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Sigma Pharmaceuticals Limited

Results Presentation for the Full Year ended 31 January 2014

Mark Hooper – CEO & Managing Director

Jeff Sells – Chief Financial Officer

27 March 2014

Australia's Partner of Choice for Health, Beauty and Wellbeing

Important notice

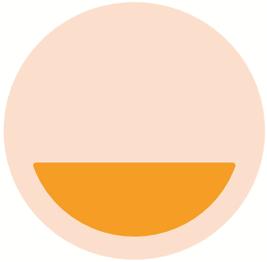


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This presentation also contains certain non-IFRS measures that Sigma believe are relevant and appropriate for the understanding of the financial results. Refer slide 9 and Appendix 1 for further information.

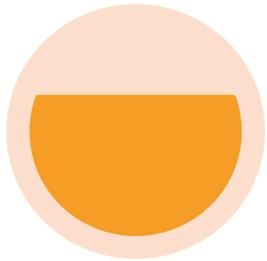
Today's presentation

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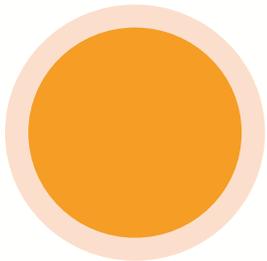
Overview

Mark Hooper



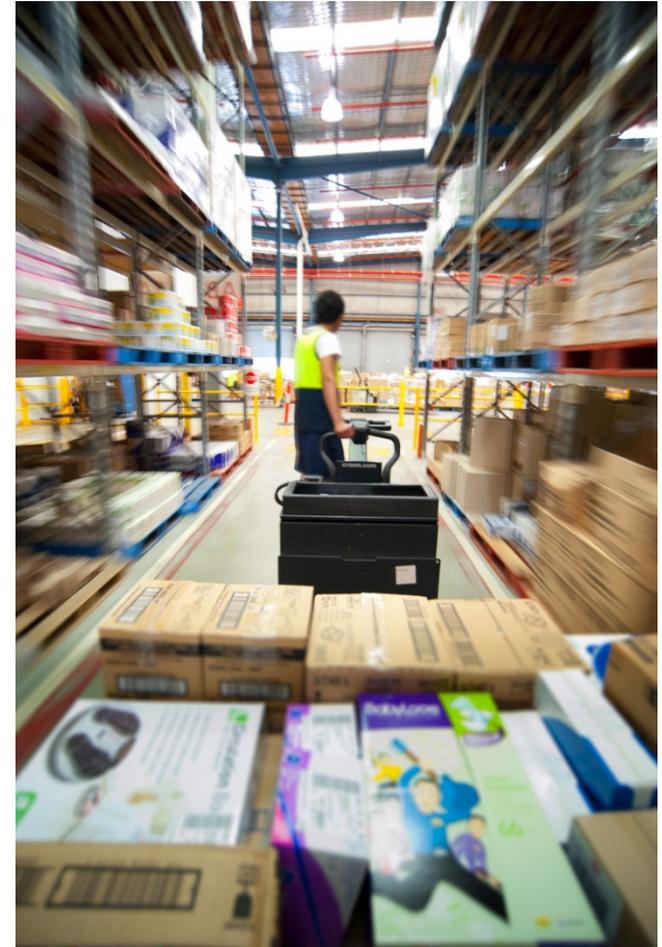
Financial summary

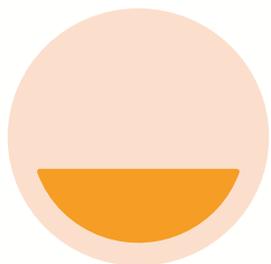
Jeff Sells



Business update

Mark Hooper





Overview

Mark Hooper

Chief Executive Officer & Managing Director

Sigma Pharmaceuticals Limited



Our 2013/14 results overview

Sales volume up 3.3%
Revenue up 1.1% to \$2.97bn

Reported EBIT \$70.3m (\$23.1m pcp)
Underlying EBIT \$71.2m (\$71.1m pcp)

Reported NPAT \$53.5m (\$18.7m pcp)
Underlying NPAT down 2.2% to \$51.1m

Net cash of \$67.5m
with no debt at year end

Underlying ROIC record high of 14.6%
(13.5% pcp)

Final dividend 2.0 cents per share
fully franked (2.0 cents per share pcp)



