



australian pharmaceutical industries

Turnaround Momentum Builds

Half year results 2005/6

Tuesday 20 December 2005



Introduction

- The Turnaround story gains momentum
- Resolved under performing aspects of the business
- In the midst of the 3 year transition, with opportunity and upside ahead of us.
- Focus shifts to growth





Structure for today

- Overview results, key issues, 15-month review, strategy update
- Detailed financials
- Pharmacy Distribution
- Retail
- Manufacturing
- JVs
- Outlook





Propharma – Sale of business

- As a result of the Strategic Review and approach - Board decision to divest the business
- Management led – buyout, in partnership with Zuellig
- Purchase price of NZ\$40m – represents book value part of consideration deferred - NZ\$8m
- Ongoing commitment to our manufacturing and retail business
- Strategy in NZ is about providing aligned pharmacists with choice
- This transaction should in no way indicate a similar path in Australia – a strong commitment exists to distribution in Australia





Overview results

- Revenue up 16.6% \$1,557,125
 - AIFRS adjusted
 - Revenue \$1,657,811 – pre-adjustment
- EBITD up 23.9% \$32,510
- PBT up 7.6% \$20,790
 - Acquisition of NPR, interest increase
- NPAT up 1.2% \$14,013
 - AIFRS & Tax adjusted for discontinued operations
- Interim dividend of 6.25c





Key issues affecting results

- Pharmacy Distribution Volume & Margin impacted by:
 - Guild-Government agreement -uncertainty
 - PBS slowdown – co-payment increase
 - MOVEX implementation slowed. Costs increase due to delay on Guild-Govt agreement

However....

- Successfully implemented MOVEX in four states
 - Market share maintained
-
- Priceline Pharmacy store openings
 - Whilst 50 stores open
 - Set up costs & income lag
 - Uptake in income in 2nd half of calendar 2006





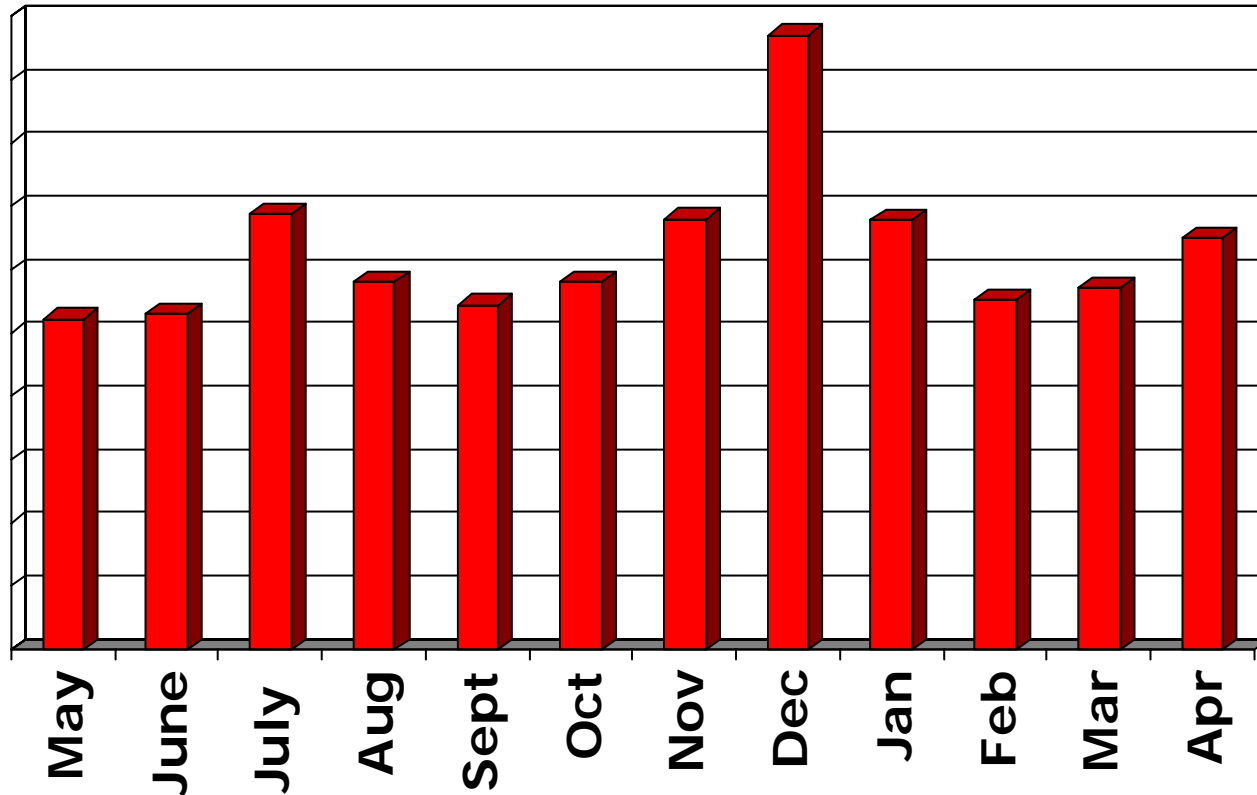
Key issues affecting results

- Manufacturing relocation to NZ
 - Good Progress made
 - Production slower to ramp up
- Interest Charge
 - Growth in charge due to higher core debt associated to NPR acquisition
- Working Capital
 - Sales growth in October – impact of \$20m trade debtors
 - Inventory growth – ramp up to Christmas
- Seasonality: Christmas is key
 - Reminder: Half Year result excludes Christmas





