Sigma Healthcare Limited

Half Year Results

to 31 July 2018

Announced 6 September 2018

ASX Ticker: SIG

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This presentation also contains certain non-IFRS measures that Sigma believe are relevant and appropriate for the understanding of the financial results.

Overview

Mark Hooper, CEO and Managing Director

1H19 Results Overview

Sales Revenue (Excluding Hep C) up 3.2% to $1.8bn

Underlying EBITDA down 16.4% to $40.3m

Underlying NPAT down 31.2% to $19.9m

- Revenue steady despite competitive environment
- Revenue growth largely from lower margin Sigma Hospitals
- PBS pricing reform continues to bite
- Additional rebates paid to MC/CW Group
- Other costs well controlled
- Increases in D&A and Interest charges impacting NPAT

ROIC of 13.6%

- Reduction reflects lower earnings and current investment cycle in DC infrastructure and systems

High dividend payout ratio maintained

- 4th consecutive year of DPR at 80% or above

Business Update - our pivot point begins

> Sigma now has a significant opportunity to re-engineer our business, sharpen our focus, enhance our growth profile, and drive operational and functional improvement. Through all levels of the business, we are aligned and committed to delivering that outcome.
>
> **Brian Jamieson, Chairman**

Existing initiatives					MC/CW operation transition	
DC Investment Program Ahead of schedule, under budget	**Retail Pharmacy Brands** Largest pharmacy footprint with good pipeline of growth	**Hospital Services** Achieving growth through differentiated offering to a national customer base	**MPS and MIA acquisition** Achieving above business case	**M&A strategy** Being actively pursued	**Over $300 million working capital** Will be released	**Business re-engineering** Including zero based approach (ZBx) underway

Financial Performance

Iona MacPherson, CFO

Group Financial Performance

	REPORTED	UNDERLYING			
	1H2019 $m	1H2019 $m	1H2018 $m	Variance $m	Change %
Sales Revenue	**1,957.6**	**1,957.6**	**1,998.2**	**-40.4**	**-2.0%**
Sales Revenue (Ex Hep-C)	**1,819.7**	**1,819.7**	**1,763.0**	**+56.7**	**3.2%**
Gross Profit	**135.1**	135.1	141.4	-6.3	-4.5%
Other Revenue	**48.9**	48.9	39.5	9.4	24.0%
Operating Costs	**-152.5**	-143.2	-132.6	-10.6	8.1%
Non-controlling Interests		-0.5	-0.1	-0.3	263.8%
EBITDA	**31.5**	**40.3**	**48.2**	**-7.9**	**-16.4%**
Depreciation and Amortisation	-6.2	-6.2	-4.0	-2.2	54.2%
EBIT	**25.3**	**34.1**	**44.2**	**-10.1**	**-22.8%**
EBIT Margin	**1.29%**	**1.74%**	**2.21%**	**-0.47%**	**-**
Net Financial Expense	**-5.0**	-5.0	-1.9	-3.1	160.9%
Tax Expense	**-6.5**	-9.2	-13.4	-4.2	-30.6%
NPAT	**13.8**	**19.9**	**28.9**	**-9.0**	**-31.2%**

- Other Revenue includes a full period of MPS
- Key difference in underlying cost is one-offs including Berrinba transitional costs
- Increase in D&A and interest expense reflects infrastructure investment

Revenue and Gross Profit Drivers

Sales Revenue (ex Hep-C): Up 3.2% to $1.82bn

- Largely driven by growth in Sigma Hospitals
- Also includes sales from the aquisition of Medical Industries Australia (MIA)

Other Revenue: Up 24.0% to $48.9m

- Reflects full year contribution from MPS
- Partly offset by reduction in promotional income and lower member fees

Gross Profit: Down 4.5% to $135.1m

- Reflects impact of ongoing PBS price reform
- Impact of additional MC/CW rebates

