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ASX RELEASE

Strong sales and Balance Sheet underpin Sigma result

Financial Highlights

- SALES REVENUE UP 1.1% TO ALMOST \$3.0 BILLION
- REPORTED EBIT \$70.3 MILLION, UNDERLYING EBIT \$71.2 MILLION¹
- PROFIT ON SALE OF PROPERTY OFFSETS BAD DEBT AND LEGAL SETTLEMENT
- FULLY FRANKED FINAL DIVIDEND OF 2.0 CENTS
- RECORD RETURN ON INVESTED CAPITAL (ROIC) OF 14.6%²
- \$67.5 MILLION CASH, ZERO DEBT AT YEAR END

Business Highlights

- CENTRAL HEALTHCARE ACQUISITION (Refer separate announcement)
- STRUCTURED PROFESSIONAL SERVICES PROGRAM LAUNCHED
- OVER 100 NEW PRIVATE AND EXCLUSIVE LABEL PRODUCTS LAUNCHED
- SUCCESSFUL PILOT STORE FORMATS ESTABLISHED

Overview

Sigma Pharmaceuticals has announced sustained sales growth to reach almost \$3 billion despite the industry wide impact from ongoing Government PBS price disclosure reform.

Sigma also announced a strategic investment in Central Healthcare to further grow revenues and profit. Sigma continued to reward its shareholders for its strong cash position by announcing a fully franked final dividend of 2.0 cents per share.

The company's underlying return on invested capital rose to 14.6%, a record high for Sigma that reflects the continued emphasis on working capital improvements throughout the business.

In announcing the full year results, Sigma CEO and Managing Director Mark Hooper commented that targeted investment over the past three years is beginning to show benefits across the business.

"To deliver sales growth in a market that is under pressure from Government PBS price disclosure reform and generally difficult retail trading conditions reinforces the recent investment decisions taken and the direction we are heading", said Mr Hooper.

As announced on 26 March, the acquisition of Central Healthcare represents a strategic opportunity for Sigma to open up avenues for growth in the retail pharmacy and hospital network. "Central Healthcare is a natural and complementary fit for Sigma and will be immediately earnings accretive. Even after this acquisition, Sigma continues to be well positioned with a strong net cash balance", said Mr Hooper.

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Financial Results

Sales for the year were up 1.1% to \$2.97 billion driven by a 3.3% increase in the volume of products delivered to pharmacies during the year. Offsetting this were the reduced prices paid through the Pharmaceutical Benefits Scheme (PBS) as a result of ongoing Government reform to contain the cost of the PBS. This impact is expected to continue in the year ahead, with the next round of Government price disclosure changes occurring in April 2014. Sigma will continue to work to offset the earnings impact of these changes by lowering customer discounts and continuing to focus on achieving operational efficiencies.

Reported Earnings Before Interest and Tax (EBIT) reached \$70.3 million, up from \$23.1 million last year, with **Net Profit After Tax (NPAT)** of \$53.5 million, up from \$18.7 million. The significant increases in Reported EBIT and NPAT both reflect the net impact of one-off costs incurred last year that were not repeated.

The results include a stronger than expected profit of \$10.9 million from the sale of the Clayton property, offsetting the one-off costs from the previously announced Harrison bad debt (\$7.4 million) and the Vifor litigation settlement (\$3.7 million).

Underlying EBIT and NPAT were \$71.2 million and \$52.3 million respectively.

Importantly, underlying **Return on Invested Capital (ROIC)** continued the trend of improvement achieved over the last three years, reaching 14.6%¹ for the year.

“For Sigma, ROIC is a particularly important measure, and the year on year trend of increasing ROIC highlights the continued benefit of focussing on both earnings and the efficiency of our assets”, said Mr Hooper

Another important measure of business management is the **Cash Conversion Cycle**, which reached a record low of 50 days. This measure reflects the combination of a continued focus on improving trading terms to reduce customer credit outstanding and tight control of inventory.

Capital expenditure for the year was \$7.3 million, and is expected to increase in the year ahead as we accelerate the investment in our Brisbane distribution centre to drive operational efficiencies.

Business initiatives

A flat PBS necessitates a sharper focus on non-dispensary sales. Pharmacies have a great heritage in delivering healthcare services. There is however a general lack of consumer awareness about the services available, and a need for the services offered to be delivered in a more structured and consistent fashion.

“Sigma is taking a leading position in actively introducing a number of **structured Professional Service** initiatives into the Amcal, Amcal Max and Guardian pharmacy networks. We believe pharmacies can play an important role as the third pillar of primary healthcare, so these structured programs are specifically designed to support pharmacists in caring for the health and wellbeing of their customers which in turn promotes brand awareness and loyalty”, Mr Hooper said.

In addition, over 100 **exclusive and private label** products have been launched during the past 12-months with another 200 in the pipeline to be launched. These are products that are only available through Sigma's pharmacy network.

Mr Hooper commented, "Products such as the **Boots Laboratories Serum7 and colour THEORY** ranges also provide our Amcal and Guardian banner members with a strong point of differentiation in the market. When combined with Professional Services, and enhanced store footprint management, it provides greater opportunity to grow front of shop sales to help offset any effects to dispensary income from Government PBS price disclosure reform."

Dividends and Capital Management

Sigma has continued to invest in its business at the same time as rewarding shareholders. A **fully franked dividend** of 2.0 cents per share payable on 30 April has been announced by the Board, with the shares going Ex-dividend on 3 April 2014. The Dividend Reinvestment Plan (DRP) will not apply.

Sigma Chairman Mr Brian Jamieson commented "We are pleased to again reward shareholders through paying 84% of our profits as a dividend. This final dividend brings the total to 4.0 cents per share paid to shareholders in respect of the 2014 year."

Mr Jamieson continued, "This final dividend has however exhausted our balance of franking credits for the remainder of 2014, meaning we are unlikely to be in a position to pay a franked interim dividend this year. The Board has committed to consider other capital management options to continue to reward our shareholders. We expect to be able to recommence franked dividend payments in 2015."

"We were again active in the sharemarket with an additional 42.7 million shares acquired and cancelled this year alone. This brings the total number of shares bought back and cancelled to 66.4 million since the program was launched in October 2012. The investment of \$47.1 million over the life of the on-market **share buy-back** program to date has been an effective capital management program that rewards all shareholders by either selling their shares into the program, or proportionally through the reduced number of shares on issue", said Mr Jamieson

Outlook

Sigma expects to achieve revenue growth above the dampening effect of ongoing Government PBS price disclosure reform in the coming year. Combined with maintaining continued emphasis on tightening trading terms and continued efficiency gains in warehouse and logistics costs, we anticipate this to translate to improvements in gross profits in the year ahead.

Sigma also has a strong cash position that supports ongoing capital management, our ability to pay future dividends as well as fund investment opportunities.

Mr Hooper concluded, "We look ahead with renewed optimism that Sigma will reap the rewards from having already invested in key areas such as structured Professional Services and an improved retail offer as key planks in our vision of making Sigma Australia's partner of choice in health, beauty and wellbeing."

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Notes

¹ Reconciliation of Reported to Underlying

2013/14	EBIT	NPAT
	\$m	\$m
Reported	70.3	53.5
Net Litigation settlement expense	3.7	2.6
Acquisition expenses	0.7	0.7
Harrisons provision for doubtful debts	7.4	5.2
Profit on sale of Clayton Land and Building	(10.9)	(10.9)
Underlying	71.2	51.1

² ROIC of 14.6% based on EBIT excluding litigation and acquisition expenses

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