



ASX/Media Release

Investor Update

Genepharma Australasia Limited

30 April 2007, Melbourne: Genepharma Australasia (ASX:GAA) released interim 2006/07 results on 27 February and has recently completed a roadshow communicating with stockbrokers and investors. With the submission of the company's Appendix 4C Statement of Cashflows for the March 2007 quarter it is important to update the market on the company's business strategy and market outlook.

The company has achieved its core objective of rapid growth over the past year and the 2006/07 interim results showed significant progress, albeit with close to break-even net profit before tax. Genepharma management's attention to integrating the Douglas business and aggressively building overall sales has meant that investor updates have not been as regular as expected, which will be improved this year.

Business conditions are showing a slight improvement in the second half with Genepharma continuing to invest in the growth of the business (i.e. new sales staff and product lines). The company expects to report 2006/07 normalised EBITDA in the range of \$5m - \$5.5m and a positive net profit after tax (NPAT).

Indications to 2007/08 are further strong growth in revenues, improved sales contribution margins and higher growth in profitability, before any corporate initiatives are included. This supports the continued focus on building scale and diversity in a premium healthcare business and lifting bottom-line earnings per share and return on equity.

Developments in the Generic Market

Over the past few years there have been some major developments in the generic pharmaceuticals market which may be summarised as follows:

- **PBS Pricing Reductions**

The PBS has indicated that it will seek to reduce the subsidised price of off-patent medicines by 25% from 1 August 2008. This move is directly related to an agreement between the Pharmacy Guild and the Health Department that recognises that the increase in generic substitution has resulted in lower cost generics being available in Australia and that some of those savings should be passed to taxpayers. The pricing changes are expected to have a relatively small effect on generic supplier margins as the savings are primarily coming from reduced pharmacy margins for generic dispensing.

For pharmacists, choosing a generic supplier will continue to be based more on product range and service.

- **Increased Competition**

A number of new generic competitors have entered the Australian market. The four new companies currently offer a significantly smaller range than Genepharma. These companies currently make up less than 1% of the Australian sales of generic pharmaceuticals. Barriers to entry include the costly and time consuming drug registration process and resources and time needed to build goodwill among pharmacists.

Genepharma has sought to respond to the above issues and modify its strategy accordingly.

Strategy

When Genepharma listed in 2004 the strategy was focussed on distributing and marketing generic pharmaceuticals manufactured for Genepharma by:

- the European pharmaceutical company Genepharma SA, which is also a major shareholder (currently 20%), and
- other pharmaceutical manufacturers.

The focus was on a smaller group of major or blockbuster drugs.

In mid 2006 Genepharma acquired one of the top 5 Australian generic pharmaceutical companies, Douglas Pharmaceuticals Australia. This was a company transforming acquisition and:

- lifted Genepharma's annualised sales from \$10m to over \$50m
- added over 200 new product lines including branded prescription medicines, over-the-counter (OTC) products, cosmetic skincare and nutraceuticals.

Since the acquisition, management has faced some integration issues including moving from a product-focused company to a customer-focused company and modifying certain processes and behaviours. The business has been addressing these with changes in middle management and employing experienced and highly skilled people to strengthen the team and foster Genepharma's customer relationship strategies.

The board and management remain confident in the strategic value of the acquisition and believe it will provide a strong platform for growth and profitability in a highly competitive market.

The ongoing focus of the business can now best be described as the three R's:

- **Relationship**

Building strong supply relationships with pharmacy and a differentiated value and service offering based on:

- Equity involvement for customers
- An efficient and contemporary pipeline
- Service through its dedicated customer focused field representatives
- Simplified pricing for customers that delivers transparent product profitability

- **Range**

- Offering a larger product range as a major factor in building greater customer value.
- Over the next three years, Genepharma will release generics of all the major new patent expired drugs.
- Since January 2007 the company has introduced 3 new major generic drugs to its portfolio with total Australian dispensary sales in excess of \$100 million per annum. The drugs are Ramipril, a top 20 PBS cardiovascular medicine, Roxithromycin, a leading antibiotic and Zolpidem, a leading treatment for sleep disorders. Over the next 9 months, the company expects to release another 5 major generic drugs.

- **Returns**

Building profitability and providing sustainable shareholder returns.

As indicated in the half-yearly results, the company is still in the process of renegotiating its distribution agreement with Genepharma SA. The position at present involves a major review of all supply relationships and product development plans to ensure timing and pricing of future products is optimal.

While it is not possible to be definite, the renegotiation is likely to lead to a write-down in the value of licences/intangibles in the 2006/07 full year results. This is a non-cash, non-recurring item. At the same time, any reduction in the values will give rise to a lower amortisation expense in the future years. The distribution agreement amortisation expense currently amounts to \$2.4 million per annum.

2006/07 and 2007/08 Outlook

The interim 2006/07 half-year results are summarised below. Note that the Douglas acquisition was effective on 13 July 2006, meaning only 24 weeks of Douglas results were included.

Despite the continuing strong growth in sales in the first half of 2006/07 (which were in line with budget), the bottom line profit performance was well under what we and most analysts were expecting. The main reasons for this in order of importance were:

- the changed competitive industry environment and increased discounting
- increased operating staff and marketing costs through strategic development of non-generic pharmaceutical and consumer health channels

- one-off integration and redundancy costs of more than \$0.7m and a \$0.5m cost in bringing to account for the first time the value of pre-existing options related remuneration

The actual reported results for the half-year were:

- Net sales of \$25.1m, or \$27m on a proforma basis (ie assuming the Douglas business had been held for 26 weeks rather than 24 weeks)
- Positive proforma EBITDA of \$1.9m and normalised EBITDA of \$2.6m after one-off integration expenses
- Positive net operating cash flow of \$1.9m vs. an outflow of \$1.0m a year earlier
- Depreciation and amortisation of \$1.5m including amortisation of Genepharma SA distribution agreement of \$1.2m
- Net loss before tax of break-even vs. a loss of \$2.8m a year earlier

The only debt at present is a \$15m convertible note held by the vendor of Douglas Pharmaceuticals, which can be converted to equity or repaid by July 2007. The current expectation is that this note will be mainly repaid from cash holdings. This will leave Genepharma with ample unutilised bank borrowing capacity.

The company has previously issued full year proforma estimates of \$60m-\$65m for net sales. With the increased discounting of approximately 10% experienced in the first half of this financial year and expected to continue at this level for the medium term, the company has revised net sales expectations to \$55 - \$60m for the full year proforma result. This change is as a result of increased price competition and does not reflect the fact that Genepharma's market share and customer base continues to be the fastest growing in the industry.

Cashflow

The company's March quarter cashflow result was shown another quarter of positive operating cashflows. The Appendix 4C showed net operating cash flows of \$1.4M for the quarter to 31 March 2007. Significant investment in inventories for new product opportunities will see cash flow tighten till December quarter based on forward estimates. The company had cash holdings of \$12.2 million as at 31 March 2007.

Having worked through the current building phase, The Board is confident the company is now well poised to participate in the continual growth and structural change being experienced in the pharmacy sector.

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About Genepharma:

Genepharma Australasia (ASX:GAA) is a growth-oriented pharmaceuticals company with a particular focus on generics. Genepharma markets, sells and distributes a range of pharmaceutical products ranging from blockbuster prescription drugs to cosmeceuticals. Genepharma services pharmacies, hospitals, medical centres and wholesalers. Genepharma is Australia's second largest generic pharmaceuticals company and the only dedicated generic pharmaceuticals company listed on the Australian Stock Exchange. The company was established in 2003 and listed on the ASX in 2004. For more info: www.genepharma.com.au.