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AUSTRALIAN PHARMACEUTICAL INDUSTRIES LIMITED

INVESTOR STRATEGY BRIEFING

28 MARCH 2012



Important information

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Agenda

Strategic overview	Stephen Roche <i>Managing Director & CEO</i>
Priceline Pharmacy drives J curve growth	Graeme Fallet <i>Chief Financial Officer</i>
Priceline - a compelling proposition for pharmacists	Lynne Gallucci <i>GM Retail Network Development</i>
Priceline - a franchisee's perspective	John Loveridge <i>Priceline Franchisee</i>
Pharmaceutical wholesale - challenges and opportunities	Richard Vincent <i>Group GM, Business Development and Operations</i>
Summary and final comments	Stephen Roche <i>Managing Director & CEO</i>

STRATEGIC OVERVIEW

STEPHEN ROCHE

MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER



API snapshot

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Presentation Overview

➤ Our strategic perspective:

- Vision and strategy
- Rationale for a wholesale + retail business mix
- Market overview and competitive positioning

➤ Why our retail strategy is succeeding:

- Model has been successfully proven offshore
- Appealing franchisee proposition
- Attractive customer proposition
- Compelling commercial model
- Focused growth plan

Vision and strategy

Vision:

- To become the dominant mass market health and beauty retailer and best franchise partner in Australia

Strategy:

- Pursue robust growth in Priceline by:
 - Capitalising on expected surge in independent pharmacies diversifying their product offering to combat PBS reforms
 - Leveraging leading market positioning and scalability
- Ongoing growth in Soul Pattinson & Pharmacist Advice
- Maintain a leading market position in the Australian pharmaceutical distribution market
- Be the best franchise partner for our customers, branded or independent
- Provide tailored health & beauty products through manufacturing and marketing capabilities



Rationale for wholesale + retail business mix

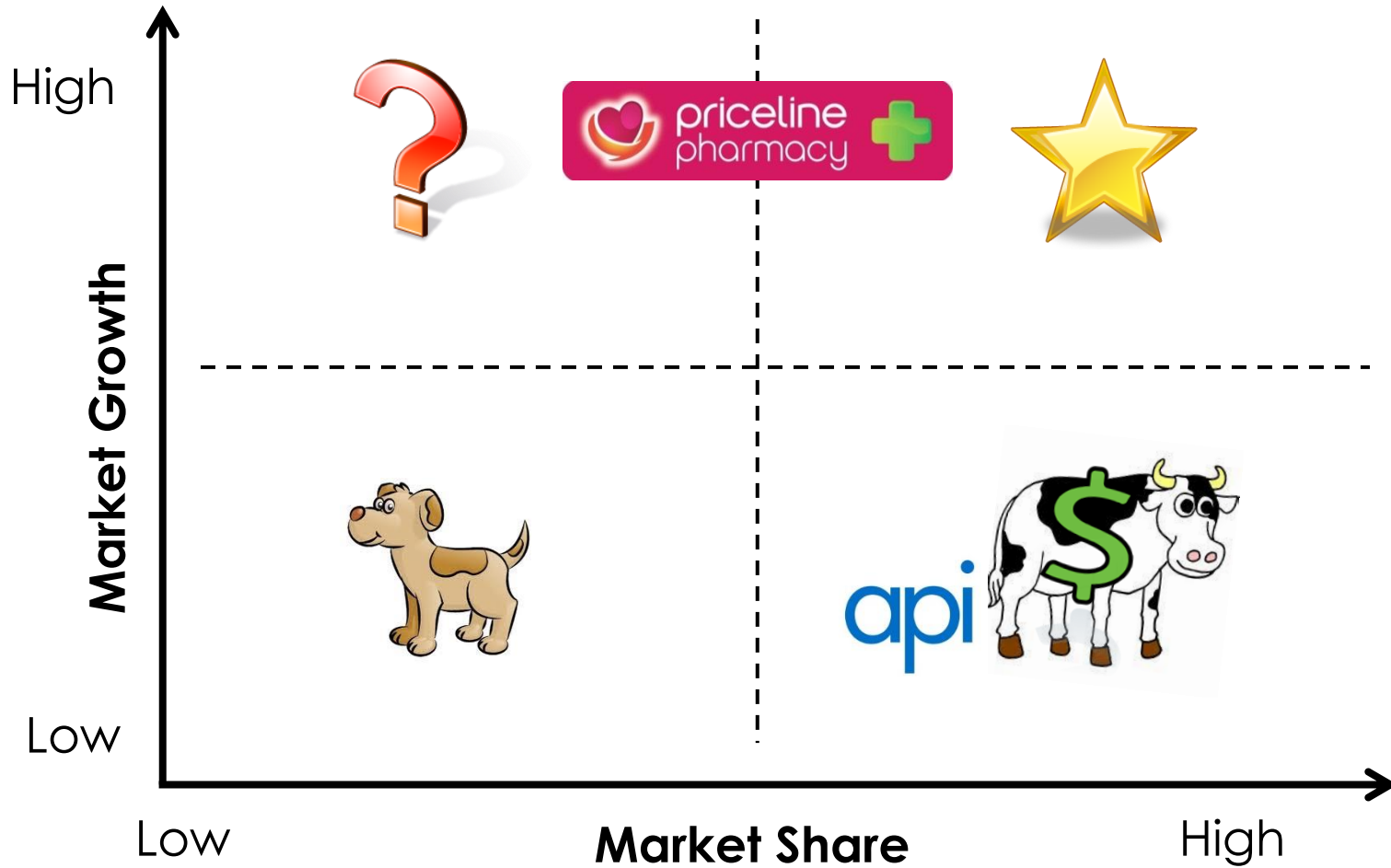
➤ Large-scale synergistic benefits:

