



**ASX Release
30 April 2009**

API performs strongly despite difficult trading environment

Australian Pharmaceutical Industries Limited (ASX:API), a leading Australian healthcare company, today reported that there continues to be significant improvement in business performance for the six months to 28 February 2009.

In the half year results released today:

- Net profit after tax of \$6.7 million is up 8.7% and in line with guidance;
- Sales for the period increased 8.1% to \$1,734.7 million;
- Revenue growth in Pharmacy is up 10.4% with EBIT margin improvement over comparable prior period lifted to 1.9%;
- Strong comparable store revenue growth of 5.7% for Priceline in difficult retailing conditions;
- Operational investment of \$5 million in the Priceline brand for the period drove comparable store growth but led to lower EBIT result than last year;
- Revitalise, the company's supply chain initiative, on schedule to realise expected savings – integrated Dandenong (Vic) Distribution Centre to commence in May 09, Ipswich (Qld) due December 09; and,
- The Board has determined it prudent not to pay a dividend given the current economic conditions and it will review this position at the full year results.

In announcing API's half-year results Managing Director and Chief Executive Officer, Stephen Roche, said: "In our ongoing business transformation we have been able to increase profit by more than 8%, while we have increased like for like store sales, adjusted our business following PBS Reforms and, significantly, we are in the process of totally re-engineering our supply chain – all of which has been done in a recessionary environment.

"We have successfully balanced the need for investment in the business with the desire to build the company's net profit position.

"Through this phase, API's average net debt levels have reduced while we have been investing in Revitalise, a new Priceline brand position, and successfully driving sales reflecting management's focus on its main activities."

Mr Roche said API's reported results have shown a significant improvement over previous periods.

"Sales of \$1,734.7 million (up 8.1%) for the six month period produced earnings before interest, tax and depreciation ("EBITD") of \$29.7 million (up 0.3%) and a net profit after tax of \$6.7 million (up 8.7%)," he said.

"We have confirmed our position as Australia's leading pharmaceutical wholesaler and our investment to grow the Priceline Pharmacy franchise network has seen like-for-like retail sales increase by 11.1%."



Retail division records high like for like growth

Mr Roche said API's retail division encountered a volatile and fluctuating market during the period but was able to maintain very good like-for-like growth as the division further developed its Priceline Pharmacy platform.

"Our strategy of converting company-owned Priceline stores to franchises is proving successful. In addition, we have opened 16 new Priceline Pharmacies in the half which is satisfactory given much tighter credit markets.

"The EBIT performance of \$7.6m has declined on last year primarily due to the significant investment in repositioning and building the Priceline brand during the period. We believed it was important to support our new brand position and franchise platform and this investment affected the division's first half result."

Mr Roche said across the total network like-for-like revenue growth during the period was 5.7%, with Priceline Pharmacy front of store growth at 11.1% and traditional Priceline stores at 0.5%.

"Customers are responding exceptionally well to our franchised retail pharmacy offer. It is a more comprehensive offer in that it delivers the brand strength in beauty and skin care products and a traditional health position due to the expert advice and specialist products that a pharmacy brings," he said.

"This growth is a clear endorsement that our investment in the brand, and in converting company-owned stores to franchised stores, will ultimately deliver growth and better returns for shareholders.

"Many stores in the network now have the new livery, we have invested in a staff training program that has led to improved customer service, and a concerted advertising campaign launching the new brand position has laid the foundation for continuing strong sales. Our relaunch of ClubCard has also been successful with more than 150,000 new members since November last year.

"Priceline ClubCard membership now exceeds 2.7 million Australians. The shopper basket size is higher and shopping is done more frequently. In fact, ClubCard members now account for more than 40% of sales. The average sale for a ClubCard member is almost 30% higher than for a non ClubCard customer."

Pharmacy Division

The Pharmacy division recorded EBIT of \$24.7 million, more than \$6 million ahead of the prior comparable period.

"The pharmacy industry operated in a highly competitive environment and has been subject to a series of ongoing reforms by the Federal Government. Despite this, revenue growth in Pharmacy has continued strongly at 10.4%. The improvement in operations is reflected in the EBIT margin lifting from 1.5% to 1.9% over the prior comparable period," Mr Roche said.

"The improvement over the prior year demonstrates that the strategies put in place have led to growth in the earnings margin and that will continue to be the focus for the future."

"Our retail services offer continues to grow and is driving sales and profitability for member pharmacists. The new Soul Pattinson offer is expanding, Pharmacist Advice has fully developed its professional position and the API member program for independent pharmacists has offered excellent and competitive benefits.



"Our partnership with Alphapharm has assisted us to maintain a strong position since the PBS Reforms were introduced. Although the generic pharmaceuticals market has experienced some intense competition, a strong offer to pharmacists has ensured Alphapharm is still Australia's leading generic pharmaceutical company."

PBS Reforms

Mr Roche commented on speculation in the industry about the Government's ongoing program of PBS reforms.

"We remain confident that we are well placed to successfully work through the second phase of Reforms given the demonstrated performance in handling the first phase of changes, and in negotiations around our compensation from the Government's Community Service Obligation (CSO) fund," he said.

'Revitalise' on schedule and on budget

Mr Roche said the roll-out of API's integrated supply chain program, Revitalise, is on schedule and budget.

"We have tested our IT infrastructure and the integration of the divisional inventory management systems has been successful. The fit out of our first integrated Distribution Centre in Dandenong is nearing completion and we are currently constructing our Brisbane centre. We are now advanced in our planning for the Sydney site. As previously advised the benefits from Revitalise will start to flow in F'11 and will be more significant than we had originally anticipated, which was annualised savings of \$18m from F'12.

"Our new automation and systems will mean API is better placed to manage inventory requirements for Priceline stores and our independent customers, increasing accuracy and reducing total weeks stock cover. We will reduce total linehaul requirements by more than 1 million kilometres and this will have obvious business benefits, not to mention a significant improvement in our carbon footprint."

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About API

Australian Pharmaceutical Industries Limited (API) is one of Australia's leading health and beauty companies. API's Pharmacy business provides wholesale distribution, business and marketing services to community pharmacies across Australia. The Retail division is a leader in the health and beauty market through its retail brand Priceline. The Consumer division is a niche player in over-the-counter pharmaceuticals and is based in New Zealand.

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