Retail seasonality



October to January generates – 60% of yearly profit





Turnaround momentum builds

- ✓ Post acquisition integration process nearing completion
- ✓ A Strategic Review conducted which facilitated a change in approach
- ✓ Established strong management team focused on strategic objectives and operational excellence
- ✓ Cultural change program embraced to engage competencies in various businesses
- ✓ Divested Halas and Shalfoon
- ✓ Closed Manufacturing in Kingsgrove and relocated capability to Auckland





Turnaround momentum builds

- ✓ JV with ABN AMRO for businesses of HSA, Clifford Hallam
- ✓ Established the infrastructure to deliver our pharmacy offers
- ✓ Priceline Pharmacy opens 50th store
- ✓ Established JV in Making Life Easy
- ✓ Sold NZ Distribution Business & established a platform for retail growth through Pharmacy Brands (NZ)
- ✓ Investment market interest and shift in share register has led to ASX 200 index inclusion





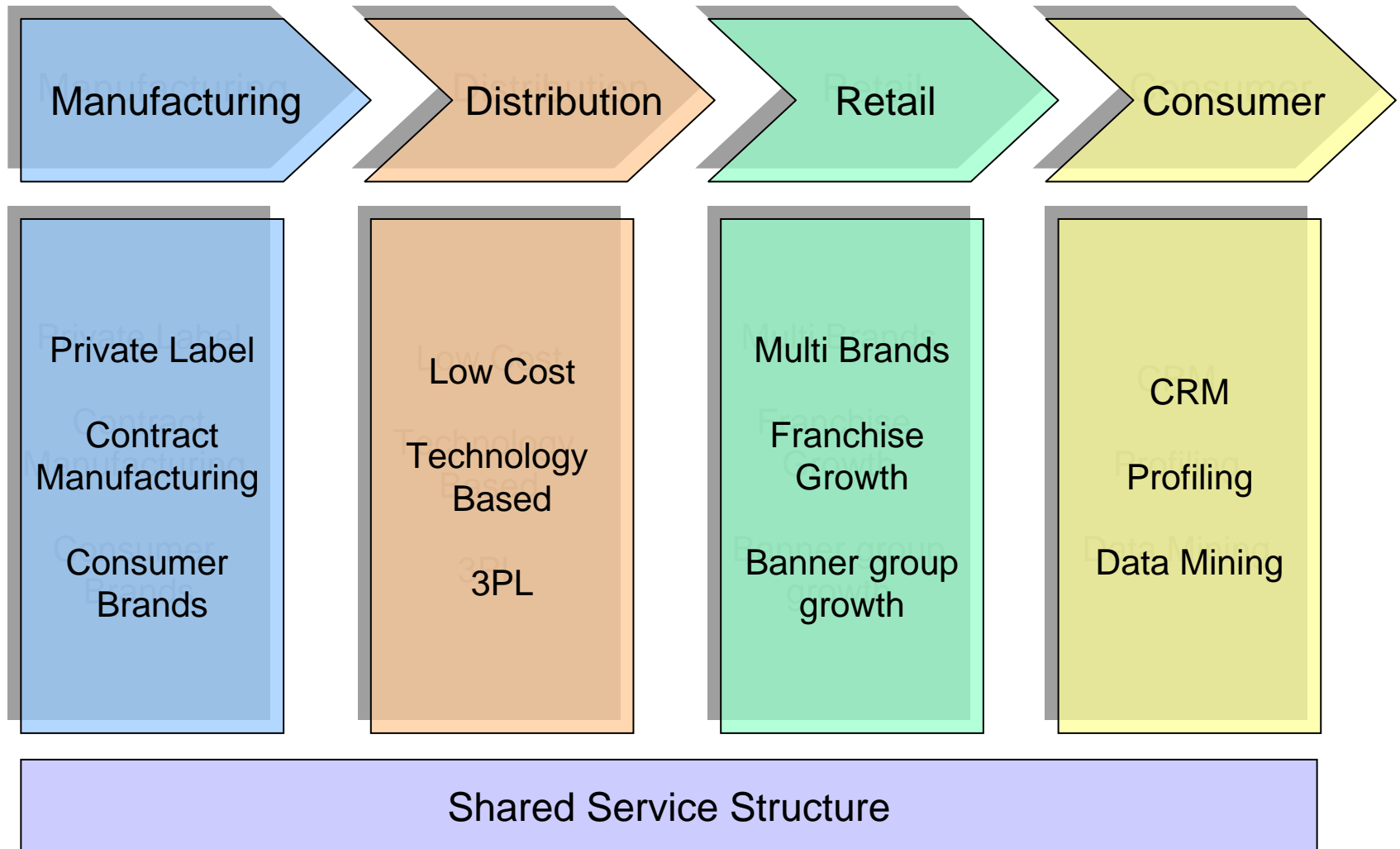
Key Message

- The Strategic Review outcomes have been resolved
- First phase of three-year turnaround completed and foundation being built for sustainable business
- Strategy is intact and positioned for growth





