



# Sigma Pharmaceuticals Limited

## 2006/07 Half-Year Results

Elmo de Alwis  
Managing Director



# Highlights

- Merger with and integration of AWP & SIG
- Formation of Australia's most comprehensive offer of Goods and Services to Pharmacy
- Proactive response to industry changes
- Strategies for future growth
- Continued strong earnings momentum
- Market share gains
- Reconfirm forecast 15% PAT growth for 2006/07 (excluding impact of tax consolidation, plant rationalisation & restructure costs)





# Group Financials

## -Reported

### *Strong First Half*

\$m	Reported <sup>(1)</sup>		
	Jul-06	Jul-05	change
Total Sales	1,256.2	1,037.0	21.1%
EBITDA	100.1	66.0	51.6%
Amortisation of Arrow Intangibles	7.1	-	-
Other Depreciation and Amortisation	10.1	9.2	10.0%
EBIT	82.9	56.8	46.0%
NPAT	49.4	31.7	56.0%
EBIT Margin	6.6%	5.5%	20.0%
EPS	5.2c	5.1c	2.0%
EPS before Amortisation of Arrow Intangibles	5.8c	5.1c	13.7%
DPS	3.6c	3.27c	10.1%

(1) Reported result includes Arrow for 6 months to July 2006. July 2005 comparative excludes Arrow.





# Group Financials – Pro-Forma

*Underlying Growth in Line with Forecast*

\$m	Pro-forma <sup>(1)</sup>			Adjusted <sup>(2)</sup>		
	Jul-06	Jul-05	Change	Jul-06	Jul-05	Change
Total Sales	1,256.2	1,241.0	1.2%	1,256.2	1,241.0	1.2%
EBITDA	100.1	89.2	12.2%	101.1	92.1	9.7%
Amortisation of Arrow Intangibles	7.1	7.1	-	7.1	7.1	-
Other Depreciation and Amortisation	10.1	9.6	5.2%	10.1	9.6	5.9%
EBIT	82.9	72.5	14.3%	83.9	75.5	11.1%
NPAT	49.4	42.4	16.3%	50.1	44.5	12.6%
EBIT Margin	6.6%	5.8%	13.8%	6.7%	6.1%	9.8%
EPS	5.2c	4.5c	15.6%	5.3c	4.7c	12.8%
EPS before Amortisation of Arrow Intangibles	5.8c	5.1c	13.7%	5.9c	5.3c	11.0%

(1) Includes Arrow for 6 months to July 2006 & July 2005 on a pro-forma basis.

(2) Excludes plant rationalisation and restructure costs of \$1.0m in July 2006 & \$2.9m in July 2005.



# Pharmaceuticals

## -Pro Forma (1)

### *Strong Margin Growth*

	July 06 \$'000	July 05 \$'000		Change
Total Sales	368,715	368,985		-
Less Inter-company Sales	49,628	31,797	↑	56.1%
Sales through 3rd parties	319,087	337,188	↓	5.4%
EBIT	63,925	56,570	↑	13.0%
EBIT Margin	17.3%	15.3%	↑	13.1%
Capital Employed	1,441,898	1,362,616	↑	5.8%
ROCE	8.9%	8.3%	↑	7.2%

(1) Excludes plant rationalisation and restructure costs of \$539,000.



# Healthcare (1)

## *Stable Growth*

	July 06 \$'000	July 05 \$'000	Change
Sales	937,120	903,791	↑ 3.7%
EBIT	22,989	22,413	↑ 2.6%
EBIT Margin	2.5%	2.5%	-
Capital Employed	199,547	161,274	↑ 23.7%
ROCE	23.0%	27.8%	↓ 17.3%

(1) Excludes restructure costs of \$425,000.



# Cash Flow

## *Inventory Build for CSO*

	July 06	July 05
	\$'000	\$'000
Cash Working Profit <sup>(1)</sup>	62,732	39,954
Working Capital Movement	(59,112)	30,416
Net Cash Flow from Operations	3,620	70,370

(1) Cash Working Profit = EBITDA less interest and tax paid

Notes:

- Inventories increase of \$27m due to full range of Arrow products in all DC's.
- Prior period working capital includes a one off \$60m securitisation benefit.





