Sigma Pharmaceuticals Limited

Results Presentation for the

Half Year ended 31 July 2010

11.00am, 29 September 2010
Flinders Room, Langham Hotel, Melbourne

Mark Hooper - CEO/MD & Jeff Sells - CFO

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Overview of the first half

- Transitional phase for the business
- Challenging period
  - Operationally, particularly in Generics
  - Board and Senior Management renewal
- Stability and clarity emerging
  - New Senior Management now in place
  - Well progressed on sale of Pharmaceuticals Business to Aspen
    - Resolves funding issues and bank discussions
    - Allows focussed operations free of other distractions

Financials

Asset impairment and one-offs

- $220 million impairment of Pharmaceuticals Division goodwill
- Arises due to acceptance of Aspen offer being assessed as best indicator of recoverable amount at 31 July
- Calculated based upon sale proceeds of $900 million
  - less assumed costs of sale
  - carrying of assets being sold
- Gain or loss on sale booked in H2, dependent on final sale structure / finalisation of associated costs
- Number of one-off adjustments related to restructuring, inventory and advisory fees

Sigma Group – First Half Result

A$m	2011 H1 Reported	2011 H1 Non Recurring	2011 H1 Underlying	2010 H1 Underlying	Δ 2011 to 2010 Underlying
Sales	1,621.3	0.0	1,621.3	1,516.5	▲ 6.9%
EBITDA	(156.3)	(244.7)	88.4	101.9	▼ 13.2%
EBIT	(180.2)	(244.7)	64.5	79.5	▼ 18.9%
Interest expense	(37.7)	-	(37.7)	(36.4)	▲ 3.6%
NPAT	**(218.5)**	**(237.3)**	**18.8**	**30.2**	**▼ 37.7%**
Dep & Amort	23.9	-	23.9	22.4	▲ 6.7%
Invested Capital (1)	1,629.2	-	1,629.2	2,136.4	▼ 23.7%
ROIC (2)	(16.4)%		8.1%	6.6%	▲ 1.5%

(1) Net Assets *excluding* external debt, cash and tax balances ***plus* Sigma Rewards debtors**

(2) Earnings *before* interest adjusted for interest shield (NOPAT) *divided by* Invested Capital (annualised)

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Non-recurring items

	Pharma	Healthcare	Corporate	Total	Comments
Reported EBIT $'m	**($197.9)**	**$28.6**	**($10.9)**	**($180.2)**	
One-offs					
Goodwill impairment related to Pharmaceuticals Division	$220.0	-	-	$220.0	Write down based on Aspen offer of A$900m
Other asset impairments	$7.0	$0.7	($1.1)	$6.6	Properties for sale pre Aspen / Generic development costs
Inventory write downs	$9.4	-	-	$9.4	Mainly Generics
Rationalisation & restructuring	$0.9	$2.0	$2.9	$5.8	Mainly site closures and advisory costs
Other	$0.8	$0.3	$1.8	$2.9	Professional fees / redundancies
Total one-off charges	**$238.1**	**$3.0**	**$3.6**	**$244.7**	
Underlying EBIT $'m	**$40.2**	**$31.6**	**$7.3**	**$64.5**	

Healthcare Division
- focus for the "post Aspen" Sigma

A$m	2011 H1	2010 H1	Δ 2011 to 2010
Revenue	1,345.8	1,245.8	▲ 8.0 %
Reported EBIT	28.6	34.5	▼17.0%
Non recurring or one off items	3.0	0.3	-
Underlying EBIT	31.6	34.8	▼ 9.2 %
Underlying EBIT Margin (1)	2.3%	2.8%	▼ 0.5%
Invested Capital (2)	566.4	857.0	▼33.9%
ROIC (3)	10.5%	6.9%	▲ 3.6%

(1) Underlying EBIT / Revenue

(2) Net Assets *excluding* external debt, cash and tax balances *plus* allocated portion of Sigma Rewards debtors

(3) Underlying Earnings *before* interest adjusted for interest shield (NOPAT) *divided by* Invested Capital (annualised)

