



Sigma Pharmaceuticals Limited

2010/11 Full Year Results Presentation

28th March 2011

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- Overview – Mark Hooper
- Financial Results – Jeff Sells
- Re-invigorating Sigma – Mark Hooper

Overview



Sigma Stabilises – new management, debt repaid

Company

- **Leadership**
 - new senior management, new Chairman
- **Sale of Pharmaceutical division to Aspen**
 - resolves company uncertainty
 - debt repaid
 - strong balance sheet
 - Aspen distribution agreement in place
 - remaining business focused on Wholesale/Retail operations
 - overarching strategy – stabilise, re-invigorate, grow



Guidance Met, Sales Revenue up 6.6%

- **Underlying** EBIT for total business of \$129.2 million compared to previous guidance of \$120 – \$130 million
- For the ongoing Healthcare Business:
 - Sales Revenue – \$2.9 billion ↑ 6.6% pcp
 - **Underlying** EBIT of \$46.7 million (**Reported** EBIT of -\$9.1 million)
 - **Reported** NPAT (-\$73.1 million)
- Pharma business sold to Aspen (discontinued and not included in operating results)

- Fully franked special dividend of \$0.15 per share
- Uses most of available franking credits
- Payment on 11 May 2011 (record date 11 April 2011)
- New debt facilities will provide funding for monthly working capital needs

Industry

- **PBS Reform – MOU with Medicines Australia**
 - Generic price reductions Feb 2011, April 2012 (23% minimum reduction)
 - Total impact of PBS reform estimated to reduce wholesaler margins by 1.75% by 2015
- **Pfizer – direct distribution**
 - Driven by desire to protect genericisation of key molecules
 - Wholesaler response has been renegotiation of pharmacy terms and discounts
 - Single delivery source for 10%-15% of the PBS creates the risk that patients will have limited or no access to Pfizer medicines
 - A regulatory change to require compulsory stocking by wholesalers of all PBS medicines would ensure continuity of supply for patients



Financial Results





FY2011 Income Statement Summary – Continuing Business

Reported		
A\$m	FY2011	FY2010*
Revenue	2914.3	2733.8
Reported EBIT	-9.1	-178.9
Net Financing Costs	-78.7	-72.1
Tax Benefit	14.8	3.8
NPAT	-73.1	-247.3
Discontinued Operations	-162.3	-151.0
Loss for Sigma Group	-235.4	-398.3

* FY2010 figures have been adjusted to reflect:

- Reclassification of some revenue streams and Retail income previously shown as part of the Pharma results
- Restatement of a number of inventory and promotional transactions

FY11 Results – Continuing Business Reconciliation from Reported to Underlying Earnings

All figures \$m

	Healthcare Business	Corporate Expenses	Continuing Business
Reported EBIT	12.1	-21.2	-9.1
Reclassified Items	-9.0	-15.2	-24.2
Non Recurring Items			
Impairment - goodwill	38.3		38.3
Provision for doubtful debts	20.2		20.2
Rationalisation and restructuring	6.1	0.6	6.7
Professional fees		9.8	9.8
Other	3.6	1.4	5.0
Total	68.2	11.8	80
Underlying for Continuing Business	71.3	-24.6	46.7

- Reported EBIT adjusted for
 - reclassified items
 - one-off charges
- Key one-offs
 - goodwill impairment
 - doubtful debts
 - restructuring
- Corporate Costs include all Group IT charges
- Equates to a Group ROIC on underlying earnings of 7.3%

Underlying EBIT up by 12.1% with margin improvement

Underlying Results Healthcare (pre Corporate Costs)		
A\$m	FY2011	FY2010
Sales Revenue	2914.3	2733.8
Reported EBIT	12.1	-169.5
Impact Non Recurring / Reclassified Items	59.4	233.1
Underlying EBIT	71.3	63.6
Divisional EBIT Margin	2.45%	2.33%



