



We are a

wholesale pharmaceutical  
distributor with sales approaching  
\$10 billion and growing...

*• Focused strategy remaining true to our core business • Advanced proprietary technology • Highly efficient national distribution system • Streamlined overhead and cost efficiencies • Balanced and*

Here's how we do it:

*growing customer base • Potential for further penetration in new and existing markets • Prominent new management talent • Trusted, local relationships combined with national influence*



*"With the implementation of initiatives to further improve productivity, we're ready to meet the new challenges that our customers depend on us to solve."*



**Kurt Hilzinger**  
Chief Operating Officer

*"Our customers depend on us to assure product supply. We partner with a universe of manufacturers to assure supply and serve as a vital link to ultimately yield cost savings."*



**Bonnie Keith**  
Vice President,  
Chief Procurement Officer

# Bringing new discipline to inventory and operations

**AmeriSource SELECT** automatically selects the lowest cost generic product for over 5,000 customers to lower their costs while improving our margins. With \$35 billion in brand medication patents expected to expire within five years, AmeriSource SELECT<sup>®</sup> has implemented strategies to benefit from this opportunity.

## Productivity Measures



## Return on Committed Capital =

(BITA -

- Accounts Receivable
- + Inventory
- + Net Property & Equipment
- Accounts Payable

Consolidating AmeriSource's supply management has been a milestone in the history of the Company. We centralized the functions that make sense to centralize without losing our local touch. In so doing, we redirected attention toward building our other value-added integration programs, and we have transformed the way we conduct business with suppliers, who now enjoy a single point of contact for virtually all business activities, including product planning and program design. Our distribution and supply programs generally operate on a single technology platform, and we have implemented centralized corporate forecast management. As a result, we save in replenishment costs, increase cash flow, and reduce interest expense, while maintaining the right inventory to ensure continuous product supply.

We enhance our relationships within the supply chain by assisting suppliers with forecasting both for product launches and existing products, with getting new product into circulation quickly, with direct marketing information, and with distribution techniques that lend greater efficiency to supplier production and warehousing.

## Change starts when someone sees the next step.

Our customers and suppliers are continuing to change and this creates new opportunities. For AmeriSource, that means we're not only distributors of pharmaceutical products, but also a provider of solutions to both pharmaceutical manufacturers and pharmacists.

Our 24 distribution centers, which operate in a decentralized environment, were designed for current market demands and have the ability to grow. We have a two-pronged strategy to assure optimal distribution productivity: 1. Through the use of automated technologies, inherent efficiencies yield a reduction in operating costs; 2. We empower our regional staff to create solutions for customer needs.

With the disciplined use of capital, we are able to achieve high productivity from our assets. Evidence of this is the consistently high return on committed capital (ROCC) metric embedded Companywide. The key is to have a warehouse with the right scale to efficiently serve its market and customer base. Due to these efforts, our revenue per square foot and per facility continue to increase. Our operations and marketing personnel are empowered to make local decisions to enhance the speed and quality of service to our customers.

Centralizing administrative functions such as data processing, accounting, and procurement, contributes to maintaining a low-cost operating structure. In conjunction with the elimination of redundant field operations, the consolidation of the Chattanooga distribution center, and the closing of six data processing centers, we reduced selling and administrative expenses as a percentage of operating revenue to a new record low of less than 3.00% in fiscal 1999.

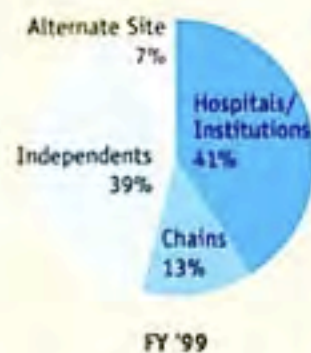
Important to our future growth was the acquisition of C. D. Smith Healthcare, Inc. (C.D. Smith). This company, a regional wholesale pharmaceutical distributor with approximately \$800 million in annual revenue, has met or exceeded our expectations in both revenue and operating income. We moved aggressively to introduce AmeriSource's value-added programs to its customer base and the results to date have been excellent. These programs in combination with the strength of the C. D. Smith management team and sales force have yielded strong internal growth objectives for fiscal 2000 and beyond.