- Increased utilisation of infrastructure distribution network
- Secures significant revenue base for wholesale

➤ Significant strategic and financial benefits:

- Higher long-term growth potential – health and beauty has GDP+ growth rate
- Higher potential RoIC - from higher fixed asset utilisation
- Greater control of own destiny – new revenue stream free from Government control

Plotting our businesses on the BCG Matrix



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Tapping into consumer trends

API is uniquely well positioned to capitalise on two powerful consumer trends within the Pharmacy sector:

- Health consciousness
- Cost consciousness

Consumers increasingly want to look and feel good, but are looking to spend less on their favourite brands and are educated in value

Consumers are also looking for wellness solutions

Opportunity to build a uniquely attractive revenue profile:

- GDP + growth rate
- Defensive

Market opportunity

- Pharmacy licences will not materially move

Australian Pharmacy Store Numbers							
State	NSW/ACT	VIC	QLD	SA/NT	WA	TAS	TOTAL
Number	1,794	1,184	1,017	444	516	133	5,088

- Priceline Pharmacy has an offer suitable for in excess of 60% of the market

Australian Pharmacy Store Sizes	
Size	Percentage
Small < 250m2	36.6%
Medium 250 – 400m2	48.0%
Large +450m2	15.4%

Market opportunity

- Consolidation to brands & within brands will follow PBS reforms

	Australian Pharmacy Store Numbers	
Total store numbers		5,088
Major brand numbers	AMCAL, Chemist Warehouse, Chemmart, Discount Drugs, Guardian, National Pharmacies, Pharmacist Advice, Priceline Pharmacy, Soul Pattinson, Terry White	2,526
Minor brands / buying group numbers	Includes: pharmacist owned brands such as Chemistworks, UDC, You Save, Advantage Includes: Wholesaler buying groups such as Best Buys, Pharmacy Choice and pharmacist buying groups such as Pharmacy Alliance	1,582
Independent numbers	Pharmacies that are generally smaller and in the main, trade as a stand alone with single major allegiance to a wholesaler	980

Australian Pharmacy Store Numbers By Major Brand							
	NSW/ACT	VIC	QLD	SA/NT	WA	TAS	TOTAL
AMCAL	51	99	93	24	22	20	309
Chemmart	20	41	43	56	44	13	217
CW	45	113	49	11	10	8	236
DDS	14	12	59	2	6	6	99
Guardian	27	51	43	7	22	11	161
Priceline	69	59	25	20	9	6	188
TWC	24	36	67	10	18	7	162

Source: Pharmabroker March 2012

Competitive positioning

Competitors are well established and competition is intense:

- Department stores
- Supermarkets and discount chemists

Priceline occupies the middle ground – a mass market health & beauty offer:

- Provides both a health and beauty offer
- Provides recognised trusted brands with competitive value pricing
- Specialists on hand
- An environment where women can enjoy a shopping experience

Priceline customer offering = service + value



Customer experience – the next generation

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Online presence being built with launch planned for end June 2012

Page views currently at over 1.5 million per month – 5 million since Browse launched

Connecting with Priceline Sister Club members

Allows multichannel customer experience



A model for sustainable commercial success

	Price	Experience		
		Range	Service	Convenience
High End	✓	✓ ✓	✓ ✓ ✓	✓
 priceline <small>beauty health wellbeing</small>	✓ ✓	✓ ✓	✓ ✓ ✓	✓ ✓
Supermarkets	✓ ✓	✓	✓	✓ ✓ ✓
Deep discounters	✓ ✓ ✓	✓	✓	✓

