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Sigma Pharmaceuticals Limited

Results Presentation for the Half Year ended 31 July 2012

Mark Hooper – CEO & Managing Director
Jeff Sells – Chief Financial Officer
Gary Dunne – Chief Operating Officer

13 September 2012

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Overview

• Overview	– Mark Hooper
• Financial summary	– Jeff Sells
• Operations update	– Gary Dunne
• Closing remarks	– Mark Hooper

Overview

Presented by Mark Hooper
CEO & Managing Director
Sigma Pharmaceuticals Limited

Consolidating Sigma's progress

- Revenue increased and profitability maintained during a period of significant PBS reform and reinvestment in the business
- Improved ROIC and cash flow position
- Increased fully franked interim dividend of 2.0 cents
- On-market share buy-back of up to 10%
- Well placed to pursue growth options in 2013

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Results overview

- Sales revenue up 3.5% despite PBS reform
- Margin impact of PBS reform offset by adjustments to trading terms and Service Level Initiatives (SLIs)
- Cost base higher due to increased Logistics expenditure and reinvestment to support key strategy objectives
- EBIT of $35 million versus $34 million (pcp excluding one-off gains)
- Reported NPAT for Continuing Operations of $26.1 million versus $27.9 million (pcp)
- Net cash of $126 million compared to $114 million in January 2012
- 12-month rolling ROIC – 12.4% versus 9.3%

Capital Management

Dividends

- 2.0 cent fully franked interim dividend declared (pcp 1.5 cents)
- High payout ratio of 90% continues to reward shareholders for improved performance
- Ongoing cash flow position should support strong dividend payout ratio for the near term
- Franking credit position may allow other initiatives to be considered in the future

On-market buy-back

- On-market buy-back of up to 10% of issued share capital announced
- Conservative gearing position and strong operating cash flow can fund ongoing business and growth initiatives

Financial Summary

Presented by Jeff Sells
Chief Financial Officer
Sigma Pharmaceuticals Limited

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H1 2013 income statement

$m	H1 2013	H1 2012	Variance
Sales revenues	1,419.8	1,372.3	47.5
Gross Profit	103.4	102.9	0.5
Other revenue	18.8	17.1	1.7
Operating costs	(87.1)	(82.7)	(4.4)
Other	0.0	0.7	(0.7)
EBIT	**35.1**	**38.0**	**(2.9)**
Financial income	1.3	2.0	(0.7)
Tax expense	(10.3)	(12.1)	1.8
NPAT – Continuing Ops	**26.1**	**27.9**	**(1.8)**

- **Revenue headline**
  - Grew by 3.5%, despite PBS price reform
  - Like for like growth of 6.4% adjusted for PBS reform
  - Sales growth from market share gains
- **Gross Profit**
  - H1 2012 had one-off $4.0m net inventory gain
  - Adjusted H1 2012 GP% is 7.2% vs 7.3% this year
  - Reflects adjusted discounts for PBS reform
- **Costs**
  - Warehouse & Delivery higher
  - Savings made with lower doubtful debts, Legal, IT and back office
  - Higher Admin reflects business reinvestment
- **EBIT**
  - Slightly ahead of last year after adjusting for one-off $4.0m net inventory gain
- **Interest**
  - Lower due to high cash holding LY pre 15 cent special dividend

Operating costs – Warehouse & Delivery

- $3.9 million or 8.7% increase on the previous half year
  - units picked has increased by 6% due to market share gain
  - $1.3 million annualised investment in supervisors made during the half year to improve service delivery and grow market share
  - Victorian industrial dispute, directly increased labour and freight by approximately $1.0 million
  - other freight between sites to support Victoria, and April 1 volumes increased costs by a further $1.0 million

- Focus going forward will be:
  - re-engineer operating process to gain efficiencies
  - implement changes to transport and freight to tender and consolidate
  - continue to invest to grow market share

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Other operating costs

Savings achieved

- Legal & professional fees
- IT operational costs
- Bank & Doubtful Debt expense
- Inventory write-offs
- Customer Service & back office admin
- Further improvements to IT, Admin and service contractors currently being pursued

Impact approximately $3.5-$4.0 million in H1 2013

One-off operational costs

- Project and program management to support strategy execution
- Data cleansing and data infrastructure

This expenditure should reduce after FY 2013 approximately $2.0-$2.5 million per annum

