Sigma Healthcare
Connecting health solutions

Sigma Healthcare Limited

Full Year Results

to 31 January 2018

Announced 22 March 2018

ASX Ticker: SIG

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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.

Overview

Mark Hooper, CEO and Managing Director

1. Overview
2. Financials and Capital Management
3. Business Development
4. Outlook

Business Update - building a better future

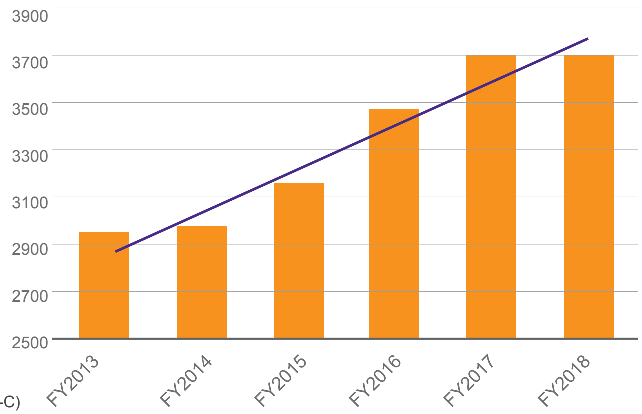
- Challenging year but we remain confident in our strategy
- Investment program – critical infrastructure program progressing ahead of plan and below budget. Our new Berrinba Distribution Centre (DC) in Queensland is now operational
- Retail pharmacy brands – sharper focus on growing the brands
- Hospital Services – national presence with a growing contract base
- mps acquisition – great start with strong pipeline

Continuing to reward shareholders

Revenue (A$m) - CAGR 5.8%

$3.7 billion

Steady

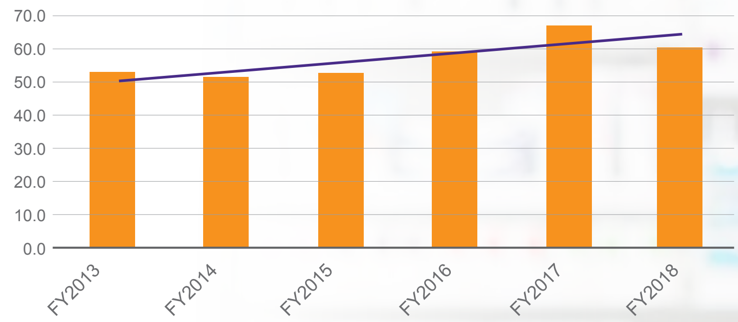


(Excluding High Cost Hep-C)

