

21 October 2009

API records strong growth and increased profit

Announces \$150m equity raising

Australian Pharmaceutical Industries (ASX: API), a leading Australian healthcare company and one of Australia's leading health and beauty retailers, today reported stronger than expected results for the year ended 31 August 2009.

In the full year results released today:

- Net profit after tax of \$18.6m – up 22.3%.
- Earnings per share of 7.2c – up 22.0%.
- The Board has declared a fully franked dividend of 2 cents per share¹.
- Revenue for the year increased to \$3.5b - up 9.6%.
- Pharmacy sales revenue of \$2.8b - up 11.3%.
- Strong comparable store revenue growth of 5.4% for Priceline.
- Priceline ClubCard membership now approaching 3 million members, making it one of Australia's largest retail loyalty programs.
- Revitalise, the company's supply chain initiative, is being implemented to timetable and is expected to deliver savings per previous guidance.
- Fully underwritten \$150m equity raising.
- Pro forma gearing² reduced from 41% to 21% following the equity raising.

In announcing the full year results, API Managing Director and Chief Executive Officer, Stephen Roche, said: "These results are very pleasing and demonstrate the focus we've had on strengthening the fundamentals and growth profile of the business. It has also resulted in the Board increasing the dividend to 2 cents per share (fully franked).

We have increased revenue by 9.6% to \$3.5b and profit after tax by 22.3% to \$18.6m, while at the same time investing for the future in our successful Priceline brand and the transformation of our supply chain through Revitalise.

Comparable store sales for Priceline are up by 5.4% with underlying EBIT growth of 11.3% while the Pharmacy division has recorded sales growth of 11.3% and EBIT growth of 15.7%.

We have worked hard to ensure the company is in a sustainable, profitable position. We have carefully managed the balance between investment in the business and increasing the company's net profit position."

Mr Roche also announced that the company would be raising \$150m by way of a fully underwritten, non-renounceable, pro-rata entitlement offer to existing shareholders and placement to institutions. Mr Roche said the proceeds will be used to reduce company debt and allow for continued investment in the highly successful Priceline brand.

Pharmacy Division records strong growth in key areas

¹ New shares under the placement and entitlement offer will not be entitled to the dividend

² Gearing is net debt / net debt + equity. Net debt includes an off balance sheet securitisation facility of \$300m

Mr Roche said API's pharmacy division grew solidly despite volatile market conditions and the largest single review of PBS pricing in the system's history.

"Sales growth in pharmacy has continued strongly at 11.3% with margins maintained.

"The division has responded to changes in the industry very well. We've continued to manage our working capital effectively, which has been critical with high revenue and volume growth prior to any benefits from Revitalise.

"Our alliance with Alphapharm has continued to perform to expectation and deliver value.

"New formats introduced for Soul Pattinson and Pharmacist Advice have gained traction and outperformed the market in the core pharmacy categories."

"Our retail services offer has been strengthened with the addition of the new 'Premium' business-to-business brand for independent pharmacists. This has led to superior buying outcomes for 'Premium' members and long term, profitable business for API.

Mr Roche said that the Consumer Brands (NZ) business has performed to plan and continues to improve in all key areas.

Retail Division confirms API's status as one of Australia's leading specialty retailers

Priceline's status as one of Australia's leading health and beauty retailers has been reinforced with an increase in comparable store sales of 5.4%.

Mr Roche said that this performance was particularly pleasing given the uncertainty in consumer confidence created by the global financial crisis in the past 12 months.

"The brand was well placed at the value end of the retail market and continued to offer customers a competitive offer enabling us to ride out the year well.

"We opened 30 new stores in the year despite the historically tight credit markets and caution exhibited by investors during our financial year. We expect to be close to achieving our aim of operating 400 Priceline stores by the end of calendar year 2010 or early 2011.

"Management has adopted a strategy of controlled expansion whereby we have opened new stores or converted company owned stores to the Priceline franchise model as the economic conditions prudently allow.

"Priceline's customer offering of health and beauty is clearly resonating with our independent brand tracking showing that brand perceptions, customer experience, service, awareness and consideration are all at record highs and ahead of our competitors.

"Our investment in the Priceline brand is delivering considerable returns for stakeholders with like for like growth in franchised stores up 9.4%.

"Priceline relaunched its ClubCard loyalty program in November 2008, creating greater value for members, increasing membership take up and increasing our sales. The program is now approaching 3 million members. This rates it as one of Australia's largest retail loyalty programs.

"This membership base has become a major driver of sales at favourable margins for the retail division. ClubCard members now account for 40% of all retail sales. The average sale for a ClubCard member is more than 30% higher than for a non-ClubCard customer.

"Our sales, stores numbers, brand health measures and the increasingly significant ClubCard program all demonstrate our market leadership in the mass market health and beauty market.

'Revitalise' roll out

Mr Roche said the roll-out of API's supply chain consolidation program, Revitalise, was being implemented to our timetable and on budget.