Professional Services boards in all Amcal and Guardian stores



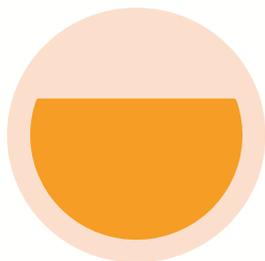
Boots Laboratories Serum7 exclusive to Amcal and Guardian

Sigma acquires CHS



- Sigma has agreed to purchase CHS for \$24.5 million with potential for a further earn-out payment in June 2015
- CHS is earnings accretive from year 1
- Current annual sales revenue of over \$200 million
- Provides Sigma with an opportunity to diversify its service offering as well as provide additional flexibility to support Sigma's existing operations
- Day to day operations will remain completely separate, with existing management team retained



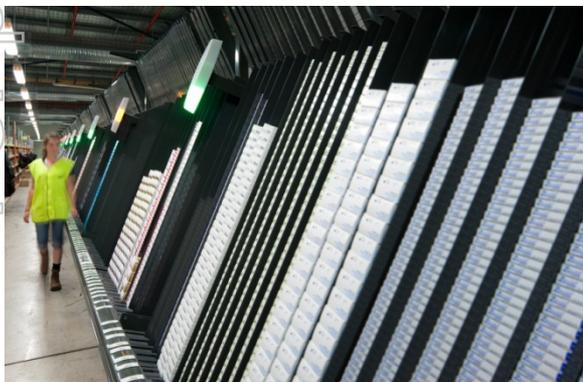


Financial summary

Jeff Sells

Chief Financial Officer

Sigma Pharmaceuticals Limited



Full year 2014 income statement



only

\$m	FY 2014	FY 2013	Variance	% Change
Sales revenue	2,973.5	2,942.4	31.1	↑ 1.1%
Gross Profit	216.9	208.4	8.5	↑ 4.1%
Other revenue	51.7	38.8	12.9	↑ 33.3%
Operating costs	-188.3	-169.2	-19.1	↓ 11.3%
Other	-6.3	-6.9	0.6	↑ 8.7%
EBIT excluding litigation	74.0	71.1	2.9	↑ 4.1%
Net litigation settlement	-3.7	-48.0	44.3	
Net financial income	-2.0	1.8	-3.8	↓ 211.1%
Tax expense	-14.8	-6.2	-8.6	↓ 138.7%
NPAT	53.5	18.7	34.8	↑ 186.1%
Underlying NPAT	51.1	52.3	-1.2	↓ 2.2%

Revenue

- Sales revenue up by 1.1%, despite PBS price disclosure reform (volume grew by 3.3%)
- Like for like growth would have been 4.1%

Gross Profit & Other Revenue

- Gross margin up to 7.3% from 7.1%
- Continued wind back of customer discounts
- Other Revenue includes Clayton sale profit
- Improved Merchandise & Marketing income

Operating Costs

- Warehouse & Delivery efficiency gains offset higher volumes/wages
- Higher marketing / product development costs helped improve other income
- Harrison's provision \$7.4m included in Sales & Marketing expense

Litigation Settlement Costs

- Vifor legal claim finalised July 2013
- Prior year reflects settlement of shareholder class action

Interest & Tax Expense

- Zero debt at 31 Jan 2014
- Net interest expense due to lower average net cash
- Capital Losses utilised on Clayton property sale reduces effective tax rate

Reconciliation from Reported to Underlying Earnings

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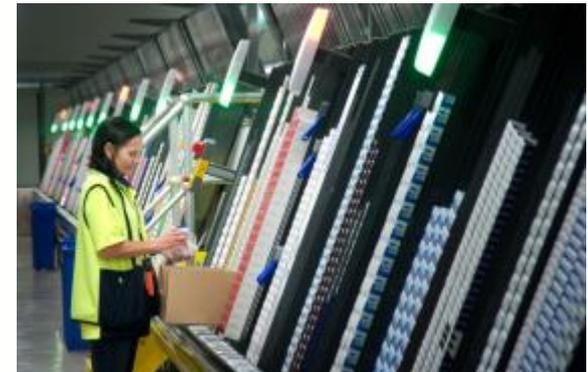
\$m	FY2014	FY2013
EBIT as per Financials	70.3	23.1
Add back: Net litigation settlement expense	3.7	48.0
Add back: Acquisition expenses	0.7	-
Add back: Harrisons provision for doubtful debts	7.4	-
Less: Profit on sale of Clayton land and building	(10.9)	-
Underlying EBIT	71.2	71.1