Operating Costs under control

Warehouse and Delivery: Up $15.0m to $82.5m

- Excluding one-offs, operating costs are flat
- Includes costs relating to MPS and MIA ($8.2m)
- One-off redundancy and transition costs due to closure of Mansfield ($7.0m)

Sales and Marketing: Down $0.8m to $33.2m

- Operating costs remain flat
- Reduction reflects lower doubtful debtors expense and more efficient advertising spend

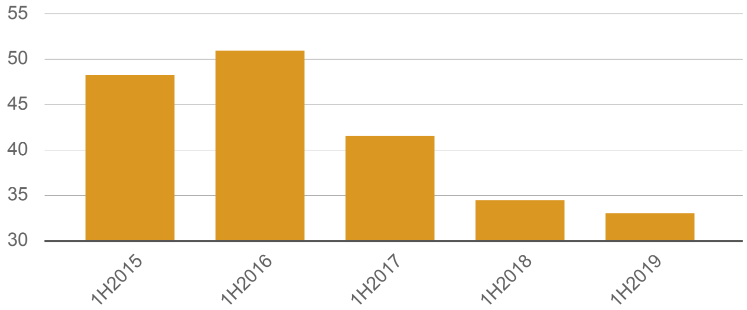
Administration: Up $4.2m to $36.8m

- Largely reflects corporate redundancy costs ($1.7m)
- Includes MPS and MIA aquisitions ($1.4m)
- Partly offset by reduced Due Diligence costs, consultant fees and other cost reduction initiatives

Cash conversion cycle remains strong

- 1 Day improvement from July 2017
- Expect this to remain steady in FY19

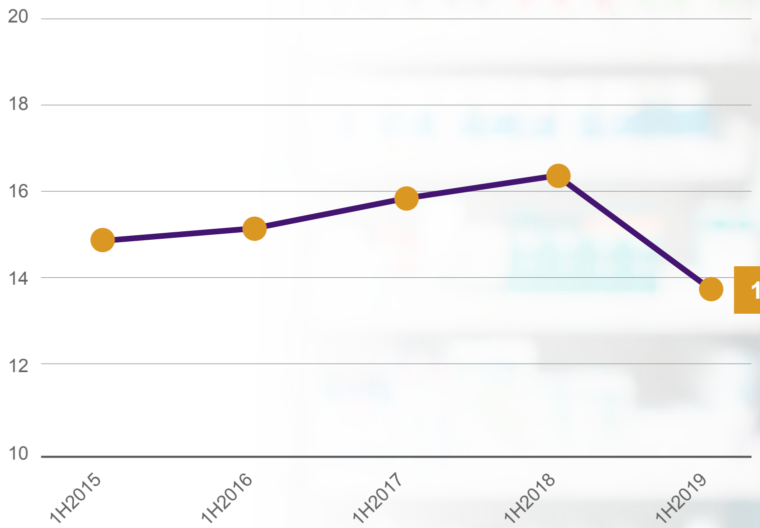
Cash Conversion Cycle Days (Excl. Hep-C)



	1H19	FY18
Trade Debtors (Excl. Hep-C)	547,316	510,841
Inventory (Excl. Hep-C)	351,734	335,876
Trade Creditors (Excl. Hep-C)	(502,602)	(483,500)
Working Capital ($000)	396,448	363,207
Days Sales Outstanding (DSO)	54	51
Days Inventory Outstanding (DIO)	36	36
Days Payables Outstanding (DPO)	(52)	(52)
CCC Days (Incl. Hep-C)	38	35
CCC Days (Excl. Hep-C)	33	32

- ROIC continues to be a strong focus
- Reduction reflects current investment cycle and lower earnings

