



# Sigma Pharmaceuticals Limited

## Results Presentation for the Half Year ending 31 July 2007

Langham Hotel  
20 September 2007



# Group Financials

| A\$m                                   | H1 07/08    | H1 06/07    | Change         |
|--|-------------|-------------|----------------|
| Revenue                                | 1,453.2     | 1,278.8     | + 13.6%        |
| EBITDA                                 | 89.3        | 101.1       | - 11.7%        |
| EBIT                                   | 71.3        | 83.9        | - 15.0%        |
| <b>NPAT Underlying</b>                 | <b>36.6</b> | <b>50.1</b> | <b>- 26.9%</b> |
| Less: Restructure costs <sup>(1)</sup> | (6.3)       | (0.7)       |                |
| NPAT Reported                          | 30.3        | 49.4        | - 38.6%        |

(1) Net of tax

# Pharmaceutical Division Underlying Business

| A\$m    | H1 07/08 | H1 06/07 | Change  |
|---------|----------|----------|---------|
| Revenue | 311.6    | 322.0    | - 3.2%  |
| EBITDA  | 67.0     | 78.7     | - 14.8% |
| EBIT    | 51.6     | 63.9     | - 19.3% |

# Healthcare Division Underlying Business

| A\$m    | H1 07/08 | H1 06/07 | Change  |
|---------|----------|----------|---------|
| Revenue | 1,141.4  | 956.6    | + 19.3% |
| EBITDA  | 25.4     | 25.2     | + 0.1%  |
| EBIT    | 23.0     | 23.0     | -       |

# Cash Flow

| A\$m                               | H1 07/08 | H1 06/07 |
|------------------------------------|----------|----------|
| Cash Working Profit <sup>(1)</sup> | 38.1     | 62.7     |
| Working Capital                    | 4.1      | (59.1)   |
| Net Cash Flow from Operations      | 42.2     | 3.6      |

(1) Cash working profit = EBITDA less interest paid and tax paid

# Net Interest Expense

| A\$m                                | H1 07/08 | H1 06/07 | Change  |
|-------------------------------------|----------|----------|---------|
| Net debt at Half Year               | 311.7    | 260.9    | + 19.5% |
| Net interest expense <sup>(1)</sup> | 19.9     | 14.6     | + 36.3% |

<sup>(1)</sup> Includes Sigma Rewards securitisation program financing charge

Increase in Net Interest Expense due to:

- Increase in interest rates
- Increase in net debt outstanding
  - Higher inventories
  - Share buyback



# Interim Dividend

- Interim dividend of 3.0c declared
  - Fully-franked and payable on 19 October 2007
  - In proportion with prior year interim dividend, given revised full year guidance



**First half in review**

# Reconciling H1 Impact

| A\$m                                |             |
|-------------------------------------|-------------|
| <b>NPAT Underlying – prior year</b> | <b>50.1</b> |
| Sales increase <sup>(1)</sup>       | 8.0         |
| CSO shortfall <sup>(2)</sup>        | (5.0)       |
| Generic discounting <sup>(3)</sup>  | (7.0)       |
| Net Embrace costs <sup>(4)</sup>    | (5.0)       |
| Promotional budget <sup>(5)</sup>   | (4.5)       |
| <b>Adjusted NPAT Underlying</b>     | <b>36.6</b> |

(1) Increase of \$174.4m of sales at an prior year EBIT margin of 6.6% (tax effected)

(2) \$1.2m per month EBIT shortfall (tax effected)

(3) 5% additional discount on \$200m of sales (tax effected)

(4) Increased discounts less incremental income (tax effected)

(5) \$6.4m of additional expenditure (tax effected)



# Reconciling New Guidance

|                                     |                 |
|-------------------------------------|-----------------|
| A\$m                                |                 |
| <b>NPAT Underlying – prior year</b> | <b>104.6</b>    |
| Embrace non-compliance              | (8.0)           |
| Deferred product launches           | (3.0)           |
| Herron underutilisation             | (4.0)           |
| One-off costs                       | (3.0)           |
| Interest expense                    | (2.0)           |
| Tax effect of all above             | 6.0             |
| <b>Adjusted NPAT Underlying</b>     | <b>88 to 93</b> |

