



ASX ANNOUNCEMENT

6 SEPTEMBER, 2004

**Australian Pharmaceutical Industries Limited (API) announces
acquisition of New Price Retail (NPR) for \$112.4 million**

Integrated healthcare services company Australian Pharmaceutical Industries Limited (API) (ASX Code: API) today announced it has entered into an agreement to acquire the health, beauty and lifestyle retailer New Price Retail (NPR) for \$112.4 million.

API's acquisition of NPR delivers the following key benefits:

- Fast tracks retail-led strategy for API
- Further secures the future of API pharmacies
- Enhances API's wholesale, manufacturing and distribution capabilities
- Allows continuation of NPR's strong growth and the delivery of best practice specialist retail services to NPR franchisees
- Appointment of NPR Group Leader Jeff Sher as Group Leader and Chief Executive Officer of the new API
- Potential synergy benefits will be predominantly in the areas of buying and distribution
- Acquisition expected to be Earnings Per Share ("EPS") positive in year one

Transaction details

The API retail pharmacy Banner Groups are Soul Pattinson, Chemworld, Pharmacist Advice and API Health Care. NPR (formerly known as New Clicks Australia) is the holding company for Priceline, Priceline Pharmacy, House and Price Attack.

The NPR businesses acquired have a combined annual turnover of \$370 million (as well as \$186 million MAT for franchised brands), giving the enlarged API a combined annual turnover of approximately \$3.5 billion.

NPR is expected to contribute EBITDA of \$26 million on a full financial year basis.

As consideration for the acquisition, API will issue 33.5 million shares, plus cash consideration of \$28.7 million. There is also a potential deferred consideration amount based on the future share price performance of API and payable in shares or cash at API's option. The deferred consideration will be calculated approximately 3 years from the date of acquisition, and will be the amount by which the API share price exceeds \$3.00, multiplied by 20 million.

The cash consideration will be debt funded. API's borrowings for the enlarged Group will increase to approximately \$155 million post the transaction, with a debt to equity ratio of 35%.

The acquisition of NPR is expected to be accretive to shareholder value, as measured by the anticipated impact on EPS. The acquisition is expected to be EPS positive, after the amortisation of goodwill.

API's due diligence suggests synergies are achievable from the acquisition of NPR, predominantly in the areas of buying and distribution.

The acquisition is conditional on the satisfaction of a number of conditions precedent. On completion of the acquisition, NPR vendors will hold approximately 13% of API's



expanded shares on issue, of which Investec Wentworth Private Equity, Investec Bank Australia Limited and New Price Retail Management will hold approximately 11%. CHAMP and ABN Amro, the other major shareholders of NPR, will hold approximately 1% each.

Investec Wentworth Private Equity Pty Limited is the Australian private equity subsidiary of Investec Bank (Australia) Limited. It manages in excess of \$100 million in funds on behalf of Investec and its clients. Investec Bank (Australia) Limited is a licensed Australian bank and is a part of the global Investec Group, which has funds under management in excess of \$115 billion.

Mr John Murphy, Managing Director of Investec Wentworth Private Equity, who will be appointed as a non-executive Director of API, said: "We are pleased to be an equity investor in API and see the merging of these two strong businesses as an exciting opportunity."

The new API

API Chairman, Mr Peter Robinson, said the acquisition fast tracked a retail-led strategy for API: "Today marks the commencement of a retail-led, market-driven strategy. Our focus is the consumer, which will in turn drive business for our Banner Groups and independent customers, which will flow through to improved business for our wholesale and manufacturing divisions," Mr Robinson said. "API remains fully committed to community pharmacy and to operating within the current regulatory guidelines. The acquisition will provide our Banner Groups and independent pharmacists with the best specialist retail expertise in Australia. API's wholesale, manufacturing and distribution capabilities will be enhanced and will provide improved infrastructure, superior buying power and more efficient supply chain management," Mr Robinson said.

