



**Australian Pharmaceutical Industries Limited**

**Annual General Meeting**

**19 January 2010**

**Address by Peter Robinson, Chairman**

Over the past three years, the company has concentrated its efforts on rebuilding its business platform in order to provide the base on which to restore shareholder value and deliver better returns to all stakeholders.

I am pleased to report that in the last financial year we saw the company deliver a considerable improvement in its results reflecting that focus and sound implementation of strategy by management.

At the same time the Board has maintained an eye to the future by ensuring that the company's long term strategy is sound and on track.

Australian Pharmaceutical Industries Limited (API) now occupies a unique place in its industry sector as the leading pharmaceutical distributor and specialist health and beauty retailer in Australia.

Our expertise and infrastructure means that API can take advantage of the fragmented health and beauty industry by further building Priceline's unique retail offer and supported by the reliable and consistent pharmaceutical wholesaling business. The benefits of concentrating on rebuilding with a unique strategy were realised in the financial year

ended 31 August 2009 as the Company recorded a 9.6% increase in sales to \$3.5 billion and a 22.3% lift in net profit after tax (NPAT) to \$18.6m.

Against an economy that had considerable uncertainty and a low growth rate as well as coming off the back of the largest ever price decrease in the Pharmaceutical Benefits Scheme since its introduction, it was a performance with which the Board was pleased.

Our Managing Director, Stephen Roche will speak in more detail about how we were able to manage these issues and the performance of each division, but I do wish to touch on a number of highlights from the 2009 year.

For the past two years, API has led the Australian market in pharmaceutical distribution. We have been able to generate consistent and reliable earnings and have gradually improved the profit contribution to the company from this division.

Our market leadership has been complemented by our strategic alliance with Alphapharm, Australia's largest generic pharmaceutical supplier. Alphapharm's product portfolio is the strongest in the Australian market and together we have been able to provide a compelling offer to pharmacies. This partnership will continue to be important in coming years as more than \$1 billion of generic products are expected to enter the market as patents expire on a number of high volume proprietary brands.

This partnership along with our experience in delivering services to community pharmacy including the Soul Pattinson and Pharmacist Advice brands has been important for the company during this re-building phase.

Priceline has continued to build its reputation as Australia's leading specialist health and beauty retailer. Our customer research has reinforced that our stores are exciting places to shop, with a broad and well merchandised range of beauty and health products, supported by service and systems that are not matched in any other store. This has enabled us to continue building our retail presence, now having 329 stores, comprising 213 franchised Priceline Pharmacies and Priceline health & beauty stores along with 116 company owned stores.

When we purchased Priceline in 2004, we had a strong view that it would provide API with the retail presence to build a highly competitive and sustainable brand that would include a strong pharmacy offer. At that time API believed that this would maximise the potential for growth and minimise the risk of changes to the pharmacy industry as the strategy relied more on its strength and ability of attracting customers rather than on the traditional maintenance of a regulatory environment.

The subsequent uptake by pharmacists of our brand has justified that decision and with a network of more than 300 stores we have come a long way on that journey. Our objectives for Priceline are to continue to grow strongly as we refine and improve the format for franchisees and customers.

I have spoken before of the turn-around in our New Zealand based manufacturing and consumer business and I am pleased to report that this division continues to improve its performance since it was more closely aligned to the Australian operations.

Stephen Roche will make further comment in his address about our progress in implementing the 'Revitalise' project which involves the re-engineering of our national supply chain.

In 2012 when the program is fully operational we expect it to reduce operating costs by \$18 million per annum.

As you may recall we took the decision to implement these supply chain initiatives because while we have said that we would welcome some form of industry consolidation no such opportunities have arisen. The Board knew that we needed to become more efficient to be sustainable and so we looked to internal savings that were real and achievable.

The changing market conditions only reinforced our intent to carefully oversee the management of working capital and our debt facilities. The high revenue growth has been well managed by the company and we continue to look for improvements in working capital that will benefit both API and our business partners.

As shareholders are aware, in December 2009 the company successfully completed a \$150 million capital raising via an entitlement offer to API shareholders and a placement to institutional shareholders.

Notwithstanding the challenging equity market conditions at the time, API received strong support from both existing shareholders and new investors with shareholders in total subscribing for over 70% of their entitlements.

I wish to thank shareholders for their support of this capital raising.

As a result of this injection of fresh capital API's balance sheet has been significantly strengthened with pro-forma gearing reduced from 41% to 21% bringing our gearing level in line with our Australian market peers.

In addition the raising allows the flexibility for the company to continue to invest in its ongoing strategy of building a network of 400 Priceline stores across Australia by early 2011.

Subsequent to the capital raising, I can advise that API has refinanced all debt facilities with senior debt facilities extended to April 2012 and the securitisation facility to April 2011. These activities give the company certainty and the leverage to invest in areas that will deliver better returns for shareholders.

Due to the improved company performance we were able to increase the annual dividend paid to shareholders to 2 cents per share fully franked. This dividend was paid to existing shareholders, and not allocated to those who acquired shares as part of the capital raising.

On industry matters, you may be aware that in late December 2009, it was announced that an in-principal agreement had been reached between the Pharmacy Guild of Australia and the Federal Government on the broad terms of the Fifth Community Pharmacy Agreement that will operate from July 2010 and continue for a period of five years.

It was pleasing to note that despite considerable cost savings being sought by the Federal Government in the order of \$1 billion over the five years, the key structural elements of the community pharmacy model remain intact.

The new community pharmacy agreement is not without its commercial challenges both for pharmacists and wholesalers. Nevertheless we are confident the new agreement will maintain the viability of the community pharmacy sector in Australia.

Prior to handing over to Stephen Roche I would like to provide shareholders with an update on the company's first four months of trading.

Despite press articles to the contrary, the information we have to hand is that retail trading conditions have been significantly tougher than at the same time last year, with interest rate increases affecting consumer confidence and the end of the government stimulus package.

Total retail sales for the period were 5.6% ahead of the same period last year with comparable store growth standing at 2.2%. The comparable store growth was less than we would have liked however the retail market has been mixed and it is our understanding that it has been below expectations for many retailers through the Christmas period.

Pharmacy distribution sales continued to track well ahead of last year showing a 10.2% increase for the year to date to December 2009.

As part of the capital raising the company provided full year profit guidance of a 10% increase in NPAT excluding the impact of the equity raising. We have no change to that outlook after the first four months of the year however we are watching the economic trends carefully, particularly in the retail sector as further interest rate increases may continue to affect consumer confidence in 2010.

In conclusion, I would like to thank directors, management and staff for their efforts in achieving the improved financial result in the last financial year and look forward to a further improvement in the performance in the future.

It is also timely to remind shareholders that this year is API's centenary year, having been first established as the Chemists' Co-operative Company of NSW Ltd in April 1910. In fact, this time next year we will be holding our 100<sup>th</sup> AGM of shareholders hence we are making plans now to recognize this special event, I look forward to sharing this celebration with you then.