# Sales, marketing, business-services units providing value-added services

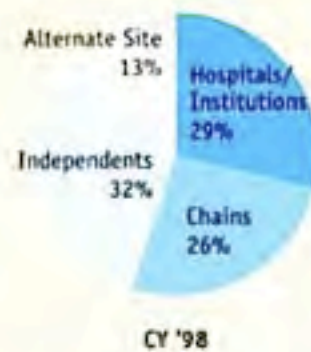


*American Health Packaging employs cutting-edge technology to provide a comprehensive line of custom-packaging solutions for pharmaceuticals and related products. American Health Packaging technology prepares custom contract packaging for multiple applications including automated dispensing, blister packaging, unit-of-use bottles, and punchcards. As another AmeriSource value-added service, this program improves productivity, control, and profitability for its customers.*

**AmeriSource**



**Industry**



*AmeriSource's customer portfolio provides an opportunity to offer value-added services.*

AmeriSource's customer base is well balanced between the institutional and retail markets. We believe that the larger concentration of institutional care and independent pharmacy business in our revenue mix is clear evidence that we provide the best-in-class service demanded by these markets. Institutional pharmacies serviced under the national Novation contract scored AmeriSource programs and services superior to our national competitors. This and other independent affirmations of our service help build customer trust and confidence in our ability to provide solutions to meet the needs of their changing world. Our momentum continues.

Our decentralized sales organization places us closer to the customer and gives us a strong competitive advantage. This past year, we realigned our sales organization to assure that this award-winning group will give us further penetration into New England and the Western states, as well as other key geographic areas.

AmeriSource's "high touch, high service" is what makes us different and is the key to our success. Last January, we were awarded the nation's largest pharmaceutical contract, for the Department of Veterans Affairs, a contract valued at approximately \$10 billion over the course of its five-year term. The VA has the most extensive drug dispensing system in the world, including seven mail order operations.

We are increasing our share of business from some of the nation's largest retail and institutional group purchasing organizations such as Premier, Novation, and Physicians Pharmacy Services Corporation.

Nearly 40% of our operating revenue is derived from the independent pharmacy market—a market with annual same store Rx sales growing at 13% annually—in line with the retail chain pharmacy market. Our Family Pharmacy® program offers this segment access to a full array of marketing tools, Internet sales development, private label product, and real-time supply information. In addition to their prescription and over-the-counter needs, we offer independent pharmacies clinical information systems to support their practice, and we assist with advertising and marketing promotions, store identification, and promotional pricing.

Rounding out our opportunity for accelerated growth is the alternate site market. Long-term and transitional care, home health services, and large group practices may soon make this sector the fastest growing segment of the drug and healthcare market. This market opportunity dovetails perfectly with AmeriSource's value-added programs, such as American Health Packaging and Health Services Plus. Our packaging operation repackages pharmaceuticals into unit-of-use, blister pack, and unit-dose forms. Health Services Plus™ specializes in delivering oncology, injectable, and blood products to this niche market. We believe that our approach is industry-unique and we are ready to gain profitable market share in this growing field.



*"We want to remain the finest service provider by being the solutions provider of choice."*



**Tom Connolly**  
Vice President,  
Sales & Marketing

# Technology that becomes a new model for efficiency

## **At AmeriSource**

*we've long been providing business-to-business service before it became the trend. Electronic B-2-B is more than HTML and an e-mail address. It's also managing inventory, shipping the product, and handling customer service.*

Technology is the foundation for business efficiency and AmeriSource's knowledge base is an important asset. Much of what we learn comes from getting close to our customers and working harder to understand their needs. Technology is a link that connects the AmeriSource associate to the customer. It touches every aspect of our business—from customer service to order fulfillment to inventory management. We help our customers integrate technology by knowing how they work and seeing their information challenges for today and tomorrow.

Today, timeliness of decision support information is more critical than ever before and our "customer-centric" thinking is embedded in every decision that we make. In order to facilitate their success, we made the decision to streamline and centralize our information technology systems to better meet the future information demands of our customers and to improve our efficiency levels.

Through December 1999, we closed six data processing centers, converted 18 distribution facilities to a single technology platform and further advanced ECHO<sup>®</sup>, our automated ordering system. We performed these conversions, upgrades, and hardware changes without interrupting our day-to-day operations. In fact, we did so while growing the business.

Our technology platform puts the best information in the hands of employees who make the daily decisions. Accessible information helps us in ordering product from manufacturers, managing inventory, and offering our customers tools to increase their business profitability.

We also believe that the "click and brick" direction of business—the ability to reach out and touch customers both in and out of cyberspace—will be an essential element of retail pharmacy success.