# Capital Expenditure

## *Dandenong Plant on Schedule*

	July 06	July 05
	\$'000	\$'000
South Croydon Property	16,205	-
Dandenong Plant Upgrade	17,876	3,867
Healthcare IT System	1,965	811
Other	9,157	5,877
<b>Total</b>	<b>45,203</b>	<b>10,555</b>



# Financing

## *Strong Balance Sheet*

	July 06 \$'000	July 05 \$'000	Change
Average borrowings <sup>(1)</sup>	285,884	179,181	↑ 60%
Net debt at half year	260,927	147,866	↑ 76%
Gearing - average	17.8%	36.3%	
Gearing – half year	16.5%	32.0%	
Group net interest <sup>(2)</sup>	14,566	11,607	↑ 25%

(1) Excludes Sigma Rewards off balance sheet debt.

(2) Includes additional \$1.6m of interest on prior year final and special dividends.



# State of Play

## Changing Dynamics



# Market Analysis

- PBS
  - Growth stalled at  $< 3\%$ 
    - 12.5% price reduction policy
    - Reference pricing
    - Other measures co-payments & 20 day rule
- Wholesale
  - Restructure of wholesale margin CSO 1<sup>st</sup> July
  - One new national player (DHL)
  - Competitors
    - Conflicting retail strategies
    - Need to focus on cost cutting



# Market Analysis

- Generics
  - Gov't continues to consult on PBS reforms to encourage use of generics
    - Media speculation of softening of stance
  - Competition
    - Alphapharm continues same strategy
    - Smaller players late for patent expiries
    - After intense competition, simvastatin market shares are stabilising
  - Market Growth
    - More products coming off patent
    - Education and consumer acceptance



# Market Analysis

- Pharmacy
  - Industry Margin decline
    - PBS stalled
    - Competition from discounters & Grocery
    - CSO changes
    - Increased costs
  - Changing demographic of owners
  - Looking for strong business partners to guide them through tough times