An integrated strategy





Detailed financials

FINANCIAL SUMMARY CONTINUING OPERATIONS

	1st HY05 (\$000) AIFRS	1st HY04 (\$000) AIFRS	Change %	1st HY04 (\$000) AGAAP	Change %
Sales revenue	1,557,125	1,335,197	16.6%	1,627,085	-4.4%
EBITD	32,510	26,223	23.9%	27,818	16.8%
EBIT	26,401	22,520	17.2%	20,882	26.4%
Profit before tax	20,790	19,317	7.6%	17,008	22.2%
Profit after tax	14,013	13,849	1.2%	11,918	17.6%





Segment results

SEGMENT RESULTS

Segment	1 st HY05 Revenue (\$000) AIFRS	1 st HY04 Revenue (\$000) AIFRS	Change	1 st HY05 EBIT (\$000) AIFRS	1 st HY04 EBIT (\$000) AIFRS	Change (\$000)
Pharmacy (Aust)	1,045,202	1,038,583	0.6%	24,028	27,134	-3,106
Pharmacy (NZ)	272,310	252,165	8.0%	2,501	2,109	392
Retail	219,074	27,500	*	5,156#	3,001	2,155
Manufacturing (NZ)	16,794	15,917	5.5%	-226	134**	-360

* Retail 2004 comparative for 1 month only

includes \$2m one –off costs for Retail

**Write back of provision – manufacturing employee provision in 04





Balance sheet

	1st HY05 (\$000) AIFRS	1st HY04 (\$000) AIFRS	Change (\$000)
Stock & debtors less creditors	258,740	238,569	20,171
Net borrowings	141,833	101,936	39,897
Debt/Equity Gearing	32.1%	23.2%	

- **Inventory increase**
 - Retail Christmas build-up
 - Pharmacy service levels maintained through IT roll-out
- **Borrowing increase funding inventories and receivables**





Working Capital

Working Capital improvements from:

- Debtors' program
- Inventory reductions
 - Centralised stock management with Movex IT system roll out