Underlying# - NPAT (A$m) - CAGR 3.5%

$59.9 million

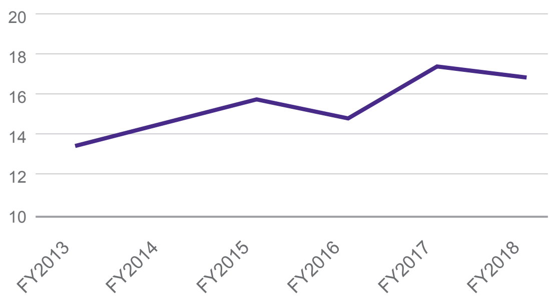
Down 10.5%



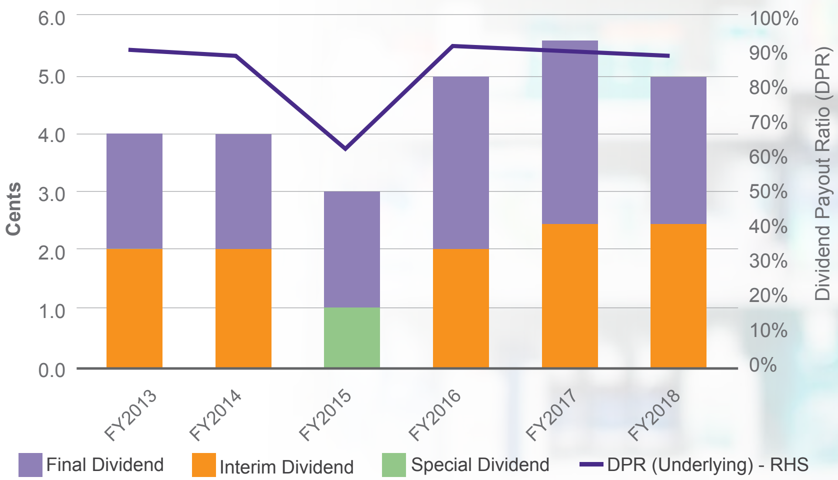
Underlying# ROIC - remains a core focus

16.6%

Down from 17.7%



Rewarding shareholders



Underlying – refer to Appendices 1 and 2

Our Promises

Promise	Delivered	
Grow EBIT by at least 5% for the next two years	• FY18 Underlying# EBIT down 10.0% • Impacted by lower sales from softer consumer spend and exit of a customer group • In line with revised guidance	✗
Grow non-PBS earnings	• Growth in non-PBS earnings remains a strong focus • Other revenue up 8.2%, largely reflecting the acquisition of mps	✓
Maintain strong balance sheet	• Net debt of $113.6m at year end • Underpins investment profile and capital management	✓
Improve capital management	• Cash Conversion Cycle 32 days • Underlying# ROIC of 16.6% - Remains a strong focus	✓
Reward shareholders	• Full year Dividend of 2.5 cents, with 88.7% payout ratio (underlying NPAT) • Share buy-back – 130.7m shares cancelled to date (14.6m in FY18 at a value of $12.0m)	✓

#Underlying-refer to Appendices 1 and 2

Financial Performance

Iona MacPherson, CFO

Group Financial Performance

- Excluding Hep-C sales revenue was steady with growth able to offset other conditions
- Other revenue continued to grow, largely reflecting the mps acquisition

	REPORTED	UNDERLYING		
$m	**FY2018**	**FY2018**	**FY2017**	**Change**
Sales Revenue	**4,129.8**	**4,129.8**	**4,366.2**	**-5.4%**
Sales Revenue (Ex Hep-C)	**3,679.3**	**3,679.3**	**3,679.4**	**-**
Gross Profit	**284.4**	284.4	289.5	-1.8%
Other Revenue	**83.5**	83.5	77.2	8.2%
Operating Costs	**-275.1**	-268.1	-257.8	4.0%
Non-controlling Interests	**-**	-0.4	-0.4	14.6%
EBITDA	**92.8**	**99.4**	**108.5**	**-8.8%**
Depreciation and Amortisation	-9.1	-9.1	-8.3	9.6%
EBIT	**83.7**	**90.3**	**100.2**	**-10.0%**
EBIT Margin	**2.0%**	**2.2%**	**2.3%**	**-0.1%**
Net Financial Expense	**-5.0**	-5.0	-4.3	16.9%
Tax Expense	**-23.3**	-25.4	-29.0	-12.2%
NPAT	**55.4**	**59.9**	**66.9**	**-10.5%**

[1] Refer to Appendix 2 for reconciliation

Revenue and Gross Profit Drivers

Sales Revenue (ex Hep-C): steady at $3.7bn

- Hospitals and other revenue growth offset customer loss and slower market conditions including codeine rescheduling
- Like for like sales in our Amcal brand were up around 2.0%

Other Revenue: Up 8.2% to $83.5m

- Benefited from the acquisition of mps in October 2017
- Improved contribution from NostraData service fee income
- Member fees down due to loss of customer group

Gross Profit: Down 1.8% to $284.4m

- Impacted by lower Hep-C sales and slightly unfavourable mix
- GP as a percentage of sales broadly maintained at 7.7% (ex Hep-C)

Operating Costs - Investment in Growth

Warehouse and Delivery: Up 10.0% to $145.1m

- More than half the increase driven by expanded operations - new CHS DC in WA and mps
- Includes dual operating costs in Queensland for Berrinba and Mansfield
- Balance reflects labour cost increase, partly offset by productivity improvements

Sales and Marketing: Down 13.8% to $64.4m

- Predominantly due to reduction of one-off doubtful debt expense this year
- Other costs well controlled