"The acquisition of NPR will enable our customers to compete even more successfully and it will help protect pharmacists by further securing the future of their retail businesses."

Mr Jeff Sher, the Group Leader of NPR, will be appointed the Group Leader of the enlarged API group.

Mr Sher has more than 20 years' of specialist retail experience. Following his original appointment as Managing Director of New Clicks Australia and subsequently as Group Leader of NPR, the company's turnover increased from \$180 million in 2000 to around \$370 million (as well as \$186 million MAT for franchised brands) in 2004. He was an Executive Director of the publicly-listed South African company New Clicks Holdings which has a market capitalisation of about \$600 million. Mr Sher led a Management Buy-Out by the then New Clicks Australia management from the former South African parent in February 2004.

Mr Robinson said the new API would have three clear operating divisions – retail, wholesale and manufacturing, supported by a Shared Services structure.

"Because of API's new retail strategy and enhanced supply chain, pharmacists will have the option to enhance their business model in the face of declining margins, potential government deregulation moves and supermarket aggression," he said.

"With NPR integrated into the API structure, API will ensure that the interests of all Banner Group members and independent pharmacies are safeguarded," Mr Robinson said. "The new strategy will provide pharmacies with a competitive advantage and gives API Banner Groups and independent pharmacists access to the best specialist retail expertise and distribution in Australia. API combined with NPR will be beneficial to all in terms of scale, enhanced buying and better marketing.



“NPR’s management will provide the right leadership to leverage retail opportunities, while protecting the interests of each Banner Group,” he said.

“For independent pharmacies utilising API’s services, it’s business as usual and our high levels of service will continue. The sharpened focus of the wholesale division will ensure independent pharmacies continue to receive deliveries in full, on time and at the right price.”

On the subject of API’s competitors, Mr Robinson said, “We now have a strong point of difference from our competitors. When we looked at our competition, we saw one company following a manufacturing strategy and the other an unclear divestment strategy. We have taken the lead in the industry with our new strategy.”

Discussing Mr Sher’s appointment, Mr Robinson said Mr Sher and the NPR management team were skilled at managing multi-brands: “Jeff Sher has a deep understanding of the retail marketplace in Australia. Mr Sher is an innovator in pharmacy in Australia. He is a respected business strategist and clearly understands how to manage the API business and build a strong, positive culture within the company. Mr Sher leads an experienced specialist retail team with proven ability. NPR and its brands are now part of the API group and Mr Sher is committed to a multi-brand strategy.”

Mr Sher said the transaction was a complementary merging of two strong businesses. “API has the manufacturing and wholesale expertise and NPR brings the skills to ensure the consumer offer is the best in the market,” he said. “The new API will be a formidable competitor in its various markets and will provide a real competitive edge for Banner Groups and for independent pharmacy customers.

“The addition of NPR will provide a boost to the new API manufacturing facility through the inclusion of orders from the NPR Private Label program and the increased focus on developing the Soul Pattinson and Chemworld house brands. We anticipate that there will be significant growth in private labels at the new API,” Mr Sher said.

He said the enlarged API would continue to deliver best practice retail services to NPR franchisees through a unique blend of specialist retail skills, marketing expertise and efficient distribution.

Mr Sher said he planned to conduct a Strategic Review of the individual business units and announce more specific strategies within two months. The review would include extensive consultation with existing API pharmacists and staff. It is not anticipated that there will be any major changes in 2004.

In order to keep the industry appraised of developments, the new API team will also hold a series of national briefings during the coming few weeks.

Store numbers

<i>Soul Pattinson:</i>	208
<i>Chemworld:</i>	153
<i>Priceline Pharmacy:</i>	16
<i>Priceline:</i>	140
<i>API Healthcare:</i>	138
<i>Pharmacist Advice:</i>	60
<i>House:</i>	97
<i>Price Attack:</i>	118
Total	930



About Australian Pharmaceutical Industries Limited (API)

API is an integrated healthcare services company with currently four core business operations – pharmaceutical distribution, manufacturing, retail pharmacy brands and hospital, dental and medical distribution. API established as a chemists' co-operative in 1910 and listed on the ASX on 16 June 1997 (ASX Code: API).

