



# Sigma Pharmaceuticals Limited

Results Presentation for the  
Full Year ending 31 January 2010

2pm, 31 March 2010

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# Important Notice

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1. Recent Events
2. Full year results for 2009/10
  - Summary
  - Business overview
  - Underlying earnings
  - Non-recurring items
  - Balance sheet, cash flow and debt facilities
  - Business segments
3. Outlook

- Board sought a trading halt and then suspension of shares upon becoming aware of the likelihood of significant adjustments to FY2010 accounts
  - Regrettable but responsible
    - Amount and effect of adjustments needed to be quantified and agreed
    - Banking covenant implications
- Accounts released today for the year ended 31 January 2010, in compliance with Sigma's statutory accounts filing date obligations
  - Reported loss of \$389 million
    - Includes goodwill impairment of \$424 million; other non-recurring items \$52 million
    - No final dividend as a consequence
    - Underlying EBITDA of \$213.0 million for the year
    - Underlying NPAT of \$67.7 million for the year



## Recent events

- Banking covenants have been reset and agreed with Sigma's debt providers
  - Sigma appreciates the ongoing support of lenders
  - Sigma has continued to trade within all its facility limits
    - All principal and interest commitments have been met when due
  - All covenant breaches waived
  - All debt facilities remain committed and are in place to various dates beyond January 2011, with certain commitments to reduce debt over the coming year
- Trading performance YTD and business outlook remain sound

# 2010 Results Summary

A\$m	2010			2009	Δ 2010 to 2009 Underlying
	Reported	Non Recurring	Underlying	Total	
Sales	3,220.4	0.0	3,220.4	3,081.3	▲ 4.5%
EBITDA	(263.2)	(476.2)	213.0	235.0	▼ 9.4%
EBIT	(309.0)	(476.2)	167.2	190.3	▼ 12.1%
Interest expense	(72.1)	-	(72.1)	(76.7)	▼ 6.0%
<b>NPAT Reported</b>	<b>(389.0)</b>	<b>(456.7)</b>	<b>67.7</b>	<b>80.1</b>	<b>▼ 15.5%</b>
Amortisation	32.4	-	32.4	30.3	▲ 6.9%
Cash profit	-	-	106.8	130.2	▼ 18.0%
Group EPS (basic)	(40.7)c		7.1c	9.4c	▼ 2.3c

- Unique vertically integrated and diversified business model with leading market positions in:
  - **Generics** – significant market share
  - **OTC/Consumer** – largest Australian owned OTC portfolio
  - **Medical** – largest Australian owned supplier of prescription pharmaceuticals
  - **Manufacturing** – largest pharmaceutical manufacturer in Australia
  - **Wholesale** – one of three full line wholesalers, market share in excess of 30%
  - **Retail Banner** – Sigma owns Australia's 2 largest retail pharmacy banners in Amcal and Guardian, strong brand recognition



# Leveraging the unique market position Rejuvenated Embrace program

- Successful program refreshed
- Three objectives:
  - Acquisition of new customers
  - Growth in share of existing customer's business
  - Retention of existing customers
- Embrace Equity an 18 month additional benefit of Embrace membership
- Set, transparent and measurable total net spend targets
  - No flexibility with compliance measures
- Well received since launch in late Feb



- Generics
  - Since Arrow acquisition, Sigma's second half result underpinned by year-end promotions, particularly in the generics channel
    - 6+ months stock build on major molecules
  - Customer participation in promotions less than expected
    - Material impact on profit and excess inventory
  - More aggressive market with lower margins
    - Industry-wide regulatory impact
  - Margins also impacted due to gap in timing of achieving cost reduction benefits

