Chairman's AGM Address
29 January 2015

Before handing to our Chief Executive Officer and Managing Director, Stephen Roche, for an operational review I would like to comment on the year ending 31 August 2014 on behalf of the Board.

Strategy and company direction

The Board was very pleased with the underlying operating results of the company, which truly reflected the strategy that has been at the heart of the business in recent years. The result shows the declining reliance on our traditional pharmaceutical wholesaling earnings and increases our presence as a substantive mass market retailer.

As you would know from prior meetings, the Board pursued this strategy when it saw that the future of pharmaceutical wholesaling was going to become increasingly exposed to tightening government fiscal policy and therefore subject to continual value erosion. The demonstrable effect of government policy has resulted in some extraordinary changes over the past three years. In just the period since December 2013, there is $1 billion in savings that will come from the PBS. The Board is of the view that, with good management, pharmaceutical wholesaling is still a strong cash generator for the company and is a worthwhile asset into the future; however, in setting out to achieve capital appreciation for shareholders, it cannot be the source of sustained growth.

This is why API has continued to invest in the development of its retail capabilities and the Priceline/Priceline Pharmacy brand has been at the forefront of that development. The brand now has more than 400 stores, joining rare company with such store numbers and making us one of the largest specialty retailers in Australia.

Both consumers and our pharmacist franchise partners are seeing excellent value in the brand and last year's growth in comparable store sales of 6% and store numbers growth is testament to that fact. The Board is backing the continued growth of the brand with ongoing investment to build on this pre-eminent position.

Financial Results

The 2014 financial year saw these two key business assets – Priceline/Priceline Pharmacy and the pharmacy wholesale business – produce very good operational results.

The company revenue was up 5.7% to $3.35 billion, gross profit up by 6.8% to $431.8 million and underlying net profit after tax was up by more than 32% to $31.7 million. To achieve this in a market where there was clear PBS-driven price deflation is quite an achievement, where the pharmaceutical wholesaling business saw the company generate above market average growth of almost 4%.

The Retail result highlights included overall network sales growth of more than 11.1% to $751 million and gross profit up 7.1% to $197 million. A year of above average growth is set in sharp contrast to the prevailing conditions of conservative consumer sentiment and highly aggressive competition. I would also like to congratulate management on receiving the highest recognition available from peers by winning the Australian Retailer's Association's "Retailer of the Year" Award. Last year we received a highly commended and further excellent results saw us win the 2014 award against some of Australia's best known retailers.

Throughout this period the company was well supported by its banks with our two major finance facilities renewed to May 2016 and May 2018 respectively. The company has also reduced its overall debt facilities by $75 million.

As you would know, our reported net profit after tax was a loss of $90.8 million as a result of the company incurring a one-off impairment charge due to a number of factors. While these have been covered in previous communications to shareholders, it is important to note that these were non-cash items and they do not impact the ongoing operations of the company.

The decision to take an impairment charge came as a result of the standard practice of assessing the carrying values of our assets. The impairments related to:

- $15m for the New Zealand business primarily due to fluctuations in foreign exchange ;
- $20m for CH2 due to continuing underperformance;
- $52m for certain pharmacy customers with long term loans that relate to their bank refinancing arrangement; and,
- $44m for Retail as a result of impairment modelling on assumed store network growth rates.

The Board did not take this decision lightly, but deemed it prudent given the prevailing circumstances in each case. It was regrettable but the appropriate course of action. I will reiterate that other than CH2, which is an investment to be divested at an agreed time in the future, the other assets are sustainable and important to API's future.

Dividends and future

Due to the strength of the operational results, the Board has maintained a consistent dividend pay-out ratio for shareholders, with dividends in the past 12 months up 7.7% on the prior year. This year we paid an increased dividend to shareholders of 3.5 cents per share. The Board's confidence has also been bolstered with performance improvement on other key metrics such as underlying return on funds employed of 11.2% up from 8.0% the prior year and underlying return on equity up to 6.6% from 4.1%.

Stephen will provide an update on the major investment the company is currently undertaking, the OneERP program, which is planned to go live in the next two months. This enterprise program is a large undertaking but the flexibility and benefits this system provides will set secure efficiency gains and ensure our ongoing competitiveness.

Board movements

During the year we appointed Ken Gunderson-Briggs as a non-executive director. Ken's financial and public company director experience over many years has made him a particularly good addition to the Board and to his role on the Audit & Finance Committee.

More recently the Board also thanked Dr Michael Wooldridge for his contribution to the company over the past 9 years. He provided valuable counsel and advice to the Board particularly in relation to government policy and changes.

Close

Finally, I would like to thank all management and staff of API for their contribution this year.

I will now hand over to Stephen Roche for a more in depth review of the operational performance of the business.