- Priceline delivers a superior 'all-round' offering

Model has been proven successfully offshore

Learning from successful offshore peers, applying “best of breed” strategies

...and adapting these strategies to the nuances of the Australian market

Superdrug 



YOU PAY LESS
 **CLICKS**
Your Health, Home & Beauty Store



SHOPPERS
DRUG MART 

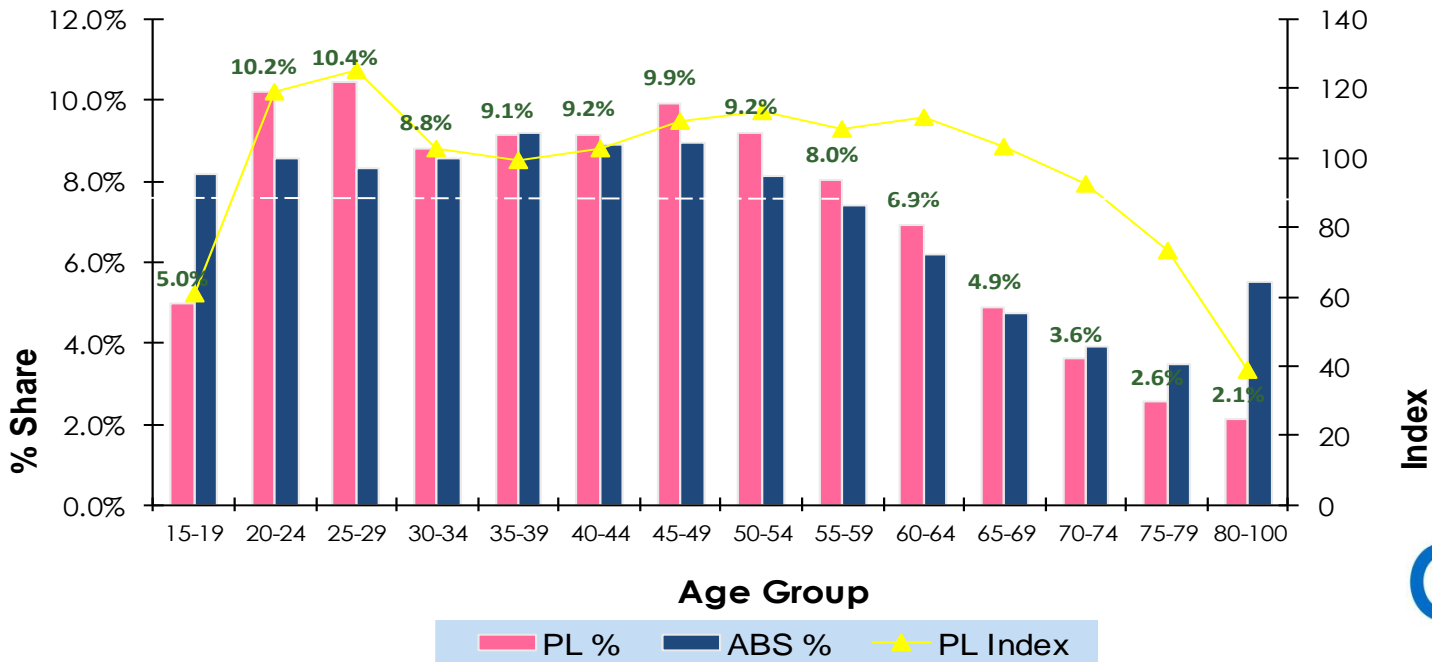


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A superior business model

- Appealing franchisee proposition
- Attractive customer proposition
- Compelling commercial model

**Priceline ClubCard - Over/
Under Index vs ABS Female Population July 2009**



Growth path

Organic:

- Accelerate Priceline roll out

Acquisitions:

- Must be health and/or beauty related
- Could be supplier or retail
- Must meet strict financial returns criteria
- Key is to “better leverage existing distribution infrastructure network”



Key messages

Our confidence in success is predicated on:

- A business mix which offers **significant strategic and synergistic benefits**
- **Strong growth prospects** via our shift into retail
- A retail strategy which has been practised successfully by offshore peers
- An **appealing franchisee proposition**
- An **attractive customer proposition**
- A **compelling commercial model**
- A **focused growth plan** which targets an attractive market in which we hold significant expertise and competitive advantages

PRICELINE PHARMACY DRIVES J CURVE GROWTH

GRAEME FALLET

CHIEF FINANCIAL OFFICER



Priceline Retail to increase and diversify earnings

API has approximately 80% earnings contribution from its Pharmacy Wholesale business

- Industry heavily regulated with Government controlling 80% of the market
- PBS reforms will continue

Target 50 / 50 split with incremental earnings lift from Priceline Pharmacy through large scale synergistic benefits

- Pharmacy retail natural fit with existing wholesale customer base
- Priceline business hugely scalable with investment in infrastructure currently restricting margins
- Complementary infrastructure distribution network
- Franchise network will see some lift in working capital but requires little capital expenditure

Financial Dynamics – wholesale vs retail

Financial metric	Wholesaler	Priceline Pharmacy
Operating margins	2+%	4+%
Capital intensity	Medium	Low*
Working capital	Medium	Medium*
Growth	Flat	4+%
Earnings volatility	Low	Medium
RoIC	Low	High
Acceptable gearing		

* Lower than typical retailer due to franchise model

Franchise model holds major advantages

➤ Franchise model improves typical retailer financial dynamics

➤ Shift from wholesaler to retailer results in minimal change to Group capital expenditure

➤ Some investment in working capital expected to support retail trading cycle

➤ Benefits for API:

- Higher RoCE due to minimal fixed asset investment
- Frees up funding for debt management or acquisitions

Priceline model is highly scalable

Reported retail margins are currently depressed by significant pre-investment

Operating capability built in to support doubling of Priceline store numbers

Key areas of investment:

- Brand development
- Marketing
- Franchisee support

Future store growth will require only minimal additional operating expenditure



Store growth gives J curve profit growth

- API investment in supply chain complete with excess capacity available to absorb store growth.
- Synergies in freight costs for existing API wholesale customers that convert to Priceline Pharmacy
- Incremental wholesale margin for non API wholesale customers who convert to Priceline Pharmacy
- Secures revenue base for wholesale division

Incremental Store contribution - illustration

Stores Numbers	~550	~650
Incremental Franchise Contribution*	\$35.5m	\$51.5m
Store Operating Costs	(\$2.8m)	(\$4.0m)
Franchise Head Office Costs	(\$1.0m)	(\$1.4m)
Distribution Costs	(\$4.4m)	(\$6.4m)
Working Capital Costs	(\$3.7m)	(\$5.4m)
Depreciation	-	-
Incremental Store Profit	\$23.6m	\$34.3m
Earnings after Tax	\$16.5m	\$23.9m
EPS	3.39 cents	4.91 cents

* Incremental contribution per store \$160k and incremental sales contribution per store \$1.9m

Assumes opening balance of 228

Assumes 488,116,000 shares on issue



Current valuation

	API Actual	SIP Actual	API 15.2x
Market capitalisation	\$132m	\$765m	\$316m
NPAT	\$20.8m*	\$50.3m	\$20.8m*
PE Ratio	6.3x	15.2x	15.2x
Share Price	\$0.27	\$0.65	\$0.65