Ongoing investment

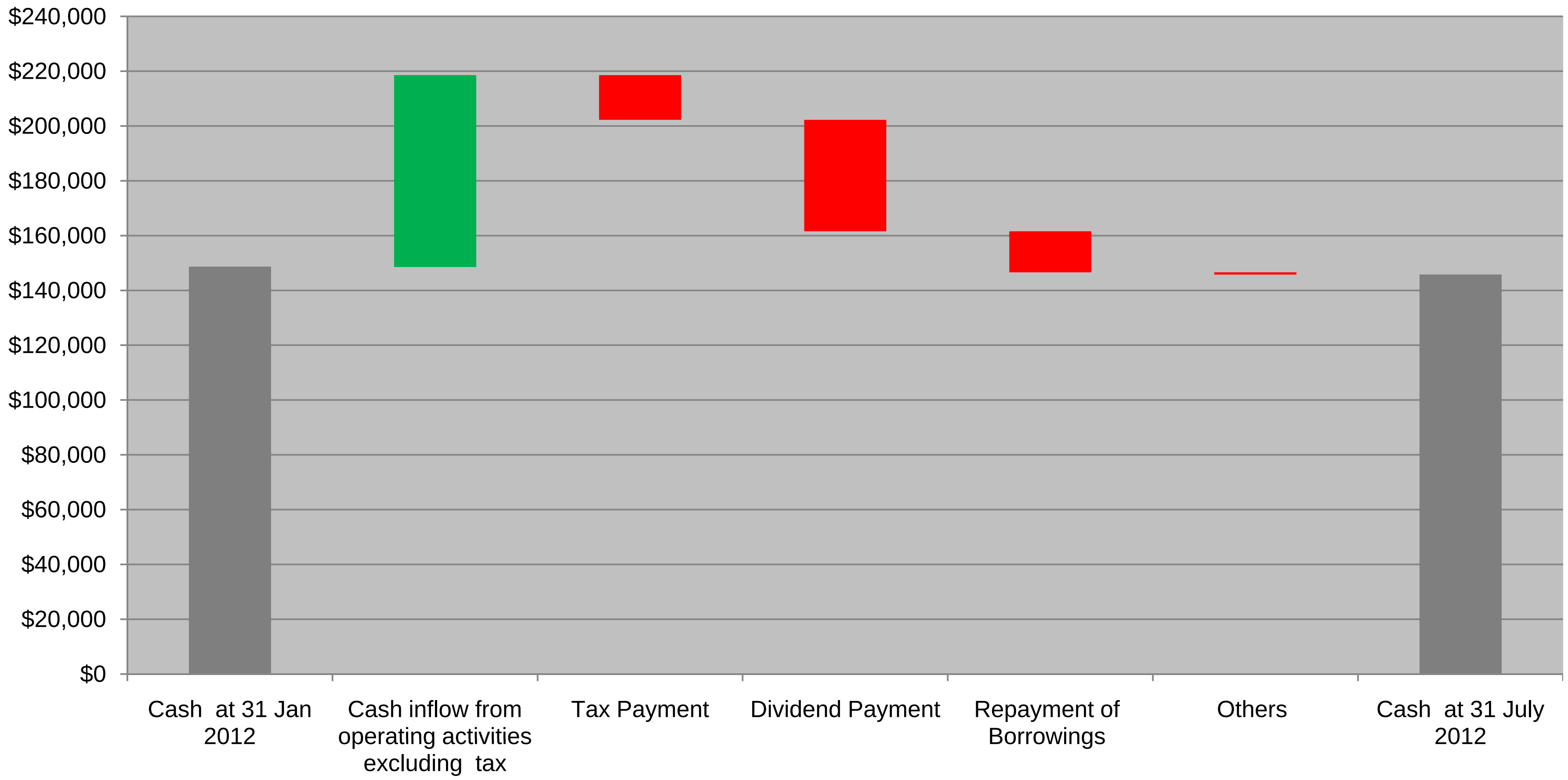
- Broadening executive management team
- Increased headcount in integrated category management and retail
- Increased Private Label product development
- Establishment of multi-channel team

