

Highlights of the Year

- **Membership numbers exceed 1000**
- **25% market share of the independent sector**
- **Avicenna members receive 7 of the 11 Pharmacy Business Awards**
- **Revenue £5.2m (2008: £2.8m), up 82%**
- **Operating profit £1.5m (2008:£1m), up 46%**
- **Proposed dividend of 1.3p per share (2008 1.2p) up 8%**
- **In excess of £2m distributed to members in quarterly profit share payments. (2008: £1.3m) up 53%**
- **Net assets £8.9m (2008: £7.6m), up 16%**

Chairman's report

The Board is pleased to present the results for the year ended 31 August 2009. This year was an exceptional year of growth for Avicenna, both in terms of revenue and membership numbers.

During the period, the number of Avicenna members passed 1,000. This achievement was celebrated by members, together with business partners, management and staff at a special event marking this important milestone.

Our membership continues to grow and Avicenna is now, by a considerable margin, the largest Independent Pharmacist support group in the UK having a

25% market share of Independents (excluding chains).



Another significant event occurred at the recent Pharmacy Business Awards held in September. There were 11 award categories and 7 were won by Avicenna members. This is indicative of the innovative abilities of our members and their dedication to maintaining and advancing

the principles of community pharmacy. Avicenna would like to congratulate each of the winners.

Financial Review

A year in numbers – revenue up 85.7% to £5.2m (2008: £2.8m), operating profit up 50.0% to £1.5m (2008: £1.0m), cash generated from operations £0.7m (2008: £0.9m), proposed dividend up 8.3% in 2009.

The growth in revenue and membership numbers has been achieved against a background of a declining Independent sector, changes in the supply chain and shortages of PI's (Parallel Imports)

Changes in the distribution chain by the major pharmaceutical companies have restricted choice and impacted on the discounts structure. In addition, the strong

Euro has reduced the availability of PIs (Parallel Imports) causing stock shortages of UK packs of licenced medicines . Both these factors have had an adverse impact on the margins earned both by our members and Avicenna alike.

The extension of our central invoicing facility, allowing an increasing number of our business partners to invoice members through Avicenna, has proved very successful and helped to reduce administration for both suppliers and members Significant investment of resources is planned by Avicenna in management information and systems enhancement to achieve optimum efficiency, thereby benefiting all parties - members, suppliers and Avicenna .

Moltex and Balmosa performed satisfactorily in the year, however, the depreciation of Sterling against the Euro has meant that margins have been under considerable pressure.

After the year end, the Board decided that Avicenna's investment in Bio Synergy was no longer capable of producing the required level of return for shareholders and took the decision to sell the Company's shareholding in Bio Synergy. The accounts have been adjusted to incorporate a goodwill write down in order to revalue the carrying value of the investment at £0.3m, which equates to the disposal proceeds.

The Company's financial position remains strong given the continuing trend for members to convert both profit share and dividends into ordinary shares and with £8.9m(2008; £7.6m) of shareholder funds.

The Board is proposing an annual dividend of 1.3p (2008 1.2p) for the year ended 31 August 2009, an increase of 8.3% reflecting the Board's confidence in the Company's future prospects.

Membership Services

The bulk (frequently in excess of 80%) of independent pharmacy business is derived from National Health Service (NHS) contract activities. High dependence on the NHS on one hand may cushion contractors against a downturn in the economy but on the other hand margins are controlled as part of that contract. The pressure of the Category M claw back has slightly

eased but overall margins still do not reflect a fair return on investment. The latest cost enquiry being undertaken by The Pharmaceutical Services



The '1000 Members' celebration night

Negotiating Committee (PSNC) with the Department of Health offers some hope of addressing the situation.

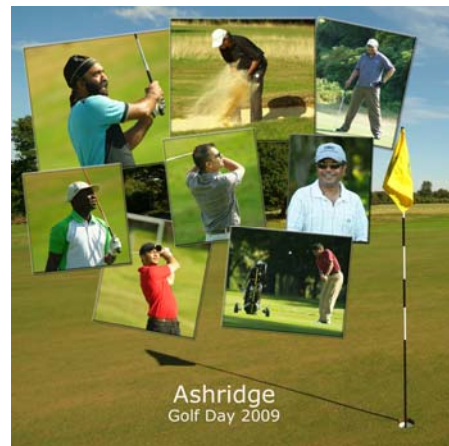
There is a shift in the remuneration package away from being simply NHS dispensing based to reward those pharmacists providing additional patient services such as Medication Use Reviews (MUR), smoking cessation advice and minor ailments. The uptake from Independents has been rather slow as they have been heavily burdened with increasing administration, redefining their skill mix and a lack of credible, structured support from the national organisations. The practice of pharmacy in the community is becoming increasingly more complex but it would appear that only a few national organisations have recognised this. All these factors have resulted in a quadrupling of information requests from our members, who are increasingly turning to us for unbiased help and advice. To this end, we have strengthened our membership support team by recruiting additional Pharmacy Business Managers in the field, supported by an enhanced head office establishment.

In addition, we have appointed Zul Mamon as Director of Membership Services and Retail Development to assist us not only in strengthening our existing services but also to expand the facilities we offer. His background as an ex-pharmacy proprietor together with experience gained in several corporate appointments will enable him to make a substantial contribution.