Turnaround Momentum Builds

Segmental update



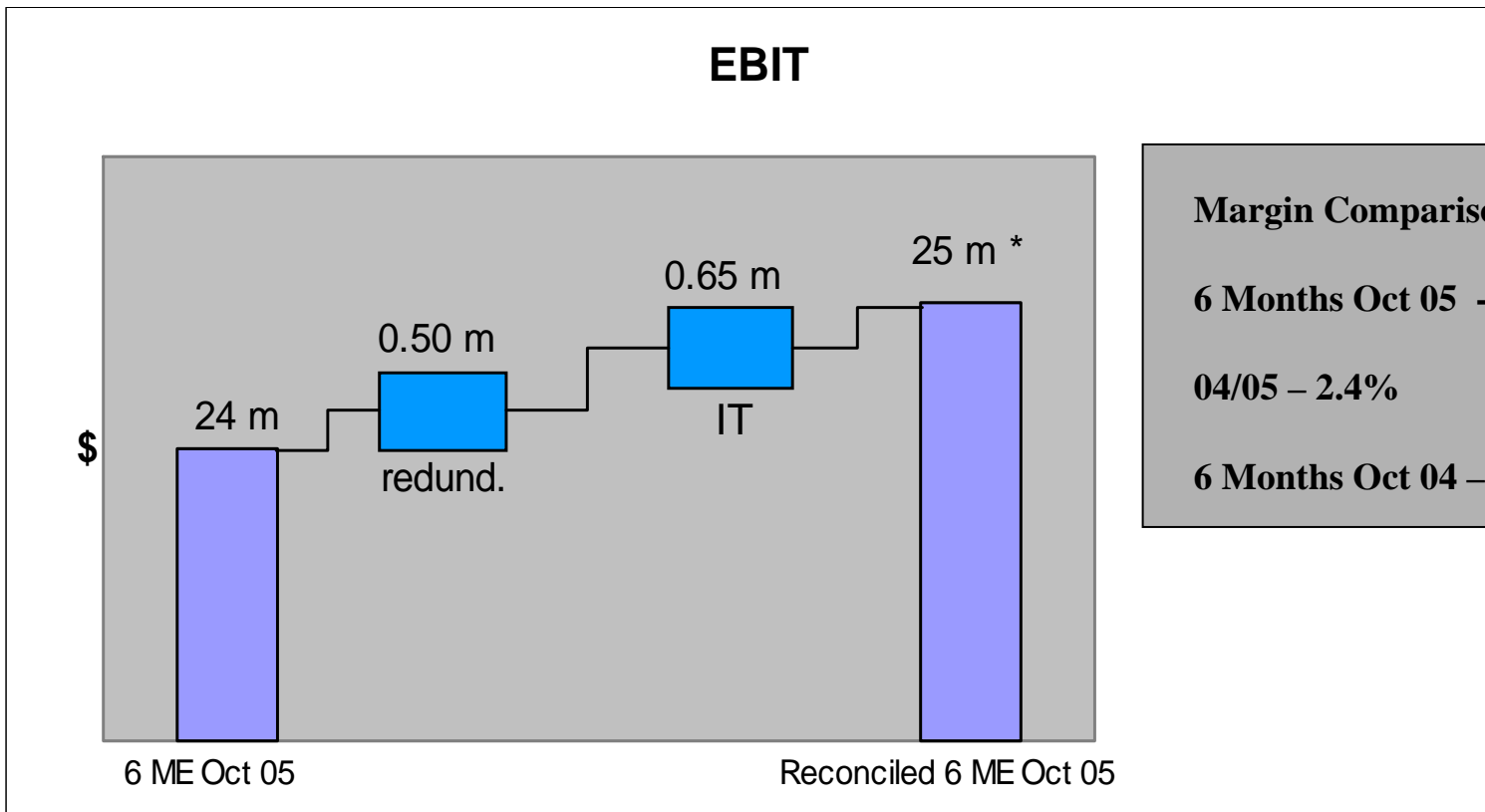
Pharmacy Distribution update

- Difficult market, PBS growth at record lows
- Implemented Movex ERP in SA, WA, QLD & VIC
 - Gains to flow in mid 2006
 - Costs growth during implementation
- Continuous focus on an efficient supply chain
 - Govt/Guild agreement will force a review
- Richard Vincent appointed to lead the division
- Heightened focus on Independent Customers
- Maintained market share: margins





