



**Chairman**  
**AGM Address**  
**Wednesday 25 January 2017**

Coming next in the order of business is a review of operations from our Chief Executive Officer and Managing Director, Stephen Roche, and then an update on current performance from the Chief Executive Officer-elect, Richard Vincent. Before they speak I will comment, on behalf of the board, on the year ended 31 August 2016.

Overall the company's financial results in 2016 continued the momentum of recent years and consolidated management's execution of strategy. The performance, once again, saw improved returns for shareholders on all measures.

Stephen will go through these achievements in more detail, but some highlights include underlying net profit after tax up 18% to \$51.4 million, total dividends to shareholders up 33% to 6.0 cents per share, return on equity up 96 basis points to 9.58%, return on capital employed up 204 basis points to 15.49% and reported net debt reduced by \$44.9 m to \$25.9 million.

API has delivered these improvements because our strategy has remained clear and consistent; to grow the Priceline Pharmacy network to leverage profitable growth and also to maintain our support of independent pharmacy through our pharmaceutical distribution business to generate consistent returns.

The strategy has proven to be sustainable in an environment that has seen no respite in retail competitive intensity and an environment where government funding remains tightly constricted.

We expect these environmental factors to continue and that we will also be able to continue to negotiate them successfully through ongoing, careful management.





In regards to the government funding issues, you may recall that in 2015 we saw the finalisation of the Sixth Community Pharmacy Agreement. It has provided financial certainty to the sector through to 2020. However, in that funding envelope there was no indexation of the Community Service Obligation payments for pharmaceutical distributors. So we have continued our practice of adjusting commercial terms, as PBS pricing adjustments occur, to maintain our financial position. In addition API has also made substantive reductions to our cost of doing business to mitigate these changes as much as possible.

The current Review into Pharmacy Remuneration and Regulation being conducted by the Federal Government will provide the platform for discussions on future funding arrangements beyond 2020. We have been actively involved in this, via the National Pharmaceutical Services Association, which addresses the key industry issues for all major pharmaceutical distributors. This Review is likely to deliver its interim report next month for further comment and feedback. The final report will be delivered from May this year. We have put forward a strong position on the need for maintaining the Community Service Obligation (CSO) funding pool and the need for an appropriate level of remuneration for those companies prepared to undertake commitments contained within the CSO.

It is premature for us to comment until the interim report is published however, based on our discussions to date, we are strongly of the view that we will be able to manage the outcome of the review constructively and that, in totality, the health and beauty market remains an attractive sector for us.

The outlook for consumer demand for health and beauty products and services remains positive and Priceline Pharmacy has a unique retail offer which is very well recognised by customers. With an ageing population to support, the demand for medicines and other health products will grow. Continual innovation in the beauty sector should ensure that demand remains strong.

During the year we have invested in further developing Priceline Pharmacy with elements such as a new store format, brand marketing and staff training to keep pace with the changes around us. All retailers are looking to leverage advantages





and in the retail pharmacy market we have seen some banner groups expand their membership and aggregate their positions. While keeping a close eye on the competition, we know that our Priceline Pharmacy proposition has a unique place in the Australian market and we are a destination primarily for women.

API shareholders should be reassured that we have made major investments in key elements such as supply chain and our enterprise-wide IT platform with SAP that allows the company to deliver savings to remain competitive and also reinvest in sales driving activities across the business.

The performance of our operations in the past three years has markedly changed API's financial capacity. We are in a secure position to either invest further in the business or to look for other opportunities that will provide options for growth.

In respect of that, I've had some discussions with shareholders who have raised the matter of our balance sheet strength, our dividend policy and the future use of capital. What I can say is that the Board will not let the company remain idle and this capital will be addressed for shareholders' benefit.

In concluding my remarks, I want to formally acknowledge the Board and management changes.

Firstly, as you know, Carol Holley is retiring. Carol joined the Board at the end of 2006 and as Chair of the Audit and Risk Committee has played a key role in the last decade. Carol, on behalf of all shareholders and my fellow board members, thank you for your efforts and we wish you success and happiness in the future.

I am pleased to announce that Ken Gunderson-Briggs will be the new chair of the Audit and Risk Committee. A search for a replacement for Carol is now underway.

Stephen Roche is about to give his final address to shareholders as Managing Director and Chief Executive Officer, and Richard Vincent his first address. The Board is confident in the selection of Richard as CEO because he has an intimate understanding of the strategy and the executional focus that has made the business successful. His understanding of the pharmacy industry, a strong





management team and desire to grow the business should continue our growth platform.

This is an exciting time for API and Richard is ideally placed to capitalise on it. Richard will officially commence in the position of CEO and Managing Director on 15 February this year and he will address the meeting shortly.

In introducing Stephen today, I would like to say a few words on his contribution to API. When Stephen took on this role in 2006 it was at the most challenging point in the company's history. Not only did Stephen help steer the company wisely and safely through those early days, at the same time he was able to lay the foundations for the sustainable growth we have enjoyed in recent years. He championed investments and developments through difficult times to make that growth happen and his management of these changes has undoubtedly proven its worth to API and its shareholders. Through his leadership, API is a better, more robust company that can look forward with great optimism.

On a personal note, I have enjoyed a strong working relationship with Stephen and he has always ensured there was a productive relationship between the wider Board and management as well.

We are delighted that he will continue on in the voluntary role as Chairman of the Priceline Sisterhood Foundation which he has led to being a major fundraising source for its charity partners.

On behalf of all shareholders, thank you Stephen for your dedication in leading API successfully. We all wish you, your wife Ann Marie and your family every happiness and success in the future.

On that note, I ask Stephen to talk about 2016 before handing to Richard Vincent for some forward looking comments.

Thank you.

