
API half year results presentation

for the 6 months ended 29 February 2008

30 April 2008

Restored business

Management agenda on track

1. Fix the foundation

- Underlying issues addressed

2. Build on the core assets

- Consolidated positions in core divisions
- Divested non-core assets

3. View to growth

- Alphapharm agreement to build on No 1 position
 - Priceline brand expansion to continue
 - Enable growth options with supply chain program
-

Core business stability - first half result

Return to profitable financial position

- Continue steady business improvement
- Sales growth continued strongly
- Improvement trend flow to 2H

Pharmacy growth as new market leader

- Leading market share established in 2008
- Underlying growth strong
- Working capital increased

Retail growth in challenging environment

- Transitioning store profile to franchise model from corporate ownership
 - Rapid store roll out continued
 - Maintained growth throughout a fluctuating period
-

Growth plans

API's has consistent growth expectations with sound basis

- Priceline Pharmacy demand
- PBS volume growth
- Alphapharm generic pharmaceuticals partnership
- Leading service provider to pharmacists

Future challenges for the industry to address

- Fifth Community Pharmacy Agreement 2010
- The Community Service Obligation renewal 2010
- Increased generic pharmaceuticals volume
- Increased competition

API's supply chain program – Revitalise – will enable growth

- Strategy endorsed by the Board subject to business cases
 - Expected to reduce costs by \$18m a year with a \$60m investment
 - Increase long term capacity and competitiveness
-

Results overview

Key financials

Continued improvement in earnings base:

- Integration of Alphapharm
- No store divestments
- Continued efficiency changes absorbed in result
- Return to net profit

\$m	1H08	1H07*
Revenue	\$1,605.1	\$1,284.4
EBITD	\$29.7	\$(7.6)
EBITD (excl one-offs in 1H07)	\$29.7	\$16.7
EBIT (excl one-offs in 1H07)	\$21.7	\$9.9
NPAT	\$6.1	\$(17.2)

*API changed its financial year end in 2007. 1H07 refers to the six months ended 31 October 2006

Key financials

Key measures are showing that operational management is improving returns while managing significant business and industry changes

- Alphapharm integration
- Priceline transitioning ownership model

	1H08	4MYE*
Gross profit/external sales	11.8%	11.6%
Overheads (inc depreciation)/external sales	10.4%	11.4%
EBITD (excl one offs**) /external sales	1.9%	1.7%
EBIT (excl one offs**) /external sales	1.4%	1.1%

*4MYE refers to the four month financial year ended 31 August 2008 as part of API's transition to a new financial year

**One offs only relate to 4MYE

Working capital

Increased requirements during the period due to:

- Alphapharm initiation
- Underlying sales growth
- Increasing number of Priceline Pharmacy stores
- Value increase in debtors but days outstanding marginally declined

	1H08	4MYE
Trade creditors/inventory ratio	1.3	1.3
Trade debtors/external sales ratio*	1.5	1.5

*based on average monthly sales over six month period

Cash flow and funding

\$'000	1H08	1H07
Operating cash and cash equivalents	63,174	(91,448)
Net cash from operating activities	56,090	(106,459)
Net cash from investing activities	10,291	(18,436)
Net cash from financing activities	(4,386)	111,330
Closing cash and cash equivalents	71,527	16,516

\$m	As at 29 Feb 2008
Securitisation balance*	319.8

*includes off balance sheet debtors securitisation program, including the Aspire program

Divisional reviews

Divisional review - Pharmacy

- 24.7% total revenue increase on the 6 months to February 2007
 - 6 months total revenue to Feb 07 of \$969.2m
- Integrated Alphapharm and increased organic growth rate
- Managed highly competitive market conditions
- Margin improvement to continue
 - Result includes one-off start up costs with Alphapharm (\$2.3m)
 - Restructuring continues – eg shift changes for better expense management