"Our first Distribution Centre ("DC") in Melbourne is operating and we are currently constructing our Brisbane centre. We are now advanced in our planning for the Sydney site. We will not commission any new DC's until early 2010 to ensure supply for the Christmas/New Year period occurs with certainty.

"The benefits from Revitalise will start to flow in FY11 as planned and API confirms previous guidance that in excess of \$18m of savings are expected in FY12.

"Shareholders may be pleased to note that efficiencies that will flow from Revitalise will mean that API will reduce truck movements by approximately 1 million kilometres a year. This removes significant fuel and freight costs and also has an obvious benefit for the environment. As advised previously, Revitalise will create obvious benefits for pharmacists and suppliers, and a significant improvement in API's carbon footprint."

Debt Facilities

The company has received commitments from its financiers to extend API's Senior Debt and overdraft facilities to April 2012 and its Securitisation Facility to April 2011³.

\$150m fully underwritten equity raising

API today announced it will raise approximately \$150m in new equity:

- Approximately \$112m via a 2-for-3 accelerated pro rata non-renounceable entitlement offer ("**Entitlement Offer**")
 - Institutional Entitlement Offer size: approximately \$49m
 - Retail Entitlement Offer size: approximately \$63m
 - Eligible Retail Shareholders will be able to apply for additional shares in excess of their entitlement (dependent on shortfall and subject to Board allocation decision)
- Approximately \$38m via a placement to institutional investors ("**Placement**")
- Entitlement Offer and Placement to be conducted at the same offer price of \$0.65 per new share

The proceeds from the equity raising will be used to reduce net debt, allow API to continue to invest in the Priceline retail model and provide flexibility for future growth.

Washington H. Soul Pattinson & Co Ltd, API's largest shareholder holding c.25%, has committed to take up its pro rata share of the Entitlement Offer and the Placement.

³ Subject to final documentation

The equity raising is fully underwritten by RBS Equity Capital Markets (Australia) Limited (RBS).

Following the equity raising, API will have a pro forma gearing⁴ as at 31 August 2009 of 21% and a pro forma net debt⁵ / EBITDA ratio of 2.3x as at 31 August 2009.

API's Managing Director and Chief Executive Officer Stephen Roche said, "This equity raising significantly strengthens API's balance sheet and provides the company with financial flexibility for future growth".

Further details of the equity raising are provided in the Addendum.

Outlook

API expects growth in NPAT of approximately 10% in FY10 excluding the impact of the equity raising^{6,7}. Furthermore, Revitalise is expected to provide a strong earnings uplift in FY11 and FY12.

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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 one of Australia's leading health and beauty market retailers through its retail brand Priceline. The Consumer division is a niche player in over-the-counter pharmaceuticals and is based in New Zealand.

Investor enquiries:

Stephen Roche
Managing Director and Chief Executive Officer
03 8720 3007

Graeme Fallet
Chief Financial Officer
03 8720 3007

Media enquiries:

Stephen Kerr
PRX
03 9607 4500

⁴ Gearing is net debt / net debt + equity

⁵ Net debt includes an off balance sheet securitisation facility of \$300m

⁶ Key assumptions include: no changes to regulatory environment, no major changes in consumer and customer demand, stable industrial and economic climate, execution of store opening program of 50 stores and sale of company stores of \$4.2m (vs. \$6.1m in FY09)

⁷ Also refer to the risk factors section in the appendix of the Investor Presentation filed with ASX on 21 October 2009

Addendum: equity raising details

API is seeking to raise \$150m as follows:

- approximately \$112m via a 2-for-3 accelerated pro rata non-renounceable entitlement offer ("**Entitlement Offer**")
 - Institutional Entitlement Offer size: approximately \$49m
 - Retail Entitlement Offer size: approximately \$63m
- approximately \$38m via a placement to institutional investors ("**Placement**")

Under the Entitlement Offer, eligible shareholders are invited to subscribe for 2 new API shares ("**New Shares**") for every 3 existing API shares held at 7.00pm (AEDT) on Monday, 26 October 2009 (the "**Record Date**").

The offer price for the New Shares to be issued under the Placement and the Entitlement Offer is \$0.65 per New Share ("**Offer Price**") representing a 38.4% discount to the last closing price of API shares on Tuesday, 20 October 2009 and a 24.7% discount to the theoretical ex-rights price⁸.

The Placement and Institutional Entitlement Offer are expected to raise approximately \$87m and will be conducted on 21 and 22 October 2009. API will remain in a trading halt until completion of the Placement and Institutional Entitlement Offer and is expected to recommence trading on Friday, 23 October 2009.

New Shares to be issued under the Placement and Entitlement Offer will rank equally in all respects with existing ordinary shares, but will not be entitled to the 2 cent dividend per share declared by the API board with respect to the financial year ended 31 August 2009.