# Strategic Direction

Embracing the Future



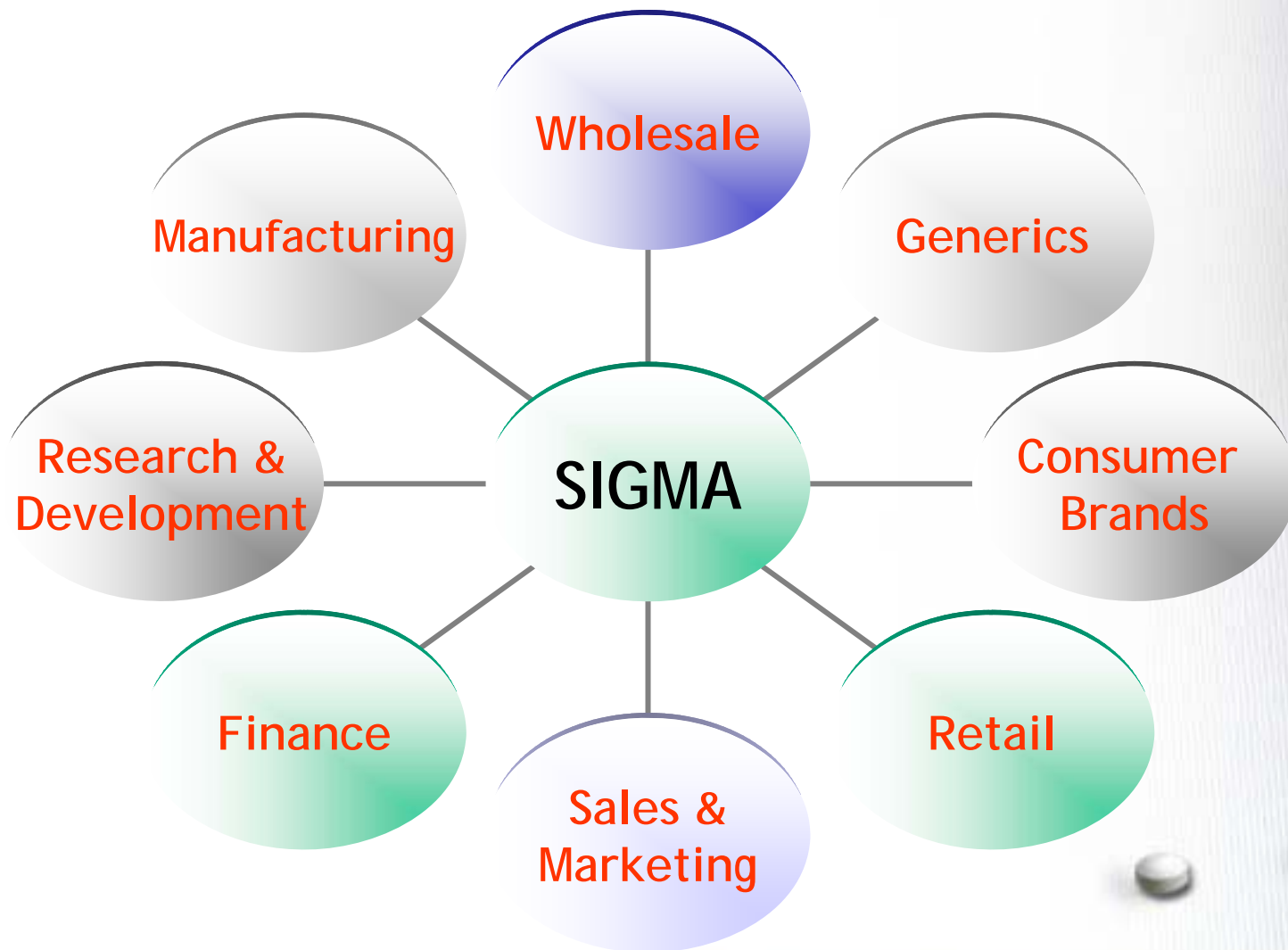
# Integration

- New General Management Team
  - Experienced team with a proven track record for success in pharmacy
- Sales & Marketing team integration
  - Wholesale, Generics, OTC & Medical
- Vertical integration of Logistics
  - All SPL products (including generics) through Sigma's full line network of 15 DC's
- Retail restructure
  - International experience
- \$1m in restructure costs for 1H06 (redundancies)
- Current external divisional reporting under review to reflect vertical integration of business





# Only Sigma can offer Pharmacy a fully integrated Service





# Examples of Integration Success

- CSO implementation;
  - Market share up from 30.4% to 33.5% <sup>(1)</sup>
  - Monthly average business <sup>(1)</sup> sourced from Sigma wholesale - Amcal at 72.7%, Guardian at 81.4%
  - Sigma sales growth in July of 14.6% compared to market growth of 6.9% <sup>(1)</sup>
- Herron OTC
  - Vitamins in 600 pharmacies
  - Youngcare Analgesics promotion in over 2,200 pharmacies

(1) Source: IMS data for July 2006



# Future Initiatives



# Embrace – Integrated Approach

- Launch of new comprehensive program to partner retail pharmacy
  - Wholesale
  - Generics
  - Retail
  - Finance
  - Consumer Brands



# Generic Pipeline

- Generic equivalent of all significant patent expiries until 2010
- 4 new products in 9 months since merger
- 18 products in next 9 months
- Further Patent challenges





# Facility Upgrade



- Approximately doubles the plant size
- Available Tablet capacity approx 3.3 billion
- Available Liquids capacity more than doubles to 25 million units
- On time, on budget



# Outlook

- Reconfirm forecast 15% PAT growth for 2006/07 (excluding impact of tax consolidation, plant rationalisation and restructure costs)
- Business moving forward in accordance with forecast and continuing to achieve market share growth
- Continuing to explore acquisition based growth opportunities



# Questions?





**Thankyou**