# Business in review

- **Positives**

- Focus on cost efficiency / rationalisation
- Ongoing patent run-off
- Embrace sign-ups
- Market share gains
- Solid base built to leverage Embrace moving forward

- **Negatives**

- Increased generics competition
- Changing sales mix
- CSO impact
- Embrace compliance
- Deferred product launches
- Herron underperformance

# On-market Buyback update

| YTD<br>As at | Shares purchased | Total cost | Average Cost | Issued Capital |
|--------------|------------------|------------|--------------|----------------|
| 31 July      | 25.5m            | \$46.3m    | \$1.82/share | 2.7%           |
| 31 August    | 48.7m            | \$83.7m    | \$1.72/share | 5.1%           |

- Expect to be completed by end of year
- Interest expense to 31 July 2007 of \$30k
- Committed debt facilities in place
- Board continues to evaluate other capital management initiatives

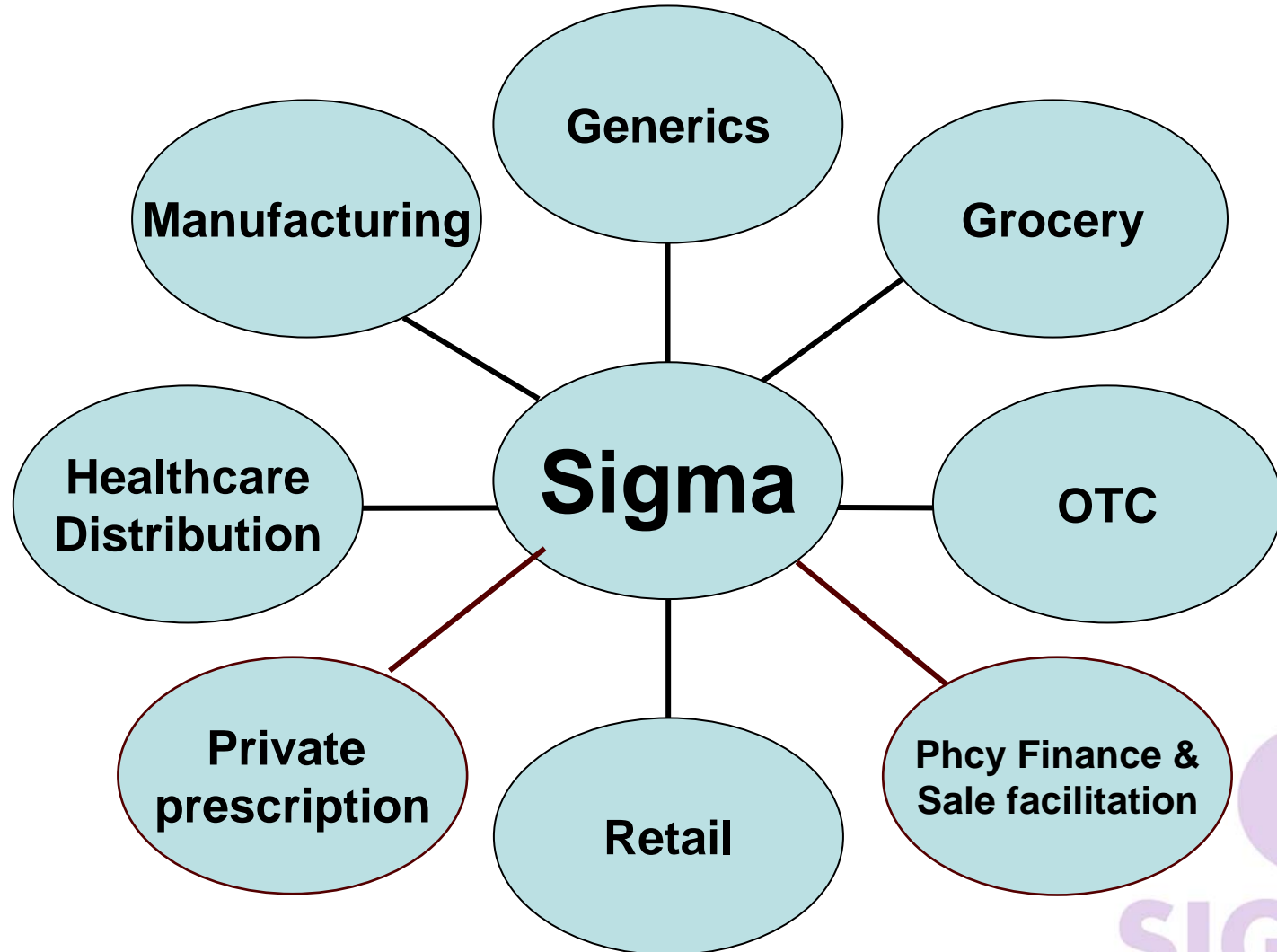