\$m	1H08	4MYE	FY07	1H07
External sales	1,203.2	730.3	1962.9	1,002.3
EBITD	23.1	12.9	35.9	15.2
Margin	1.9%	1.8%	1.8%	1.5%
EBIT	18.9	9.9	27.5	11.6
Margin	1.6%	1.4%	1.4%	1.2%

Divisional review - Pharmacy

- Non recurring items not reported in 1H08 result:
 - \$2.3m Alphapharm start up costs
 - \$0.5m additional costs in restructuring
- Margin improvement to flow through in second half

Excluding non recurring items

	\$m	1H08 adjusted	1H08 reported
External sales		1,203.2	1,203.2
EBITD		25.9	23.1
Margin		2.2%	1.9%
EBIT		21.7	18.9
Margin		1.8%	1.6%

Divisional review - Retail

- A division in transition to a new model
- 6% total revenue increase on the 6 months to February 2007
 - 6 months total revenue to Feb 2007 of \$312.5m
- Like for like store growth over the period was strong
 - Total comparable store growth 7.3%
 - Priceline Pharmacy comparable front of store growth 12.9%
 - Traditional Priceline comparable growth 5.1%
- Fluctuating demand during the period influenced by interest rates and election
- No store divestments during peak trading period, expected in second half
- Demand for Priceline Pharmacy continues – 18 openings imminent

\$m	1H08	4MYE	FY07	1H07
External sales	331.3	172.8	566.0	207.4
EBITD	15.9	9.9	30.7	10.0
Margin	4.8%	5.7%	5.4%	4.8%
EBIT	12.7	7.6	24.6	7.2
Margin	3.8%	4.4%	4.3%	3.5%

Divisional review - Retail

- Underlying results an improvement on previous periods
 - Excluding proceeds from traditional Priceline store sales the earnings performance is considerably improved
 - Reflects investment in brand marketing program, inventory management and operational store management

\$m	1H08	FY07	1H07
External sales	331.3	566.0	207.4
EBITD	15.9	16.6	6.0
Margin	4.8%	2.9%	2.9%
EBIT	12.7	10.5	3.2
Margin	3.8%	1.8%	1.5%

*table excludes four month year end period due to all months being in low retail season

Divisional review - Consumer

- Remains embryonic and is on track with business plans
 - Increased collaboration between divisions
 - Greater emphasis on penetrating Australian pharmacy market

- Tight controls maintaining profitability and keeping management focussed on flexing expenses

\$m	1H08	4MYE	FY07	1H07
External sales	16.7	11.9	41.7	27.0
EBITD	1.2	0.9	1.0	(0.2)
Margin	7.2%	7.4%	2.5%	-0.7%
EBIT	0.5	0.5	0.0	(0.6)
Margin	3.0%	4.2%	-	-2.2%

Revitalise

Supply chain transformation program

Revitalise – Enabling growth

API runs two supply chains:

- Pharmaceutical distribution from 14 DCs providing ethical and front of store products to all Australian pharmacies
- Retail distribution from 1 DC providing front of store products to all stores in the Priceline brand across Australia

Neither supply chain would be able to keep pace with growth expectations nor be more competitive to meet future events if the industry funding conditions changed

Integration review and planning process:

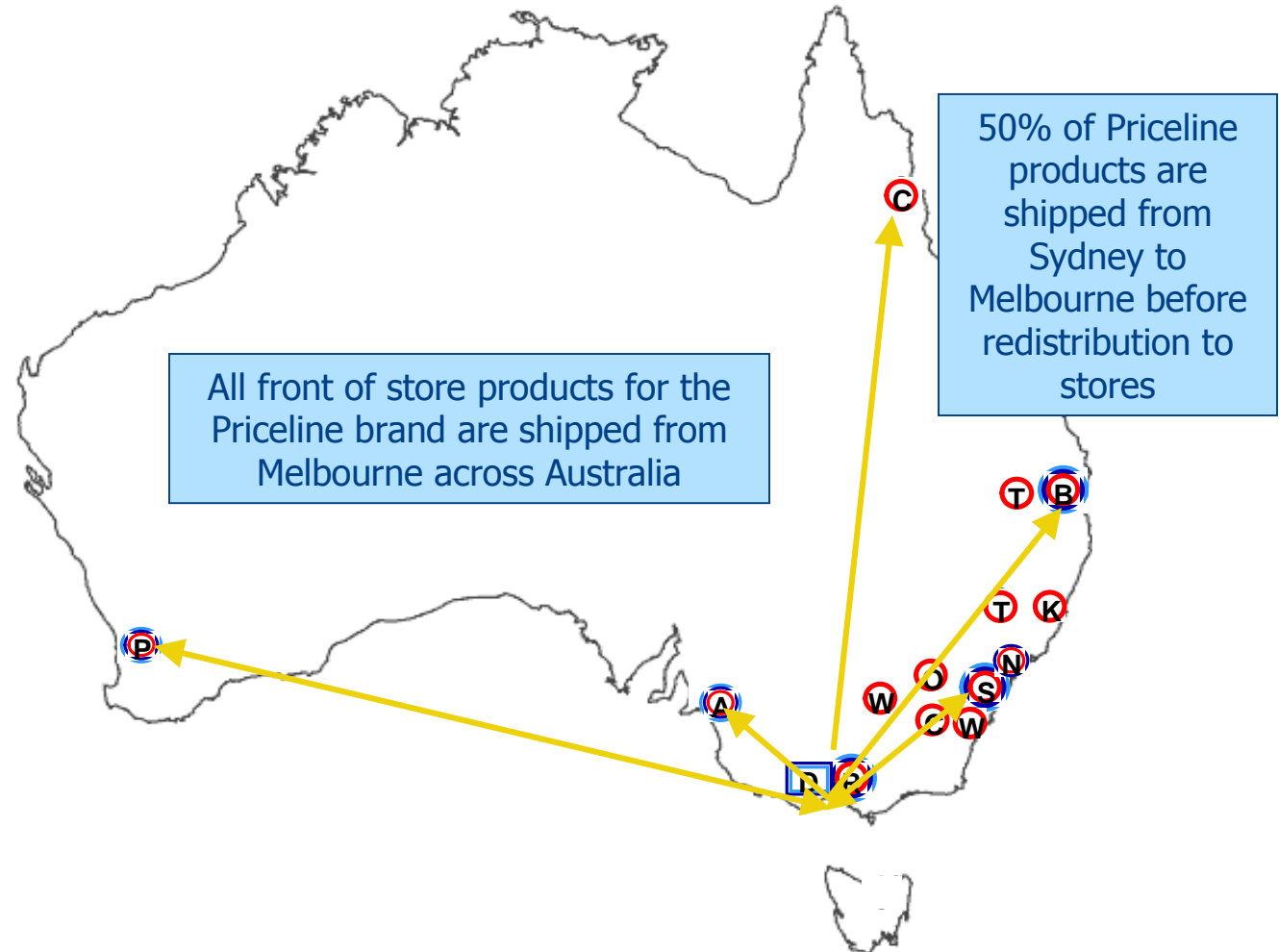
- Initial review in October '07 assessed potential for integration
 - 2008 comprehensive review into network plan, growth capacity, financial assessment undertaken with supply chain experts XAct Solutions
-

