



Australian Pharmaceutical Industries Limited
2011 Annual General Meeting
17 January 2012

Address by Peter Robinson, Chairman

Good afternoon and welcome.

2011 has been a difficult year for many in the retail and pharmacy wholesaling industries. Consumer confidence and retail spending remain depressed, global economic conditions continue to be uncertain, and a number of events – some anticipated and some unforeseen – have combined to create a particularly challenging operating environment.

Despite these challenging circumstances, I'm pleased that we are able to report a solid operating and sales performance, with Priceline once again delivering a credible performance under unprecedented retail conditions.

The Company reported a net loss after tax of \$23.3 million after allowing for a number of non-recurring items, including a \$50 million impairment to the Financial Guarantee Program for pharmacy customers. Following the Queensland floods, we also reported a \$3.6 million accounting loss for the full year and recognised an expected loss of profit recovery of \$5.5 million as a contingent asset. These amounts are expected to be recovered in the current financial year.

While the reported loss was disappointing, it was pleasing to see our core operations produce a solid result. Underlying net profit after tax was \$20.8 million, compared to \$22.6 million in the previous financial year.

Cash management within the business remained strong with working capital reduced by 5% and a \$33 million reduction in average net debt for the year.



This creditable underlying operational performance and confidence in our strategic direction has enabled the Board to declare an un-franked final dividend of 1.5 cents per share in addition to the fully franked interim dividend of 1 cent per share at the half-year. While API does have sufficient franking credits available to fully frank the final dividend, a change in the Corporations Act means that we have declared an un-franked dividend this year. In the absence of no further major deterioration in economic conditions we expect to return to a fully franked final dividend position this financial year.

When I spoke at last year's AGM, we had just closed our Ipswich Distribution Centre as a consequence of the floods that devastated parts of Queensland, and we had yet to gauge the full impact of that closure on our wholesale business. Pfizer's withdrawal from wholesale distribution in Australia and major PBS reform were also on the horizon.

Due to the tremendous effort of the management team, and our team on the ground in Queensland, we were able to get the Ipswich DC up and running again to the timeline expected, and it returned to its full operational capacity in November. This year we will, therefore, see the benefits of our supply chain transformation program that the Ipswich operation was central to, which were delayed in 2011 due to the centre's unexpected closure.

In response to the Pfizer move and further PBS reform, we acted swiftly to manage the significant impact of these changes on our business by amending our terms of trading and discount rates with our wholesale customers. We led the market in announcing and implementing these changes, working closely with our customers to effectively manage the impact on their businesses and on ours.

Prior to Christmas, the Federal Government announced the price reductions associated with the next stage of PBS reform, which are due to come into effect in April 2012. The reductions announced were significantly higher than expected, and we are currently reviewing the potential impact on our wholesale business – however, it is likely that we will again look to amend our discount terms with wholesale customers.



Management is currently formulating plans to ensure there are no issues with inventory for either API or our customers and in the adjustment in discounts for our customers. We will be communicating these plans to the market as soon as possible.

A focus of the management team throughout 2011 has been to lower our cost base and streamline the operations of the business. We closed four of our long standing regional distribution centres this year and have been delivering ongoing efficiencies throughout our supply chain.

As has been well documented, the retail sector has been under great pressure for some time. The uncertainty created by a volatile global economy and continued low consumer confidence have all taken their toll – and many retailers are feeling the effects.

Priceline performed well against this backdrop. Total sales growth was 2.3% on the previous year and comparable sales growth was 1.4%. Priceline was one of only a few retailers to post positive comparable store growth over the previous year, underscoring the difficult trading conditions facing the industry as a whole, as consumers continue to rein in discretionary spending.

We have cause for optimism as we go into 2012, with more than credible Christmas trading figures. During December, our comparable store sales were up 7.4% and we maintained margins. Year-to-date comparable sales are up 2.8%.

Priceline's store expansion program has slowed in the face of the tough retail and financing environment facing many small businesses and franchise operations, including pharmacists. In 2011 we opened 18 new Priceline franchise stores, including three conversions, and six new company-owned stores, one of which is in the new flagship Westfield Centre in Sydney's CBD. The closure of some existing stores meant that the total network of 328 stores was essentially flat against last year. As lending conditions change, we expect the store growth program to accelerate again.



In relation to the wholesale business, we have effectively managed all the challenges faced this year and the wholesale business continues to be stable and maintain its market position. We will continue to work closely with our customers to mitigate the impact of further PBS reforms coming into effect in April.

We are cautiously optimistic that the current financial year will deliver an improvement in underlying net profit after tax, in part due to the benefits we will reap as our supply chain transformation program begins to take full effect. We have invested in the future with modern and efficient distribution centres in Sydney, Melbourne and our Queensland centre which is now fully operational.

Priceline continues to perform well and we expect this to continue into 2012. The performance of our bricks and mortar operation will be supplemented in the first half by the introduction of our online store. Our current website is enjoying significant growth in page views. This interest in the Priceline website shows the potential for our Priceline on-line vehicle planned for launching in the second quarter of this calendar year. I look forward to reporting on its introduction later in the year.

We look forward to a full year where management is not distracted by external influences eg; the rebuilding of the Queensland Distribution Centre. The key focus areas continue to be:-

- the roll out of our retail strategy – we have an innovative and proven retail offering;
- management of further PBS reform due in April, August and December including Pfizer's 'Lipitor' coming off patent – management has a proven track record of achieving the desired outcome for all parties;
- delivering best practice from our distribution centres and continue to drive costs down – our investment and implementation is complete.



Before handing over to Stephen, who will take you through our strategy in more detail, I would like to thank the Board, Stephen and his management team and all API's staff who have all put in a tremendous effort this year.