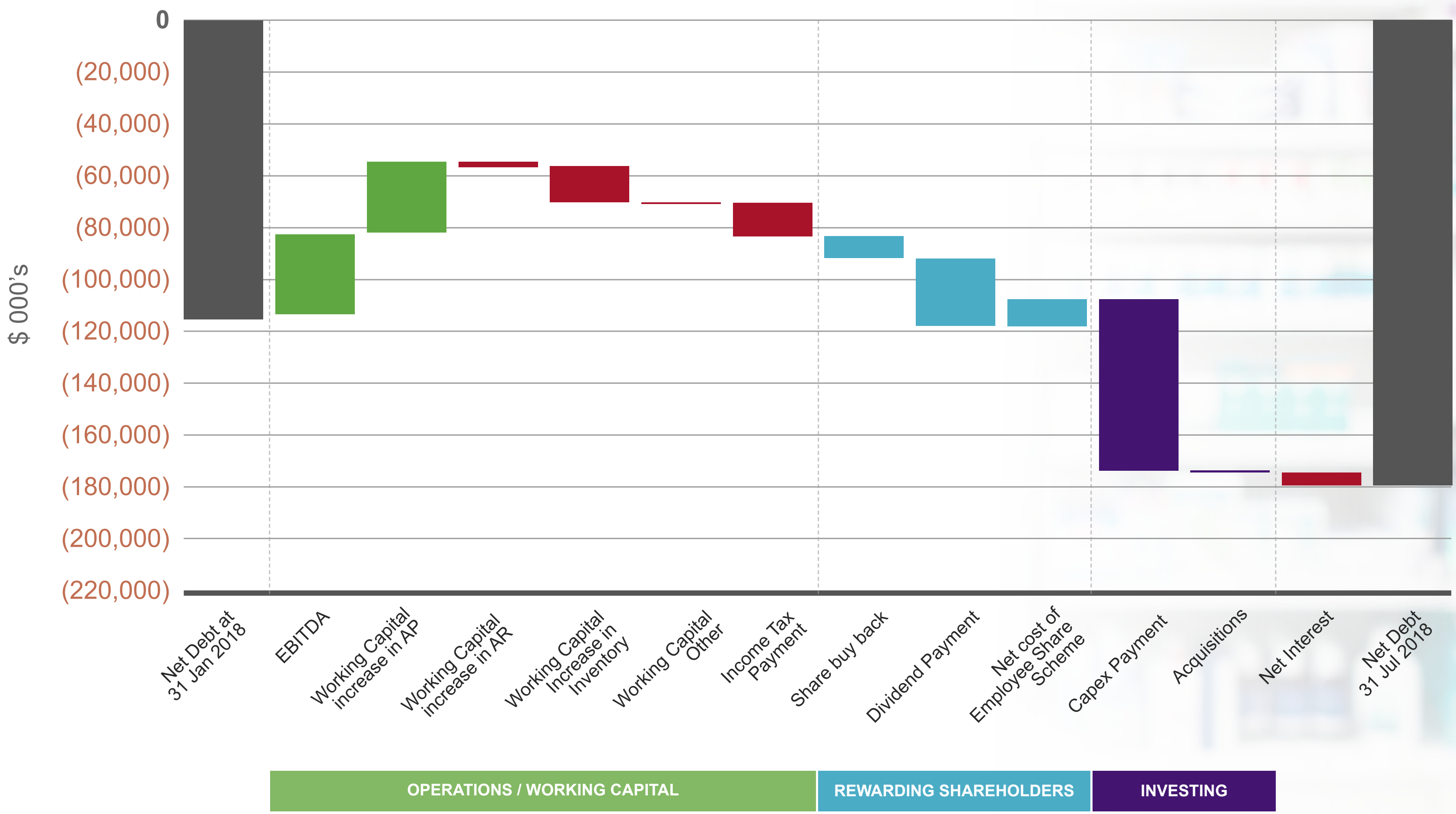
Underlying ROIC# - remains a core focus



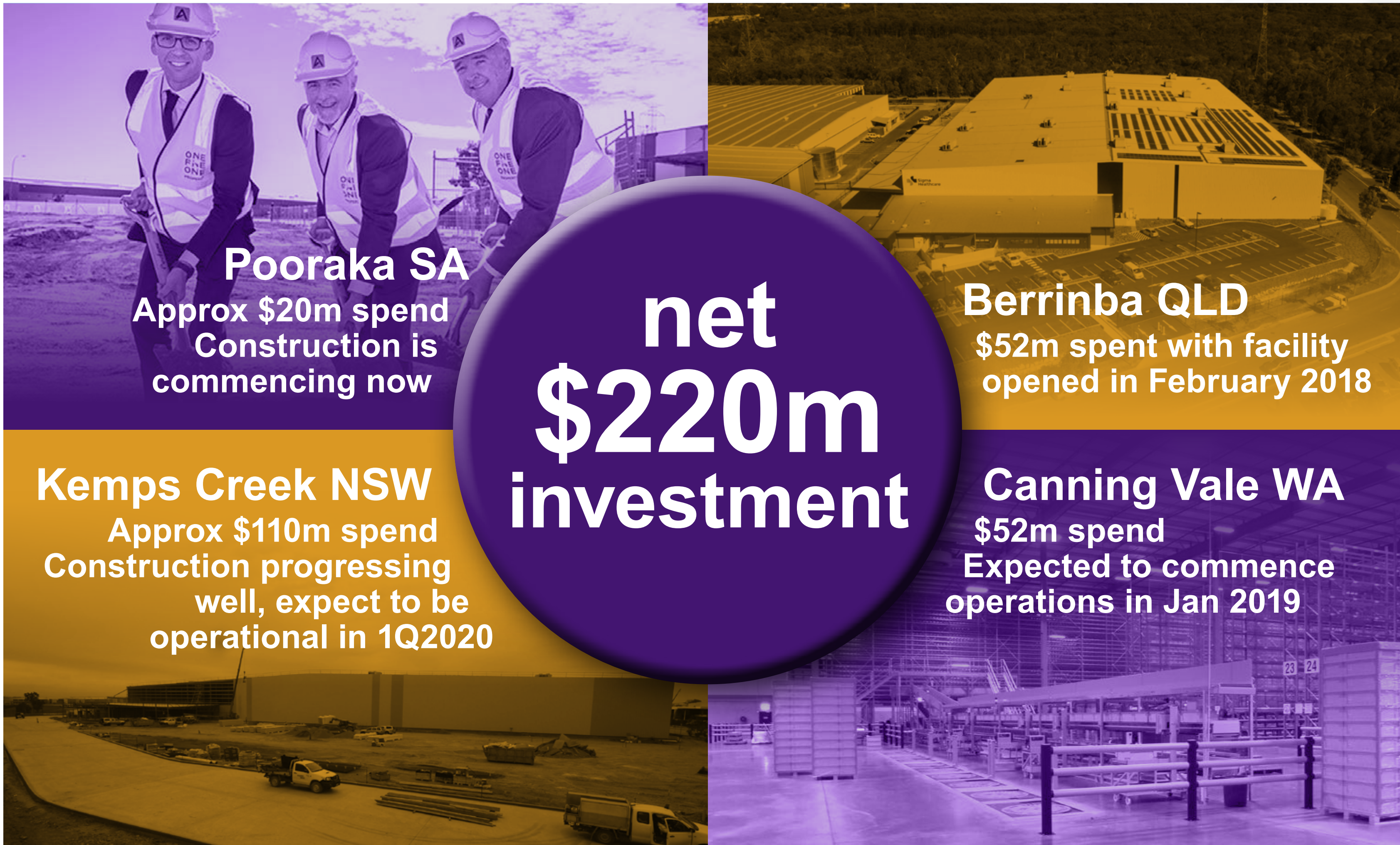
#Refer to Appendix 1

Cash Flow – remains strong

- Strong operating cash flow continues to fund dividend
- Debt utilised to fund long term infrastructure investment