\$m	FY2014	FY2013
NPAT as per Financials	53.5	18.7
Add back: Net litigation settlement expense ¹	2.6	33.6
Add back: Acquisition expenses	0.7	-
Add back: Harrisons provision for doubtful debts ¹	5.2	-
Less: Profit on sale of Clayton land and building	(10.9)	-
Underlying NPAT	51.1	52.3

¹ Post Tax

Operating costs – Warehouse & Delivery efficiency gains

- Flat expense at \$102.3 million compared to \$101.9 million in the prior year
 - volumes compared to the prior year grew by 3.3%
 - wage increases from EBA negotiations and utility prices fully absorbed
 - productivity gains offset cost pressures (3% improvement in per unit cost performance)
 - savings were also achieved from tendering freight contracts and other third party suppliers
- Further efficiency gains will be made in the coming year
- Beyond this, investment in infrastructure is planned to offset higher volumes and cost increases
- The Brisbane Distribution Centre business case currently being finalised
- The land for a proposed new Brisbane site has been secured via call option



Operating costs – re-investment to grow income



Sales & Marketing

- Cost increases relate to additional resources added to Category Management offset in income, Multi Channel, Private Label product development and launches
- Increased capability in these areas added to Merchandise & Marketing income
- \$8.1 million doubtful debt provision, of which \$7.4 million relates to the Harrisons Group
- Costs will reduce in coming year due to expected lower doubtful debts and non-recurrence of some project-related costs

Administration

- Primarily driven by higher IT services and hosting charges, some higher legal costs
- Partially offset by lower people costs and IT leasing costs
- Current cost level indicative of future base

Record cash collection

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Working Capital \$m	As at 31 Jan 2011	As at 31 Jan 2012	As at 31 Jan 2013	As at 31 Jan 2014
Trade Receivables	641	593	557	522
Inventories	225	214	255	222
Trade Creditors	-251	-312	-376	-327
Total Working Capital	615	495	436	417
Days Sales Outstanding	75	76	69	64
Days Inventory Outstanding	30	29	35	30
Days Payable Outstanding	33	43	51	44
Cash conversion cycle days	72	62	53	50

Continued improvement in working capital – \$200m improvement in last 3 years

Record low cash conversion cycle primarily driven by DSO improvement

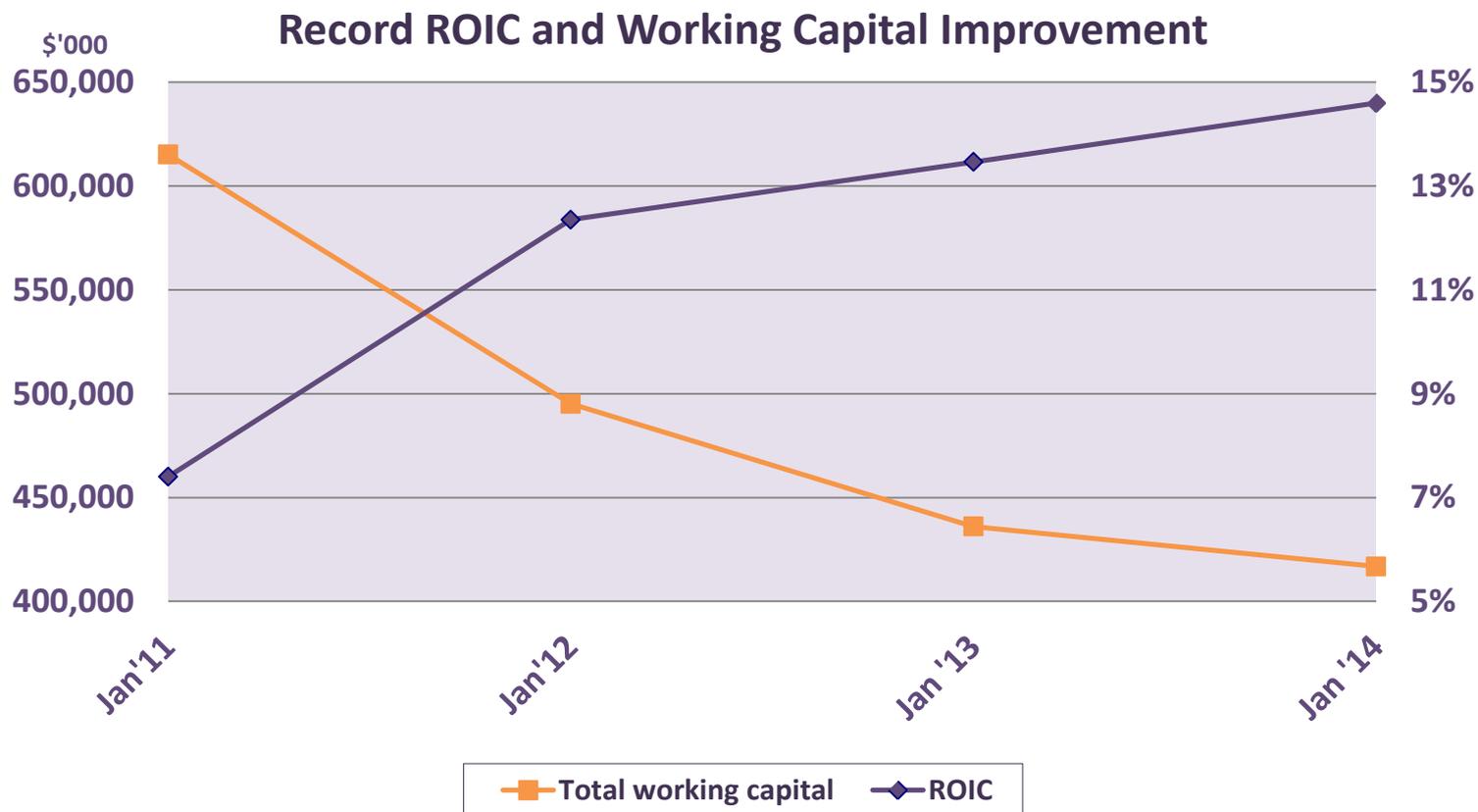
Inventory/Payables cycle tightened, and acceptable spread maintained