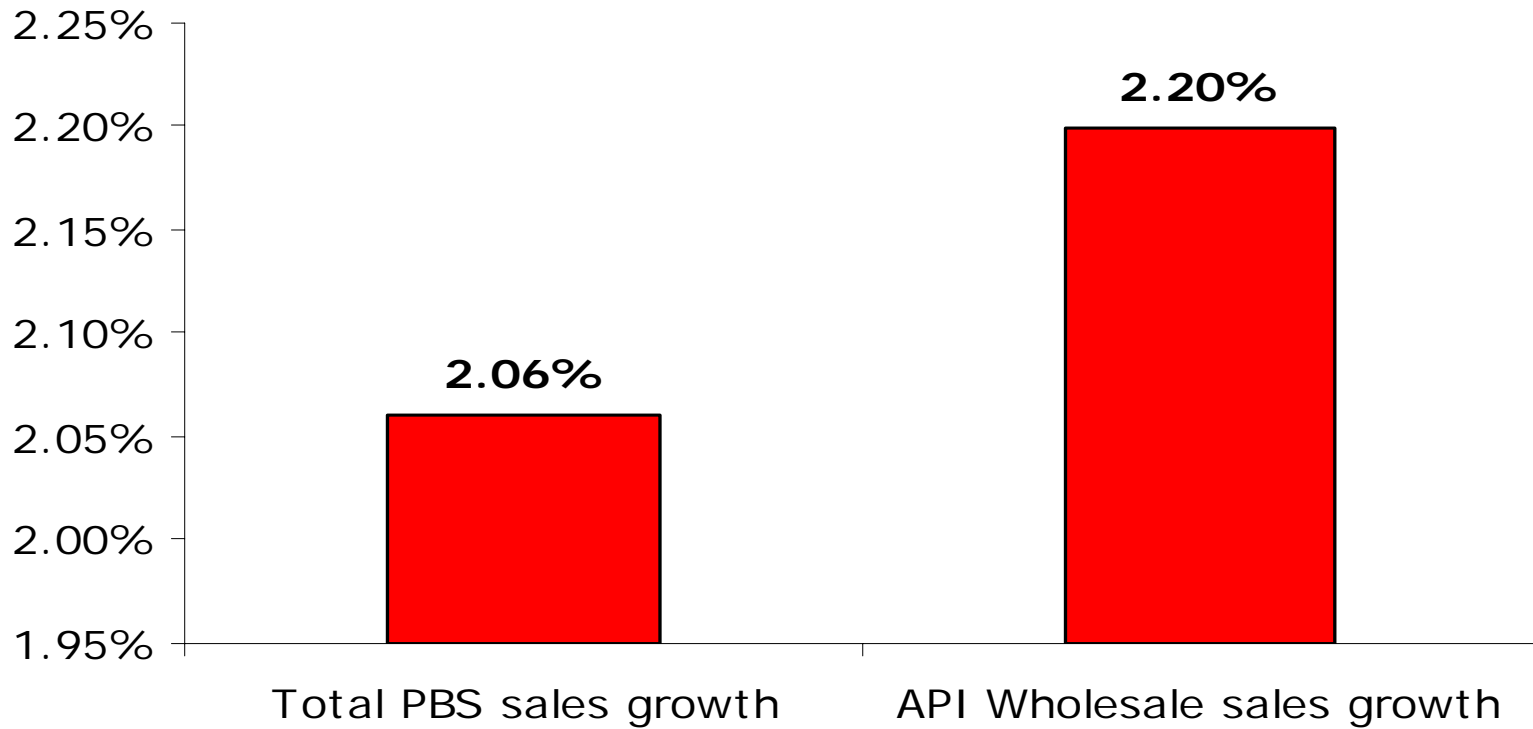
EBIT Analysis





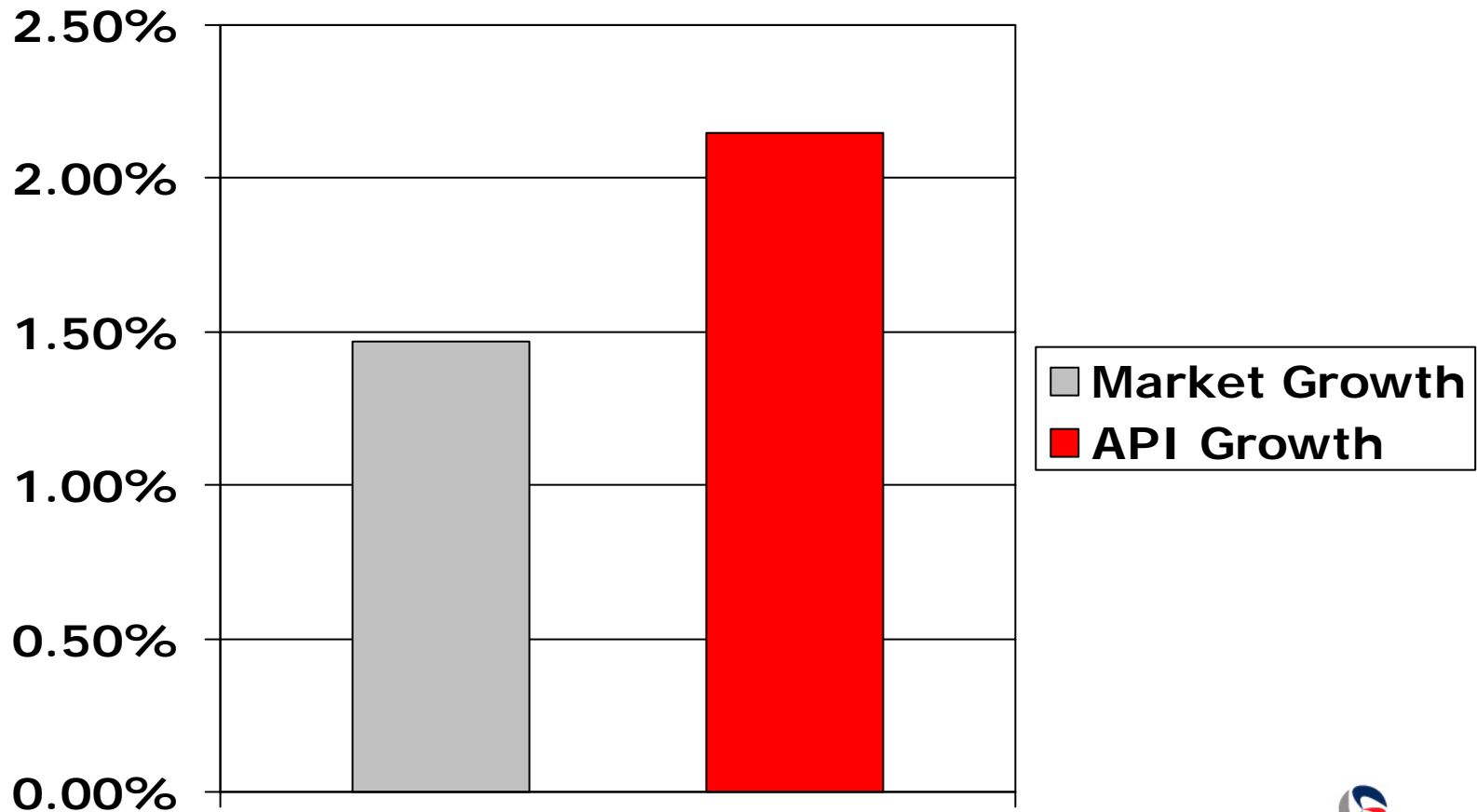
Wholesale sales

**API Wholesale sales growth vs total PBS growth %
12 months to 30 June 2005**





Wholesale sales



MAT Oct 05 – IMS Data





Regulatory environment

- Guild/ Government agreement on wholesale margins – CSO outcome positive
- New agreement @ 7%; plus CSO of \$150m
- 1 July 2006 implementation; mechanics of payment & service delivery still to be resolved
- Strategies in place to improve efficiencies/ minimise impact





Our strategy: choice of offers

- **Developed a 3PL supply arrangement**
 - Hexal exclusive deal already announced
- **Hexal/Sandoz deal – independent pharmacists**
 - Pharmacists to benefit from API leverage
 - Exclusive offer via Dolphin program for all API members
- **Alphapharm**
 - A unique deal established for franchise pharmacies
- **Continue to review investment opportunities**





Unique API Members program

- Key focus is delivering value to API aligned members
- Rewards compliance and strengthens the retail offer - builds volume and scale
- Launched for implementation 1 January 2006
- Suite of services encompassing competitive wholesale pricing; business services and leverage off retail expertise





