



australian pharmaceutical industries

1H07 results presentation

19 December 2006

Content

- Business overview
- Financial overview
 - Group results
 - One-offs
- Divisional reviews
 - Retail
 - Pharmacy
 - Consumer
- Outlook

Business overview

Results overview

- Disappointing financial result
 - Voluntary share trading suspension
 - Reorganisation and review
- One off items of \$24.3 million impact result
- Retail sales positive but earnings growth slower, Pharmacy sales down and margins require further work
- Strategy in place for business turnaround

Restoring value – a systematic process

1. Fix the foundation

Review and address immediate business issues

2. Build on core strengths

Existing assets to be maximised

3. View to growth

Capture opportunities for incremental growth

Fix the foundation

- New management in first half:
 - Chief Executive Officer and Managing Director
 - Chief Financial Officer
 - Group Finance Manager
- Operational review commenced in August
 - Implemented cost saving initiatives
 - Restructure of the shared services model
 - New KPI structure implemented
 - Increased focus on pharmacist customers

Fix the foundation

Review process

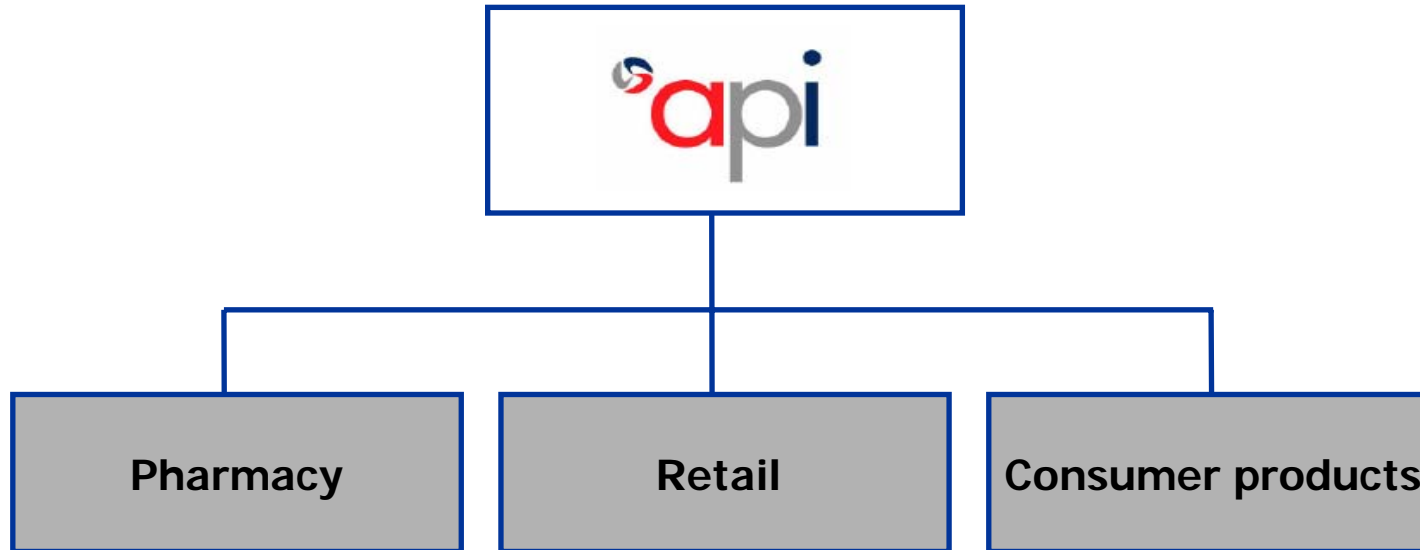
- *Phase 1:* Identified and implemented \$5 million in discretionary cost savings for 2H07
- *Phase 2:* Restructured head office cost base in November 06 - expected annualised savings of \$5.2 million
- *Phase 3:* Addressed immediate issues identified during the half including:
 - Pharmacy stock obsolescence
 - Retail shrinkage

Fix the foundation

New systems and process

- Changing a culture
- Clear focus and accountability implemented
- New working capital management initiatives
- Financial processes addressed
- Increased experienced management in Pharmacy