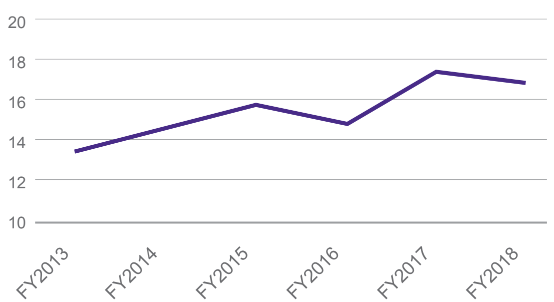
Administration: Up 10.1% to $65.6m

- Mainly reflects expansion of operations (mps, MIA and CHS)
- Also driven by increased investment in M&A activity (internal and external) and legal advice
- Includes one-off restructuring costs

Cash conversion cycle remains strong

- ROIC continues to be a strong focus as we move through our current investment cycle.
- CCC influenced by ramp up in inventory in preparation for new supply contracts.

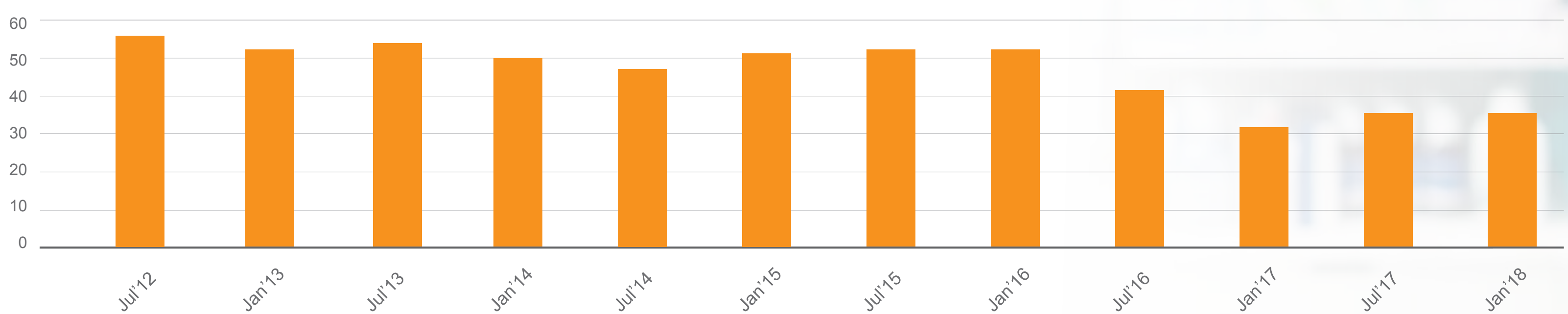
Underlying ROIC# - remains a core focus



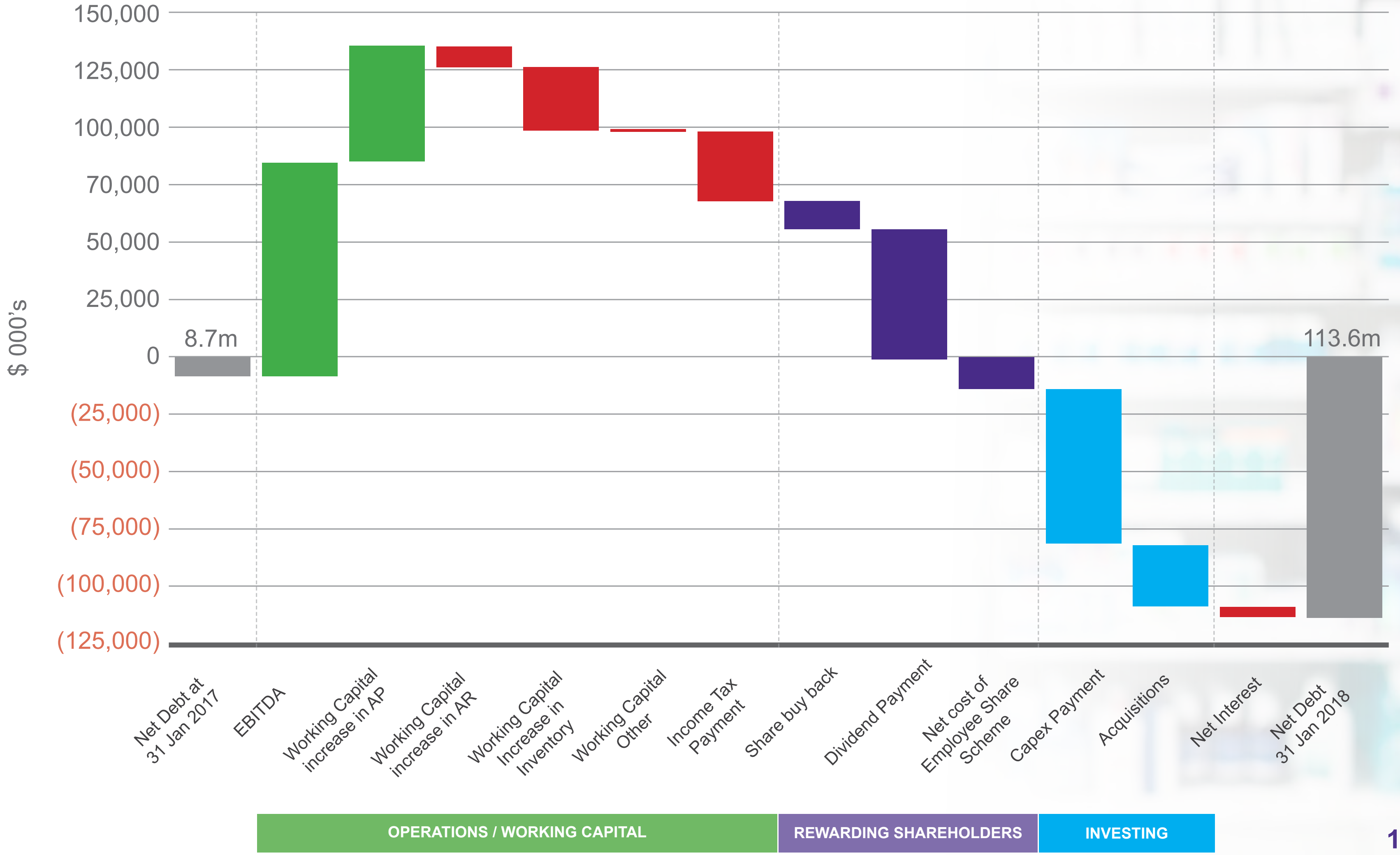
	FY18	FY17
Trade Debtors (Excl. Hep-C)	510,841	476,556
Inventory (Excl. Hep-C)	335,867	295,506
Trade Creditors (Excl. Hep-C)	(483,500)	(398,939)
Working Capital ($000)	363,208	373,123
Days Sales Outstanding (DSO)	51	47
Days Inventory Outstanding (DIO)	36	32
Days Payables Outstanding (DPO)	(52)	(43)
CCC Days (Excl. Hep-C)	35	36
CCC Days (Incl. Hep-C)	32	31

#Refer to Appendix 1

Cash Conversion Cycle Days (Excl. Hep-C)



Cash Flow - Rewarding Shareholders and Investing for Growth



Other Financial Metrics

Capex

- $95m in FY18
- DC in Berrinba QLD operational from end February 2018
- DC in Canning Vale WA about 50% complete
- FY19 capex for ongoing construction of Canning Vale and commencement of DC in NSW expected to be around $120m

Debt/Interest

- $113.6m net debt at end FY18
- FY18 net interest expense $5.0m
- Expect net debt to be around $250m at FY19 (Subject to any acquisitions)
- Interest cover still 8.0 times