To facilitate this coming trend, AmeriSource is bringing the efficiencies common in Internet enterprises to its network of more than 2,500 pharmacies that have formally signed on to the Family Pharmacy<sup>®</sup> program. We are focused not just on developing these initiatives but speeding their integration.

In this and many other ways, technology is at the forefront of our value-added programs. Global communications have revolutionized the way business-to-business information is channeled, enabling pharmacists, for instance, to leverage the power of information with their customers. As another example, ECHO<sup>®</sup>, AmeriSource's proprietary software, has helped us build our lead in the institutional market by aiding pharmacies in inventory management. In addition, our Family Pharmacy<sup>®</sup> website combines the convenience of the Internet with our services for independent pharmacists. Technology is opening new opportunities for AmeriSource and its customers.

*ECHO<sup>®</sup>, AmeriSource's proprietary ordering system, was developed in-house. ECHO<sup>®</sup> provides flexible order entry, communications, inventory management tools, pharmaceutical contract compliance tools, and timely price information.*

## AmeriSource at-a-glance *continued*

### *Products and Services*



**American Health Packaging™**  
*Product Packaging:* State-of-the-science facility can package oral solid medications for nearly any need in virtually all settings of patient care. Gives efficiency edge to pharmacists.



**The Diabetes Shoppe™**  
*Diabetes Management Services:* Proven diabetes business development program that includes education, product training, and marketing. Pharmacy becomes support source for this large patient group.



**Income Pax®**  
*Your Pharmacy's Source for Powerful Promotions:* Profitable promotions through special pricings negotiated with manufacturers. Monthly offerings for new or hot-selling items with optimal bottom-line profitability.



**PrimeNet®**  
*Purchasing Program:* Wholesaler-affiliated, group purchasing organization for hospitals and contract-eligible pharmacies. Provides secondary source to complement primary contract.



**MedAssess™**  
*MedAssess Pharmacy's Patient Care Resource:* Complete programs and services for generating care-based revenues and patient-focused offerings. Includes MedAssess software for managing the patient-care process.



**Partner-Pak®**  
*Comprehensive Promotional Catalog:* Quarterly program for special pricing, promotions, and programs. Easiest way to take advantage of manufacturer's offers. Stock-check order guide.



**Income RX®**  
*Multi-Source Generic Drug Program:* Complete line of generic drugs from the industry's most reputable manufacturers, at competitive prices. Quality generics that pharmacies can dispense with confidence.



**AmeriSource Performance Network™**  
*Community Pharmacy Network:* Links community pharmacies together like a major chain for third-party payors and pharmaceutical manufacturers. Helps community pharmacists participate in managed care.



**Rita Ann**  
*Cosmetics and Fragrances:* Full-line of mass market and prestige fragrances, cosmetics, cosmetic accessories, sundries and hosiery from 275 manufacturers. Support for store displays and promotion.



**AmeriSource SELECT®**  
*Where Auto-Substitution Brings Buying Power:* For pharmacy generic-drug orders AmeriSource SELECT® can automatically send the lowest-cost preferred product. Brings buying power that results in price reductions.



**ECHO®**  
*Economic Computerized Healthcare Ordering:* Advanced, interactive, PC-based order-entry, inventory-management program. Gives fast confirmation, availability, tracking; lowers operating costs; maximizes inventory turns.



**AmeriSource Call Center**  
*Marketing Support:* Free information service that keeps customers abreast of product news from manufacturers and AmeriSource. Well-trained telemarketing team at Call Center builds sales and profits.



**Health Services Plus™**  
*Pharmaceutical and Medical Supply Purchasing Source:* Meets the needs of physicians offices, clinics, and oncology centers for pharmaceutical and related medical products. Specially negotiated manufacturer pricing.



**ECHO Plus®**  
*Consolidated Data Access Simplified:* Benefits of ECHO® for multi-site customers. Powerful analytic tools for the diverse healthcare provider. Rolling usage data and extensive report-writing features.



**WYN-WYN**  
*What You Need—When You Need It:* Analysis of pharmacy sales records to match retailer with new products and target-marketing techniques. Auto-ships products that correspond to store demographics.



**Total Home Health Care®**  
*AmeriSource Home Health Care:* Next-day shipment and support for more than 4,000 quality homecare products, from wheel chairs to IV sets, from arthritic aids to supplies for wound management.



**Family Pharmacy®**  
*The Power to Market like the Chains, and Profit like the Chains:* Group purchasing, advertising, and operations for independents. Access to major third-party contracts. Enhances brand identity and profitability of community retailers.