Capital Investment Program – improving efficiency and capacity



Pooraka SA
Approx $20m spend
Construction is commencing now

Berrinba QLD
$52m spent with facility opened in February 2018

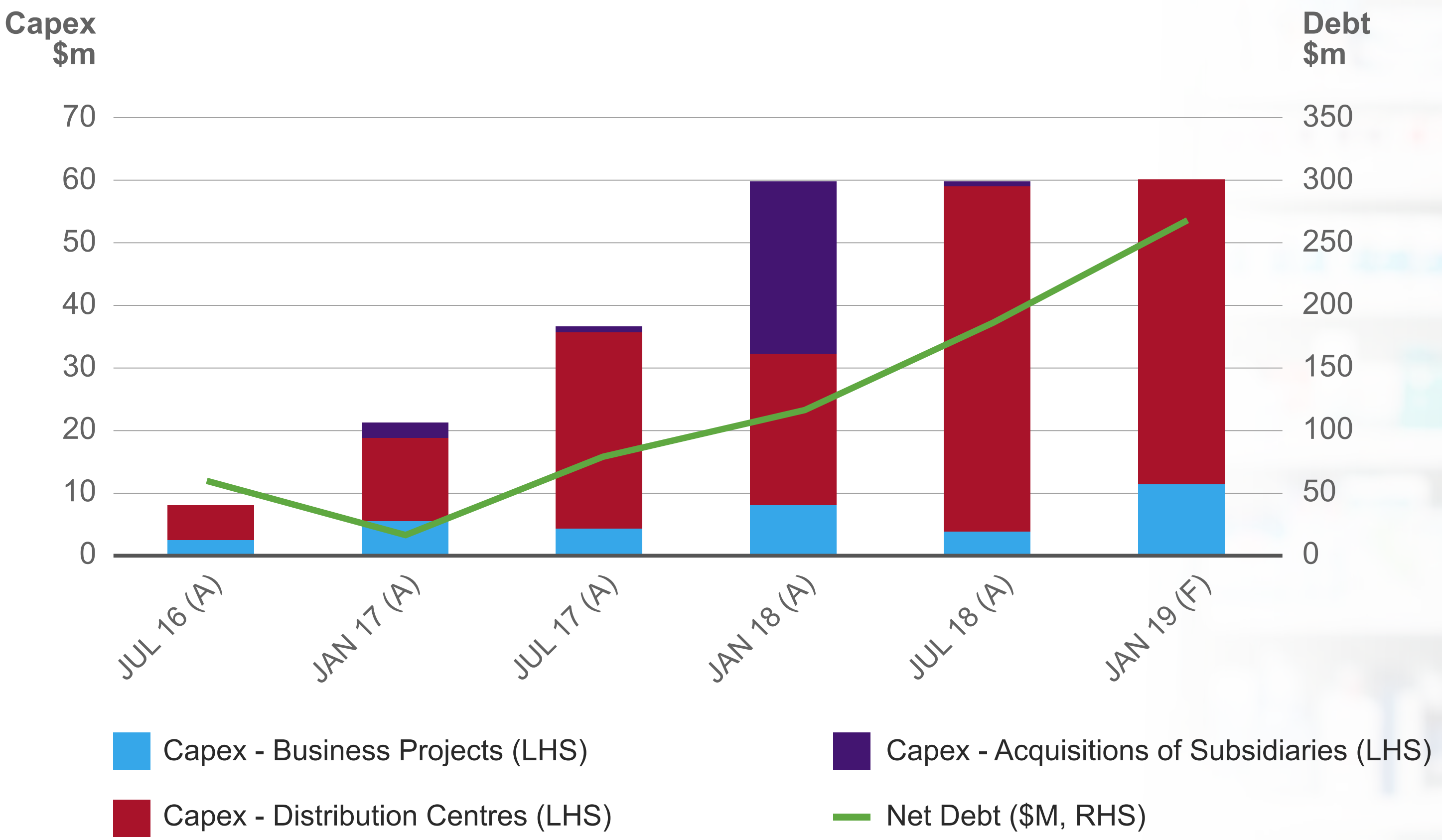
net $220m investment

Kemps Creek NSW
Approx $110m spend
Construction progressing well, expect to be operational in 1Q2020