The Company achieved a national distribution network with the commencement of operations in Perth on 4 August 1998.

API acquired the Soul Pattinson business on 5 May 2000. The Soul Pattinson name is the most recognised name in pharmacy within Australia and has its roots in Sydney from 1872.

API acquired the Hospital Supplies of Australia business on 29 October 2001 providing wholesale distribution of hospital and medical supplies to public and private hospitals.

API acquired the Interpacific businesses on 1 October, 2002 which included ProPharma, a pharmaceutical distribution business in New Zealand, Halas Dental, a dental distribution business in Australia and New Zealand and PSM Healthcare, a manufacturer of pharmaceutical medicines and consumer toiletries in New Zealand.

The API retail pharmacy banner groups are Soul Pattinson, Chemworld, Pharmacist Advice and API Health Care.

Soul Pattinson

Soul Patts, as it is affectionately known, has a proud 130-year history. The brand's vision is: "To be pharmacy proud, providing well-being solutions for mind, body and soul." The positioning is: "We have everything you need for your image, health and well being. I look good and feel good." Market research has claimed that Soul Pattinson is the "most trusted" pharmacy brand in Australia.

Chemworld

Chemworld's brand positioning is: "Your world of good health," and its vision is: "Chemworld will evolve to become Australia's leading innovative and contemporary retail pharmacy brand by delivering great value and superior professional health services to consumers, whilst remaining cost effective for members."

Pharmacist Advice

This model provides a comprehensive pharmacy training program and professional services support package plus marketing support to a group of pharmacists focused on providing medication management and professional healthcare advice.

API Healthcare

API Healthcare has as its vision: "Essential solutions for independent pharmacists." It is community based.



About New Price Retail (NPR)

NPR operates the Priceline, Priceline Pharmacy, House and Price Attack brands, with a total of 150 company-owned and 221 franchised outlets throughout Australia.

Priceline

Priceline is one of Australia's fastest growing retailers of healthcare and beauty products. It holds significant market share in colour cosmetics, skin and haircare. The brand uses imports and private label programs to help differentiate itself from its competitors. Priceline has a strong national Customer Relationship Management scheme known as ClubCard, which has more than 1.5 million cardholders and is growing at 8,000 cardholders per week.

Price Attack

Price Attack is a category leader in specialty haircare retail, with 118 franchised stores around Australia. Each Price Attack store is essentially a specialty retail store and hair salon. Each store carries a comprehensive range of haircare products and a large range of associated accessories.

House

House is one of the largest and most successful dedicated kitchenware and giftware retail groups in Australia, with 97 franchised stores.

Priceline Pharmacy

Priceline Pharmacy was launched in September 2002. It is a new pharmacy model in which pharmacists deliver the dispensing, patient care and manage the delivery of service while NPR, through its shared services model, delivers a compliant and successful retail format to the front of store.

The intent is to improve the profitability of the pharmacies by:

- Changing the current sales mix between front and back of shop;
- Improving the margin on the front of shop to the pharmacist through additional buying power as well as improved merchandising / category management and technology; and
- Increasing the customer numbers through better loyalty programs and brand management.

NPR currently has 16 franchised Priceline Pharmacies. The future continued rollout strategy for Priceline Pharmacies has been incorporated into the API merger strategy.

New Price Retail was purchased by way of a Management Buy-Out in February 2004 with the backing of private equity investors ABN AMRO Capital, Castle Harlan Australian Mezzanine Partners (CHAMP) and Investec Wentworth Private Equity.

A website: www.newapi.net.au has been established containing information about the transaction and an opportunity for pharmacists, employees and suppliers to ask questions and be provided with more information.

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