Fix the foundation



- Simplified structure to concentrate on core operations
- Smaller corporate office
- Restoring discipline and accountability



Fix the foundation

- FY06 completion update
 - \$17.2 million treatment was correct
 - No fraud identified
 - Apparent that it does relate primarily to the IT systems changeover and the stock balances held and recorded at the time
 - System tested and works as intended, no further issues or discrepancies in 1H07

Build on our strengths

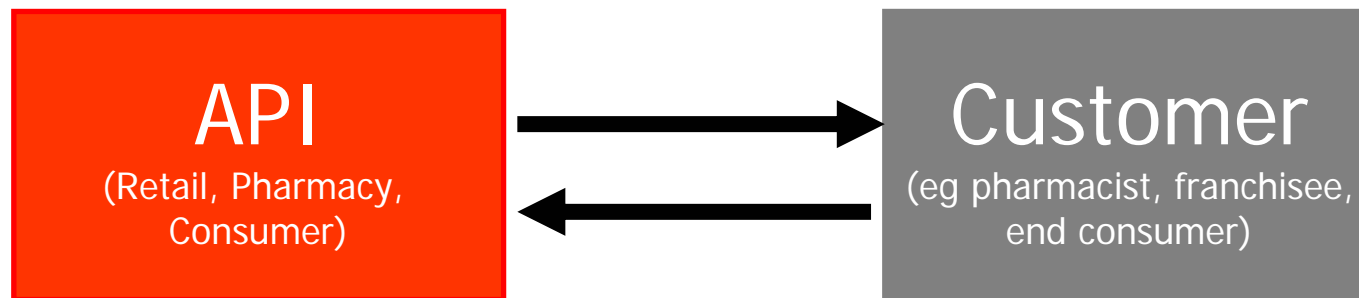
- API has a strong heritage and retained strong positions
- Strong brands – fastest growing in our market
- Strategy is sound
- Renewed management focus, structure and accountability
- Restoration of margins commenced
 - Momentum to achieve \$39m EBITD in 2H07



Build on core strengths to grow

Core strategic intent by asset group:

- Pharmacy services: effective, efficient, low cost provider and partner
- Retail: Health & beauty retailing leader in Australia
- Consumer Products: consolidate NZ position and opportunity present



Leverage core capabilities to increase the bond with key decision makers



Group Performance

Group financials

\$m	1H07	1H06
Revenue	1,284	1,285
Operating Profit	23.7	35.5
Unallocated expenses	(7.0)	(4.9)
One-off expenses	(24.3)	(1.5)
EBITD	(7.6)	29.1
Depreciation	(6.8)	(5.7)
EBIT	(14.4)	23.3
Profit from Associates	(1.4)	0.4
Net Interest	(9.4)	(5.4)
Pre tax profit	(25.2)	18.3
Tax	7.9	(5.4)
Profit after tax	(17.3)	12.9
Contribution discontinued bus.	-	1.1
Net Profit	(17.3)	14.0
EPS (c)	(6.7)	5.4
Weighted ave shares (m)	257.3	257.3



Group financials – normalised result

\$m	1H07	1H06
Revenue	1,284	1,285
Operating Profit	23.7	35.5
Unallocated expenses	(7.0)	(4.9)
EBITD	16.7	30.6
Depreciation	(6.8)	(5.7)
EBIT	9.9	24.9
Profit from Associates	(1.4)	0.4
Net Interest	(9.4)	(5.4)
Pre tax profit	(0.9)	19.9
Tax ¹	(0.3)	(6.0)
Profit after tax ¹	(0.6)	13.9
Contribution discontinued bus.	-	1.4
Net Profit	(0.6)	15.3
EPS (c)	(-)	5.9
Weighted ave shares (m)	257.3	257.3

¹ Assumes notional tax at 30%



One off items

- Pharmacy – obsolete stock \$7.1 million
 - Slow moving and short dated stock due to poor management
 - Monitoring and review process implemented
- Retail – shrinkage \$7.2 million
 - Prior reliance on cycle counts
 - Full stocktake completed at October close
 - Majority related to unknown prior periods
 - Increased security arrangements in stores
- FY06 completion - \$4.1 million
 - As per AGM guidance the costs relate to issues at the completion of the full year accounts
- Further items of \$6 million
 - Consumer manufacturing stock adjustments
 - Restructuring costs and redundancies
 - Corporate expenses
 - Adjustments from previous transactions.