Still targeting further improvement in the coming year

Underlying ROIC now approaching 15%



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Notes re ROIC calculation:

- ¹ January 2011 EBIT is calculated on an underlying basis for the continuing business
- ² January 2013 EBIT excludes net litigation settlement expense
- ³ January 2014 EBIT excludes net litigation settlement expense and acquisition expenses (refer Appendix 2)

Capital management update



Dividends

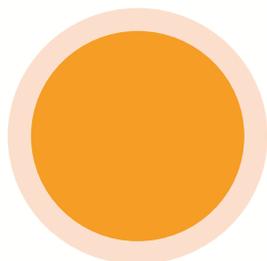
- Final 2.0 cents per share fully franked (pcp 2.0 cents)
- Total fully franked dividends in last three years – 28 cents
- Franking credit balance exhausted for remainder of 2014
- Interim franked dividend therefore unlikely in second half
- Normal semi-annual fully franked dividends to return in 2015

Share Buy-back

- Capital management options including on-market share buy-back continue to be reviewed
- 66.4 million shares (5.6% of issued capital) purchased at a total cost of \$47.1 million through the program to date

Capex

- Investment in Distribution Centre (DC) infrastructure required
- Business case for Brisbane currently being finalised
- Sydney DC in early planning stages
- Investments of \$10-\$15 million this year and further investments for the next three years