Canning Vale WA
$52m spend
Expected to commence operations in Jan 2019

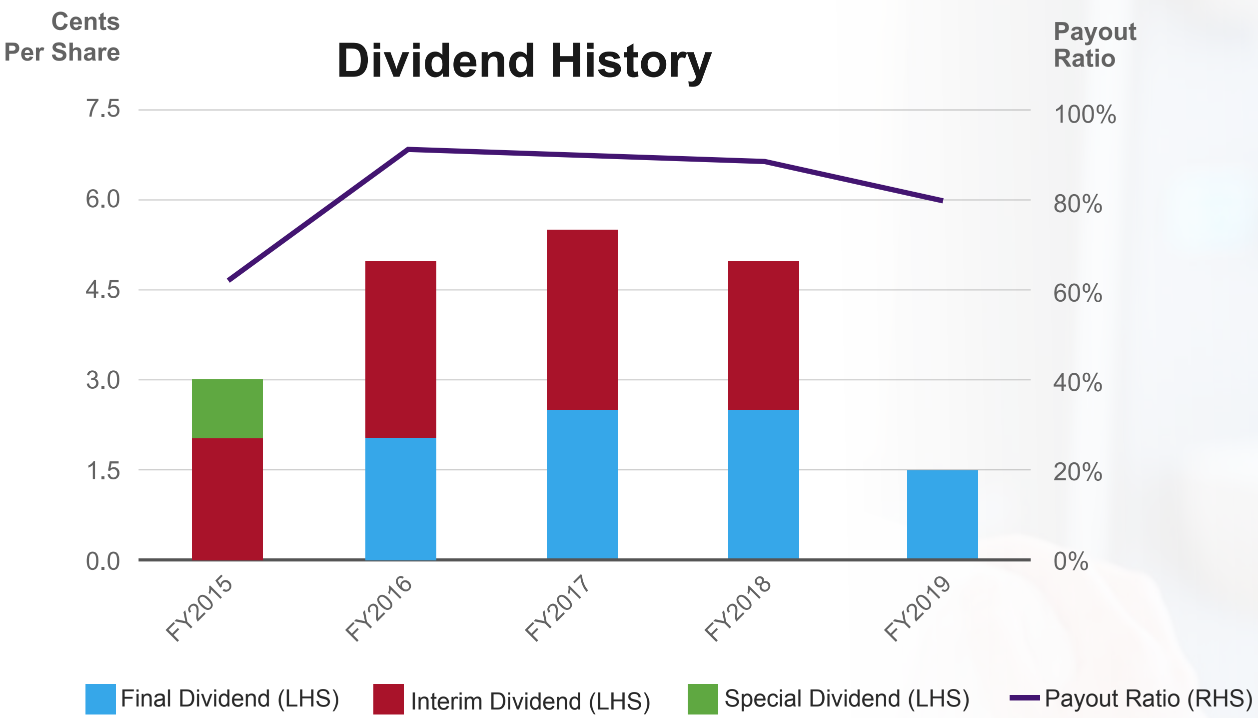
Debt Position – gearing into long-term assets

- $179.2m net debt at 31 July 2018
- 1H19 net interest expense $5.0m - reflects increased investment
- Expect net debt to be around $260m at FY19 (subject to any acquisitions)



High Dividend Payout Ratio maintained

- Interim dividend of 1.5 cents per share (fully franked)
- Payout ratio 80% of Underlying NPAT (119% of Reported NPAT)
- Board reconfirms intention to retain a high dividend payout ratio