# Underlying results commentary

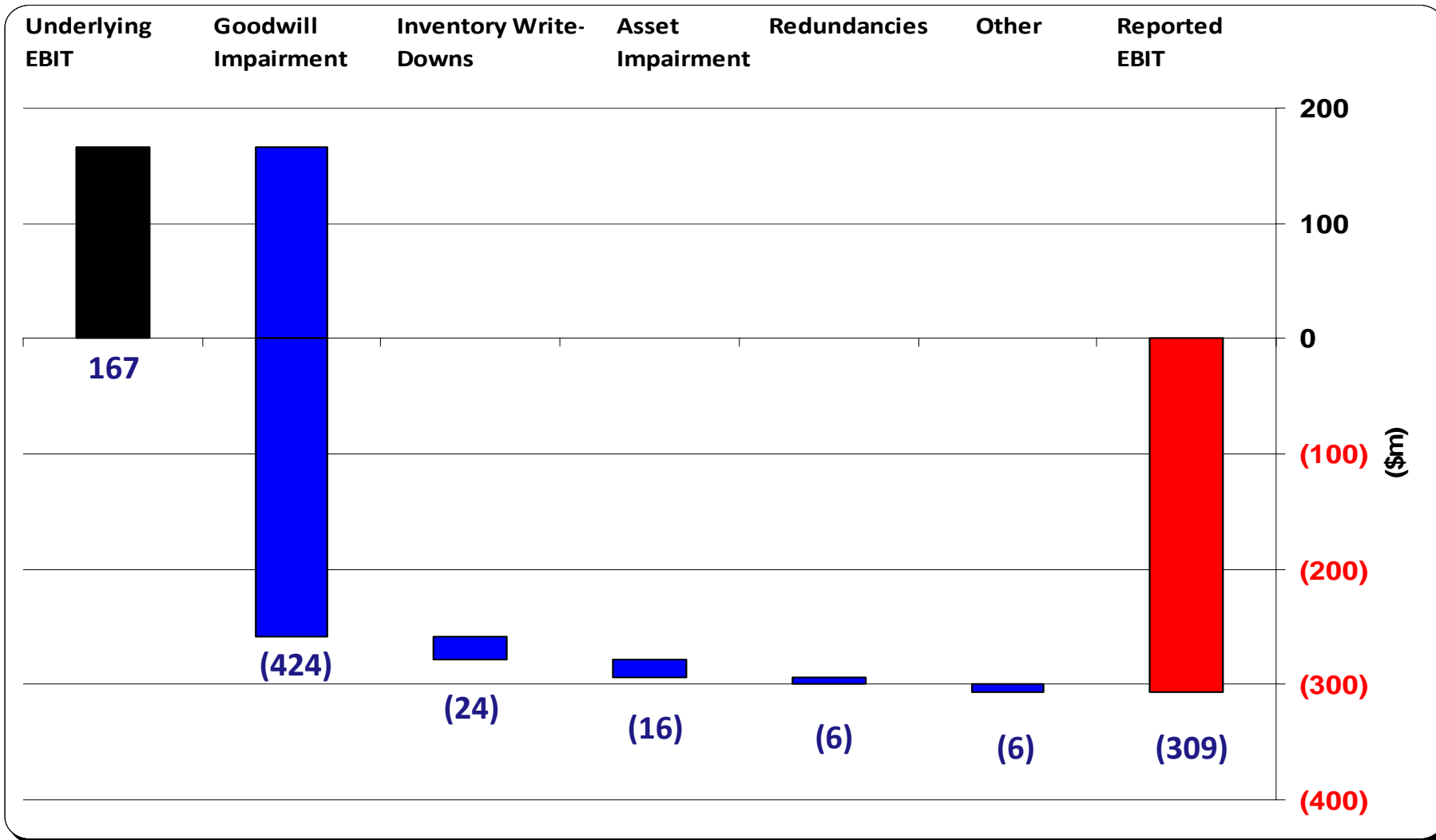
- Consumer/OTC
  - Herron growth in pharmacy, disappointing in grocery channel
  - Other brands demonstrated strong growth
- Medical
  - Orphan in line with expectations
- Manufacturing
  - Site rationalisation program to optimising fixed cost base
- Wholesale
  - Industry-wide lower effective margin through statutory price reductions
  - Working capital usage increased substantially
- Retail banners
  - Stable membership numbers



## Reconciling underlying NPAT result to previous guidance

- Underlying FT2010 NPAT \$67.7m
- Key impacts:
  - Increased competition and shortfall on year end generics promotion \$7.8m
  - Interest cost of increased working capital usage \$1.1m
  - Herron shortfall in grocery channel \$3.5m