Uplift expected in 2H07

- Prior to one offs the gap with the prior corresponding period is largely a result of:
 - Business distraction and loss of share in NSW Pharmacy business
 - Higher staff and administration costs
 - Higher occupancy costs and stock clearance sales in Retail
- The gap will be closed in the second half due to:
 - Restoration of retail margin
 - Stabilisation of pharmacy business in NSW
 - Cost reductions already in place
 - Expense control
 - Retail organic growth
 - Christmas trading period

Group financials – balance sheet

	31 October 06	30 April 06
\$m		
Trade & other receivables	227.8	167.9
Inventories	303.8	250.4
Cash and equivalents	25.8	36.1
Income tax receivable	6.2	0.6
Receivables	82.9	91.9
Intangible assets	220.2	215.9
Property, plant and equipment	73.9	69.2
Other non current assets	48.6	41.3
Total assets	989.2	873.3
Trade and other payables	430.3	412.6
Interest bearing loans and borrowings	130.2	11.3
Tax liabilities	1.2	-
Other liabilities	22.8	19.5
Total liabilities	584.5	444.4
Net assets	404.7	428.9



Cash flow

Cash flow affected by:

- Voluntary share suspension
- Timing pre Christmas in stock build up
- Sensitivities to customers in competitive market place
- Supplier terms in 1H07

\$m	1H07	1H06
Net cash inflow from operating activities	(106.5)	(49.8)
Net cash from investing activities	(18.4)	(23.7)
Net cash from financing activities	111.3	81.7
Change in net cash	(13.6)	8.2
Cash and cash equivalents	16.5	28.3

Division Reviews

Financial review - Pharmacy

\$m	1H07	1H06
Total Revenue	1,030.1	1,065.7
EBIT	14.4	24.5
EBIT Margin	1.4%	2.3%

Key issues:

- Margin decline with flat sales and costs increasing at rate of inflation
- Distraction of full year results and share trading suspension
- Loss of confidence in major state

Note: As per 4D above table excludes one off in both reporting periods



Business update - Pharmacy

- Revenue down 3.3%
 - Adverse effect in NSW from voluntary share trading suspension
 - Gained or held share in other mainland states
 - Overall lost approximately 1.5% market share
- Aggressive market place offering – targeting customers who moved portions of accounts
- Pharmacy group membership stable – Soul Pattinson, Chemworld, Pharmacist Advice and API Healthcare

Pharmacy initiatives

- Focus on driving further efficiencies and reducing cost base
 - Monitoring and measurement of working capital (Creditors:inventory)
 - Collaborate with customers for efficiencies (post CSO environment)
 - Restore margins
- Without industry consolidation API still has scope to increase returns through supply chain initiatives
- Increased experience in management team
- Renewal and leverage of retail pharmacy groups
 - eg New Soul Pattinson pharmacy format well accepted
- Use API retail capabilities through independent pharmacies

Financial review - Retail

\$m	1H07	1H06
Revenue	227.2	198.5
EBIT	4.4	6.1
Margin %	2.0	3.1

Key issues:

- Sales growth above expectation – excellence in category
- Investment continued in Priceline Pharmacy brand
- Higher occupancy costs and shared services costs
- Distraction of full year results and sales of clearance lines
- 1H margins traditionally lower than second half

Note: As per 4D above table excludes one off in both reporting periods







Business update - Retail

- Attractive target market due to inelastic spending habits
- Strong pipeline for Priceline Pharmacy store openings
- Price Attack continues to grow store numbers
- House maintaining position in tough market
- Increased security processes implemented to deal with shrinkage issues and restore gross margin in 2H07