Today's supply chain is inefficient

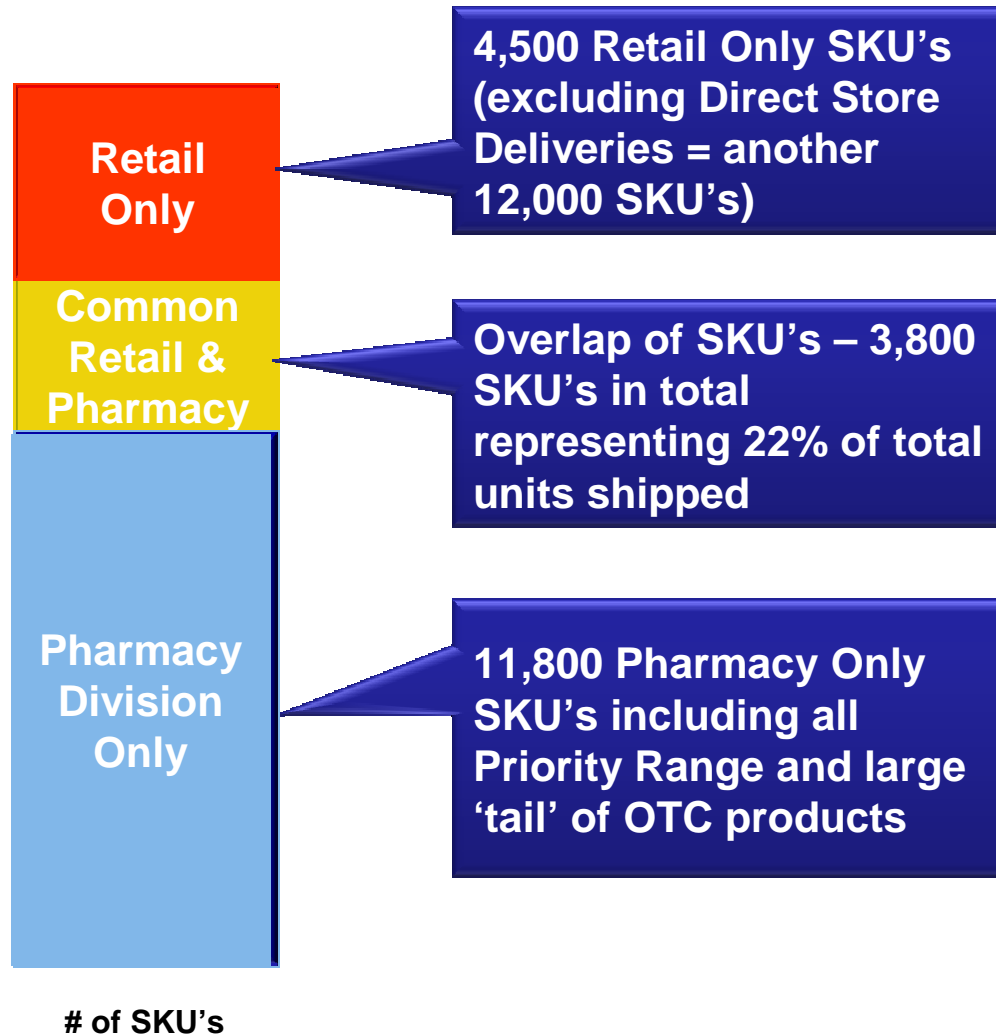
Products common to Retail and Pharmacy are held in separate supply chains

Increasing freight costs and handling requirements with growth

Retail and Pharmacy warehouses in Melbourne reaching capacity in current design and require investment in the short term



Working capital opportunities



- The 2 supply chains currently have 3,800 commons products (SKUs)
- Increase on-shelf availability with product closer to the consumer
 - Delivering the right products to the right place, at the right time, at the right price