# Non-recurring items



- Reduction in future expected cash flows
  - Detailed review of regulatory and industry impacts
  - Trading/market conditions in Q4 of 2009/10
    - Changed expectation of future trading conditions
    - Recent external reports substantiate a change in view
  - Changes in the risk profile of Sigma has contributed to the increase in the Group's estimated WACC
- Total goodwill impairment of \$424.2m
  - Arrow (\$375.1m)
    - \$819m of goodwill recognised post 2005 merger, which was inflated by Sigma's share price increase post the merger announcement
      - » \$309m goodwill increase from merger announcement to scheme date
    - Forecast impact of regulatory reforms
    - Competitive pressures
  - Herron (\$49.1m)
    - Weaker performance of the brand in grocery channel

- 2009/10 write downs of \$24m
- Increased provisioning for inventory
  - Changed view on future sales impacted on views of saleability of existing inventory
    - Traditionally have written down inventory with <6 months of useful life remaining
    - Additionally provided for inventory that has <18 months of remaining useful life due to reduced future sales expectations
  - Review of non-core inventory

# Non-recurring items

## Asset impairment

Heading	Details of write-down	A\$m
Export licences	Uncertainty around ability to generate future earnings at carrying value	8.9
Pharmaceuticals segment intangibles	Certain licenses whose future earnings expectations no longer support carrying value – eg Septrin and Isordil	1.4
Gateway provision	Specific provision following Gateway Pharmacy Finance program being consolidated – already refinanced \$72.7m, planned refinancing of balance \$34.8m by remaining Gateway borrowers during FY2010/11	2.5
Other	Other licences & PinPoint JV	3.3
<b>TOTAL</b>		<b>16.1</b>

- Redundancies \$6.3m
  - Traditionally booked when incurred
  - Redundancies determined in Nov09
    - Fully provided in FY2009/10
    - Cash outflow to occur in FY2010/11
- Seasonal promotional costs \$4.8m
  - One-off adjustment to inventory costs associated with year-end promotions/clearances
- Legal & other \$1.2m

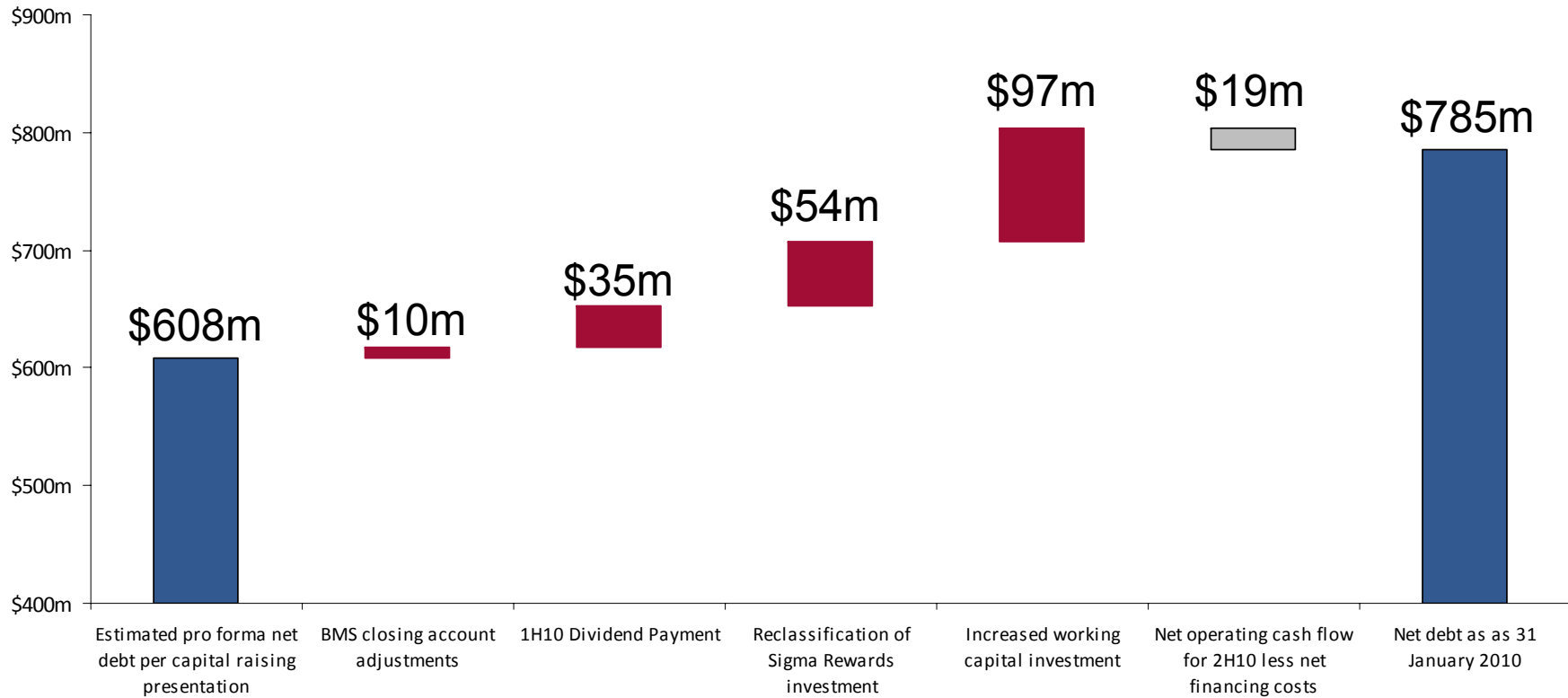
# Balance sheet, cash flow and debt facilities

