs growth

Management scorecard

What we said

1. Focus on the core, act decisively on non-core assets
2. Adopt a multi-brand approach
3. Integration process savings
4. Create low cost distribution
5. Take our position on Generics

What we've achieved

1. Sold Kingsgrove Property & Halas Dental, HSA JV
2. Multi-brand strategy announced
3. Synergy savings materialising
4. National approach to replenishment
5. Deal with Hexal announced



Retail scorecard

Strategy

1. A multi brand approach to be adopted
2. Compliance through a Franchise model is the key
3. “Living well with API”
4. Niche manufacturing capability

How we are going

1. Clear positioning of each brand based on research
2. Focussing on the whole of store – build volumes
3. A full suite of services offered to all pharmacists
4. Providing differentiated consumer brands and private label



Retail gains - a multi-brand approach

FRANCHISE MODEL

priceline pharmacy

Soul Pattinson Chemist 

**Pharmacist
Advice** 

PROMOTIONAL MODEL (marketing compliant)

chem world
CHEMIST

INDEPENDENT MODEL

**health care
PHARMACY**

Independent Pharmacies
of Australia



The Franchise model

Goal:

To raise the level of healthcare services and drive higher returns, enabling the delivery of professional services

Proposition:

Requires a commitment to follow a prescribed set of standard operating procedures (SOPs) across the **whole pharmacy**, including:

- Stock weight
- Marketing and promotional programmes
- Retail pricing
- Category management
- Systems
- Service standards

Enables us:

To build a true national brand through consistency of execution



The Promotional model

Goal:

To provide healthcare services and drive returns through value based promotional activity

Proposition:

Requires a commitment to follow a prescribed set of standard operating procedures (SOPs) in the **implementation and execution of marketing and promotional activities, including:**

- Theme
- Merchandising presentation standards
- Point of Sale material
- Retail pricing
- Stock weight
- System requirements



The Independent model

Goal:

To enable pharmacists to be independent whilst still benefiting from API's wholesale competencies and providing access to API services

Proposition:

We will continue to support our independent pharmacists by providing:

- Wholesale distribution services
- Shared services support



Pharmacy model roadshow

- Recent Australia-wide roadshow to showcase API pharmacy models
- Attended by 1400 pharmacists
- Workshops with 280 pharmacists
- 110 written expressions of interest
- 50 franchised pharmacies open by end Dec 05



Pharmacy Distribution scorecard

Strategy

1. Operating efficiency
2. Working capital improvements
3. Centralising buying decisions
4. Developing strategic relationships with suppliers
5. Take our position on Generics

How we are going

1. \$15m MOVEX system continues to be rolled out
- 2.1 \$27m on Aspire program, expecting +\$50m this year
- 2.2 \$30m working capital improvement program over 3 years
3. Project Headstart initiated
4. First to market advantage
5. Deal with Hexal announced



Industry issues

Fourth Government-Guild agreement

- Focus remains on \$11.25bn cap with \$460m savings
- Negotiations continue to be difficult
- Government has held firm on savings expectations
- Both parties have shown some intent to conclude ASAP
- Impact passed on to pharmacists

Supermarket threat

- Six-month extension
- Mirror extension on location rules for Pharmacy Guild

Industry issues (cont)

NPSA – Government lobbying

- Wholesale margin position is now more understood and supported
- Extensive work undertaken with economists and government
- Confident of a manageable outcome (involvement in decision)

12.5% Generic Pricing

- Brand Pharma's reaction: de-coupling
- In its early phases

Strategic Initiatives

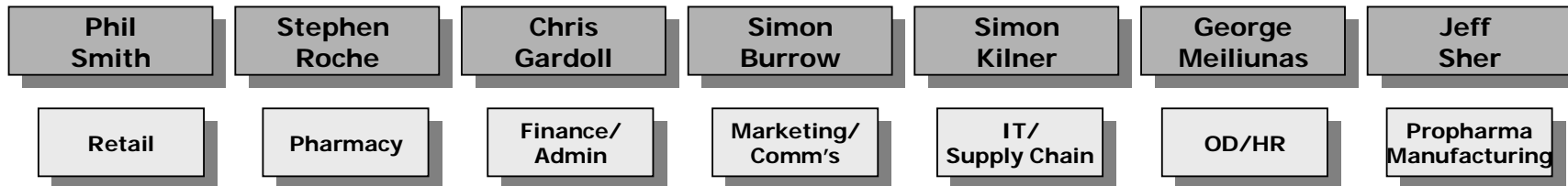
- Outlook 2005/6
 - Guidance to be provided at AGM (September 2005)
- New Management Structure
- Making Life Easy
- Development of Retail Offer in NZ market

New management structure

- Created Strategic Forum to manage business, fuel growth and develop the culture
- Two performance focused operational management forums for Australia and New Zealand