Dividend payout ratio maintained

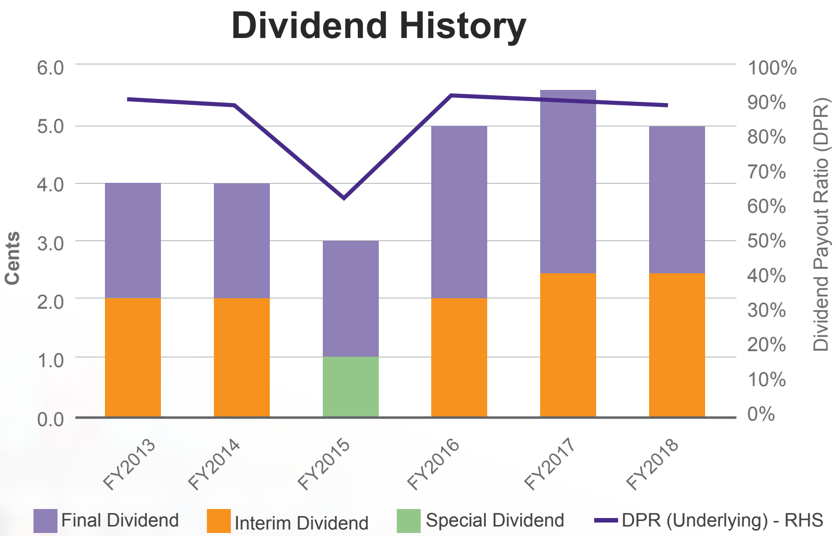
Dividend

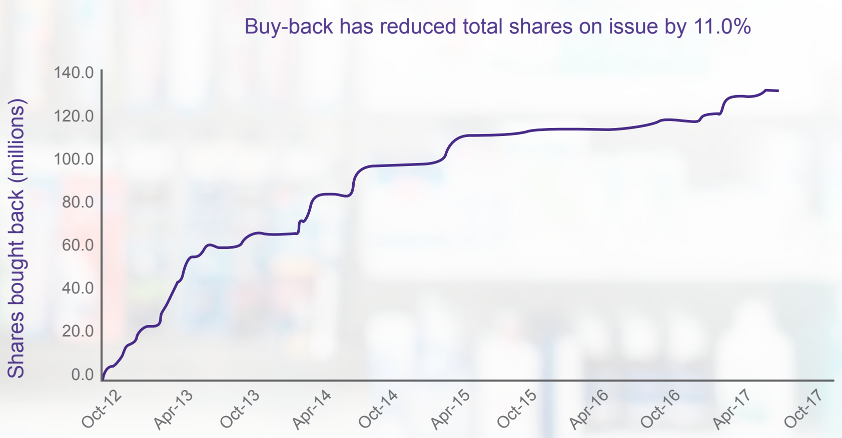
- Final dividend of 2.5 cents per share (fully franked)
- Payout ratio 88.7% of Underlying# NPAT (96.5% of Reported NPAT)
- Equates to a yield of over 5.5%* fully franked
- Board confirms intention to retain a high dividend payout ratio

Share buy-back

- 14.6m shares bought back in FY18 at total cost of $12.0m
- 130.7m shares bought back since program commenced at an average price per share of $0.75
- Program remains active but not likely to be aggressive given capex program

Refer to Appendix 2 for a reconciliation of Underlying NPAT
* Based on share price of $0.87 per share as at 19 March 2018