- API 2011 Underlying NPAT
- Sigma NPAT before discontinuing operations as at January 2012
- API and SIP Stock price dated 26 March 2012



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API significantly undervalued

➤ Priceline Pharmacy store growth delivers J curve profit growth

➤ Priceline Pharmacy potential profitability not currently reflected in API's stock price

➤ Implied valuation with potential future store network

- Illustration assumes 550 to 650 stores
- Incremental store profitability after tax of \$74k per store
- No incremental investment in capital expenditure for store rollout required
- Some increase in working capital expected to support retail trading cycle

➤ Implied valuation suggests doubling API share price at 600 stores



API indicative valuation

Stores	550	650
Underlying 2011 NPAT	\$20.8m	\$20.8m
PE Ratio say 12	12x	12x
Market Capitalisation	\$250m	\$250m
Indicative Current Share Price	\$0.51	\$0.51
Priceline Pharmacy Incremental NPAT	\$16.5m	\$23.9m
PE Ratio	12x	12x
Priceline Pharmacy incremental value	\$198m	\$287m
Total Market Capitalisation	\$448m	\$536m
Indicative Share Price	\$0.92	\$1.10

Key messages

➤ Strategic shift to grow and diversify earnings with specialty retail builds a more robust commercial model

➤ Franchise model has significant benefits

➤ Retail margins currently depressed by significant pre-investment

➤ Priceline earnings model is highly scalable to store growth

➤ Future earnings should reflect J curve profile

➤ 600 Priceline Pharmacy stores suggests doubling of share price

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PRICELINE PHARMACY – A COMPELLING PROPOSITION FOR PHARMACISTS

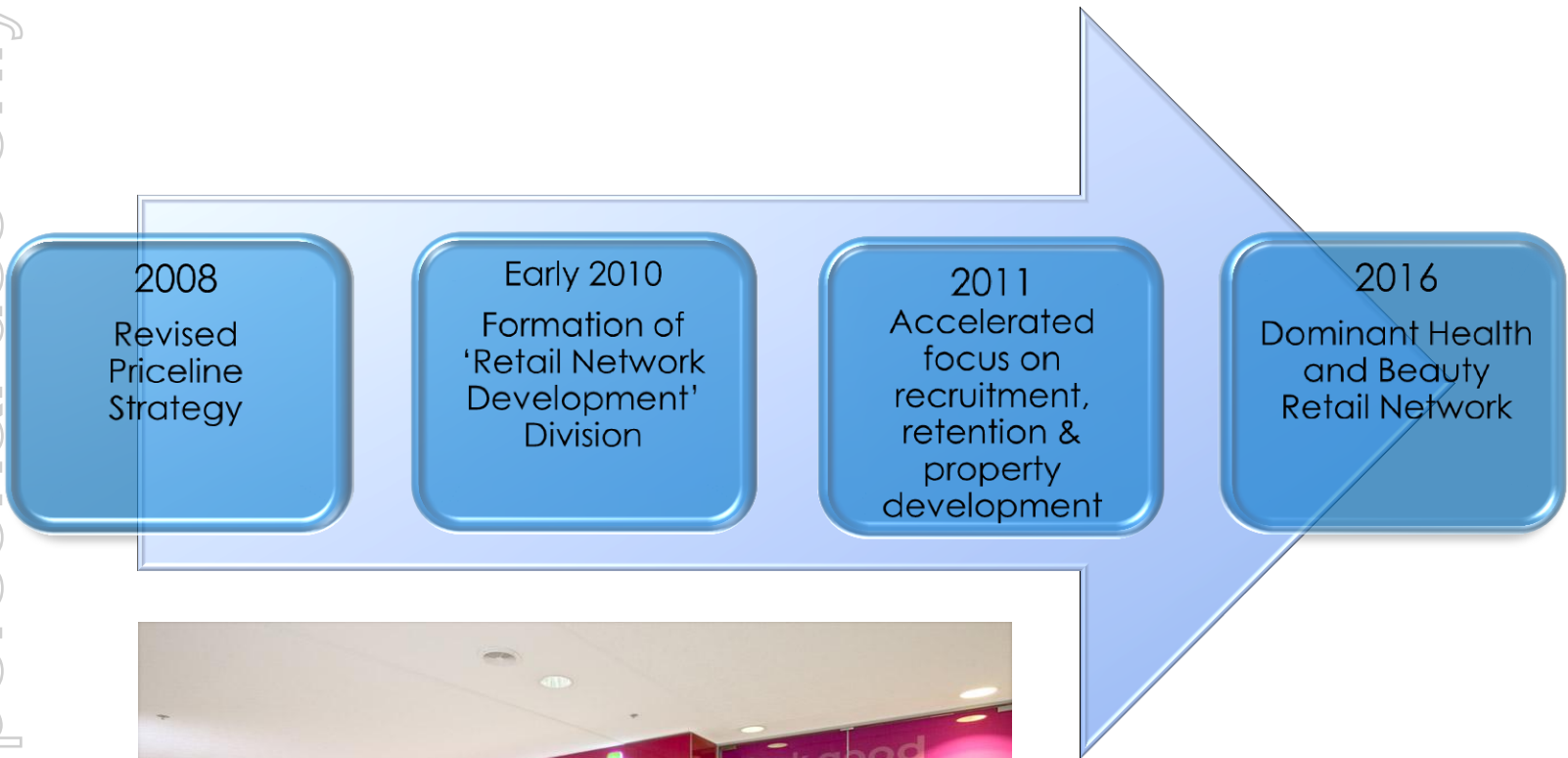
LYNNE GALLUCCI

GENERAL MANAGER, RETAIL NETWORK DEVELOPMENT



Major investment in franchisee recruitment

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Why Priceline Pharmacy?

