Sigma Pharmaceuticals Limited

Half Year Results to 31 July 2015

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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.

Overview

Mark Hooper, CEO and Managing Director

Sustaining the momentum

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The implementation of our strategic plan continues to deliver consistent and sustainable growth

Revenue up 11.5%

Other Revenue up 56.6%

EBIT up 23.5%

NPAT up 23.3%

2.0 cents per share dividend

EBIT and NPAT based on underlying results. Refer Half Year results as lodged with the ASX

Consistently delivering on our promises

Promise	Delivered
Grow non PBS earnings	• Non-PBS sales revenue now approx. 43% of total revenue (incl Private & Exclusive Label), up from 40% • Other revenue up 56.6% to $33m
Invest for growth	• CHS/DDS acquisitions performing ahead of expectations • Network optimisation project underway
Maintain strong balance sheet	• Net debt only $15m • Interest cover over 20 times • Capacity to support further investment
Reward shareholders	• Maintain high payout ratio • On-market buyback continued

Delivering improved outcomes for customers and Sigma shareholders

Financial Performance

Jeff Sells, CFO

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Strong earnings performance

	REPORTED	UNDERLYING			
$m	1H 2016	1H 2016	1H 2015	Variance	% change
Sales revenue	1,675.0	1,675.0	1,502.2	↑172.8	11.5%
Gross Profit	124.5	124.5	111.0	↑13.5	12.2%
Other revenue	33.2	33.2	21.2	↑12.0	56.6%
Operating costs	(112.8)	(112.8)	(95.1)	↑17.7	18.5%
Loss on recognition of contingent consideration	(7.8)	-	-	-	-
Amortisation of intangible relating to acquisition	(0.9)	-	-	-	-
Depreciation and Amortisation	(3.9)	(3.9)	(3.6)	↑0.3	8.0%
Share of profit of equity accounted investee	-	0.3	-	↑0.3	n/a
EBIT	32.3	41.3	33.5	↑7.8	23.5%
EBIT Margin	1.94%	2.46%	2.23%	0.23	n/a
Share of profit of equity accounted investee net of tax	0.2	-	-	-	-
Net financial expense	(1.5)	(1.5)	(0.7)	↑0.8	126.3%
Tax expense	(12.1)	(12.2)	(10.4)	↑1.8	16.4%
NPAT	18.9	27.6	22.4	5.2	23.3%

Revenue Mix

- PBS – 57% (60% pcp)
- Non-PBS – 43% (40% pcp)

One off CHS accounting adjustment

Initial acquisition Accounting

- Initial cash consideration paid to vendors of $49.9m
- Estimated contingent consideration booked in January 2015 of $37.4m based on expected business results to 30 June 2015 (earn-out)

Audited actual consideration

- In the period to 31 July 2015, CHS and DDS have outperformed the business case
- Outperformance resulted in consideration increasing by $7.8m to become actual payable of $45.2m

31 July 2015 Accounts

- Total one-off adjustment to P&L of $8.7m - $7.8m additional cash consideration paid, plus one-off contract amortisation of $0.9m
- Tax implications – non-deductible, thereby raising effective tax rate

Delivering more than boxes

Sales Revenue – Up 11.5% to $1.67 bn
Gross Profit – Up 12.2% to $124.5m

- Sigma sales growth 7.5% with volumes up 12.0%
- Balance of sales growth from 6 months contribution of CHS
- PBS reform had a negative impact on sales of around 4%
- Private and Exclusive label non-PBS sales up 13%
- Gross Profit margin maintained at 7.4%

Other Revenue – Up 56.6% to $33.2m

- Predominantly from a full 6 months contribution from Pharmasave and DDS
- Increases in merchandise and promotional services activities
- Services for suppliers and customers an area of continued focus

Maintaining cost effectiveness

Warehouse and Delivery expenses – Up 12.2% to $59.5m

- Full 6 months of CHS contributed one-third of cost increase
- Sigma costs up 8.5% versus 12.0% increase in volumes
- Business as usual cost inflation largely offset by 2% productivity improvements

Sales and Marketing expenses – Up 41.8% to $28.8m

- Most of increase relates to the full 6 months of CHS and DDS
- Strong credit processes minimise loss provisioning