Strategic forum

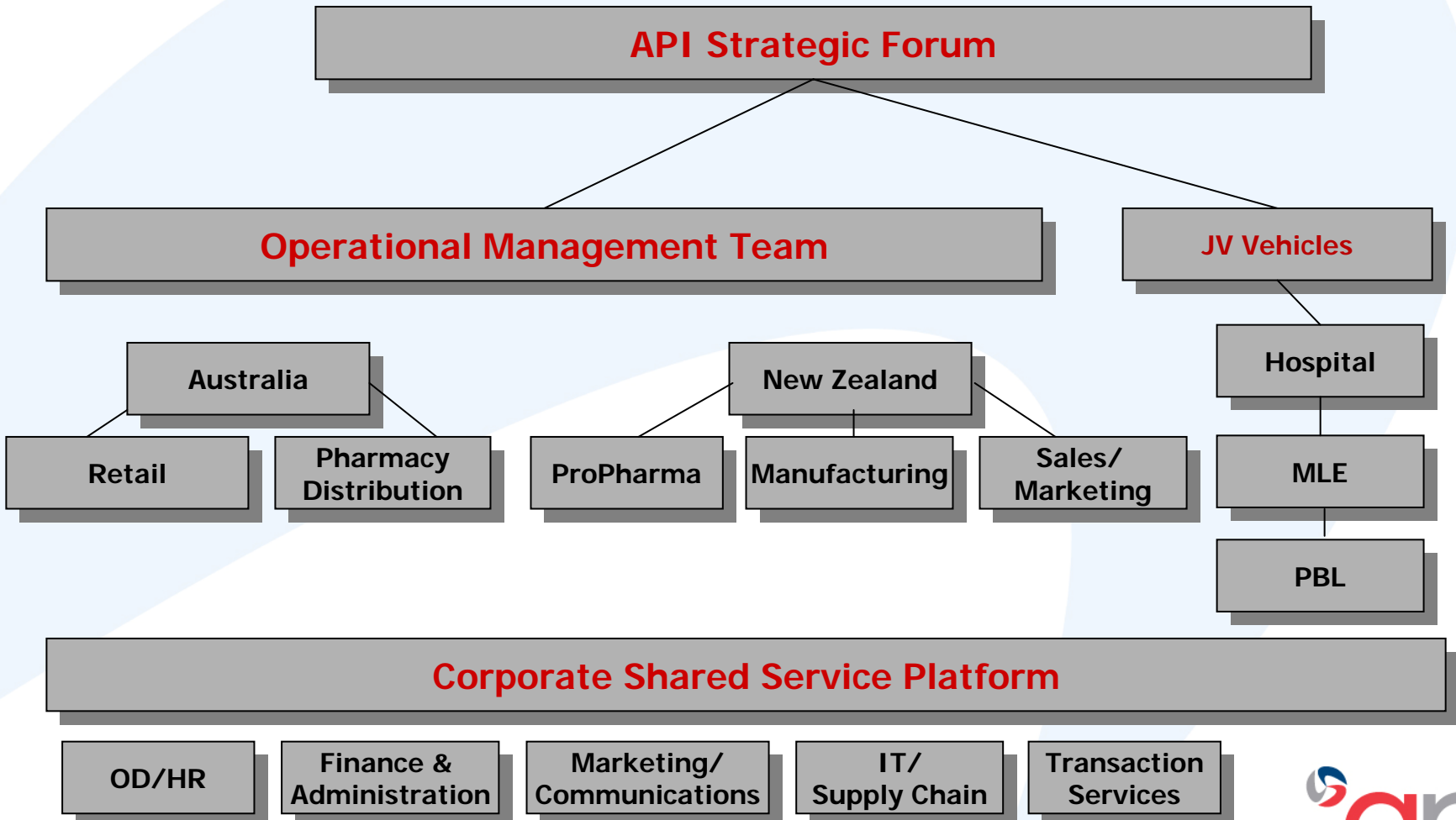
API Strategic Forum



Objectives:

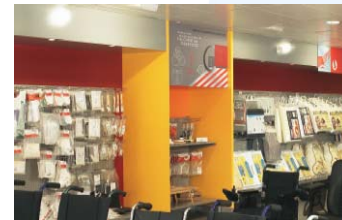
1. Develop the culture of the organisation
2. Review opportunities for growth
3. Determine performance objectives for the group
4. Review performance outcomes – identify corrective action
5. Ensure shareholder objectives are met
6. Practice good governance
7. Establish succession plans

Organisation Design



Making Life Easy

- A new 50/50 Joint Venture with Making Life Easy, a mobility and independent living superstore (600 – 700 square meters per store)
- Aimed at aging population, with 'caring' products
- A shortened range of Making Life Easy products in all API pharmacies
- 25 – 30 store opportunity in Australia over 3 years
- \$2 million upfront, capped at \$12 million



New Zealand retail opportunity

- Already a 50-50 JV in New Zealand – Pharmacy Brands Limited
- 240 stores – Unichem, Dispensary First, Amcal
- Reviewing opportunities to align these stores to retail models
- New Zealand market place allows for corporate ownership up to 49% across an unlimited number of pharmacies
- Other groups consolidating eg Radius, Life

Summary

- A year marked with change
- Management team proved its capability to be decisive
- Improved financial results
- Opportunities for continued improvement
- A focus on operational delivery and execution
- Responsive to industry changes