



API CHAIR'S AGM ADDRESS WEDNESDAY, 23 JANUARY 2019

As the next order of business, our Chief Executive Officer and Managing Director, Richard Vincent, will provide a review of operations and performance for the 2018 financial year and provide a view of current performance and outlook.

But before passing to Richard, I would like to provide shareholders with an outline of the Board's approach to API's future strategy, our environment, financial position and an update on our proposal for a merger with Sigma Healthcare Limited.

I would like to start with commentary on API's future, because 2018 was a pivotal year in creating that future, with our strategy to diversify earnings into new growth vehicles across our business progressing to plan.

Together, your Directors and management have consciously taken an approach to actively shape the future of your company. While we expect the underlying operations to deliver ongoing positive returns, now is the right time to use the financial strength of the business to further develop API's future in the health and beauty sector.

Your Board has endorsed management to explore new opportunities for us to consider and, where appropriate, we will back measured risks that deliver the returns and the market position we want. The environment we operate in today is ever-changing and requires us to continually look at options to deliver value.

During the past 12 months, the Government has delivered certainty for pharmaceutical wholesalers, reaffirming the Community Service Obligation (CSO) arrangements until at least the middle of 2020. This funding followed a review of the CSO which found that it continues to provide exceptional value to the community and is a fundamental component in delivering the National Medicines Policy. While the review process has not fully addressed all our concerns over issues such as exclusive direct distribution of PBS medicines, it has made progress and we are well placed at the end of 2018.

In the 2018 financial year the retail environment was consistent. Consumer sentiment and spending remained challenged. Energy costs and wage growth issues are not new, and we will wait and see how the emerging change in the housing market affects longer term consumer sentiment. That said, the medium to long-term outlook for demand in health and beauty products and services remains positive.

Consumers are increasingly spending more on services and we have adapted our retail offering and assets to take advantage of that trend with development of services in the Priceline brand and with the acquisition of Clearskincare.





Our businesses are conditioned to manage in this environment, although political stability would provide a clear economic growth agenda that would assist all businesses.

Through the last five years, API has carved out a strong financial base and we are determined to continue the disciplined approach we have demonstrated. The underlying performance of the business was sound, with underlying net profit after tax (NPAT) up 0.9% to \$54.7m and underlying EBIT at \$90.5m which was marginally down on the prior year. Considering the market conditions over the 2018 financial year, we are positive about the sustainability of the business performance over the medium to longer term.

Today I want to highlight that API continues to maintain strong financial fundamentals. We have comfortable debt levels, and that will remain the case if we are successful with our proposed merger with Sigma.

Reported net debt to the year ended 31 August 2018 was \$55.9 million. Excluding the costs associated with the acquisition of Clearskincare, we would have had net cash of \$5.7 million. Further improvements in working capital were achieved last year with the cash conversion cycle reduced by a further 1.7 days. The underlying return on equity was up 51 basis points to 10.29 per cent.

Your Board's confidence in performance and prospects, led us to increase the final dividend payment to 4 cents per share, up from 3.5 cents per share at the end of the 2017 financial year. This resulted in a total year dividend payment of 7.5 cents, up 7.1% on the prior year.

As you are aware, we used this strong financial position during 2018 to make API's first major acquisition for more than a decade with the purchase of Clearskincare. We are very pleased with the response to our purchase, and while it is early days, Richard will provide an update on its progress. It was an ideal fit for API to be able to leverage our proven marketing, franchising and property skills into a business that focussed on the same customer as our Priceline Pharmacy network.

The other major development is in relation to Sigma Healthcare Limited. To recap, on 11 October 2018 we tabled a non-binding indicative proposal to Sigma's Board of Directors to acquire 100 per cent of the Shares in Sigma, via a scheme of arrangement. Under that proposal, Sigma's shareholders would receive 0.31 API shares and 23 cents cash for each Sigma share. The proposal was designed to provide both Sigma and API shareholders with the opportunity to share in the benefits of a combined business.

Should the scheme be implemented as presented in the 11 October 2018 proposal, and it is subject to both due diligence and regulatory approval, API shareholders would own approximately 63 per cent of the combined entity, with Sigma shareholders owning the remaining 37 per cent.





As I said at the time, your Board believes a merger is the best opportunity to deliver significant benefits to consumers, shareholders and the independent pharmacy community.

A combined entity would create greater efficiencies in the wholesaling business. In the face of slowing revenue growth and compressed margins in the wholesaling sector, this would provide scale and volume, giving greater scope for the ongoing investment in technology. Such investment would ensure a more competitive, sustainable and more efficient wholesaling model.

By delivering a more efficient pharmacy distribution business, a merged entity would more likely provide community pharmacies with beneficial trading terms that allow them to continue offering lower retail prices on pharmaceuticals and associated health and beauty products to compete in the retail market.

The benefits of the proposed merger for shareholders would come from infrastructure and back office cost savings. Based on publicly available information, we estimate the merged entity would deliver annualised pro-forma gross cost savings from pharmacy distribution and corporate functions of circa \$60 million per annum by year three of the merger.

As you know, we announced to the market on 14 December 2018 that we hold 12.95 per cent of Sigma's shares. We purchased these shares to help expedite our proposed merger and to guarantee that there was flexibility in our strategic options should the environment change.

The current status is that we are in constructive dialogue with Sigma about progressing our proposal. We anticipate signing a non-disclosure agreement shortly that will then allow a due diligence process to commence.

With this activity already on foot, there is no doubt that 2019 will be another exciting year of change, development and progress for API.

Lastly, I want to take the opportunity to comment on the more detailed company information that was included in our 2018 Annual Report for the first time. Your Directors are committed to the financial performance of API and we also believe that risk management, cultural, sustainability, community, and safety performance of the company are all integral to achieving higher performance. The measures and systems that related to these areas were highlighted in the report.

The Board and management monitor these systems and also ensure compliance with the various industry regulations and codes we are required to operate under including those related to pharmacy, franchising and manufacturing. The health of API across these areas is well managed and we believe it is essential to build a company where our financial performance is a result of our positive approach across all elements of the business.





Before handing over to Richard I would like to acknowledge the contribution of all Directors and management during the last 12 months, which has marked a significant change in the shape of API for the future.

On that note, I would like to hand over to Richard to talk more about our operations.

Thank you