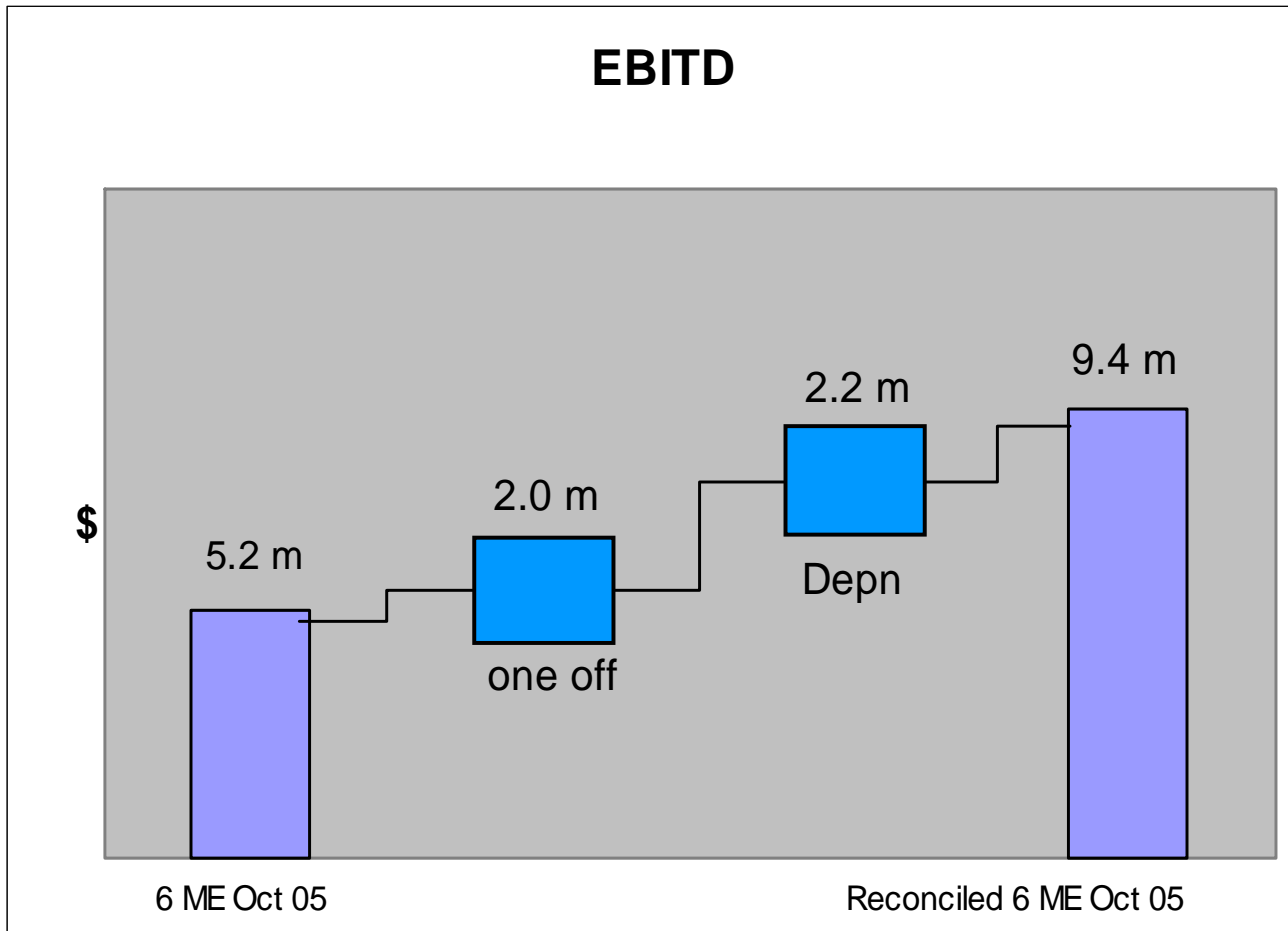
Retail Division update

- Achieved the opening of the 50th Priceline pharmacy
- Presenting a clear and differentiated positioning for each brand, focussing on value, choice and convenience
- Focus on leveraging retail skills to maximise returns for aligned pharmacists
- Resolved the Merchandise structure and are now ready to deliver to both franchise and banner stores
- Established a new structure to increase focus and growth in the banner groups – Simon Burrow to lead this objective