Administration costs – Up 12.3% to $24.5m

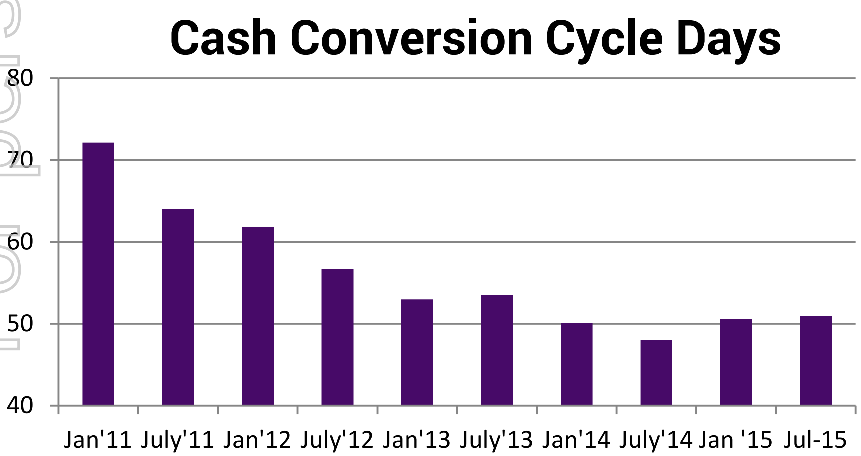
- 50% of increase relates to a full 6 months of CHS
- Balance relates to business development activities

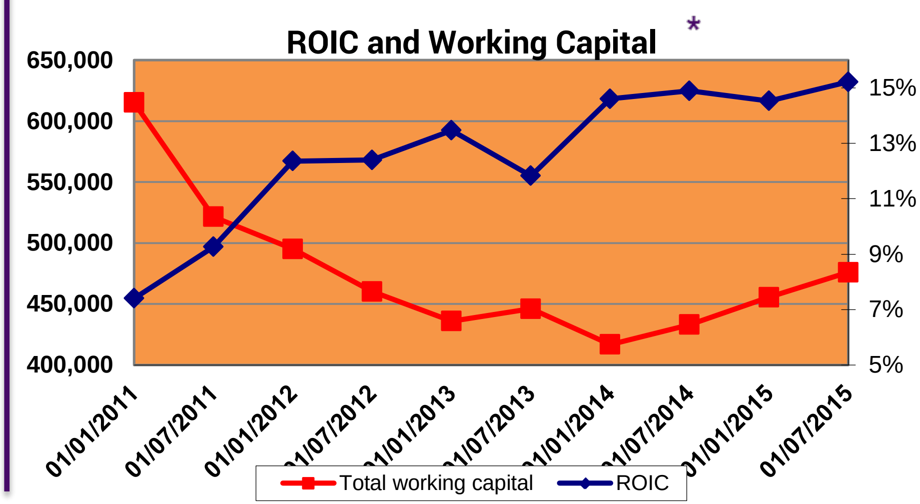
Cost increases are largely driven by the inclusion of CHS and DDS for the full 6 months

Record ROIC of 15.2%

$'000	July'11	July'12	July'13	July'14	Jul'15
Trade Receivable	$580,902	$580,687	$549,418	$586,745	$622,596
Inventories	$274,845	$224,081	$249,990	$283,751	$291,501
Trade Creditors	-$334,199	-$344,503	-$353,312	-$437,303	-$438,032
Total working capital	**$521,548**	**$460,265**	**$446,096**	**$433,193**	**$476,065**
Days Sales Outstanding	71	73	67	67	69
Days Inventory Outstanding	38	31	33	36	35
Days Payable Outstanding	-45	-47	-47	-55	-53
CCC days	**64**	**57**	**53**	**48**	**51**

- ✓ ROIC has more than doubled since January 2011
- ✓ Sustainable level of working capital for expanded operations
- ✓ CCC days maintained at January 2015 level
- ✓ Focus going forward remains on inventory efficiency





* Underlying ROIC, adjusting for one-off items. Refer Appendix 1

Continuing to reward shareholders

Share Buy-Back – close to 10% achieved

- Buy-back continued during the half, with 12.5 million shares bought and cancelled at a cost of $9.9m
- Since October 2012, 110.5 million shares bought back at an average price of $0.73
- Buy-back program approaching 10% limit and is under review

Dividend – maintained current levels

- Dividend of 2.0 cents per share fully franked
- Follows 2.0 cent and 1.0 cent special paid at full year (May 2015)
- Dividend policy expected to remain consistent with prior years
- Franking credits available to maintain fully franked dividends going forward

Funding outlook

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Capital Expenditure

- FY16 capex expected to reach $10m including CHS Sydney distribution centre
- FY17 capex expected to reach $40-$50m with commencement of Brisbane DC

Tax

- Tax payments have now returned to a normalised level
- Prior large one off deductions have now passed
- Annual payments will now closely follow tax expense