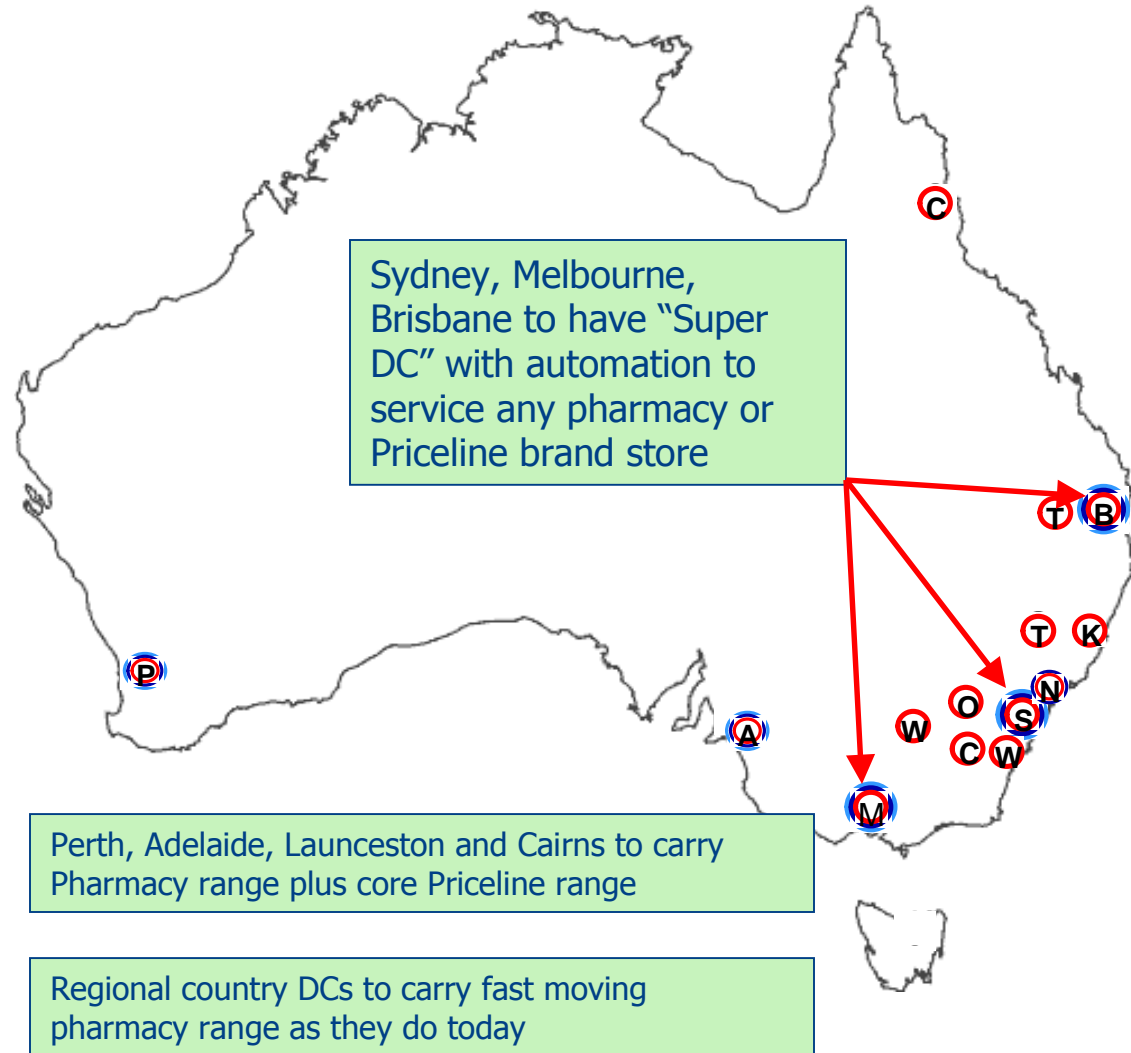
Revitalise – an efficient network

Decrease overall freight and handling requirements – lower cost per pick

Increase efficiency and capacity in core DCs

Increase efficiency of inventory holdings

Focus on “store friendly” delivery capability

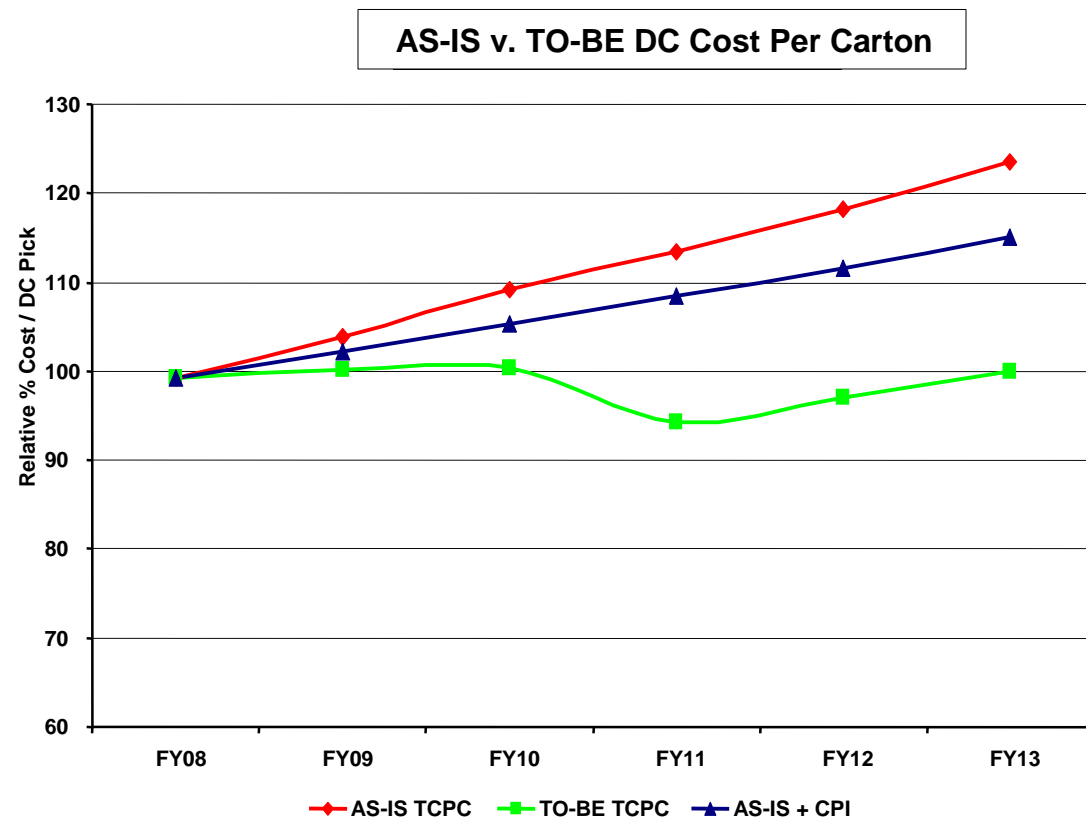


Growth expectations – lower cost base

Revitalise will see average pick cost per carton decrease

Costs inherent in the network design today would see an increase in picking cost of more than 20% by 2013

Revitalise will enable API to meet growth expectations, competitive challenges and potential industry changes



Revitalise – next steps

Overall planning inclusions:

- Mapped customer service needs nationally
- Explored infrastructure design and changes required
- Savings are based on changes in infrastructure, streamlining inventory and reducing secondary freight costs
- No further assumptions built into business case eg, primary freight rebates, direct rebates, store friendly deliveries

The Board has endorsed the strategy in principle and each component of the program is to be subject to an individual business case:

- Three year program to complete
 - It is not expected to dilute earnings
 - \$18m annualised savings projected in FY11, savings start from FY10
 - \$60 million investment in 5 core projects
 - Each project will need to be approved by the Board
-

Summary

Controlling our future:

- Building our position as the leading pharmaceutical wholesaler
- Retail business transitioning into Priceline Pharmacy dominant portfolio where the consumer proposition is working
- Pursuing supply chain to enable growth of both platforms

Second half to continue improvement:

- Full period of Alphapharm without start up costs
- Planned sale of Priceline corporate stores to transition to Priceline Pharmacies
- Underlying business still has approximately 60:40 split in favour of the first half

No change to current EBIT consensus of \$49.5 million

Questions