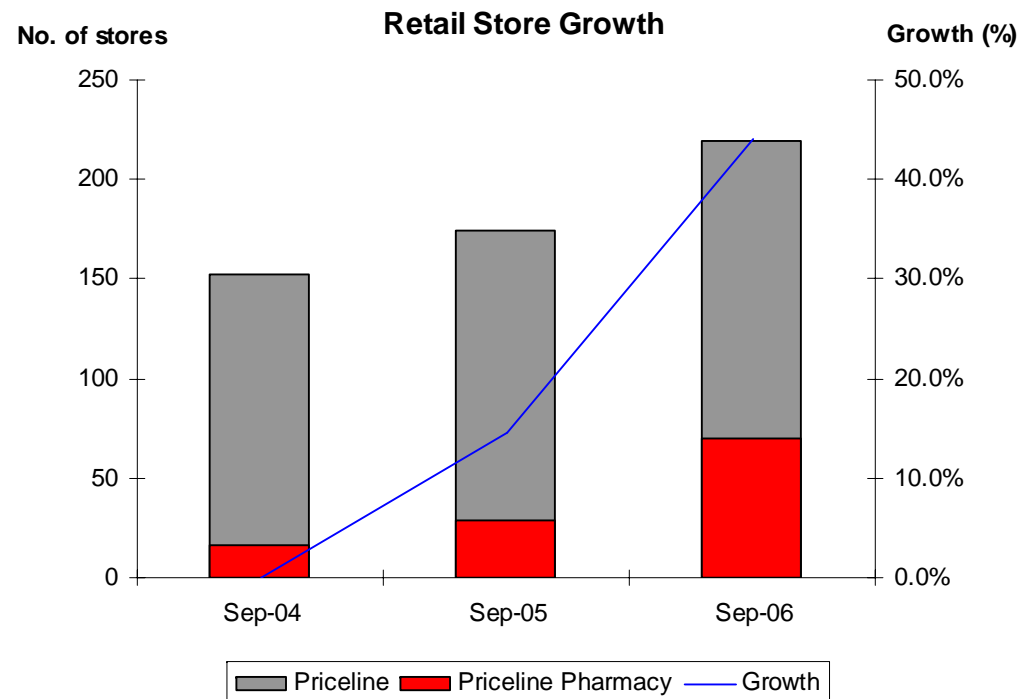


API retail stores

Brand	No.	Segment	Type
	150	Health/Beauty	Corporate owned
	96	Pharmacy	Franchise
	133	Haircare	Franchise
	105	Homewares	Franchise

Retail – growth continues

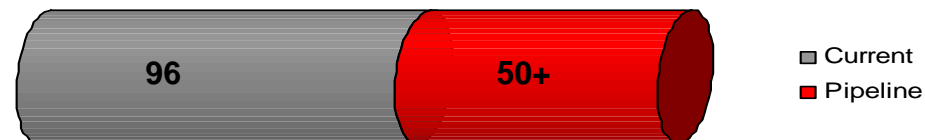
- Continued growth in Priceline and Priceline Pharmacy stores
- Combined footprint over 240 stores



Growth opportunity

- The major opportunity is Priceline and Priceline Pharmacy
- Unique position in the pharmacy market
- High growth with high demand
- Base now set and consolidation of increased numbers to realise upside from pipeline

Continued growth certainty



Retail initiatives

- Fully leveraging established base of Priceline/Priceline Pharmacy to increase returns with growth options in both formats
- Increased security processes implemented to deal with shrinkage issues and restore gross margin in 2H07
- Price Attack franchise growing in expanding market
- House franchise targeting niche areas outside shopping malls
- Tighter cost controls in place across the business



Division overview - Consumer

\$m	1H07	1H06
Consumer products		
Total Revenue	25.8	21.9
EBIT	(0.4)	(0.8)
Margin %	(1.5)	(3.5)

Key issues

- Well managed business flexing costs to meet demand
- New Zealand VMS business performed well
- Future opportunity once major business units addressed

Note: Table excludes Pharmacybrands Limited sales of \$5.1m and EBIT of \$550k



Summary

Outlook

- New initiatives to counteract margin pressure include:
 - Streamlining cost base of the group
 - Working capital targets
 - Customer retention and reclamation
 - Targeting supply chain efficiencies
- Retail continues to build Priceline and Priceline Pharmacy footprint
- Strengthened financial management as well as business performance measurement and reporting
- Confidence in EBITD for second half of approximately \$39 million
- Fix current position before looking at growth options from core strengths



Questions



australian pharmaceutical industries

1H07 Presentation

19 December 2006