Business Update

Mark Hooper, CEO and Managing Director

1. MC/CW contract update
2. Business Re-engineering program
3. General Business Update
4. Outlook

Chemist Warehouse contract update

- Contract continues until 30 June 2019
- Some FMCG supply may transition prior to 30 June
- Approximately $300m working capital will be freed up
- Major strategic planning and business re-engineering work now commencing

> **We stand by our decision to not renew the MC/CW contract on the terms sought as it was not in the best long-term interests of shareholders**
>
> **Mark Hooper, CEO**

Business re-engineering program commencing

- Accenture appointed to support efficient exit of MC/CW business and execution of restructuring initiatives
- Restructuring applies a ZBx discipline (zero based approach) on a whole of business approach
- Initial program will run for 8 weeks with ongoing support

accenture

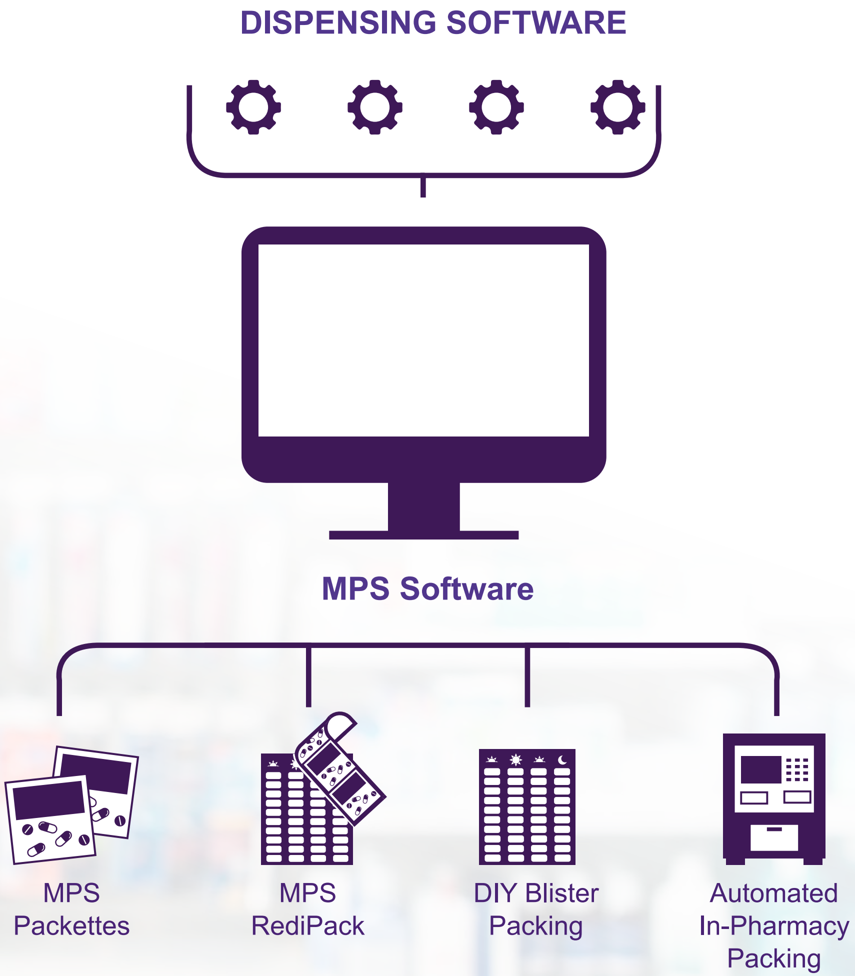
Sigma's retail brands – providing flexible solutions

- Tailored solutions to meet various owner requirements
- The largest retail pharmacy network
- Like for like sales – Amcal up almost 2.0%, Guardian up 5.3%, and DDS up 3.0%
- Guardian member numbers up 10% this calendar year
- Pipeline of new members is strong