The Entitlement Offer is non-renounceable. Entitlements cannot be traded on the ASX nor otherwise transferred. This means that API shareholders who do not take up their Entitlement to participate in the Entitlement Offer will not receive any value for those entitlements and their equity interest in API will be diluted.

While the Entitlement Offer is non-renounceable, API will appoint a nominee for ineligible foreign shareholders and will issue the nominee with rights to subscribe for the New Shares which ineligible foreign shareholders would have otherwise been eligible for. The nominee will offer those rights for sale to certain sophisticated and professional investors on or about 18 November 2009 via a bookbuild process. If the price realised in the bookbuild is greater than \$0.65 per New Share (being the Offer Price), then each ineligible foreign shareholder will be paid their respective proportion of the excess (net of expenses).

RBS is acting as Sole Lead Manager, Bookrunner and Underwriter to the equity raising.

Retail Entitlement Offer

The Retail Entitlement Offer, which is expected to raise approximately \$63m, will open on Friday, 30 October 2009 and close at 5.00pm (AEDT) on Tuesday, 17 November 2009. Eligible Retail Shareholders may apply for New Shares in excess of their Entitlement subject to availability and scale-back at the sole discretion of API. The

⁸ Theoretical ex-rights price (TERP) is the theoretical price at which API shares should trade immediately after the ex-date for the Entitlement Offer and includes the New Shares issued under the Placement. TERP is a theoretical calculation only and the actual price at which API shares trade immediately after the ex-date for the entitlement offer will depend on many factors and may not be equal to TERP.

Retail Entitlement Offer is not being extended to any shareholder outside Australia or New Zealand.

Eligible Retail Shareholders will receive a retail offer booklet including a personalised Entitlement and Acceptance Form in relation to the Retail Entitlement Offer which will provide further details of how to participate.

Stock lending and other transactions

API has been granted a waiver by ASX so that, in determining shareholder entitlements for the Entitlement Offer, it may ignore any changes in shareholdings that occur after the commencement of the trading halt in API shares that commenced on 21 October 2009 (other than registrations of transactions that were effected through ITS before that halt).

Accordingly, a person who is a registered API shareholder at the Record Date as a result of a dealing after the commencement of the trading halt that commenced on 21 October 2009 (other than registrations of transactions that were effected through ITS before that halt) may not be entitled to receive an Entitlement under the Entitlement Offer.

In the event that a shareholder has existing API shares out on loan at the Record Date, the borrower will be regarded as the shareholder for the purposes of determining the Entitlement (provided that those borrowed shares have not been on-sold or used to cover a short sale).

Shareholder enquiries

Retail shareholders who have any queries about the Entitlement Offer should contact the API Shareholder Information Line on 1300 737 760 (within Australia) or on +61 2 9290 9600 (from outside Australia) at any time from 8.30am to 5.30pm (AEDT) Monday to Friday during the Offer period or go to the API website at www.api.net.au.

API's FY09 results, the equity raising and other information described in this announcement is also set out in an investor presentation which API has filed with the ASX today. This investor presentation contains important information including risk factors and foreign selling restrictions with respect to the equity raising.

Timetable for the equity raising and dividend

The following table outlines the indicative timetable for the equity raising and dividend:

Event	Date
Commence trading halt	Wednesday, 21 October 2009
Placement and Institutional Entitlement Offer	Wednesday - Thursday, 21 - 22 October 2009
API shares recommence trading	Friday, 23 October 2009
Record date for the Entitlement Offer	7:00pm (AEDT), Monday, 26 October 2009
Ex-dividend date	Wednesday, 28 October 2009
Retail Entitlement Offer opens	Friday, 30 October 2009
Mailing of Entitlement and Acceptance Form and Retail Offer Booklet to Eligible Retail Shareholders	Completed by Friday, 30 October 2009
Record date for the dividend	Wednesday, 4 November 2009
Settlement of the Placement and Institutional Entitlement Offer	Thursday, 5 November 2009
Issue of New Shares under the Placement and Institutional Entitlement Offer, and normal trading of those shares expected to commence on ASX	Friday 6 November 2009
Retail Entitlement Offer closes	5:00pm (AEDT), Tuesday, 17 November 2009
Settlement of Retail Entitlement Offer	Monday, 23 November 2009
Issue of New Shares under Retail Entitlement Offer	Tuesday, 24 November 2009
Normal trading of New Shares issued under the Retail Entitlement Offer expected to commence on ASX	Wednesday, 25 November 2009
Dispatch of Transaction Confirmation Statements for Retail Entitlement Offer	Wednesday, 25 November 2009
Dividend payment date	Friday, 11 December 2009

All times refer to Australian Eastern Daylight Saving Time (AEDT). API reserves the right, subject to the Corporations Act, the ASX Listing Rules and other applicable laws to withdraw or vary the timetable for the Entitlement Offer without notice. In particular, API reserves the right to extend the closing date of the Retail Entitlement Offer or accept late applications, either generally or in particular cases, without prior notice. The commencement of quotation of New Shares is subject to confirmation from ASX.

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