Differentiated Customer Offer

- Deliver great brands and the widest range with exceptional value
- Provide warmer, friendlier, more feminine environments
- Provide caring service and advice, with pharmacists at the heart of our promise

Effective Business Partnerships

- To partner with those people who can best deliver our customer promise and be advocates of our business
- Be valued by partners for our visionary, supportive, and profitable approach to market leadership

A compelling proposition for franchisees

- Outstanding franchisee satisfaction on two key dimensions
- Financial:
 - Greater earnings potential
 - Buying power generated by market size and competence
- Practical support/competitive advantage:
 - Priceline brand drives customer preference and loyalty
 - Business and retail expertise
 - Priceline Clubcard, Sister Club Marketing spend and plan



Greater earnings potential

- Increased sales and profitability:
 - Financial performance of Priceline stores well exceeds national average
 - Priceline Pharmacy median sales of \$5.5 million vs. Australian Average pharmacy benchmark of \$2.9 million
- Proven customer driven retail brand with pharmacists at the heart of our promise:
 - Market dominance in beauty provides strength to leverage health market share
 - Health and beauty offer diversifies reliance on government income generated from the dispensary

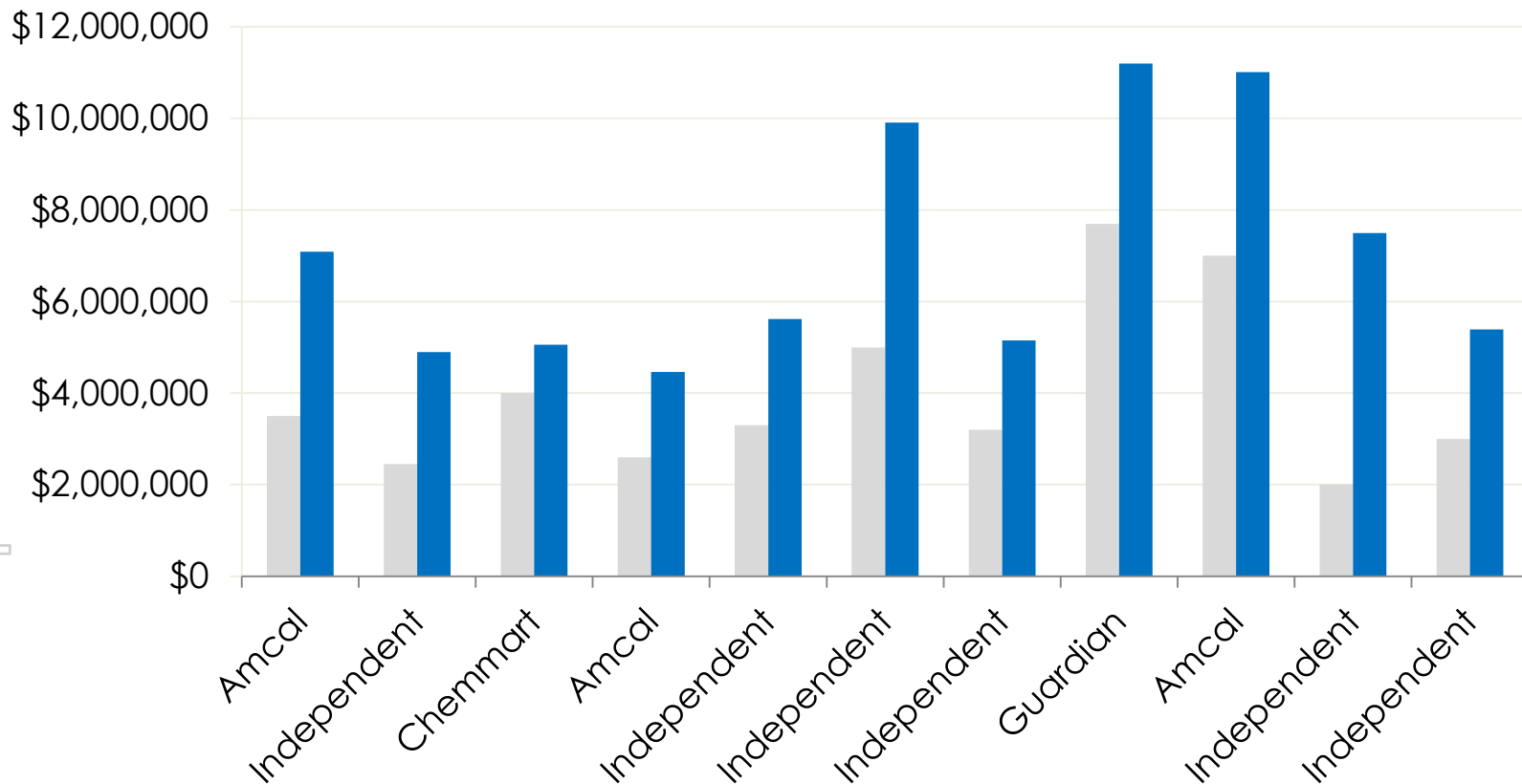
**Not just
a pretty face,
Priceline has
over 180
pharmacies.**



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Conversion results are stunning

- Total sales 12months pre conversion
- Projected sales 12 months post conversion, based on current performance