# Sigma Today



# Diversified and Integrated

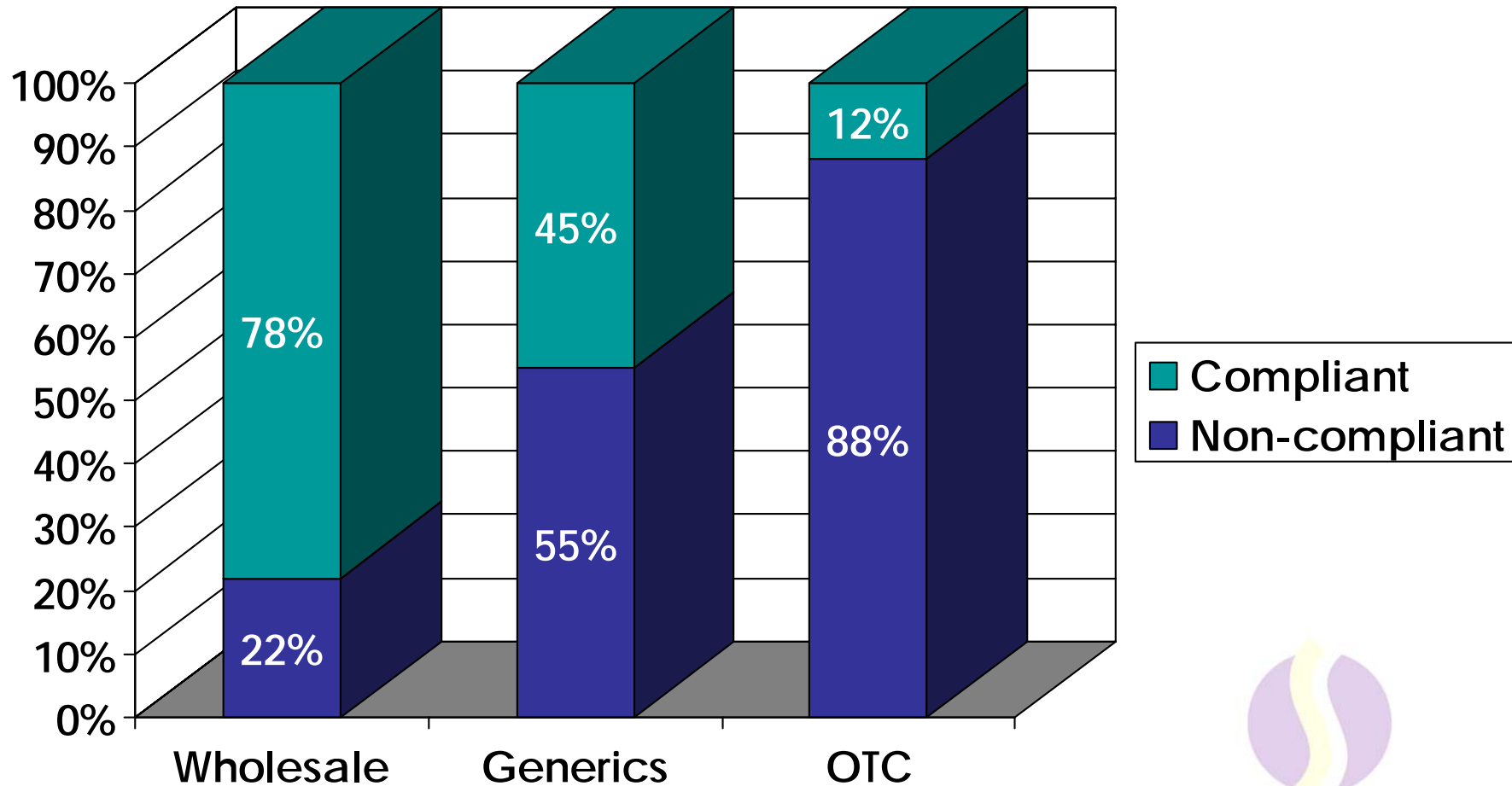


# Embrace

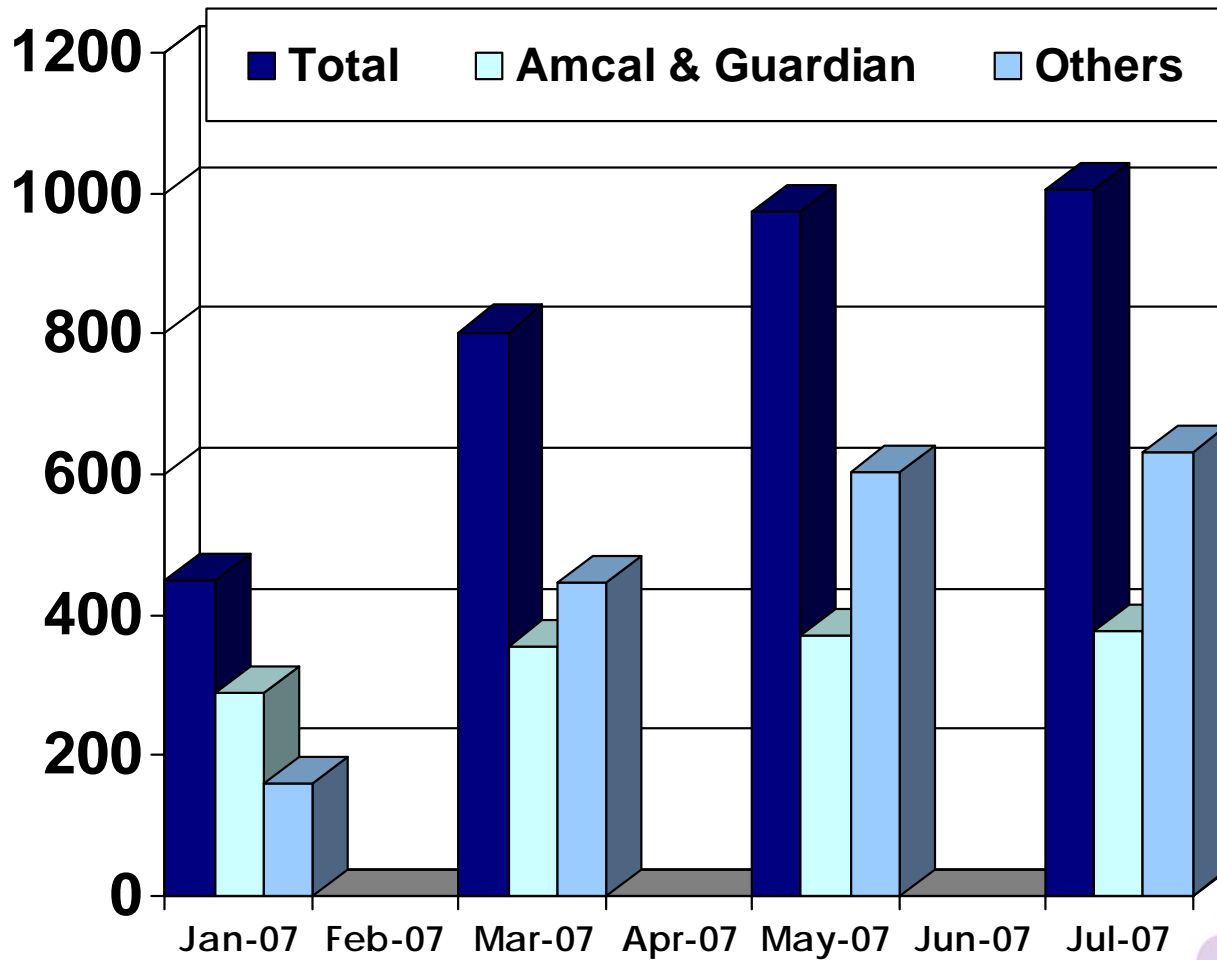
- Unique offer to retail pharmacy
  - “One-stop shop”
  - Specifies minimum compliance levels
    - % of wholesale business through Sigma, Generic substitution levels, OTC share of shelf space
  - Ancillary opportunities for members
    - Finance
    - Retail support
    - Sale of Business
- Issues
  - Compliance monitoring and enforcement
  - Maintaining advantage