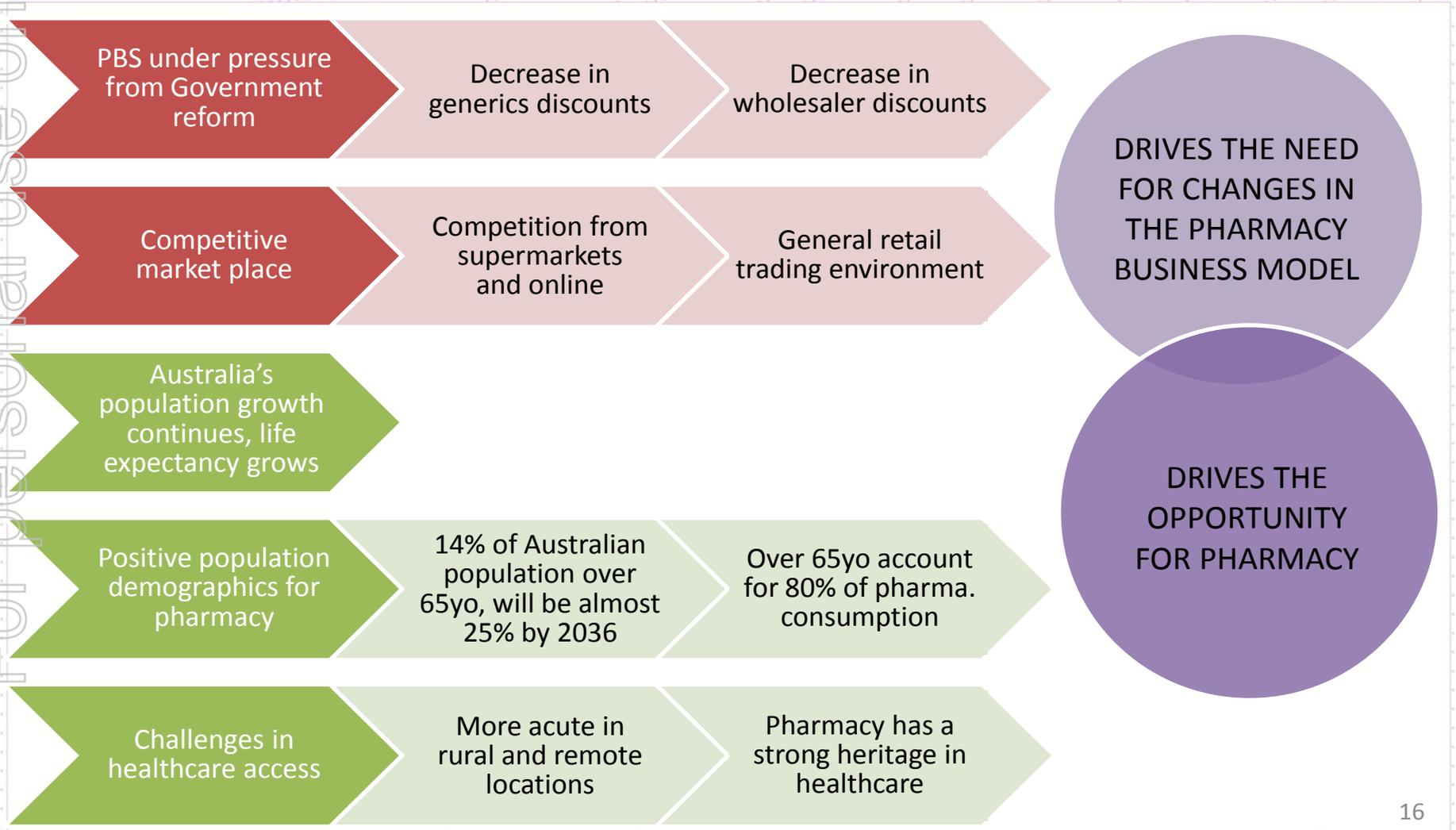
Business update

Mark Hooper
Chief Executive Officer & Managing Director
Sigma Pharmaceuticals Limited



The pharmacy industry landscape

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Consistent themes are emerging

“The generics windfall profit window is closing, and relying on generics as a single profit maintenance strategy will not be sustainable. Pharmacies need to invest and restructure, moving away from transacting and reacting to a ‘customer-centric model’ that focuses on customer experience and skilled and specialist staff as differentiators to the volume-driven approach of discounters.”

Source:

Pharmacy

A challenging and changing outlook

KordaMentha report

February 2014

Making Sigma a “partner of choice”



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Implemented improved **Operational Capabilities**

- Retail offer, supply chain and service delivery



Launched structured **Professional Services** program



Extended **Private and Exclusive Label** product range



Multi Channel launched

Sigma launches Professional Services platform



- Sigma is taking a leadership position in a “structured Professional Services” program
- We see pharmacy as the “***Third Pillar of Primary Healthcare***”
- Professional Services is a key enabler in changing the pharmacy model
- Builds a halo around the brands by providing differentiated services delivered in a high quality environment
- Developed by Pharmacists for Pharmacists
- Structured program overseen by a Clinical Advisory Committee



Sigma Professional Services



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Vision

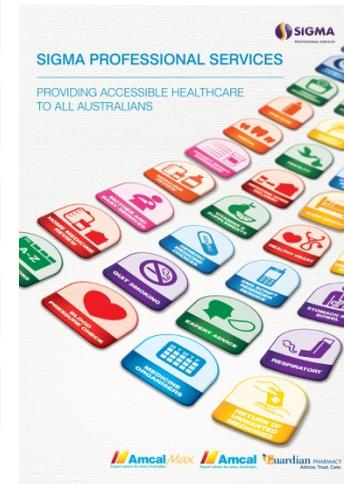
Accessible healthcare for all Australians