Pharmaceuticals Division - impacted by challenging environment

A$m	2011 H1	2010 H1	Δ 2011 to 2010
Revenue	275.5	270.7	▲ 1.8%
Reported EBIT	(197.9)	45.9	-
Non recurring or one off items	238.1	0.9	-
Underlying EBIT	40.2	46.8	▼ 14.1%
Underlying EBIT Margin (1)	14.6%	17.3%	▼ 2.7%
Invested Capital (2)	1,062.7	1,279.3	▼ 16.9%
ROIC (3)	7.9%	6.7%	▲ 1.2%

(1) Underlying EBIT / Revenue

(2) Net Assets *excluding* external debt, cash and tax balances *plus* allocated portion of Sigma Rewards debtors

(3) Underlying Earnings *before* interest adjusted for interest shield (NOPAT) *divided by* Invested Capital (annualised)

Working Capital

- Trade receivables wind back has commenced
  - greater benefit will be reflected in H2 2011
  - progressively reduce over next twelve months
- Marginally improved DSO at July 2010, but adversely impacted by a number of delayed debtor payments received in early August
- Supplier terms maximised at July 2009, not replicated this year
- Tax payable, and hedge creditor also lower this half

Cash Working Profit
- improvement but further opportunities

Indicators	2011 H1	2010 H1	Δ 2011 to 2010
Cash Working Profit (1)	70.3	49.3	▲ 42.6%
Change in Working Capital	(29.8)	39.2	▼ 176.0%
Net Cash Flow from Operations	40.5	88.5	▼ 54.2%
Days Sales Outstanding (DSO) (2)	85.7	86.6	▼ 1.0%
Days Payables Outstanding (DPO)	44.5	62.5	▼ 28.8%
Days Inventory On-hand (DIO)	45.1	46.3	▼ 2.6%
Cash Collection Cycle (CCC) (3)	86.3	70.4	▲ 22.6%

(1) Cash working profit = Reported EBITDA (excl asset impairments) less interest paid and tax paid

(2) Includes the off balance sheet Sigma Rewards debtors

(3) CCC = DIO + DSO - DPO

Key Balance sheet metrics
Consolidation of Capital Employed

A$m	2011 H1	2010 H1	Δ 2011 to 2010
Intangibles	654.2	1,317.8	▼ 50.4%
Working capital & other assets[1]	235.0	80.9	▲ 190.5%
Fixed assets	243.2	181.6	▲ 33.9%
Net on balance sheet debt	280.7	365.5	▼ 23.2%
Equity	**851.7**	**1,214.8**	▼ 29.9%
Sigma Rewards debt	538.3	518.2	▲ 3.9%
Total debt	**819.0**	**883.7**	▼ 7.3%
Debt/(Debt + Equity) [2]	**49.0%**	**42.1%**	▲ 6.9%
Total interest	**37.7**	**36.4**	▲ 3.6%

(1) Includes investment in Sigma Rewards of $58.1m (2010:$48.9m)

(2) Debt includes Sigma Rewards; Equity measured at book value

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Bank status - continued strong relationship

- Close working relationship with syndicate banks
  - Constructive and open dialogue
  - Amendments to covenants agreed
- $40m paydown due Sep 10 completed
  - Permanent reduction in syndicated facilities
  - Funded out of working capital release
- Currently reviewing terms of facilities post-Aspen
  - Syndicated/term facilities
  - Trade receivables programs

Healthcare

Wholesale - stable business but improvement required

- Mixed first half result
  - Revenue up 8% with material new business wins in NSW and Qld
  - Costs require further focus
- Increased focus on profitability and return on assets
  - Review of revenue and margin improvement opportunities
  - Further optimise working capital investment
    - Continue credit wind-back program
    - Improve creditor payment terms
    - Improve inventory management practices
  - Site rationalisation on track
    - Laverton scheduled for Oct 10 closure
    - Clayton to transition to new Rowville site in H1 of next year