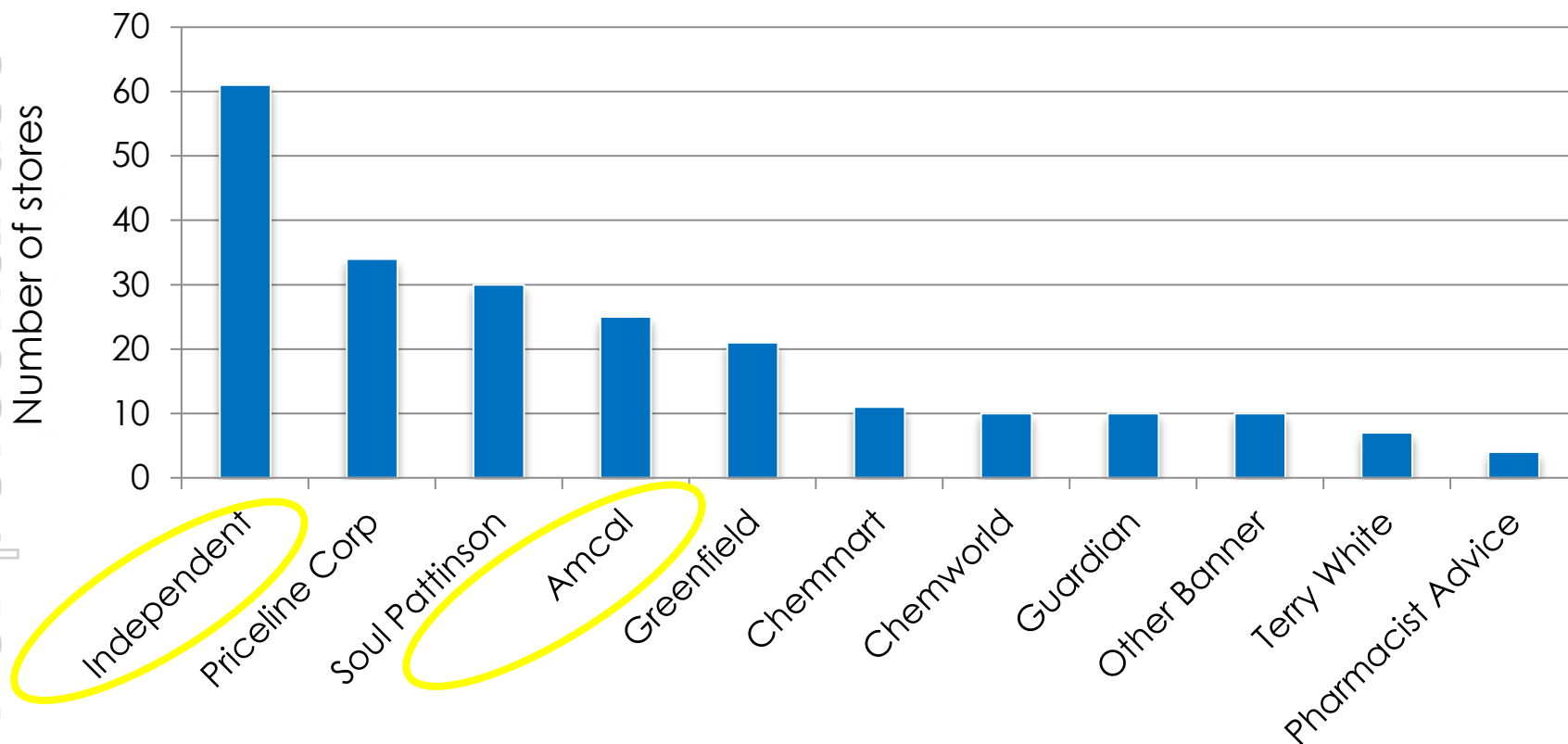
Source: PLP internal data



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Source of conversions

Independents concerned about losing customer relevance are the largest source of conversions for Priceline Pharmacy



Source: PLP internal data



Case study

Pre-Conversion		
Amcal Pharmacy Metro		
Sales	\$3,500,000	
COGS	\$2,289,000	65.1%
Gross Profit	\$1,228,000	34.9%
Rent	\$390,000	11.1%
Salaries	\$420,000	11.9%
Other	\$140,000	4.0%
EBITDA	\$278,000	7.9%
Valuation*	\$1,737,500	

Medici Capital		
Aust Pharmacy Ave		
Sales	\$3,909,300	
COGS	\$2,600,000	66.5%
Gross Profit	\$1,309,300	33.5%
Rent	\$98,000	2.8%
Salaries	\$485,000	12.4%
Other	\$291,000	7.4%
EBITDA	\$435,300	11.1%
Valuation*	\$2,720,625	

Post-Conversion		
Projection based on first 27 wks		
Sales	\$7,088,000	
COGS	\$4,784,400	67.5%
Gross Profit	\$2,303,600	32.5%
Rent	\$390,000	5.5%
Salaries	\$800,000	11.3%
Other	\$500,000	7.1%
EBITDA	\$613,600	8.7%
Valuation*	\$3,835,000	

Indicative valuation*

- This valuation represents a nominal value based on the reported (Pre) and projected (Post) EBITDA after an owner's wage
- No other adjustments commonly made for valuation purposes have been completed
- The median Australian capitalisation rate of 16% has been used

Source: PLP internal data



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Priceline brand and marketing spend

- We are a loved brand that is distinctive, popular and established for over 30 years
- Sophisticated marketing activity with annual spend over \$24 million
- 3.5 million catalogues delivered to households every 2 weeks
- Strong focus on value alongside an environment in which women want to shop
- We lead competition on brand **consideration, preference and visitation** scores for health and beauty



Strong promotional marketing

TWO DAY TACTICALS

Vitamins/fragrances/cosmetics & skincare

- Television/radio
- Clubcard
- Website and social media
- Catalogues

CATALOGUES PROGRAM

Fortnightly promotional program

- New creative
- Themed
- Increased pages
- Increase focus on health

MAGAZINE ADVERTISING

- Value Campaign



Health focused brand activity

PRESCRIPTION CAMPAIGN

- Television/radio
- Magazines
- Website
- Catalogues

HEALTH CAMPAIGN

- Magazine
- Women's Health Bible Jan 12
- ABHC Sponsorship Oct 12
- I Feel Beautiful Mar 12

LIVE WELL PROGRAM

- Heart Health
- Contraception
- Flu vaccinations

Heartache is not a romantic condition.