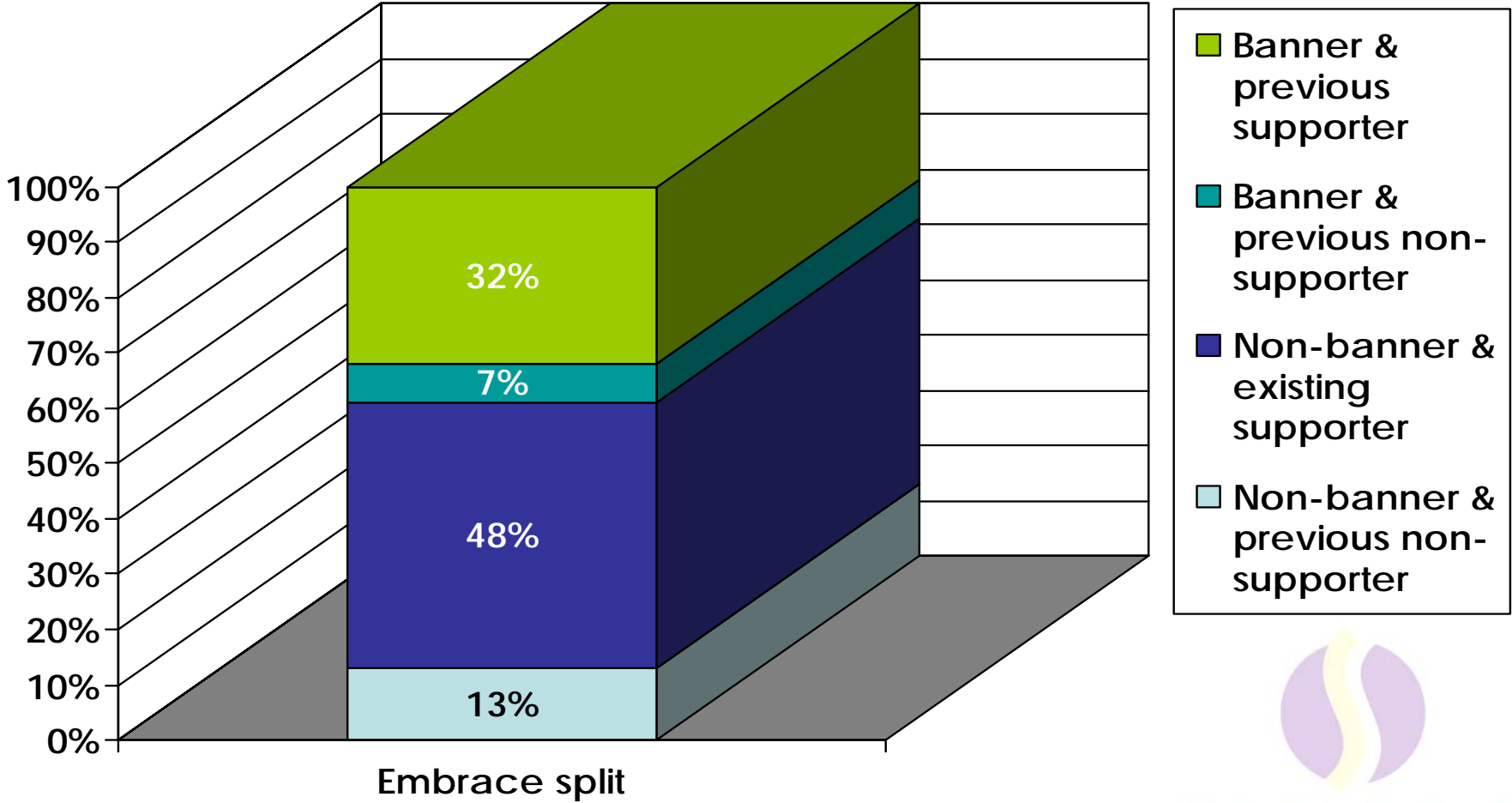
# Embrace compliance



# Embrace members



# Embrace profile



# Sigma - Future Growth

- Acquisitions – Key Sigma investment criteria
  - Related to core business
  - EPS accretive
  - Synergy opportunities
  - Enhance value of Embrace
- Organic
  - Embrace – continued roll out and increased compliance
  - Realisation of Herron potential
  - Generics pipeline
  - Market share gains