Business Development Initiatives

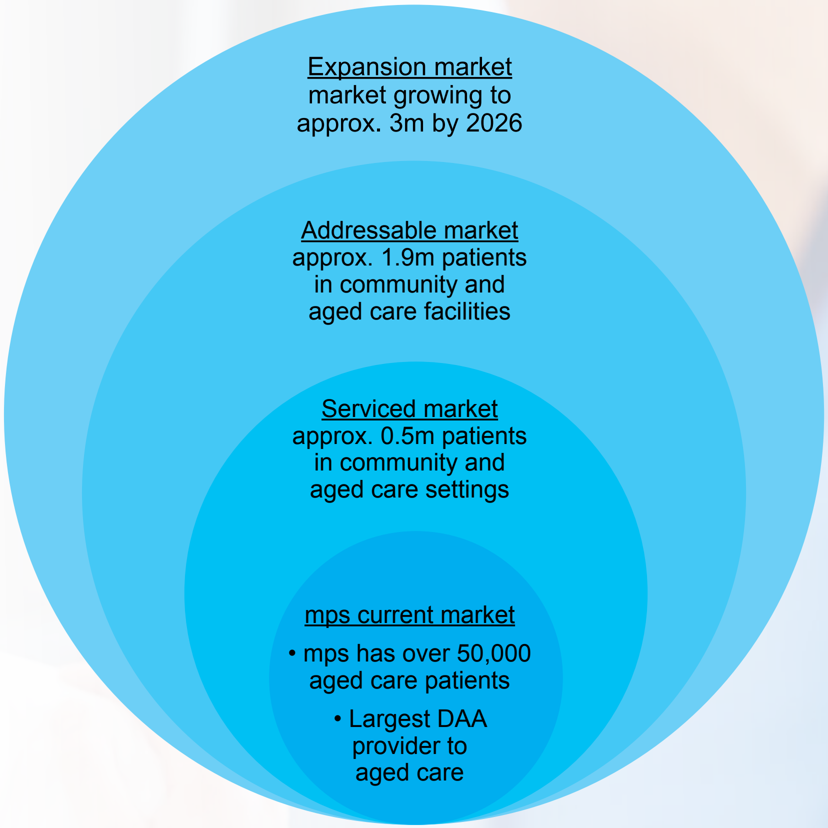
Mark Hooper, CEO and Managing Director

1. mps acquisition
2. DC investment program
3. Sigma Hospital services

mps – Strong Growth Opportunities

Dose administration aids (DAA) are a significant Government focus area for improved medication management

- Strong alignment with Sigma's broader healthcare strategy
- Three TGA approved facilities servicing Australia wide
- The only DAA endorsed by the Pharmacy Guild of Australia
- Only 25% of potential customers currently use DAA
- DAA in the community – mps has gone from nil to almost 15,000 patients in 3 years
- More innovation to support patient needs, pharmacy efficiencies and aged care choice for residents



Data source: Pharmacy Guild of Australia

DC Investment Update - Berrinba, QLD

Construction and automation now complete

- Transition from Mansfield to Berrinba commenced 26 February 2018
- Dual operating costs incurred for a period as well as one-off redundancies of up to $5m to be booked in FY19
- Expect to be fully operational by May 2018 with full run rate benefits to flow in FY20
- Significantly enhances operational efficiency and service ability
- Total cost of $55m including land and buildings – under budget

DC Investment Update – Canning Vale, WA

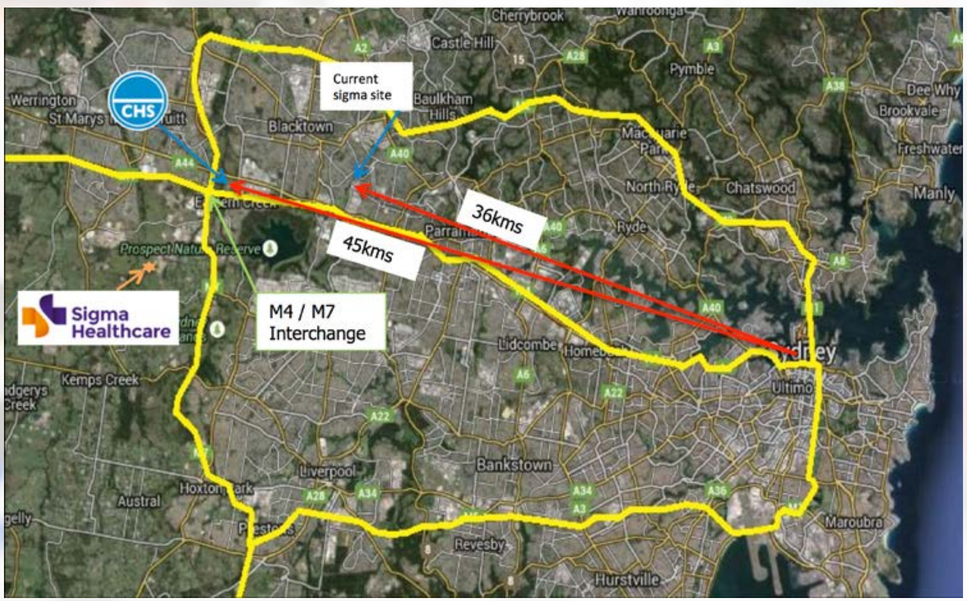
Construction well advanced

- Approx $55m investment (including land and buildings)
- 15,000 square metre facility
- Strong payback metrics from automation
- Anticipated completion late 2018

DC Investment Update - Kemps Creek, NSW

Construction ready to commence

- Approx $110m investment (including land and buildings)
- 40,000 square metre facility
- DC construction to commence in April 2018
- Detailed design work well underway
- Anticipate becoming fully operational in Q1 2020