Objective

To be the leading provider of pharmacy-led healthcare solutions for all Australians through the largest pharmacy-led network

Rationale

Sigma will differentiate its brands - Amcal and Guardian by providing accessible healthcare in the pharmacy market



Amcal Services

Our pharmacy team is committed to providing these services to you everyday



Ask if these additional services are available today



www.amcal.com.au

Core Services – across all stores



Private and Exclusive Label product range



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Providing a point of differentiation with products exclusive to Amcal and Guardian

Launched 100 Private Label and Exclusive brands to Amcal and Guardian in the last 12 months; 200 in the pipeline

Global sourcing agreements established



colour
THEORY®



Industry leading Multi Channel offer



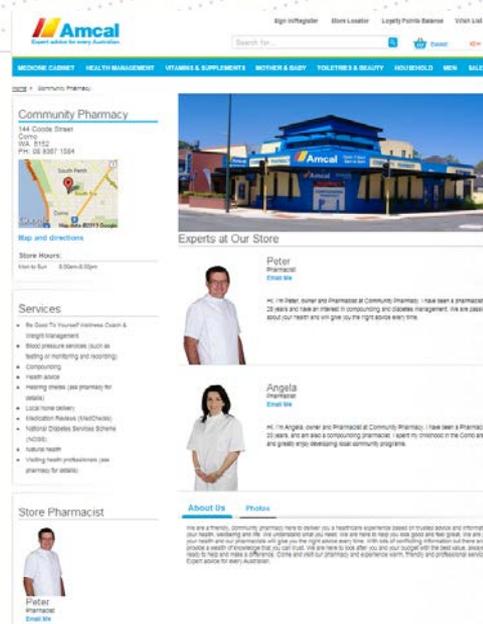
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New Amcal & Guardian sites

- Launched July 2013
- Pharmacy membership growing
- Early signs positive
- Store specific web and Facebook pages for every pharmacy

Still to come – second half 2014

- Order scripts online
- Centralised warehouse
- Click 'n' Collect



	In-store	Multi Channel
Average order value	\$24	\$60
Average order value (incl Boots promotional)	\$60	\$99
Items per basket	2.0 items	6.0 items
Average order value with free shipping	\$24	\$103

Closing remarks



- **CHS acquisition**
 - improves market share
 - earnings accretive from year 1
- **Sigma revenue growth**
 - to continue above market
 - PBS growth expected to be flat to slightly negative
- **Delivering benefits from**
 - investment in operational capability
 - structured Professional Services
 - expanded PEL offer
 - Multi Channel platform
- **Strong cash position** supports ongoing capital management, our ability to pay future dividends as well as funding investment opportunities

Questions?

Appendices

Appendix 1

Non IFRS measures

- **ASIC Regulatory Guide 230 Disclosing non-IFRS information**

In December 2011, ASIC issued Regulatory Guide 230. To comply with this Guide, Sigma Pharmaceuticals Limited is required to make a clear statement about the non-IFRS information included in the market announcement and Full Year presentation for the period ending 31 January 2014.

The following non-IFRS measures are used by management and directors to assess the underlying performance of the Group

- Underlying Earnings before interest and tax (EBIT)
- Underlying Net profit after tax (NPAT)
- Underlying Return on invested capital (ROIC)

The directors consider that these performance measures are appropriate for their purposes and present meaningful information on the underlying drivers of the business after considering the impact of Net litigation settlement expense, and other significant items.

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Appendix 2

ROIC performance

\$m	As at 31 Jan 2011	As at 31 Jan 2012	As at 31 Jan 2013	As at 31 Jan 2014
Net assets	832.9	682.5	610.8	578.8
Less: Cash and cash equivalents	(556.9)	(148.6)	(112.7)	(67.5)
Add: Interest bearing liabilities ¹	354.8	35.0	30.0	-
Capital employed	630.8	568.9	528.1	511.3
Rolling 12-month EBIT	46.7 ²	70.3	71.1 ³	74.7 ⁴
Underlying ROIC	7.3%	12.4%	13.5%	14.6%

¹ excludes Gateway liability

² EBIT is calculated on an underlying basis for the continuing business

³ EBIT excludes net litigation settlement expense

⁴ EBIT excludes net litigation settlement expense and acquisition expenses

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