But we'd LOVE to talk to you about it, because heart disease affects 2 out of 3 families.

TALK TO US & EARN **50** CLUBCARD POINTS*

priceline pharmacy 

Paying less is a beautiful thing™

AUSTRALIA'S BIGGEST HEALTH CHECK MONTH

GET HEALTHY WITH US

*To receive bonus points for heart health advice, customers must be a Clubcard member. Medication advice can be provided to all customers. Maximum of 50 Clubcard points per Clubcard member during this promotion. Valid from 20th September - 7th November 2011 at Priceline Pharmacy only.

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Highly successful customer loyalty program

➤ The Priceline Clubcard Sister Club

- The strongest customer loyalty program in pharmacy today
- Over 3.7 million members
- Award winning loyalty program for effectiveness
- Priceline Clubcard Sister Club card members generate 40% of sales and spend 51% more per visit than non members

➤ Priceline Sisterhood allow Priceline and its customers to support the health and wellbeing charities that concern women (Social Corporate Responsibility)



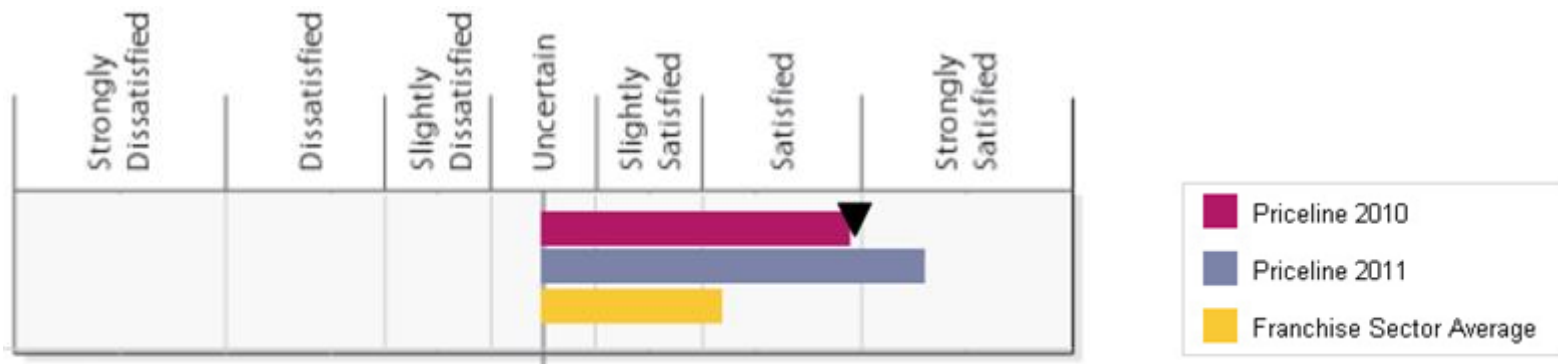
The Priceline Sisterhood
HELP US HELP WOMEN

priceline
(protects)
TOGETHER WITH AIA AUSTRALIA

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Business and retail expertise support

- Franchise partners are strongly satisfied with BDM Business Competencies
- Priceline Pharmacy is a proven, comprehensive retail brand driven by integrated systems
- Dedicated and experienced team help to improve business performance and profitability
- Adopt a whole of shop data driven approach to productivity improvement



Source: Franchise Partner Satisfaction Survey 2011

Key messages

- Priceline is a compelling proposition for pharmacists:
 - Greater earnings potential
 - Confidence in Brand strategy and Brand power
 - Significant bargaining power to alleviate PBS reforms
 - Priceline Clubcard loyalty program and marketing spend
 - Business and retail expertise support
 - Sustainable long term vision/alternative



PRICELINE – A FRANCHISEE’S PERSPECTIVE

JOHN LOVERIDGE
FRANCHISE OWNER



Business overview and history

- 2003 – facilitated the purchase of 7 specialty pharmacy stores (with partners)
- 2005 – opened World Square pharmacy (804m² & \$20 million+ turnover pa)
- Decision made to convert bulk of stores to Priceline
- Network expanded to 11 Priceline stores across Sydney



Why Priceline?