Retail and Merchandising
- focus on compliance and private label

- Continued rollout of Amcal Max franchise (compliant) model
  - 19 stores signed to date, target of 25 for FY11
- Improved Security of Tenure to retail brands and Sigma
  - 110+ Amcal & Guardian pharmacies signed to new 3 year agreements
- 24 new Private Label products launched
  - Extension of Pharmacy Care range, >140 products in development
- Increased compliance to marketing and aggressive retail pricing across Amcal Max, Amcal & Guardian catalogues
- Marketing investment in TV and Radio campaigns have established Amcal "Better Ask an Expert" positioning
- Continued focus on cost rationalisation initiatives

Pharmaceuticals

Medical
- continues to perform strongly

- Strong performance of existing products
  - Salofalk (14%) and Ursofalk (17%) both continue to achieve double digit growth.
  - Actiq is growing strongly at 47%
  - Busulfex is growing rapidly at 115%
- Circadin (new treatment for insomnia) launched Mar10
  - Achieved ~ $1 million of sales by 31 Jul
- BMS product portfolio has performed in line with expectations

Generics
- promotional activity shadow effect

- First half impacted by previous sales promotion activities
  - No repeat of major promotions
- 4 new major products launched
  - Sozol (pantoprazole), Clovix (clopidogrel), Levitam (levetiracetam) and Favic (famciclovir) with pre-launch PBS value of circa $400m
- Strong market position
  - Over 1,000 pharmacies have Sigma as their first line generic supplier
  - Majority of pharmacy buying groups retained and attainment of one major group (MPS)
- Low out-of-stock incidents due to improved forecasting and inventory management

Consumer/OTC
- marketing reinvestment opportunity

- H1 impacted by 2009/10 year end promotional activities
- H1 also impacted by uncertainty of ownership, re-regulation and withdrawal of advertising and promotional support
  - Re-regulation of the sale of paracetamol-codeine & ibuprofen-codeine combination analgesics from May 10
  - Grocery sales 25% lower than PCP on back of lower support in Herron
    - Decline in Natural healthcare range sales, however, continued strong growth in Vita-Minis and other ranges
- Continued focus on new product launches and upgraded products
  - Herron Gold Paracetamol, Hydraderm Pearl, Goanna, Herron Opti-Multi
  - Upgrades – Codalgin, Aspalgin, Chemists' Own Pain
  - Herron Herbals & Minerals – 25% bonus packs

Manufacturing
- tracking to expectations

<u>Operations</u>

- Favourable Purchasing gains due to price and foreign exchange
  - Hedging policy under review until Aspen finalised
- Volumes through plants marginally lower than budget (↓4%)
- Site rationalisation – Tennyson closed

<u>Contracts & Exports</u>

- Tracking to expectations
- Several interesting new contract opportunities on hold pending Aspen acquisition

Aspen Transaction & Business Update

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Sale process well advanced

- EGM likely to be held in November
- Various transaction documents well progressed
  - Includes Sale, Logistics, and transitional services agreements
- Utilisation of sale proceeds not yet finalised
  - Will involve debt repayment and some form of capital management
- Working towards completion of sale (subject to shareholder and regulatory approval) pre Xmas

Sigma moving forward

- Focus for next 12-18 months on stabilising and improving the Healthcare business
  - Identify and deal with historic issues
  - Recapture confidence of equity market, banks, customers, suppliers and our people
  - Further optimise working capital investment
    - Continue credit wind-back program
    - Improve creditor payment terms
    - Improve inventory management practices
  - Review of revenue and margin improvement opportunities
  - Review corporate and other support services post Aspen completing

Outlook

- FY11 Underlying EBIT still broadly in line with previous guidance (for business as is)
- The Aspen transaction and other costs reported in the July half year will negatively impact the Reported result
- We will continue to review the business in the second half
- Practical focus to end of FY11 is efficient completion of the Aspen deal while ensuring minimum impact on day to day business
  - Most particularly our Customers, Suppliers and Staff

Questions?

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