The critical mass that is the Avicenna membership enables us to organise high quality programmes and support packages. We have recently added a range of services such as SOP's, HR, Risk Assessment and training modules to the restricted access members section of our website (www.avicenna.org). More services and information will be added in due course.

Membership

A survey undertaken during the year by Avicenna has indicated that the growth of our membership is not only driven by our commercial terms but increasingly by the service package. Equally important is our transparency, ethical values and future plans that seem to motivate our members to continue to seek shares in the company. A trading member not only benefits from specially negotiated terms, but also a profit share and can benefit from dividends as a Shareholder. This is a unique feature of Avicenna which differentiates us from our competitors.



The profit share paid out to trading members this year exceeded £2m (2008: £1.3m). This is a direct result of both the increase in membership and the sustained loyalty of our members towards our preferred suppliers.

For many years Avicenna has offered members the opportunity to take additional shares as an alternative to the cash dividend and will do so again this year. We see the election of the majority of members to take the share option as their continued endorsement of the company and its future, and the board is grateful for their support.

News

Are you getting your share of Avicenna's £2 million hand-out?

This year we are forecasting to pay out over £2 million in the quarterly profit share (last year £1.3 million). Are you maximising your return? Our sales force will be advising you on their visits, but please feel free to ring Sue in the office on: 020 8651 9933 in the meantime.



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Our revised monthly newsletter is proving to be a very popular form of communication. Additionally this year, we have held a series of membership meetings across the country to discuss issues affecting both Avicenna and members and to share best practices. The

high turnout at these events has been very encouraging and creates a strong bonding. In addition, both our CEO and Sales & Business Development Director have been visiting individual members in their pharmacy.

One of the suggestions that has been raised at several of these meetings is the possibility of an even closer working relationship between Avicenna and the members, to the extent that our office might actively help by providing some leading role in the management of members' businesses. This could potentially lead to the creation of a 'virtual chain' which interested members may elect to join. We have accepted the challenge and have already started conducting some trials.

Our membership number continues to increase and this year we have seen growth of over 50%. We expect this growth to continue but probably not at the rate experienced in the last year. In order to service this increased membership the Board has invested heavily in human resources and the IT infrastructure to provide a solid customer relationship management database. The team creating the growth and support to the existing members is ably led by our Sales & Business Development Director, Raj Haria.

Business Partners

Most of our business partners report a like for like increase in members' spend well ahead of our competitors. This is a strong endorsement of our triangular policy of synergistic working between members, business partners and Avicenna. However we cannot afford to be complacent and will continue to strengthen this bond. Business partners see our network and supporting structure as a cost effective way of not only ring fencing their existing business but also growing it.. Increasingly, potential business partners contact us seeking to create a relationship with Avicenna, but we will only engage new suppliers if it is in the

best interest of all parties and in some instances after conducting trials. This is very important for us as we intend to maintain reliability and credibility. The consequence of this is that the programmes we organise tend to have a higher level of participation than other (competitive) providers.

Las Vegas Conference

The choice of the USA for our 2009 overseas conference was influenced in part by a wish to understand how the pharmacy sector operates there and in Canada.



The speakers and delegates at Las Vegas

We had renowned speakers from both countries explaining their respective markets supported by leading speakers from UK outlining some of the opportunities and issues we face at home. The extremely popular and invariably oversubscribed Avicenna overseas conference has

now been held for each of the past 9 years. They provide an excellent networking opportunity and the delegates benefit from the expert industry knowledge.

Press

We have enjoyed extensive press coverage within each and every pharmacy trade publication during the year, and extracts can be viewed on our website, www.avicenna.org. Articles have covered topics such as errors in prescription pricing, out of date stock, our support given to Independents, together with views on both professional and commercial matters. We will continue to express our opinions in a forthright and meaningful way where necessary and when it is in the best interest of our members. The image and the awareness of the Company are now well established and respected within the industry.

Staff

We have invested very heavily in new staff and that investment is beginning to deliver results. Our staff retention level is historically high and so is the level of dedication. We are very fortunate to benefit from our employees' hard work and support and would like to express our sincere thanks for their



Avicenna staff raised money for breast cancer charities

contribution towards our success in the last twelve months. This year also marked the departure from the Board of Shiraz Jiwani, after several years of dedicated service. He has played an important role both in strategic discussions and the planning and execution of our overseas conferences. We wish him well and thank him for his past services.

Future Prospects

Increased competition is a way of life. Our role is not only to meet these challenges head on but to rise above them. We believe we have the policies and management in place to do so.

We have looked at several major acquisition opportunities during the year and will continue to do so. To that end, we have engaged the services of Cattaneo LLP, a specialist corporate financial advisor in the pharmacy sector, to help us continue to work towards increasing shareholder value through acquisitions and investment.

The Board remain confident in the prospects of the Company and look forward to another year of continued progress. The Company has significant cash reserves with no borrowing. For that reason, the Board is confident that the Company is in a strong position to grasp suitable acquisition opportunities where that is in the best interests of the Shareholders.



David Gration
Chairman



Salim Jetha
CEO



The Avicenna Board
L to R:- Raj Haria, Salim Jetha, David Gration, Uma Patel