# Business Units

# Healthcare distribution

- Market position
  - Largest market share, and increasing
  - Strong sales growth
- Current issues
  - CSO
  - PBS reforms
  - Embrace compliance
- Ongoing business drivers
  - Embrace

# Contract Manufacturing

- Market position
  - Largest Australian pharmaceutical manufacturer
- Current issues
  - Under-utilisation of fixed cost resources
  - Low-cost overseas competitors
- Ongoing business drivers
  - Benefits of scale
  - Available capacity
  - Further manufacturing facility rationalisation
  - Exit of competing Australian manufacturers

# Grocery

- Market position
  - Stocked across major chains, mostly in 2<sup>nd</sup> or 3<sup>rd</sup> brand positioning
- Current issues
  - House-brand competition
  - Underperforming brand
- Ongoing business drivers
  - Unique product offer
  - New product innovation
  - New, focussed Sales team



# OTC Brands

- Market position
  - 3<sup>rd</sup> largest OTC portfolio in Australia
    - Herron
    - Chemist's Own
- Current issues
  - Margin squeeze
  - Competitors, including House-brands
  - Embrace compliance
- Ongoing business drivers
  - Embrace
  - Product innovation



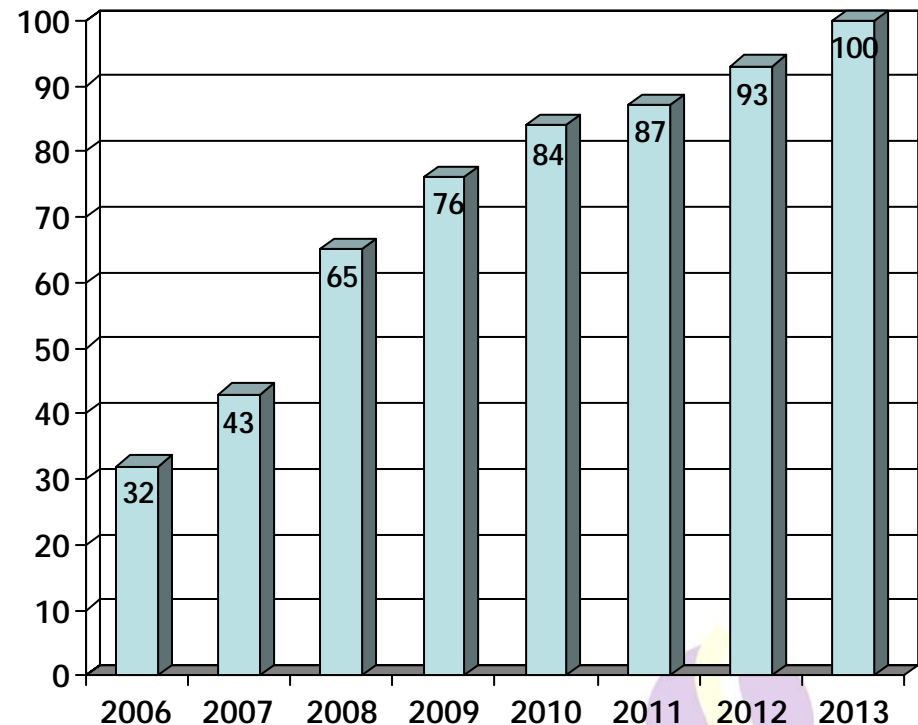
# Generics

- Market position
  - One of 2 dominant players
  - Aggressive growth profile
- Current issues
  - Competition
  - PBS reforms
  - Embrace compliance
- Ongoing business drivers
  - Embrace
  - Product pipeline
    - All major patent expiries for next 5 years