A\$m	2010	2009	Δ 2010 to 2009
Total assets	1,926.1	2,201.5	▼ 12.5%
Sigma Rewards debt	520.0	487.8	▲ 6.6%
Syndicated and other balance sheet debt facilities	279.4	437.7	▼ 36.2%
Total debt	799.4	925.5	▲ 13.6%
Cash & cash equivalents	14.4	(1.2)	▲ 108.3%
Net total debt	785.0	926.7	▼ 15.3%
Shareholders Equity	1,067.0	1,197.9	▼ 10.9%
Gearing (Debt/Debt + Equity)	42.4%	43.6%	▼ 4.2%



# Cash utilisation post capital raising

- Net debt pre BMS acquisition and Capital Raising \$839m
- Net Capital Raising \$291m
- BMS acquisition \$60m



# Increase in working capital

- Causes of increase
  - Seasonality of retail pharmacy customers
    - Annual peak in debtor balances
  - Growth in receivables balances with large groups with extended terms
  - Inventory stock build in preparation for forecast sales
    - Shorter creditor terms
  - Generics sales lower than expected
    - Reduced customer participation in year-end promotion
- Actions to address
  - Negotiations underway to reduce extended payment terms
    - Particular focus on large groups and un-economic contracts
  - Continued focus on creditor term extension
  - Inventory sell-through
    - Strict control of new purchasing



## Discontinuing extended credit terms

- Renegotiation of terms with customers who currently enjoy extended trading terms
- More aggressive program targeting large customer groups planned for 2010/11
  - YTD have already secured commitments to reduce current extended credit arrangements by over \$90 million by January 2011



# Committed debt facilities

## All covenant breaches waived

- \$400m Syndicated
  - ANZ, CBA, NAB & WBC
    - \$100m to be repaid by March 2011
    - Balance \$300m remains scheduled for maturity September 2011
- Working capital facilities
  - \$100m Waratah (Westpac)
    - On balance sheet trade receivables securitisation
    - Scheduled for maturity February 2011
  - \$650m Sigma Rewards (Senior Note of \$585m (90%) funded by ANZ)
    - Off balance sheet trade receivables securitisation
      - Customer loyalty program operates independently of debt facility
    - Sigma investment 9.4% (maximum \$61m)
    - Scheduled for maturity September 2011
- Revised covenants (key gearing and interest cover covenants relaxed over FY2011); any interim dividend for H1 FY2011 would require prior lender consent



## Sigma financial position remains sound

- Underlying FY2010 EBITDA of \$213.0m, Interest expense \$72.1m
  - Average underlying interest cover >3.00x during FY2010
- All debt effectively backed by high quality working capital
- Program to sell certain non core assets
- Quick renegotiation of covenants evidence of good continuing relationship with lenders

