Chairman

AGM Address

Thursday 28 January 2016

Before handing to our Chief Executive Officer and Managing Director, Stephen Roche, for an operational review I would like to comment on the year ended 31 August 2015 on behalf of the Board.

The very pleasing 2015 financial year results were the outcome of being focussed on a clear strategy and executing it well; thereby delivering sustainable and improved returns for shareholders.

Our strategy remains clear; that is to increase our Priceline Pharmacy network to achieve overall growth while also maintaining our support of independent pharmacy through programs such as Club Premium, Soul Pattinson and Pharmacist Advice and thereby generate consistent cash flow and returns through pharmaceutical distribution.

Concentrating on Priceline Pharmacy as the growth vehicle for the company provides us with the opportunity to access a broad consumer market in health and beauty. This is a market that has continuing opportunities for growth both in store numbers and in expanding market size and share, which Stephen will talk to in more detail shortly.

We are continuing to see the government changes to health policy tighten funding, which validates the company's vision to pursue growth options outside our traditional base of pharmaceutical distribution.

Anyone operating in the healthcare space in the past 12 months will be very clear that the Federal Government is driving down costs wherever possible. This was evident in the 6th Community Pharmacy Agreement that was signed during the year. There is no doubt that as a result of this Agreement pharmacy owners received certainty about their remuneration until 2020, which saw an improvement in sentiment in the sector; however the Agreement provided no increase in payments for fulfilling the Community Service Obligations of pharmaceutical distributors.

There are some options within the Agreement to alter service requirements and this will be a consideration for us once the current pool of trading terms is exhausted within the next two years.

The other major development from the Agreement to watch over the next 18 months is the independent review of the industry that is to report in March 2017. API will participate in that review process as part of the National Pharmaceutical Services Association, which we have joined this month. We expect the outcomes of that review to frame the negotiations for the 2020 Community Pharmacy Agreement.

It is with almost a sense of irony that a review is occurring at a time when consumers have never received such value from community pharmacy in both price competition and in professional services.

Our view is that the assets API has will enable us to continue to lead and compete in such a market due to the investments we have made over the past 8 years in a sustainable retail brand, renewed distribution facilities and most recently an enterprise-wide IT system, SAP.

It has also been these investments that fundamentally support the execution of our strategic plans that have helped deliver the operational results of recent periods and which give us confidence in the future.

This effect is demonstrated as I turn to our financial results for the 2015 financial year, where we saw an increase in sales, earnings before interest and tax, net profit after tax and at the same time improved returns on capital employed and return on equity.

Company revenue was up 3.3% to $3.46 billion, underlying earnings before interest and tax up 13.7% to $74 million and underlying net profit after tax was up by 37.6% to $43.6 million. Of note for shareholders is that we have seen a compound annual growth rate in underlying net profit after tax of 25% since 2012.

This performance has enabled the company to improve its financial position through strong cash generation and lowering debt levels. The average net debt level declined by $39.3 million during the year to end at $145.5 million.

The Retail results were underpinned by growing the number of stores as well as strong like-for-like store sales growth. I have already mentioned the highly competitive nature of our sector however we are growing because we have a clear market position that consumers understand is driven by value, range and a service style that can't be found anywhere else in our market.

Pharmacy distribution had a tougher year with aggressive competitor activity and ongoing pharmaceutical price deflation, however underlying sales were up 6.5% and recorded sales and gross profit were in line with last year. In addition the New

Zealand business had a strong recovery from the prior year after undergoing a restructuring of its business.

After the close of the 2015 financial year the company announced the sale of its shareholding in hospital supplies distributor CH2. We had previously flagged this was an asset that was not part of our long term future. Despite a number of efforts to improve the business returns under different management it was still a drain on shareholders and as such its sale was a better option for the Board than continue to risk ongoing losses or marginal returns. We now expect the sale of this business to generate $4.4 million in cash and a loss on sale of $2.4 million. We are certain that focussing our resources on our core business will be more beneficial for shareholders.

Due to the strength of the operational results, the Board was able to increase the dividends paid to shareholders. Total fully franked dividends per share lifted from 3.5 cents per share to 4.5 cents per share, an increase of 28.6%.

The other key measures that determine the effective use of shareholder funds have seen underlying return on capital employed rise from 11.9% to 13.4% and underlying return on equity up to 8.6% from 6.6% last year.

In regards to share price appreciation, we have seen it rise in 12 months from 86 cents per share at the opening of 27 January 2015 to closing at $2.08 per share yesterday, An increase of approximately 140% in that period.

Pleasingly our sustained performance has seen API now included in the ASX200 as of December 2015.

There have been no changes in the Board since this meeting last year, however I would like to formally acknowledge and thank them for their contribution.

Finally, I would like to thank Stephen, the management team and employees of API for their efforts in this past year for such an excellent result.

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