Turnkey solutions National Marketing Campaigns Increased Brand Standards	Flexibility: core+optional modules Limited Marketing support Level of Brand Standards	Opt in Localised marketing Independent pharmacies

MPS and MIA – meeting expectations

- Strong alignment with Sigma's broader healthcare strategy and government objectives
- MPS has three TGA approved facilities servicing Australia wide
- Software solutions supporting pharmacists and patients
- MIA expanding medical consumables and devices opportunities



mps: one system, multiple solutions supporting growth

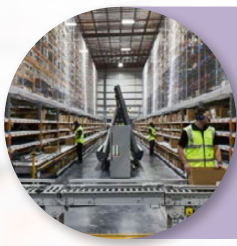
Sigma Hospital Services – strong growth outcome

- Continued strong growth in Western Australia and New South Wales
- Extended key contracts in Victoria
- Revenue up 67% year on year excluding Hep-C (up 35% including Hep-C)
- Focussed on leveraging national presence to further accelerate growth

Our way forward – Organic growth supported by disciplined investment

Organic growth

Brand members, independent, wholesaling, hospitals, 3PL/4PL



Cost efficiency program commencing

Operating costs continue to be extracted under a structured program

Disciplined acquisitive growth

Investment in aligned and adjacent business remains a strong focus
Commitment to investing for appropriate levels of return

Maintain strong focus on capital management

Underpins investment profile, capital management, and shareholder rewards

Outlook

- FY19 – On track to deliver in-line with guidance of Underlying EBIT of $75m.
- Continue to target FY20 Underlying EBIT of $40m - $50m
- Future focus will be on EBITDA as a better indicator of business performance due to DC investment
- Ongoing investment (including DC) will continue to drive operational improvements
- Business re-engineering will accelerate as we move closer to 30 June 2019
- High Dividend Payout Ratio expected to be maintained

Sigma Healthcare
Connecting health solutions

Thank you

Appendix 1 – ROIC Reconciliation

$m	31/7/2014	31/7/2015	31/7/2016	31/7/2017	31/7/2018
Net Assets	568.8	550.1	551.0	532.9	501.2
Less: Cash and cash equivalents	-34.7	-45.6	-40.8	-23.2	-21.6
Add back: Interest bearing liabilities	0.6	60.5	96.0	96.0	200.8
Adjusted for One-Off Items including WIP capex	0.0	0.0	0.0	-61.8	-90.0
Capital employed	534.7	565.0	606.2	543.9	590.4
Rolling 12 months Underlying EBIT	79.6	86.1	96.2[#]	87.7	80.2
Underlying ROIC	**14.9%**	**15.2%**	**15.9%**	**16.1%**	**13.6%**

Underlying pre-tax ROIC is based on the last 12 months of underlying earnings (EBIT), excluding non-operating items, and net assets adjusted for capital work in progress on new distribution centres.
[#]Underlying EBIT adjusted for provision for doubtful debtors expense

Appendix 2 – Reported to underlying reconciliation

	31 July 2018 $'000	31 July 2017 $'000
Reported EBITDA	**31,519**	46,773
Less depreciation and amortisation	**-6,199**	-4,018
Reported EBIT	**25,320**	42,755
Add: Restructuring and dual operating costs before tax	**8,700**	431
Add: Litigation and due diligence costs before tax	**551**	1,100
Less: Non-controlling interests before interest and tax	**-473**	-130
Underlying EBIT attributable to owners of the company	**34,099**	44,156
Depreciation and amortisation	**6,199**	4,019
Underlying EBITDA attributable to owners of the company	**40,298**	48,175

Appendix 2 – Reported to underlying reconciliation

	31 July 2018 $'000	31 July 2017 $'000
Reported NPAT attributable to owners of the company	**13,397**	27,808
Add: Restructuring and dual operating costs after tax	**6,090**	302
Add: Litigation and due diligence costs after tax	**386**	770
Underlying NPAT attributable to owners of the company	**19,873**	28,880