



Australian Pharmaceutical Industries Limited

Annual General Meeting

19 January 2010

Address by Stephen Roche, Chief Executive Officer

Good afternoon ladies and gentlemen:

You may recall that at this meeting last year, I reported that API had undertaken considerable work to re-build the business and set itself for future growth.

I am therefore pleased to present today that Australian Pharmaceutical Industries reported strong results for the year ended 31 August 2009.

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

The Pharmacy division recorded sales growth of 11.3% and EBIT growth of 15.7% and comparable store sales for Priceline were up by 5.4% with underlying EBIT growth of 11.3%.

This achievement is very pleasing and demonstrates the focus we've had on strengthening the fundamentals and growth profile of the business.

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.

We believe that API is now positioned as a leading Australian healthcare company and one of Australia's specialist health and beauty retailers.

At a divisional level:

API's Pharmacy Division grew very well despite volatile market conditions and the largest single review of PBS pricing in the scheme's history. As previously mentioned, sales growth in pharmacy continued strongly at 11.3%, with importantly, margins maintained in a very competitive environment.

The Pharmacy Division has responded to changes in the industry very positively and we have continued to manage our working capital effectively, which has been critical with high revenue and volume growth.

Our Soul Pattinson and Pharmacist Advice brands have continued to build their presence 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.

We have continued to develop our partnership with Alphapharm as a complement to the rest of our pharmacy business and it has become a valued part of our offer to pharmacy.

Last year we made a decision to bring our New Zealand based Consumer Brands business closer to our Australian operations. The business is a major supplier to the Australian pharmacy market and the closer association has led to a continuation of the improved performance of the division and we are confident that this trend will continue. I must add that as part of the New Zealand business we are delighted to be the sales and marketing agent for Blackmore's generating growth collaboratively to meet our mutual expectations.

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%. This performance was particularly pleasing given the uncertainty in consumer confidence created by the global financial crisis in the past 12 months.

The brand is deliberately positioned at the value end of the retail market and continued to offer customers a competitive offer.

We opened 30 new Priceline stores in the year despite the historically tight credit markets and caution exhibited by investors over the period. 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 all at record highs and, importantly, 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. We have recently secured our 3 millionth member, making it one of the largest retail loyalty programs in Australia. This was further recognised by us jointly winning the Most Effective Customer Relationship Management Program at the 2009 Australian Direct Marketing Association Awards. Other finalists included Telstra, Woolworths and The Red Cross.

Our ClubCard program has become a major driver of sales at favourable margins for the retail division. 'ClubCard' members now account for greater than 40% of all retail sales, with the average 'ClubCard' sale 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 specialist expertise in the health and beauty segment.

The roll-out of API's supply chain consolidation program, Revitalise, is being implemented to plan.

Our first Distribution Centre in Melbourne is constructed and operating from a Retail perspective. We recently had handover of our Brisbane facility and will be distributing Pharmaceutical products from February.

Our plan is to have both Melbourne and Brisbane as integrated operations by the end of this financial year. The delivery of our financial returns begins in 2010/11 year, culminating in \$18m in benefit in the 2011/12 year.

I would like to comment on recent events that have a material connection with our business:

As the Chairman has said earlier there is an “in principle” agreement between the Commonwealth Government and the Pharmacy Guild of Australia that was announced on Christmas Eve confirming the funding envelope and structural elements for community pharmacy through to 2015.

It is important to context that a number of the finer negotiations remain to be completed, however, the principles announced allow for stakeholders to begin their planning.

The Pharmacy Guild of Australia has advised that, in its view, this “in principle” outcome is acceptable given the Government's budgetary considerations, to support its widely publicised deficit following its stimulus program. Critically, the Guild has also advised that the Minister recognises that the community pharmacy sector must remain viable into the future.

From an API perspective, the fact that the CSO structure remains in place and that the current level of funding is supported is an important foundation for us.

Secondly, it is now being widely reported that Australian retail sales since December have been patchy. There is no doubt that the Government stimulus funding – which reached Australian households on 8 December, 2008 – significantly boosted sales last year.

I can report that year to date, like for like sales growth for API, is in positive territory, with comp store growth at 2.2% and indeed sales up until the end of November 2009 were good.

Our December performance was below management expectations. Notwithstanding this, total sales were 3% above last year and comp store performance improved by 0.3%. Importantly margins were maintained through the period.

Market intelligence from our supplier base indicates that against our competitors, our performance is more than credible, suggesting clearly that the retail market is much softer in the core categories we participate in. We remain cautious on the outlook for the remainder of 2010, but will manage to maximise our position wherever possible.

As I have said previously, Priceline's customer offering of health and beauty has a real connection with our customers. Our brand tracking is extremely strong. We have reported that Priceline brand is delivering considerable returns for stakeholders and continues to record sales growth at acceptable margins.

The 2009 year was pleasing in that we delivered on all of our key measurements.

We have continued to shift the future of this business to focus on the consumer and patient.

We will continue to focus our energy on growth and the delivery of sustainable returns to shareholders.

The Chairman has mentioned that 2010 marks our 100th year in operation and I look forward to celebrating that with all our stakeholders, including our pharmacy business partners, our suppliers, shareholders and of course our staff.

I would like to thank all our staff for their efforts and hard work in developing API. As our staff have made a great contribution to API, we have a commitment to them; to look after their health and wellbeing, particularly in areas such as safety management where we continually look for ways to improve our performance.

API is now clearly positioned as a leading Australian healthcare company and one of Australia's specialist health and beauty retailers. Our ambition is to make it stronger.