Impact approximately $4.0-$4.5 million per annum

Benefits of investments in operational capability to be realised in future years

Cash flow waterfall

Pre tax operating cash flow $70.0 million vs EBITDA $37.9 million



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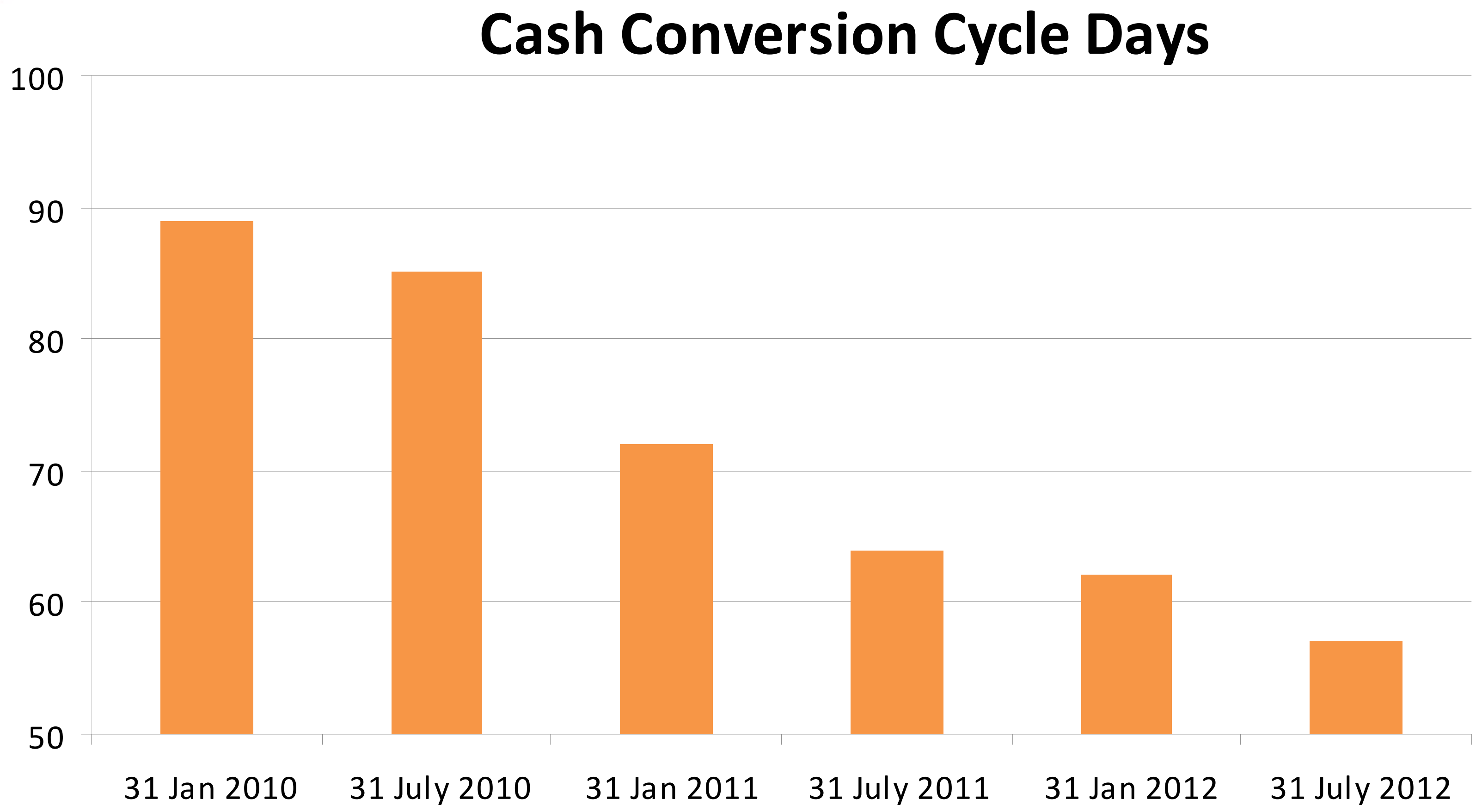
Further working capital gains

Working Capital $m	As at 31 Jan 2011	As at 31 Jul 2011	As at 31 Jan 2012	As at 31 Jul 2012
Trade Receivables	641	581	593	581
Inventories	225	275	214	224
Trade Creditors	251	334	312	345
Total Working Capital	615	522	495	460
Days Sales Outstanding	75	71	76	73
Days Inventory Outstanding	30	38	29	31
Days Payable Outstanding	33	45	43	47
Cash conversion cycle days	**72**	**64**	**62**	**57**

- Seasonal improvement in DSO as expected
- Sales up but receivables down (2012 vs 2011)
- Refining mix of DIO/DPO and customer service level for customers an ongoing focus

