



ASX and Media Release

Wednesday, 31 March 2010

## **Sigma announces A\$389 million loss due to impairment of goodwill**

- Result includes goodwill impairment of \$424 million
- Underlying business sound – sales revenue up 4.5 per cent to \$3.22 billion

Sigma Pharmaceuticals Limited today announced a net loss for the group of \$A389 million for the year ended January 31, 2010.

The result, which compares with a profit of \$80.1 million last year, includes a non-cash impairment charge of \$424.2 million to the group's goodwill following a review of intangible carrying values.

In that review, the company has taken into account recent increases in market pressures in generics in the last quarter of FY2010. As a result, the future cash flow forecasts that support the carrying value of goodwill have declined. Sigma's estimated weighted average cost of capital has also increased.

Sigma's underlying business remains sound and profitable, with sales revenue up 4.5 per cent to \$3.22 billion. Underlying FY2010 net profit was \$67.7 million, a 15.5 per cent decrease on the prior year due principally to increasing market pressures in generics and a lack of uptake in year end promotions.

As a consequence of the accounting impairment charges, no final dividend can be paid this financial year. A 3 cents-per-share interim dividend was paid in November.

Chairman Dr John Stocker AO, said: "The board is disappointed with the FY2010 result and the suspension of trade in Sigma's shares. Notwithstanding these events, we strongly believe that Sigma's underlying business is sound."

As previously foreshadowed, the group had breached interest cover and certain other borrowing covenants related to its syndicated banking facility as a result of these adjustments. Sigma is pleased to advise that these covenant breaches have been waived and the facilities have been renegotiated within a short space of time with appropriately reset covenants.

In FY2011, the group expects to improve cash flow and reduce debt through:

- Renegotiation of agreements with customers currently enjoying extended trading terms
- Improvements in inventory levels
- Rationalisation and sale of non-core assets

All debt facilities remain committed and are in place to various dates beyond January 2011.

Managing Director Elmo de Alwis said: "Sigma is confident of the continued sound operations and underlying profitability of the company."

Mr de Alwis said Sigma had a unique vertically integrated and diversified business model with leading market positions in generics, over-the-counter and consumer, medical, manufacturing, wholesale and retail banners.

### **Pharmaceuticals**

The pharmaceuticals business, which includes generics, consumer, manufacturing and medical, generated net sales of \$670.9 million, a 5.6 per cent reduction on the prior year.

Underlying earnings before interest and tax declined 23.7 per cent to \$105 million. After impairment of goodwill and other adjustments, reported earnings before interest and tax was a loss of \$124.6 million.

Mr de Alwis said: "In the last quarter of FY2010, our generics business saw increased discounting and a delay in the launch of another new product due to legal action. This led to a reduction in forecast future cash flows for the business, with flow on effects to accounting carrying values."

Sigma believes that the generics market remains an important and attractive market for the company, in which it is an Australian market leader. Sigma remains committed to sustaining and growing its position in the Australian generics market.

"In relation to the consumer business, Herron remains a strong Australian consumer brand, and has performed well in the pharmacy channel, but continues to face challenges in the grocery distribution channel," Mr de Alwis said.

### **Healthcare**

The healthcare business, which includes wholesale distribution and retail banner management for groups including Amcal and Guardian, generated net sales of \$2.549 billion, an increase of 7.5 per cent.

Underlying EBIT declined four per cent to \$67.9 million following the industry-wide impact of statutory price reductions, which reduced margins available to full-line wholesalers.

After impairment of goodwill relating to anticipated synergies between generics and wholesaling, and other adjustments, reported EBIT was a loss of \$174.9 million.

## **Bristol Myers Squibb Australia acquisition**

In October 2009, Sigma finalised the \$70 million acquisition of Bristol Myers Squibb Australia (BMSA), which manufactures, markets and distributes 15 ethical pharmaceutical and healthcare brands in Australia and New Zealand, including well-recognised brands such as Lipostat and Pravachol. The final purchase price of \$70 million included an additional \$10 million of completion adjustments over the original estimated purchase price.

The agreement included the right to export a majority of the acquired brands to New Zealand, a modern pharmaceutical manufacturing facility located in Noble Park, Victoria and production, laboratory, packing, warehouse and administrative functions.

Mr de Alwis said the integration was progressing well, and in line with expectations.

## **Outlook**

FY2009 Net Profit After Tax was \$80.1 million. Sigma is budgeting that FY2011 NPAT will return to similar levels.

## **Further information**

### **Investors**

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### **Media**

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