CHS

- Final payment of $45.2m to be paid late September

Net Debt

- Anticipate net debt at year end of $30-$40m
- FY16 net interest of $3-4m
- Interest cover of over 20 times
- Strong capacity for additional funding if required

Operational Performance

Mark Hooper, CEO and Managing Director

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CHS/DDS – ahead of expectations

- Performing ahead of investment case
- Diversified income mix across wholesaling, retail services, pre-wholesaling and hospitals
- Construction of the new DC in Eastern Creek is complete – on target for opening in late October 2015
- Provides enhanced support for hospitals and other pre-wholesaling opportunities in NSW

Strong retail network

- A broad range of solutions available for pharmacists
- Collective strength of over 700 branded pharmacy partners
- Strategic long term partnerships supporting over 600 independent pharmacies
- Provides the platform for enhanced buying and services based income

Brand standards drive improved performance

- Compliance to brand standards up 52% since 2013
- Pharmacies that improved compliance to brand standards achieved incremental improvement in average sales:
  - Below 40% → 1.5% sales growth
  - 50% → 3.5% sales growth
  - Over 80% → 7.0% sales growth
- Key driver in Amcal and Guardian like for like OTC sales up 7.5%
- New members have high brand standard compliance
- 14 pharmacies exited due to brand standards – were at 28% compliance

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Programs supporting pharmacy profitability

- Sigma generics buying program established, providing enhanced returns for Sigma and its customers
- Majority of Amcal and Guardian network now using Signal to deliver live pharmacy data analytics
- Successful launch of Sigma Financial Services to support pharmacy in buying, converting and fit out without Sigma taking balance sheet risk
- Dr Cindy Pan now professional service ambassador across Amcal and Guardian

SGP

Signal

SFS

HSA
HEALTH SERVICES AUSTRALIA
POWERED BY SIGMA

KIDNEY HEALTH

SLEEP APNOEA

COELIAC DISEASE

Private and Exclusive label products

- Sales of non-PBS product up 13%, with Boots products market leader in category
- Earnings up 15%
- Over 800 SKU's with sales growth options ahead
- Rachael Finch now the beauty ambassador for Amcal and Guardian brands

Outlook

Mark Hooper, CEO and Managing Director

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Addressing outcomes of 6CPA and CSO changes

- 6CPA is a positive result for our pharmacy customers
- Wholesaler revenue continues to be impacted by price disclosure
- Discounts continue to be wound out of the system to offset this
- Volumes continue to grow
- Flexibility now built into CSO
  - ability to charge fees in certain circumstances

Sigma's investment proposition

Investing in organic and acquisitive growth strengthens our market position to support our customers, diversify our income stream, and provide sustainable returns for shareholders

Outlook

- ✓ Majority of initial uplift from CHS/DDS acquisitions has cycled through in 1H16
- ✓ FY16 earnings growth expected to be consistent with FY15 growth
- ✓ The combination of organic growth, Non-PBS and services based income will deliver an ongoing platform for earnings growth
- ✓ Strong Balance sheet to support our investment aspirations
- ✓ Sigma continues to reward shareholders

Thank you

Appendix 1 – ROIC Reconciliation

	As at	As at	As at	As at	As at	As at	As at	As at	As at	As at
$'m	31-Jan-11	31-Jul-11	31-Jan-12	31-Jul-12	31-Jan-13	31-Jul-13	31-Jan-14	31-Jul-14	31-Jan-15	31-Jul-15
Net Assets (as per Balance Sheet)	832.9	676.8	682.5	669.0	610.8	572.9	578.8	568.8	573.0	550.1
Less:										
Cash and cash equivalents	-556.9	-135.8	-148.6	-145.8	-112.7	-151.9	-67.5	-34.7	-34.3	-45.6
Add back										
Interest bearing liabilities	354.8[1]	47.3	35.0	20.0	30.0	125.0	-	0.6	0.6	60.5
Capital employed	630.8	588.3	568.9	543.3	528.1	546.0	511.3	534.7	539.3	564.9
Rolling 12 months EBIT	46.7[2]	54.5[2]	70.3	67.3	71.1[3]	64.5[3]	74.7[4]	79.6[5]	78.4[5]	86.1[6]
Underlying ROIC	**7.3%**	**9.3%**	**12.4%**	**12.4%**	**13.5%**	**11.8%**	**14.6%**	**14.9%**	**14.5%**	**15.2%**

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

5 EBIT excludes acquisition expenses

6 EBIT excludes acquisition expenses, loss on recognition of contingent consideration from prior year acquisitions, amortisation of other intangibles associated with prior year acquisition and includes share of EBIT of equity accounted investees