

**CEO ADDRESS**  
**MARK HOOPER, CEO & MANAGING DIRECTOR**  
**SIGMA PHARMACEUTICALS LIMITED**  
**WEDNESDAY 6 MAY 2015 IN MELBOURNE, AUSTRALIA**

Thankyou Brian, and welcome everyone to our 2015 AGM.

Hopefully the video you have just seen provides you with a better understanding of how the industry and the funding model all works. The fact is that this system underpins the availability of medicines to anyone anywhere in Australia generally within 24 hours and pharmacists rely on being able to get the medicines to their patients quickly. This is very sound public policy that needs to be preserved.

The funding paid by the Government to community pharmacy under the current agreement to cover wholesale services is simply not sufficient to adequately sustain the sector in its current form in to the future in an environment where volumes are growing and prices are falling. Unless the funding shortfall is addressed, the Government will inevitably undermine its own National Medicines Policy to the detriment of patients.

Government actions have already extracted significant cost savings from the sector, with further significant savings projected to continue into the future. Sigma has responded by rationalising services, reducing costs and changing customer trading terms. Ultimately however this is not sustainable longer term.

Put simply from Sigma's perspective, we must invest where we can provide sustainable shareholder returns.

Notwithstanding some ongoing challenges, our financial performance for the 12 months has been strong, with revenue up 5.7% to \$3.1 billion. This was achieved from a combination of a 5.3% increase in volumes delivered and the addition of CHS, Pharmasave, Chemist King and Discount Drug Stores part way through the year, which was partly offset by the impact of PBS reform.

It is just as important to also highlight our evolving revenue mix. The sheer scale of our wholesaling revenue and the impact of PBS price reform can mask the growth achieved in our non-PBS revenue. Sigma is more than a box mover, although wholesaling remains the core of

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what we do. We have broadened our revenue base through an extended range of Private and Exclusive label products, expanded our service offering to our members, and improved our merchandise and marketing performance. We have also achieved significant improvement in brand standards across our network, providing an improved customer experience and better buying capability for the future.

The clearer indicators for Sigma's strong performance are our increasing Gross Profit and EBIT margins. Gross Profit for the year increased by 8.3% to \$234.8 million, with the EBIT margin improving from 2.4% to 2.5%. The main contributors to these improvements were:

- An expanded Private and Exclusive label range that now exceeds 800 products delivering improved performance for Sigma and our customers, at competitive market prices for consumers;
- The inclusion of CHS distribution margin, including the hospitals distribution business;
- Improved marketing, Merchandising and membership fee income, including from the acquisitions of Pharmasave and DDS;

Earnings Before Interest and Tax was up 11.0% for the year to reach \$78.0 million. This result has been achieved through organic growth, the acquisitions made during the year, and a sustained focus on controlling costs.

In May 2014 we announced the acquisition of CHS, including the Pharmasave and Chemist King pharmacy brands. This was quickly followed by the acquisition of DDS in September. At the time of these acquisitions, we announced an expectation they will deliver \$400 million in revenue and \$8 to \$10 million in EBITDA. It is pleasing to report that they are performing in line with our expectations.

We have also focused our attention on reinvesting in our network of distribution centres.

Land was acquired last year in Berrinba in South East Queensland for the development of our new Brisbane distribution Centre. Plans have been developed and a go-live date midway through the 2017 calendar year is anticipated. Work has also commenced on constructing our expanded CHS distribution centre at Eastern Creek in Sydney. The recent storms in Sydney did cause minor structural damage which is currently being assessed for rectification, with no major delays anticipated. We are also in the process of identifying options for either

re-fitting our existing Sigma facility in Sydney, or re-building on a new site. This review will be undertaken over the next 12 months. Overall, we expect to invest around \$100 million spread over the next four years.

Our investment in the Sigma business has also seen the development of a number of initiatives that support the success of our customers. Our Horizon 2 strategic objective is to be the partner of choice, and at our Retail conference held in March, attended by around 400 of our pharmacy members, we announced a number of exciting new initiatives which are unique to Sigma and are designed to accelerate the achievement of this objective. These include:

- The launch of SGP or Sigma Generics Program that is designed to provide improved generics buying for our network of pharmacies;
- The launch of Signal, a unique dashboard and reporting tool, providing market leading insights into every aspect of the pharmacy performance;
- The launch of SFS or Sigma Financial Services, providing value adding services to pharmacy without putting Sigma's balance sheet at risk; and
- The launch of Health Services Australia, the new umbrella brand supporting Sigma's structured Professional Service programs across our pharmacy network.

Finally, and linking back to comments Brian made earlier about what is currently being delivered by the existing regulatory framework, it is clear that pharmacies and pharmacists continue to be publicly recognized as one of the most trusted and respected professionals. So it is again pleasing that two of our own brands, Amcal and Guardian, consistently lead the way. Guardian has now won the Roy Morgan Customer Satisfaction award three years running. Amcal has twice been awarded the Canstar Blue Most Satisfied Customer Award for pharmacy, the International Customer Service Professionals consumer service award, and the recently announced Readers Digest Quality Service Award. I congratulate all our brand members for their consistent service excellence in supporting the community.

I also wish to thank all our suppliers, customers and service providers for their continued support, and our valued team members across Sigma, CHS, Pharmasave, Chemist King and Discount Drug Stores. Sigma is committed to ongoing investment in our people to ensure we maintain a strong culture that underpins our business and future growth.

As we head into 2015/16, there remain a number of industry headwinds but there are also a number of factors in our favor:

- a full year contribution from the CHS and DDS acquisitions;
- organic growth, partly offset by PBS price disclosure impact;
- a full year with an expanded Private and Exclusive label range of products; and
- improved contributions from the numerous services and programs launched and the enhanced merchandise and marketing;

The first three months of the 2016 financial year have produced results in line with expectations, and I remain confident of this performance extending through the year as we now also focus on Horizon 3 of our strategy.

Thank you and I will now hand back to Brian.

**Mark Hooper, CEO & Managing Director**  
**6 May 2015**

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