Strong Cash Flow and Working Capital Facilities

Cash Flow	FY2011	
	\$m	\$m
Cash at beginning of period		14
Net cash flows from operating activities	101	
Sale of Pharmaceutical Division	883	
Repayment of Sigma Rewards Debt	-130	
Repayment Syndicated and other Debt	-307	
Other	-4	
Total Cash Movements		543
Cash/equivalents at end of year		557*

* Sigma Rewards Full Repayment (9 Feb 2011) 358

Ongoing Term Debt Facilities	
Waratah Facility Limit	200

- Operating cash flow of \$101.2 million up from (\$13.1) million pcp
- Ongoing Waratah facility \$200 million : Used to fund monthly working capital requirements, expected to utilise approximately \$150m at the height of the mid month funding peak and minimal utilisation at month end

- Total sale proceeds were \$900 million
- Net available proceeds of \$844 million (after completion adjustments, advisory fees and working capital adjustment)
- Net proceeds used to:
 - Fully repay \$325 million Syndicated Bank debt on 31 January 2011
 - Fully repay \$358 million Sigma Rewards debt on 9 February 2011
- Balance will be used to fund the Special Dividend

Working Capital is the key component of Sigma's balance sheet

Balance Sheet Working Capital \$m	As at 31 Jan 2011	As at 31 Jan 2010
Receivables	641	752.0
Inventories	2255	230
Payables	2513	314
Total Working Capital	6152	668
Days Sales Outstanding	77	93
Days Inventory Outstanding	31	33
Days Payable Outstanding	34	43

- Figures for 2010 include receivables previously off balance sheet
- Objective will be to improve all areas with main focus on customer payment terms
- Some improvements have already been agreed and will feed in gradually as extended payment terms unwind



Re-invigorating Sigma





Sigma moves forward on a firm and reinvigorated footing

Stabilisation phase complete

- Healthcare business intact/net cash on hand (pre special dividend)
- Strong customer base and growing market share
- Strong balance sheet (minimal intangibles)
- No pharmacy guarantees

- Identified key areas for focus to reinvigorate:
 - Industry change on-going, need to anticipate and innovate
 - Investment in retail brands, warehouse infrastructure and supporting systems
 - Strategy for profitable growth, not solely cost cutting
 - Clear financial model driven by ROIC



Sigma: Wholesaler of Choice

Position as 'preferred partner' in Pharmacy

- Logistics
- Systems
- Create value proposition

Growth

- Positive momentum and improving market share
- Key strategies are around profitable topline growth
 - costs important but not sole focus
- Some reinvestment in DC infrastructure/systems over 2011/12
- ROIC is a key driver of the business and for customer discounts and trading terms

- Further Amcal Max Franchise Growth
 - Brand Investment to grow the current base of 24 franchisees that represent ~\$100 million in retail sales annually
- Increase Private Label Value
 - Invest in a Private Label range and leverage Aspen manufacturing partnership
- Introduce Health Management Services
 - Amcal and Guardian brand members can access multiple programs to boost dispensary business and servicing community health needs
- Improve Supplier Engagement
 - Creating retail value across the group through partnerships





Sigma is Moving Forward

- FY11 was a challenging year but key issues are now resolved
- Stable outlook allows Sigma to declare a \$0.15 per share fully franked dividend
- There is potential to further optimise Sigma's operations, profitability and ROIC with investment initiatives in both Wholesaling and Retail
- While the industry fundamentals are still sound, more frequent and greater change should be expected

Questions?



SIGMA



A\$m	FY11	FY10	Δ 2011 to 2010
Revenue	425.3	486.6	-12.6%
Reported EBIT	-177.7	-143.3	-24%
Non recurring or one off items / Reclassified Items ⁽¹⁾	260.2	251.3	
Underlying EBIT	82.5	108	-23.6%
Underlying EBIT Margin	19.4%	22.2%	-2.8%

(1) Non Recurring/Reclassified Items

- Impairment goodwill	- \$220m
- Impairment properties	-\$3.4m
- Impairment development costs	\$3.0m
- Prior period error	\$13.2m
- Inventory provision	\$9.1m
- SPL inventory provision	\$11.5m