# Generics Pipeline

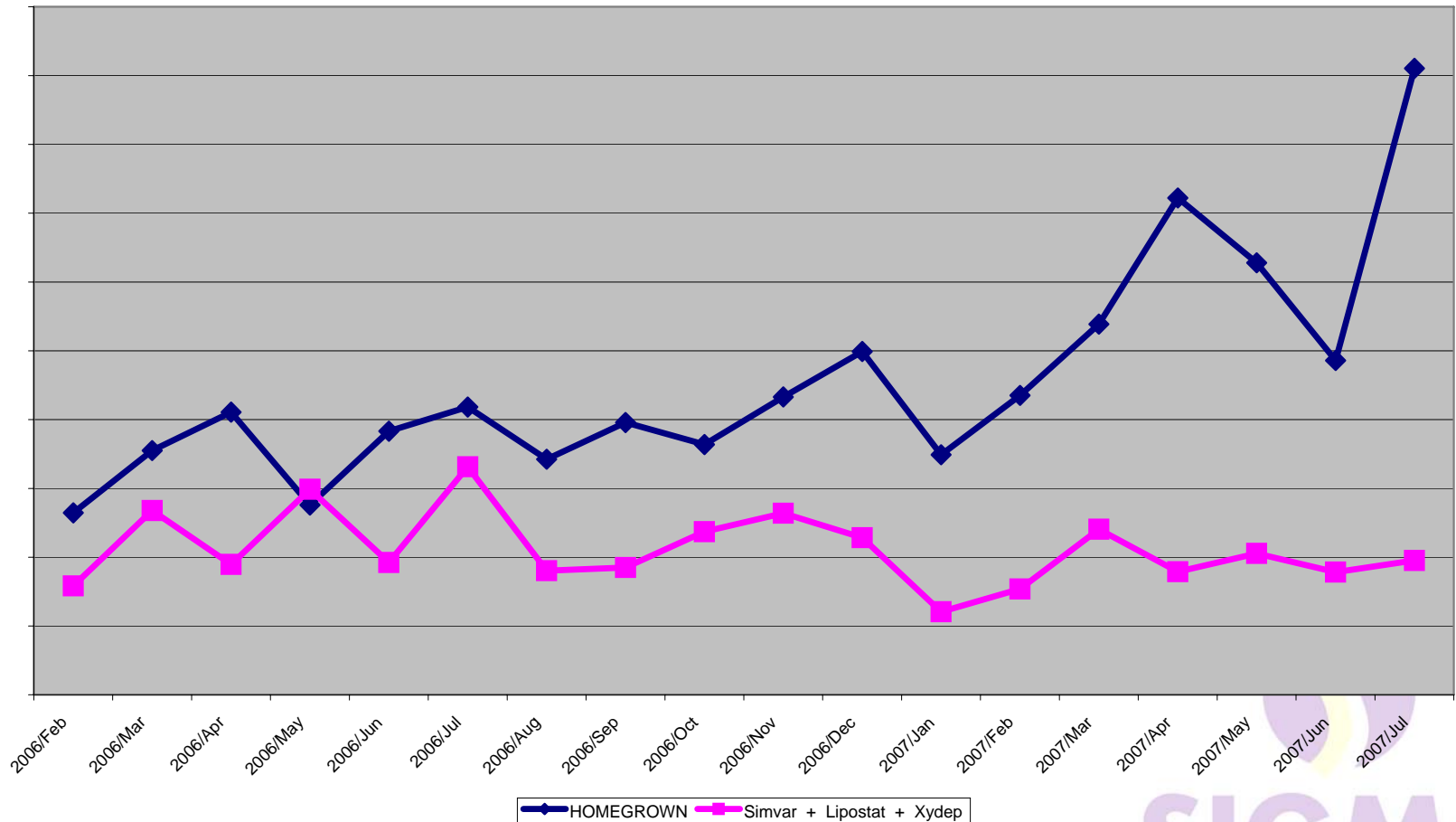
- All major patent expiries covered over next 5 years
  - Vast majority will be manufactured by Sigma
  - Strong cost control
  - Competitive discount structure
  - 7 new products (current PBS spend \$225.4m) launched in past 4 months
  - Sigma target on all new generics min 15% of current PBS value

## Product Pipeline



# Changing sales mix (units)

Sigma Pharmacy - Homegrown v SLX - Last 18 months





# Revised Outlook

# Full Year 2007/08

- Stronger performance still expected in H2 relative to H1
- Underlying NPAT is now forecast to be in the range of \$88 million to \$93 million, excluding the interest impact associated with the Buyback





Thankyou