Sigma Hospital Services

Now a national presence

- Latest IMS data (January 2018) has wholesale market for the year at $2.6b (down from $3.3b due to declining Hep C market)
- Sigma market share growth – Monthly Annual Turnover market share now above 7%
- Successful in recent contract wins (eg Northern and Western Hospitals in Victoria)
- Successful launch in WA market – growing and on target to exceed 10% market share
- NSW growth progressing well
- Launch of the Specialty Services business this year
    - Leverages Sigma's strong capabilities in professional services in the community
    - Assists in creating pathways for patients discharged from hospitals to access specialty medicines and programs in the community setting
    - Creates a differentiated service offering with sustainable value for suppliers and customers

Outlook

Mark Hooper, CEO and Managing Director

Setting the foundations for our future

	Performance Drivers	FY18	FY19	FY20
Core business	Organic growth	✕	↔	✓
BAU improvements	DC optimisation program	Investment phase	Investment phase	✓
	Project Renew	Investment phase	✓	✓
	Improved retail compliance and buying programs	In progress	✓	✓
New business	Hospitals/3PL growth	✓	✓	✓
	Acquisitions and expansion into adjacencies	✓	💡	💡

Outlook

- FY19 – Confirming current guidance of Underlying EBIT of $90m
- High Dividend Payout Ratio expected to be maintained
- Share buy-back remains in place, but likely to be less active given capital expenditure program
- Business has been structurally re-aligned in March 2018 to better support strategy
- Project Renew and DC investment to drive operational improvements
- Acquisitions are being integrated and focussed for growth
- Goldman Sachs appointed as financial adviser to assist with M&A and strategic advice

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Thank you

Appendix 1 – ROIC Reconciliation

$m	31/1/2014	31/1/2015	31/1/2016	31/01/17	31/1/2018
Net Assets	578.8	573.0	553.7	538.6	515.3
Less: Cash and cash equivalents	-67.5	-34.3	-17.4	-24.4	-82.2
Add back: Interest bearing liabilities	0.0	0.6	74.1	33.2	195.8
Adjusted for One-Off Items including WIP capex	0.0	0.0	0.0	-26.4	-86.1
Capital employed	511.3	539.3	610.4	521.0	542.7
Rolling 12 months Underlying EBIT	74.7	78.4	89.1	92.0#	90.3
Underlying ROIC	**14.6%**	**14.5%**	**14.6%**	**17.7%**	**16.6%**

Underlying pre-tax ROIC is based on the last 12 months of underlying earnings (EBIT), excluding non-operating items, and net assets adjusted for capital work in progress on new distribution centres.
#Underlying EBIT adjusted for provision for doubtful debtors expense

Appendix 2 – Reported to underlying reconciliation

	31 January 2018 $'000	31 January 2017 $'000
Reported EBIT	**83,747**	80,955
Add back:		
Restructuring and dual operating costs before tax	**3,715**	-
Acquisition and due diligence costs before tax	**3,199**	-
Litigation settlement expense before tax	**-**	11,368
Provision for doubtful debtors - single pharmacy group before tax	**-**	8,262
Underlying EBIT	**90,661**	100,585
Less: Non-controlling interests before interest and tax	**(409)**	(357)
Underlying EBIT attributable to owners of the company	**90,252**	100,228

Appendix 2 – Reported to underlying reconciliation

	31 January 2018 $'000	31 January 2017 $'000
Reported EBITDA	**92,834**	89,242
Add back:		
Restructuring and dual operating costs before tax	**3,715**	-
Acquisition and due diligence costs before tax	**3,199**	-
Litigation settlement expense before tax	**-**	11,368
Provision for doubtful debtors - single pharmacy group before tax	**-**	8,262
Underlying EBITDA	**99,748**	108,872
Less: Non-controlling interests before interest and tax	**(409)**	(357)
Underlying EBITDA attributable to owners of the company	**99,339**	108,515

Appendix 2 – Reported to underlying reconciliation

	31 January 2018 $'000	31 January 2017 $'000
Reported NPAT attributable to owners of the company	**55,059**	53,184
Add back:		
Restructuring and dual operating costs after tax	**2,601**	-
Acquisition and due diligence costs after tax	**2,239**	-
Litigation settlement expense after tax	**-**	7,958
Provision for doubtful debtors - single pharmacy group after tax	**-**	5,783
Underlying NPAT attributable to owners of the company	**59,899**	66,925