

2008 Chairman's Report

Avicenna is delighted to report a sixteenth successive year of growth, with a pre-tax net profit of £1,276,069 (2006/7 £1,177,792) an increase of 8.3% and net assets of £7,648,708 (2006/7 £6,737,790) an increase of 13.5%. This has been achieved despite the background of a challenging environment, where several more pharmaceutical companies have followed Pfizer's Direct to Pharmacy distribution model (DTP) and Parallel Imports (PIs) have been increasingly difficult to source.



The Avicenna Board

Avicenna's growth is largely attributed to the continuing increase in our membership and, crucially, to the high level of support given by the members to our Preferred Suppliers and the other trading facilities we have in place.

In line with best practice of Corporate Governance, the roles of

the Chairman and the Chief Executive Officer were split with David Gratton and Salim Jetha respectively being appointed.

Brand acquisition

Brand acquisition is an important part of our current and future strategy. We are in the unique position where our pharmacist members can impact directly on the sales of our products enabling Avicenna to influence the listings within the distribution chain. During the past year your Board has spent a considerable time analysing a number of propositions and is currently evaluating several of these.

A variety of regulatory issues have impacted the industry, resulting in stock shortages for many products. We were also affected, causing Balmosa to be unavailable for some months. However, our marketing campaign and the support of our members, are enabling us to address this and to regain sales level. Currently we are resourcing production and modernising the packaging to facilitate our planned repositioning of the brand.

Bio-Synergy has been slower than anticipated in producing the results we expect and we have now put measures in place to achieve this.

Members services

Independent Pharmacies derive some 80-90% of their income from NHS dispensing, and with traditional Over The Counter (OTC) business continuing to decline, this proportion is likely to increase. NHS dispensing has been severely affected by a reduction in purchasing profit margins resulting from the Category M claw-back on generic products. We anticipate that some relief will commence from April 2009 when the current review will have been completed.

On a long term basis we are advising our Members to maximize the potential revenue sources now available under the NHS contract by developing Enhanced and Advanced Services, whilst also reviewing their current practices. We can provide considerable assistance to Members in this process and have budgeted a substantial sum for this purpose. We have embarked on a series of courses for members related to the tutoring of post-graduate



Delegates at one of the Avicenna courses

Pharmacists in their Pre-Registration year and this will be supplemented by courses for the pharmacists concerned. Additionally we will be offering training on making the best use of pharmacy IT systems, help on statutory issues, staff training, patient services, merchandising, SOPs, price comparisons and many more. Our objective in this is to help ease the administration burden which currently affects all pharmacies, and provide business tools so that our members can compete more effectively in the market place.

Membership

The latter part of this financial year saw a takeover of our largest competitor by a wholesaler. We saw this as an enormous opportunity to recruit members as pharmacists were likely to consider the alternative being offered would lead to a potential loss of independence. We were confident that we would be viewed as a natural replacement and this belief has been vindicated by a substantial gain in membership. We expect this trend to continue well into the 2008/9 financial year. The key driving force is that we are the UK's largest independently owned support group with a critical mass spread across the country. Additionally there is the opportunity to own shares in the company in which respect we are unique. We have continued to recruit from other smaller organisations, and this growth against a declining Independent sector is extremely pleasing.

Zanzibar Conference.

Our conference for 2008 was planned for Mombasa but civil unrest in the country meant we had, at a very late stage, to find an alternative venue. We were able to re-site the event in Zanzibar and it proved to be one of our best ever, both in terms of location and the conference itself.



Sponsors and speakers at the Zanzibar conference

The central theme of our eighth overseas conference was **NHS Changes: Care Closer to Home and Our NHS, Our Future**. The first day covered the topic on a macro level, an area from which

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Delegates at one of the business sessions

Industry opinion leaders such as **Dr Fiona Adshead, Deputy Chief Medical Officer, and Chief Government Advisor on Inequalities, Dr Jeff French, Director, National Social Marketing Centre, Jeremy Main, Chief Commercial Officer (now Managing Director), UniChem Ltd and Hemant Patel, President Royal Pharmaceutical Society** were the key speakers. The second

part looked at the implications for daily pharmacy practice – cost/benefits issues, planning and potential methods of implementation. We received extensive coverage in the pharmaceutical press, reflecting their perception of our conference within the

pharmaceutical environment. The press reports are available on our website www.avicenna.org.

Business Partners

Our business partners have reported a significant increase in the level of support given by our members and several have commented that we excel when compared with competing organisations. This is pleasing, but not surprising, as it has been our ongoing policy to develop the triangular relationship between Avicenna, our business partners and our Members. It is our intention to strengthen this relationship and achieve a winning position for all involved.

Our membership growth has not escaped the attention of our business partners who recognise us as a cost effective route to reach independent pharmacists as well as critical support in both ring fencing their existing business and growing it. Potential new business partners have proved willing to discuss options and have demonstrated a commitment to work with Avicenna and the Members. These business partners respect our independence, and appreciate that we will express our opinions in a forthright way if necessary where we feel it is in the best interests of our Members.

Corporate Rebrand

We have updated our image with a new logo to represent our primary business model - namely the three way partnership between Avicenna, the Members and our business partners, and also to reflect the three elements working together for mutual benefit.



One of the social events in Zanzibar

Dividends

We have declared a dividend every year since the company was restructured in 1999. The dividend for 2007 resulted in over 80% of the value being taken as additional shares, once again demonstrating our shareholders' confidence and loyalty to the company.

In addition to the Annual Dividend declared and approved by the last AGM, a Special Dividend was also declared amounting to £823,061. This has helped members realise some of their investment in the company.

This year, the Directors are proposing a dividend of 1.2p (2007 1.1p) which will result in a distribution of £230,185, an increase of 22%. As in previous years we will be offering members the option of taking additional shares in lieu of the cash dividend.

ACE Club

Our Members participate in the ACE Club and receive the ACE Club profit share which is based on their level of business and their support of the scheme. Payments during this period amounted to over £1.3 million. This has delighted both our Members and business partners.

Staff

We have increased the staffing levels over 50%. Our investment in human resources helps us to maintain and improve our customer care for our increasing membership and to generate more business for the company. There will of a time lag between the investment and the anticipated return. We have recruited a Director of Sales and

Business Development to focus on our commercial activities and help accelerate increased growth. We are fortunate to benefit from the hard work and support of our loyal staff and would like to express our sincere thanks for their contribution to our increased success.

Immediate prospects

We anticipate further challenges in the market place for our members and consequently both directly and indirectly for Avicenna. It is widely anticipated that more manufacturers will opt out of the traditional wholesaler driven route to market and follow the DTP model. Additionally a lack of PIs, due to reduced product availability in other markets and a reducing value of the pound compared with the euro, may cause a reduction in our members’ potential sources of supply and impact on their pharmacy’s profitability.

However, a continued growth in our membership numbers and the level of support given by members to our business partners, together with the contributions made by our new acquisitions, will mitigate some of these challenges. The downturn in the national economy will also affect the business climate which may in turn provide a purchasing opportunity. Our significant cash resources put us in an ideal position to seek out and benefit from any such opportunity.



David Gration
Chairman



Salim Jetha
CEO