# Business Segments

- An Australian market leader facing continued margin pressure

A\$m	2010	2009	Δ 2010 to 2009
Sales	670.9	710.7	▼ 5.6%
Reported EBIT	(124.6)	130.0	
<b>Adjustments:</b>			
Impairment of goodwill	184.4	-	
Impairment of other intangibles	13.6	-	
Other	31.6	7.6	
Total adjustments	229.6	7.6	
Underlying EBIT	105.0	137.6	▼ 23.7%

- Strong pipeline moving forwards
  - 10 new ethical molecules launched in FY2009/10
  - 9 scheduled for FY2010/11
  - Clovix (Clopidogrel - current PBS spend \$230m pa) expected to be listed on the PBS June 2010
- Intense level of competition
- Continued emphasis on sourcing key molecules at reduced cost
- Improved service levels >98.2% in FY2009/10



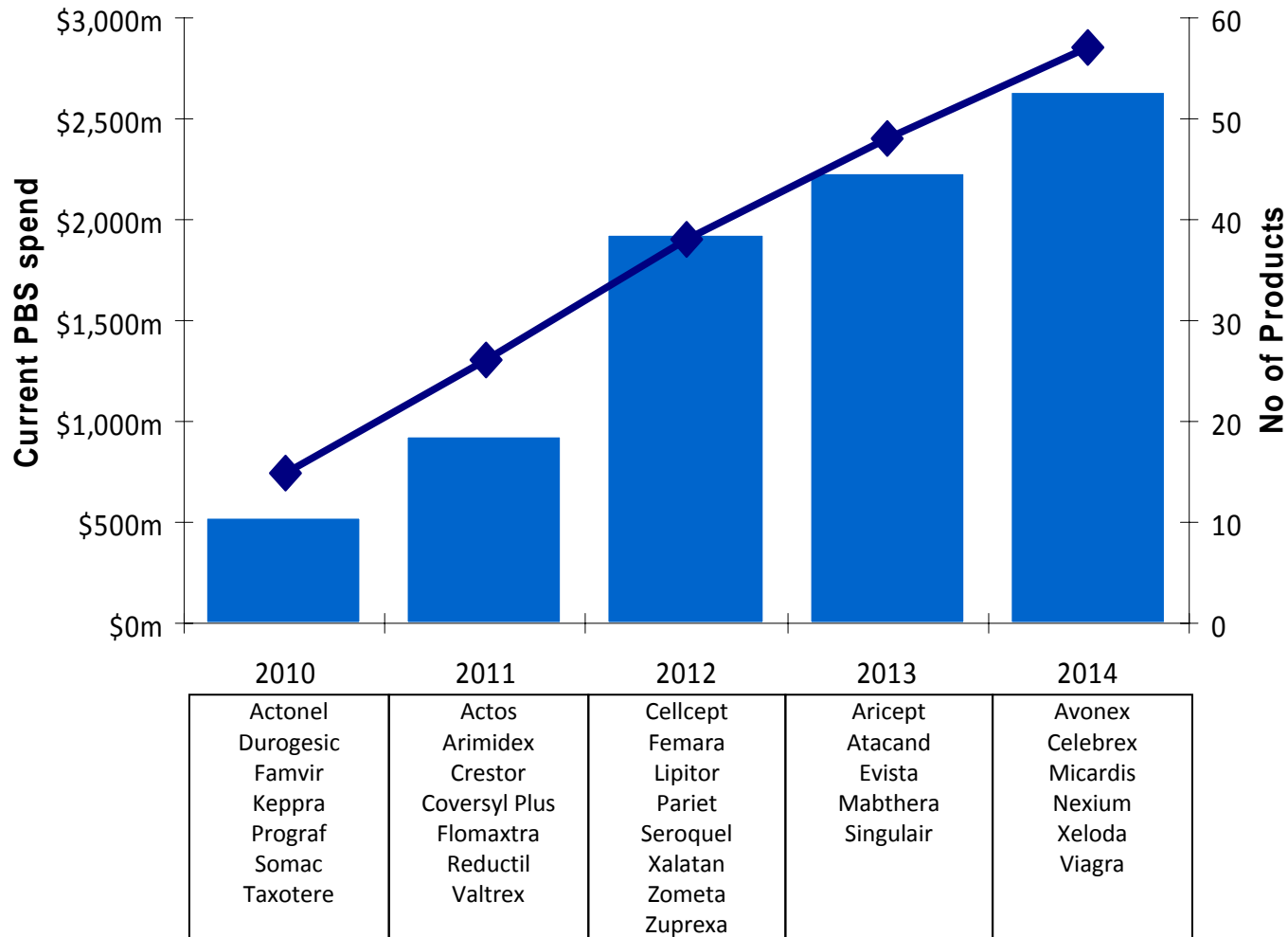
# Generics remains an attractive long term business