Continued improvement in cash flow conversion



2010 includes Pharma division working capital

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Operations update

Presented by Gary Dunne
Chief Operating Officer
Sigma Pharmaceuticals Limited

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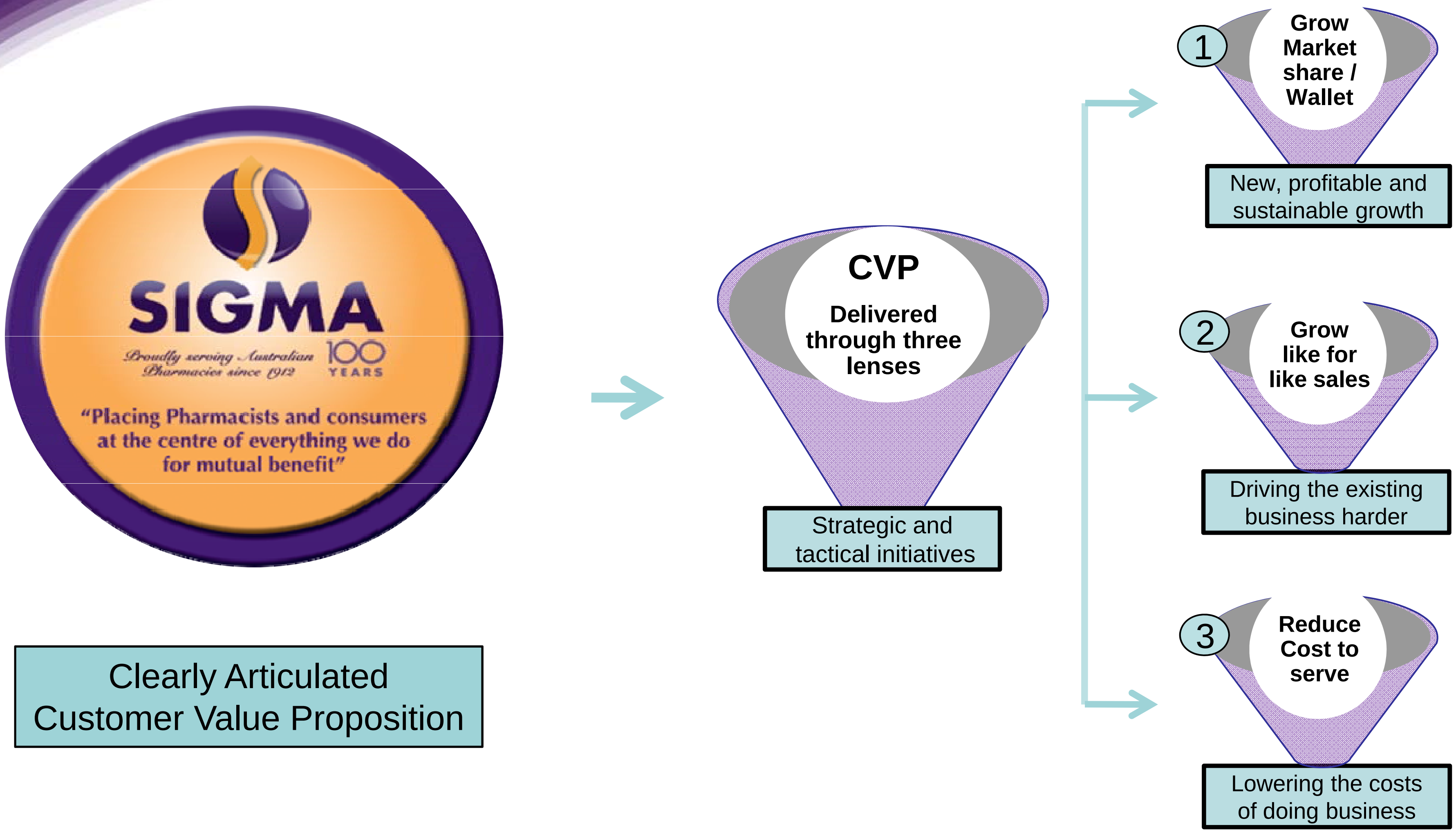
Strategic roadmap for Wholesale & Retail

- New Customer Value Proposition as the cornerstone
  - stronger retail and wholesale customer focus
  - product and services led change
- Underpinned by improved strategic relationships with all partners
- Funded by a significant investment in systems, process and people
- Assist Pharmacists to manage change with a reliable partner

Strategic and Transformational change



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Grow Market share / Wallet

Grow like for like sales

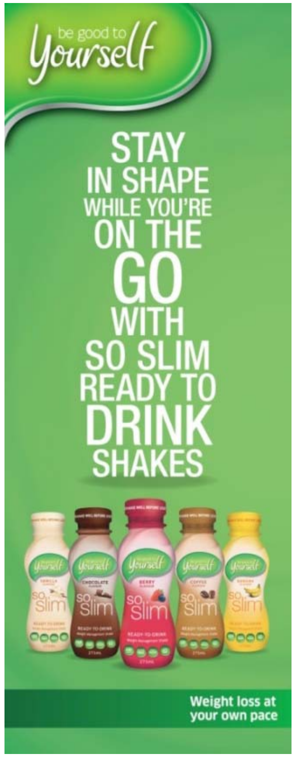
Growing Wholesale and Retail sales

Guardian PHARMACY
Advice. Trust. Care.