- Avoid decimation from PBS reforms
- De-risk business model to ensure SUSTAINABILITY
- Ability to remain owner and operator
- Strong brand
- Offering resonates with community
- Customer offering is set apart from deep discounting competitors
- Proven commercial model



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Our Priceline experience

- Significant uplift in profitability
- Highly competitive against major peers:
 - Priceline stores compete strongly, even those in close proximity to competitors
- Invaluable support:
 - Business Development Managers
 - Integrated systems
- Benefit from sophisticated marketing resources
 - Direct marketing including magazine
 - Exclusive promotions
 - Enables us to concentrate on delivering at local store level



API as a partner

- Relationship dates back to 1972
- Terrific long term experience
- Supportive of growth and optimising franchise offer:
 - Relocated stores to Priceline sites with better locations
- Empathy to pharmacy invaluable – history as co-operative is ingrained in API's corporate culture
- The “perfect fit”



Future outlook

- SUSTAINABILITY through economic and regulatory change
- Continued importance of dispensary
- Industry consolidation likely
- Priceline well positioned to thrive:
 - Brand continues to strengthen
 - Online presence - opportunities



PHARMACEUTICAL WHOLESALER: CHALLENGES & OPPORTUNITIES

RICHARD VINCENT

GROUP GM, BUSINESS DEVELOPMENT & OPERATIONS



Pharmaceutical wholesale overview

Key facts:

- \$9bn wholesale market Australia wide
- 300 suppliers reaching out to 5000 pharmacies
- Market leadership position – 37% share of all drugs distributed in Australia
- Major competitors with different strategies – Sigma and Symbion
- Regulated market
 - 5th CPA (2010-2015) governs pharmacist, patient, supplier and wholesaler funding model
 - 80% of wholesale revenue controlled by Government
 - Wholesalers supply obligations to DoHA (CSO) until 2015
 - Major PBS Reforms to slow cost of health



Pharmaceutical wholesale overview

Strategic importance to API:

- Significant cashflow generator to fund retail growth
- Solid long-term prospects
- Relationships with pharmacists create opportunity - franchise model
- Leveraging infrastructure network with retail business



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The regulatory environment

- Regulatory framework provides both commercial advantages and restrictions
- API has 100+ years of experience with this framework and a clear record at operating successfully within it
- Deregulation of Pharmacy unlikely:
 - Pharmacy Guild remains strong and 5th CPA in place till 2015
 - Current position has bi-partisan support and the Government is achieving savings without radical surgery
 - Wholesalers support the ownership of pharmacies by pharmacists
- Positive impact of PBS reforms unappreciated:
 - Reduced dispensary income will accelerate need for Pharmacists to diversify their customer offering
 - Should lead to increased franchisee interest in Priceline
 - Further growth in Soul Pattinson and Pharmacist Advice is also expected
 - API-Alphapharm partnership becomes even more important



PBS reforms

- API has a long history of working within a tight regulatory environment
- Major 'industry shaking' reforms now almost complete – 2008 and 2012
- Reform process will continue through EAPD process that lowers prices based on discounts offered by suppliers
- Margin expansion over recent years highlights API's ability to successfully manage regulatory change



Pharmacies play to a change of script



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Discount claw backs

- Wholesalers have historically incentivised pharmacists for ordering and trading efficiencies
- PBS Reforms & Pfizer going direct have necessitated DC network changes and discounts being clawed back
- Significant scope for further claw backs
- Increasingly rational market - ongoing claw backs are achievable
- Two separate price rises successfully implemented:
 - API led discount reduction in Feb 2011
 - Discount reduction in Apr 2012
- Pharmacists set to be much better off over the next 12 months:
 - Discount claw back reduced pharmacists profits by average \$6k per annum
 - Key drugs going generic increases pharmacists profits by average \$72k per annum (Lipitor/Zyprexa/Seroquel)

Suppliers going direct

➤ Pfizer took direct path in 2011

➤ Pfizer is a unique case:

- Lipitor is set to go generic - \$643m per annum in revenue to protect
- Lipitor is far and away Australia's biggest revenue generating drug
- Pfizer has the greatest funding capacity of major suppliers and the most to gain (relative to other suppliers) from going direct

➤ Australia is a unique market:

- Low population density creates a major barrier to going direct
- Different proposition to overseas markets where suppliers have gone direct with commercial success
- Huge spend on infrastructure & field force required and return on investment highly questionable
- Industry has not accepted Pfizer's decision



A case for consolidation

- Each major wholesaler has an infrastructure network capable of supporting the entire industry
- Excess capacity represents significant waste which benefits no one
- ACCC has previously rejected consolidation attempts
- Discounts provide fresh argument for change
- Part way alternative – back office integration (API estimates potential savings of \$20m-\$30m per annum)
- Sharing in the savings:
 - Pharmacists
 - Wholesalers
 - End customers



Key messages

- Wholesale is a significant cashflow generating business
- Opportunities outweigh challenges
- PBS reforms will continue and require management
- Scope for discount claw backs is significant and achievable
- PBS Reforms will drive pharmacists to revisit their strategy and profitability model
- Tenuous economics for further suppliers going direct
- Industry consolidation holds significant benefits for all stakeholders

SUMMARY AND FINAL COMMENTS

STEPHEN ROCHE

MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER

Summary of briefing

- Wholesale + retail business mix holds significant strategic benefits
- Shift into retail will deliver higher earnings growth and RoIC
- Priceline is targeting a huge market opportunity, with a competitive offering that has been proven by offshore peers
- Significant pre-investment in Priceline has depressed current margins
- Priceline margins are hugely scalable to higher store numbers
- Priceline offers a compelling proposition to independent pharmacies – SUSTAIN and THRIVE
- Wholesale opportunities more than offset potential challenges

Investment case

- Earnings rebound imminent in FY12 post one-off factors in FY11
- Priceline offers unrivalled leverage to high-growth and defensive health and beauty segments
- Declining pharmacy profitability set to drive acceleration in store roll out growth
- Scalability of business model to deliver “J curve” future earnings profile
- Significantly undervalued relative to peers
- Good cashflow generation and a dividend yield of + 10%

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QUESTIONS?

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