- 2<sup>nd</sup> largest market share <sup>(1)</sup> in highly competitive industry with multiple domestic and international participants
  - Approximately 25% market share <sup>(1)</sup>
  - Including private prescription products, almost 25 million units sold last year (internal sales data)
- Heritage of delivering first to market molecules
- Specialised tools to drive increased conversion levels in stores
- Highly motivated sales team
- Embrace equity and other sales initiatives provide opportunity to grow market share
  - Strong pipeline of new product will incrementally grow business

<sup>(1)</sup> Internal estimates

# Major patent expiries - next 5 years

- >\$2.5bn of current PBS spend to come off patent



- Variable Herron performance
  - Growth in Pharmacy, decline in Grocery
  - But Herron remains a strong Australian consumer brand
- Another strong year for Chemists' Own and Other OTC brands
  - Ural, Coloxyl and Goanna
  - Strengthening position in Pharmacy
  - High ROC businesses
- Ongoing focus on new products
  - 14 new skus launched in 2009/10
  - 25 scheduled for launch in 2010/11

- Orphan:
  - First full year contribution of Orphan in line with expectations
  - Integration of existing Sigma medical and Orphan sales teams
  - Complements other divisions of Sigma
  - Synergies delivering ongoing growth opportunities
  - Increased number of licences in portfolio
- BMS
  - Sales and profit performing in line with expectations
  - Initial downsizing of Noble Park completed

- Site rationalisation continues
  - Closure of Tennyson on track
    - All redundancy costs included in FY2009/10 result
  - Corresponding Dandenong expansion proceeding on time
- Dandenong now operating at 3 shifts
- FX gains and renegotiated raw material contracts expected to deliver annualised savings of \$9.6m
- Ongoing program of in-sourcing Sigma branded products
  - Incremental capacity utilisation

- Stable underlying returns

A\$m	2010	2009	Δ 2010 to 2009
Sales	2,549.5	2,370.6	▲ 7.5%
Reported EBIT	(174.9)	67.0	
<b>Adjustments:</b>			
Impairment of goodwill	239.8	-	
Impairment of other intangibles	-	-	
Other	3.0	3.7	
Total adjustments	242.8	3.7	
Underlying EBIT	67.9	70.7	▼ 4.0%

- Stable growth, working capital attention required
  - National market share 30.2% (IMS – MAT Jan10)
  - Annual growth in sales of \$180m - up 7.5%
  - Working capital investment has increased
    - Higher sales have resulted in greater working capital investment
    - Significant growth in larger customer groups
- Key focus in 2010/11:
  - Tighter control of days stock on hand
  - Renegotiation of customer trading terms
  - Improved service levels
    - Stock availability 97.6%
    - More consistent delivery times

- Ongoing infrastructure upgrades expected to deliver increase in efficiency and reduction in logistics costs
- Continuation of CSO announced in Guild Government Agreement
- Pharmacy Advance program
  - Modular retail services offer for non-banner customers

- Number 1 and Number 2 Australian retail pharmacy banners
  - Steady membership numbers
  - Circa 550 Amcal & Guardian members
- Extensive Private Label range covering all major OTC categories
- Compliant retail model
  - Successful pilot program in FY2009/10

# Business Update and Outlook

# Performance FY2011 year to date

- Encouraging growth
  - Strong sales growth over the first six weeks of FY2011
  - Clopidogrel decision and other new generic launches
- Sigma greatly appreciates the continued good support of its customers, suppliers and staff

- Focus in FY2010/11:
  - Improving returns across core businesses
  - Further synergies and operational improvements
  - Debt reduction
  - Customer trading term renegotiation
  - Non-core asset rationalisation
- The FY2009 Net Profit After Tax result was \$80.1 million. Sigma is budgeting that its FY2011 Net Profit After Tax will return to similar levels



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