Amcal
Expert advice for every Australian.

Amcal Max
Expert advice for every Australian.

Pharmacy Advance
A Retail Program for Independent Pharmacies



Wholesale

- Moving from a transactional or financial relationship to partnership
- Build a resource centre that wholesale customers can leverage. Additional headcount with Global expertise

Retail

- Sigma has a strong base to work from
  - Amcal still Australia's most recognised brand
  - Amcal Max has grown by 12 stores over past 12 months
  - 42% increase in 3 &5 year agreements
  - Guardian – winner of the 2012 CANSTAR awards for service
- Further opportunities to grow Sigma's brand presence
  - build formats that consumers want
  - clustered solutions to embrace localisation ($1.0m investment in Space planning)
  - re-launch Pharmacy Advance
  - launched new marketing campaigns July 2012

Grow Market share / Wallet

Grow like for like sales

Data drives loyalty and new formats

Amcal & Amcal Max stores

Guardian stores

Loyalty

- A key growth driver for retail and wholesale customers. Leverage existing base
  - Amcal – 2 million Loyalty customers
  - Guardian – 500k Loyalty customers
- Share data with suppliers to drive product and service solutions and category growth
- Improved campaign management and reward value – completed July 2012

New Formats

- Sigma has gathered key learnings across the UK, US, South Africa and China
- Pharmacists and consumers at the centre, Destination, Weekly, Express
- Clustered and localised solutions for product and service differentiation
- Currently in discussion with pilot partners

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Grow Market share / Wallet

Reduce cost to serve

Multi-channel vertically integrates

Guardian PHARMACY Advice. Trust. Care.

Amcal Expert advice for every Australian.

Amcal Max Expert advice for every Australian.

Pharmacy Advance A Retail Program for Independent Pharmacies

Multi-channel, social media

- Vertically integrate into all areas of the business for product and services
- New General Manager and support team in place
- $1.9m capex approved over 2 years. Phase 1 commences Q1 2013
- Reach new demographics and drive awareness through social media
- Social media strategy in place / all pharmacies will have Facebook and Twitter accounts by early 2013

Distribution and Freight

- Changes to optimise current infrastructure to provide a more predictable service to retail and wholesale customers commenced
- Re-engineer current facilities to create one supply chain with suppliers – shared benefits
- Reduce operating costs through process change
- Initiated freight tendering process

Closing

Presented by Mark Hooper
CEO & Managing Director
Sigma Pharmaceuticals Limited

Industry outlook

- Retail pharmacy facing challenges but opportunities to address via
  - greater focus on clinical areas (meds check, clinical interventions etc)
  - improved Retail performance
- PBS growth outlook still flat
  - PBS growth for the year to June 2012 has been subdued
  - April and one-off December reforms to further slow growth in next twelve months
  - ageing population will still drive growth
- Further exclusive distribution arrangements less likely but still possible

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Outlook for Sigma

- Trading conditions for the second half likely to be similar to first half
- Well placed for growth in 2013
  - grow market share / wallet
  - retail initiatives (including Amcal, Guardian and Pharmacy Advance)
  - reduced operating costs
- Opportunities remain to further improve working capital / ROIC
- Ongoing cash flow position should support strong dividend payout ratio for the near term

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Questions ?

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Appendices

Appendix 1

ROIC performance

$m	As at 31 Jan 2011	As at 31 July 2011	As at 31 Jan 2012	As at 31 Jul 2012
Net assets	832.9	676.8	682.5	669.0
Less: cash and cash equivalent	(556.9)	(135.8)	(148.6)	(145.8)
Add: borrowings *	354.8	47.2	35.0	20.0
Capital employed	630.8	588.2	568.9	543.2
Rolling 12-month EBIT	46.7	54.5	70.3	67.3
ROIC	**7.3%**	**9.3%**	**12.4%**	**12.4%**

* excludes Gateway liability