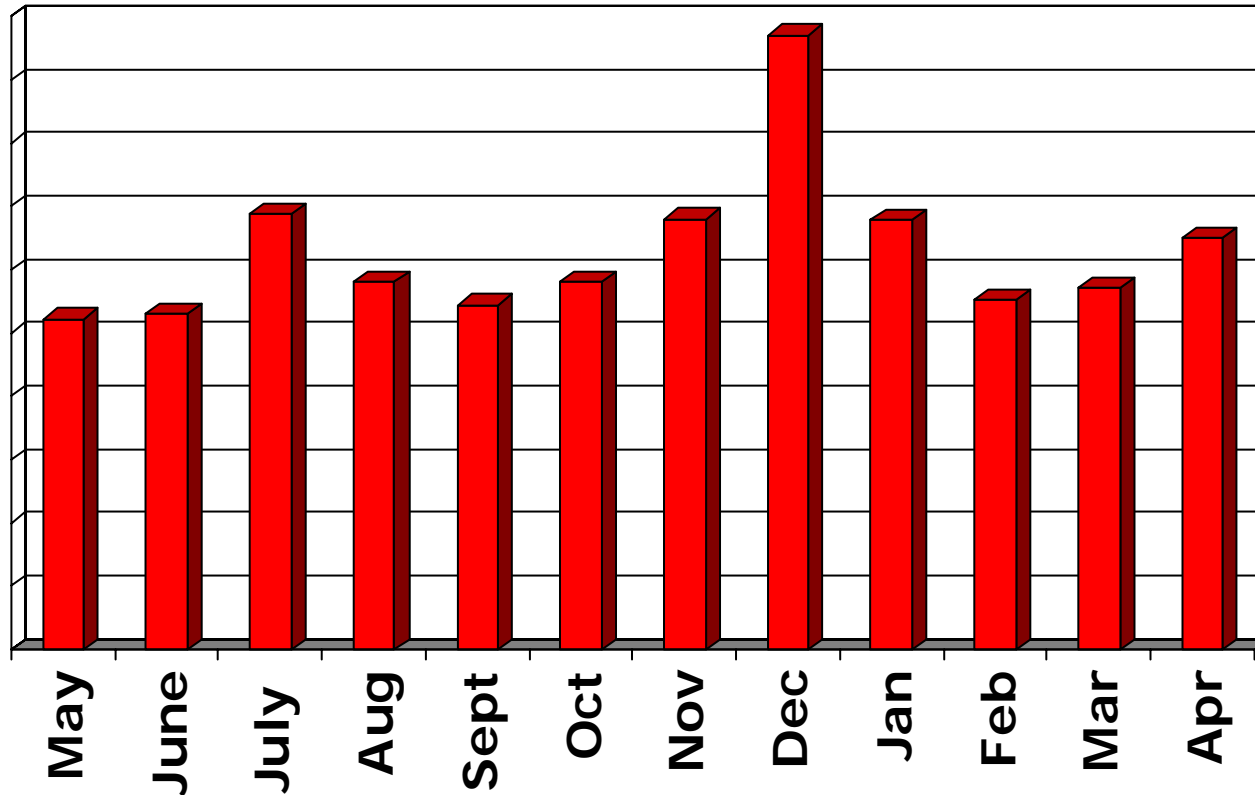


EBITD Analysis





Retail seasonality



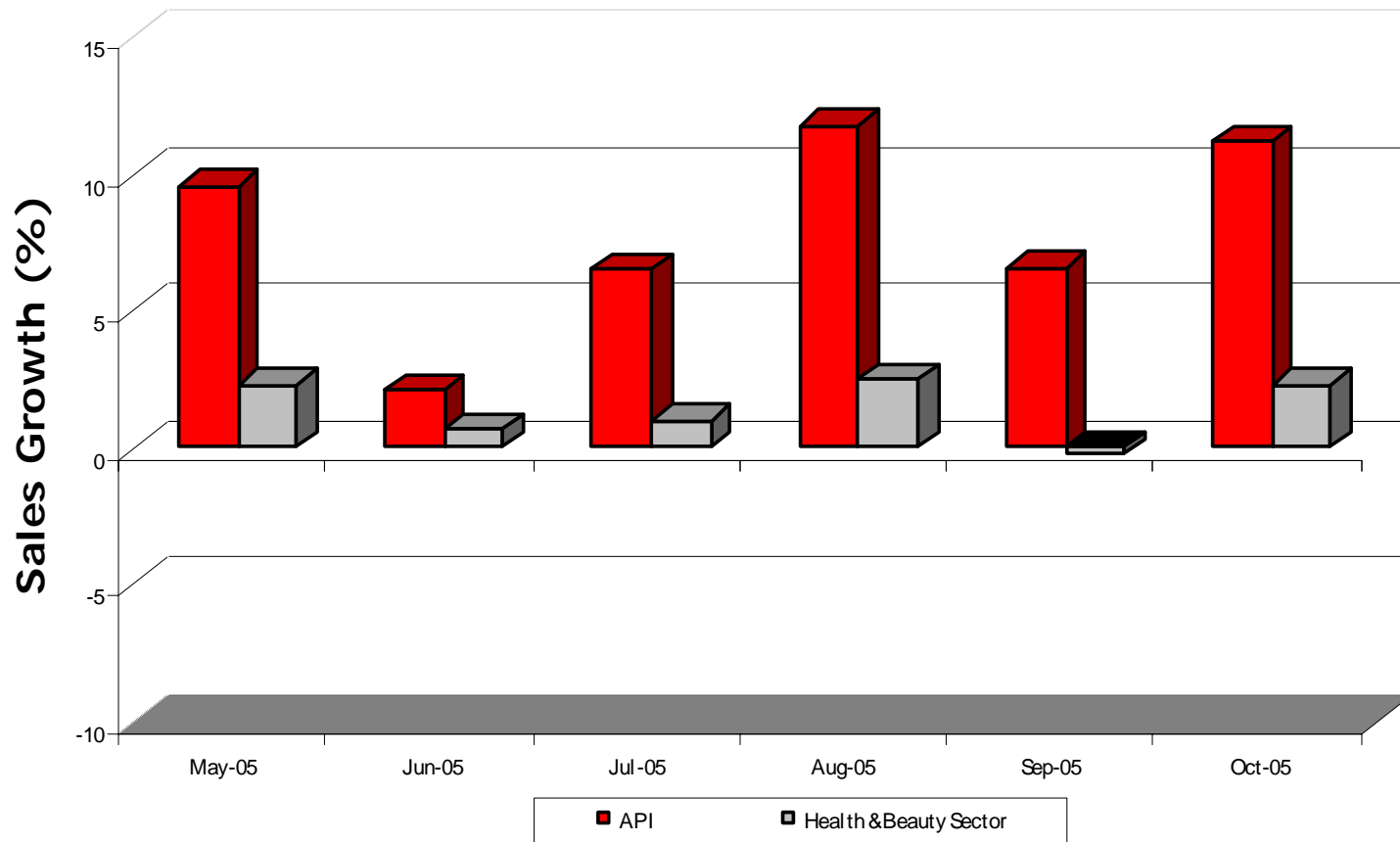
October to January generates – 60% of yearly profit





