



Pharmacybrands

1 August 2013

Good afternoon Ladies and Gentlemen, and welcome to the Pharmacybrands 2013 annual shareholder meeting.

This afternoon, I will cover a couple of key points from our financial results, discuss our progress on some strategic initiatives and give a brief update on post balance date activities.

Firstly on the financials: Last year I commented that the results had probably come a year earlier than we originally planned. This year's results are maybe the hangover from that, in that a reasonable amount of the 3 million profit growth from last year was due to improved results from our medical business and the non recurrence of a couple of large one off costs in the previous year. The balance sheet situation and cash generation however were very pleasing and we are well positioned to invest in continued growth of our existing businesses and pursue acquisitions in the wider primary healthcare space.

The medical business delivered a very solid result and we see this growth continuing for the next few years as it is a very fragmented market, and our intellectual property in Radius Medical solutions is quite unique and well sought after. This part of the business continues to provide insights into other parts of primary healthcare and is enabling us to explore better patient focused health solutions across different parts of the "health silos".

The returns from our partnership pharmacies have been very good and continue to grow, although we are concerned about the sluggishness in the retail area. This is not a new phenomenon and not unique to this company, but nevertheless is still something we aim to turn around. Whilst our business is really a healthcare one, the retail side provides us a diversification and is a large point of contact with the consumer. It does also provide alternative avenues for the provision of healthcare services that have been well accepted in recent years.

The pharmacy franchise business, which constitutes the core of the business again had a solid year and once we bed down the new brands and loyalty program we will be looking to get franchisee numbers growth here again.

Strategically we have quite a bit on our plate at the moment. The major initiative to "relaunch" and rationalise our pharmacy brands into two flagships, Life and Unichem, is a huge project and is proceeding well to date. It is not just about changing the paintwork in the stores.....our aim is to position the brands with the customer at the centre.....with the Life brand it is our intent to start to win back much of the beauty market that has slipped away from pharmacy in the last decade. The



first new Life store was opened at Riccarton Mall in Christchurch in July. The Unichem brand will be positioned with the "family" as the centre of its offering and will have the greatest number of stores. We have a planned rollout where existing Amcal, Care or Radius stores will be moved into the most appropriate brand depending on either their current offering, or a future offering that is potentially better for the store. This focus together with the continued roll out of our new format stores (launched in Bayfair and Manukau last year) should see improved sales and profit results for all of our pharmacies. Coupled with this, we are increasing our product ranging in stores to offer more to our traditional market....this will start with a fuller range of "baby products" than has been seen in pharmacy for decades.

At the end of this fiscal year we will combine our current loyalty programs into one single offering. We are a little loath to stick our neck too far out here, but international pharmacy chains such as Boots and Shoppers Drugmart in Canada have loyalty programs with phenomenal reach.....30% of each countries entire population are active users of their cards....The statistics regarding sales and profits from loyal shoppers are compelling and is the key driver for our investment here.

Our dispensary focused programs, which I discussed last year, have continued to grow and could well be the main reason why our pharmacies prescription growth is significantly higher than the national average. Whilst things like Urinary Tract infections, vaccinations and bowel screening do not sound too appealing in the context of this meeting, they are at the heart of primary healthcare, and we believe our continued focus on giving the patient more choice on where and from whom they receive help will benefit us commercially.

We have launched our ecommerce offering and although not a large contributor currently we see it as important part of our marketing mix and customer offering, for both local and international customers.

The medical business has been focussed on gaining critical mass both in equity stakes and in the number of medical centres where we supply back office services.

At a head office level we are pushing for efficiency and systems upgrades that lead to improved service levels and scalability. We are also looking at our income model balance around supplier and retail funding vs sales outcomes. Out of this "review" we aim to ensure as much of our head office support resource is channelled into improving sales and returns for our 300 plus stores, and that the essential corporate activities are done at the most efficient level possible.

At a "Health economics level" the new dispensing contract, which provides approximately 40% of our gross margin has been operating for approximately 12 months, and whilst we reiterate our support for the general direction of the agreement, there are some concerns about the details and mechanics of the contract for the future. The intent is to quite radically move pharmacy's place in primary healthcare from a dispensing based professional to a medicines expert in addition to providing the dispensing and advice function. Other Health policy and activities in our area are really focussed on implementation of the governments

previously signalled priorities of Better, sooner, more convenient. Our continued interpretation of these policies are that the policy makers want to see primary healthcare doing more for the patient and operating at the "top of their skill level". The obvious benefit of this is a reduced demand on the more expensive secondary care sector, and therefore we are comfortable that the macro demand for our services will be there for the foreseeable future, albeit with efficiency and possibly outcome caveats.

To give you a brief update on how we are currently trading.....In the first three months or so of this fiscal year our same store retail sales and retail GP are basically flat. These retail numbers are pretty pleasing considering the mild winter we have experienced is not really conducive to good pharmacy sales. As I have said our prescription numbers are showing above market growth, and overall the business is tracking well year to date. Since balance date we have also acquired equity stakes in two pharmacies and announced the purchase of two medical centres.

Our core pharmacy business is positioning itself to have a very clear and superior offering to independent pharmacies and other competitive health and beauty retailers. Future growth will come from growing market share in existing categories and adding new categories at both the retail and "professional" service sides of the business. These improvements will also subsequently lead to increased franchisee numbers. Obviously we will continue to take equity positions in pharmacy and medical centres as the opportunities arise.

We are looking actively outside pharmacy and medical centre acquisitions for opportunities, still within the primary healthcare space however, but are being selective strategically and will not buy for the sake of buying, despite having a decent cash balance.

The board are pleased with the company's position allowing an increased dividend payment. We hope this trend continues and that this meets with your approval.

I would like to take the opportunity to thank the all the staff in our franchisee businesses, medical centres and pharmacies, and our support office for their efforts over the year. As you know, Alan Wham, our CEO left a couple of months ago, and we are in the middle of a recruitment process for his successor. Additionally many thanks to the board for their input and assistance in the continued growth of the company.

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