Outperforming in retail

API Non PBS Sales vs. Health & Beauty Sector[#] Sales Growth*



* Source: ABS Retail Trade Statistics October 2005

[#] ABS sub-group - pharmaceutical, cosmetic & toiletry retailing



Banner Group offer

- After 12 months of work and some learning – a significant program to be launched to all API Banner group members
- Not only do our banner members receive the total API member program but also will have:
 - Unique bundled offer of product, including a generic offer
 - Enhanced promotional program
 - Private label offer improved not only in OTC but front of store as well
 - A reward and recognition program – of significant proportions





Soul Pattinson

- A strong commitment to build the brand and grow membership
- *Best Product, Best Price* promotional program created to begin in January 2006
- Private label range reinvigorated, constant flow of new product coming to market
- An exclusive and market leading Generics offer available





Pharmacist Advice

- A clear objective to rebuild this banner group, it presents a clear point of difference
- Strong emphasis on well being solutions delivered by highly trained staff
- Focused on high-care areas, leveraging off work with Sydney University
- 2 new pilot stores in West Sydney by end 1st calendar quarter 2006





Chemworld

- Build on the established principles in this brand
- Compliance ramped up via an enhanced promotional program
- Highly competitive with strong value offer, underpinned by professional services
- Our objective is to grow membership





Priceline Pharmacy

- 50 stores by end 2005 ✓
- Strong interest for stores planned– 100 open by December 2006
- Converted two company owned stores to Priceline Pharmacy - more to come
- Results ahead of expectations, outlook strong





Priceline

- 8 new stores opened thus far, 4 still to open. Total number of stores 145.
- Revenue growth by category exceeds market
- Leveraging relationships with suppliers providing value to pharmacists
- Hold market share dominance with a number of suppliers
- Encouraging early Christmas sales





House

- Business has been effected by brand discounting and slowing housing market
- Shifted strategy to become differentiated through product exclusivity
- In response 285 SKU's private label products launched
- Another 150 SKU's to be launched early in 2006
- A growth in stores is planned with a focus in Queensland – 5 to open





Price Attack

- Strong growth in new stores– 13 stores to open in this financial year
- The category leader in specialty haircare retail
- 2 new private label brands launched
- Good growth prospects





NZ retail

- Leveraging off our competencies
 - Through JV with Pharmacy Brands
- Provide Support to Banner Groups
 - Providing choice to NZ Pharmacists
 - Developing an offer that is unique to NZ market
 - Strong support provide to all aligned pharmacists
 - 3 *Smart Pharmacy* pilots operating within the next 12 months





Manufacturing

- Kingsgrove closure and property sale completed
- Consolidating capability in Auckland, NZ
- Created 2 divisions – manufacturing; sales and marketing
- Manufacturing - focused on API's private label/exclusives strategy and contract work
- Sales & Marketing - focus on Consumer Brand Development in both grocery & pharmacy
- Real gains expected in late 2006/2007





Hallam Joint Venture

- Announced in May: a good strategic outcome
- Combining HSA and Hallam has given the business the impetus for growth
- New executive team selected: integration continues
- Performance at expectations – trading to integration plan





Making Life Easy Joint Venture

- Mobility and independent living superstore aimed at Australia's ageing population
- A one-stop shop for all 'caring' products
- Store growth on target – 5 stores open
- Establishing a wholesale channel to pharmacists – launched in early 2006
- Expecting gains in late 2006, initial set up costs for store openings





Turnaround Momentum Builds

Outlook



Market outlook

- PBS volume to remain under pressure
- Generic medicines in government sights for reform
- Competition remains under a CSO Model
- Focus on supply chain efficiencies continue
- Retail – 2nd half is more than 60% of sales, early indications encouraging
- Strong growth expected in franchise pharmacies
- Opportunities for acquisitive growth are being explored





In conclusion

- A turnaround story – gaining momentum
- Challenging 15 months given structure and regulatory change
- Decisive action taken and strong progress made
- Opportunities for continued improvement exist
- A focus on infrastructure costs in the year ahead
- Growth planned





Turnaround Momentum Builds