Sigma Healthcare Limited

Half Year Results to 31 July 2017
Announced 7 September 2017

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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

1. Overview
2. Financials and Capital Management
3. Acquisition and Business Development
4. Outlook

Market Update

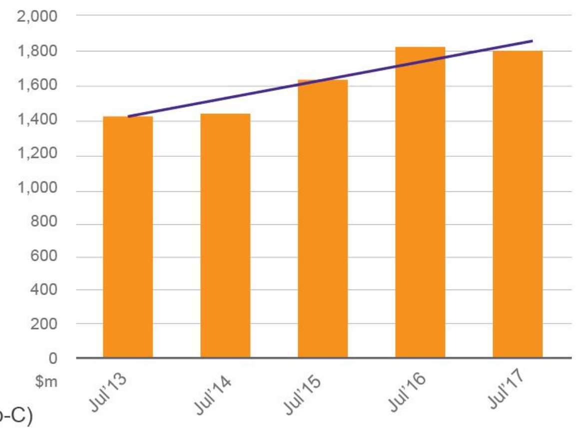
- Acquisition of the MPS business - important step in Sigma's broader healthcare strategy
- Hospital services - recent tender success in Victoria
- Department of Defence contract now in operation
- DC investment program - ahead of schedule and under budget
- Reorganising structure to improve customer focus and support strategy.

Challenging 1H18 but ROIC Maintained

Revenue - 5.0% CAGR

$1.78 billion

Down 1.4%

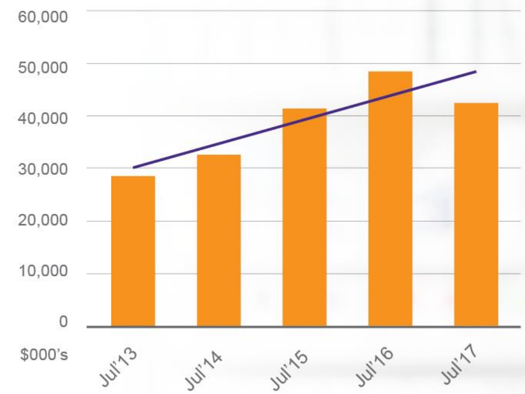


(Excluding High Cost Hep-C)

Underlying EBIT# - 11.5% CAGR

$44.2 million

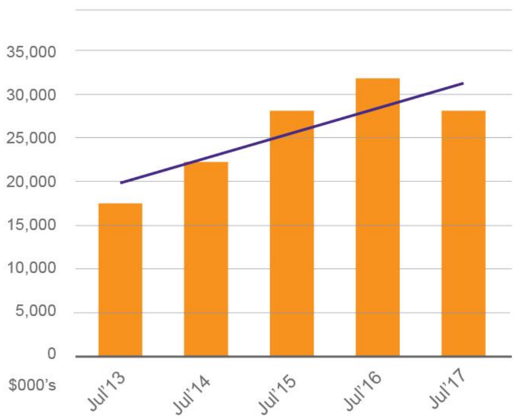
Down 8.7%



Underlying NPAT# - 13.1% CAGR

$28.9 million

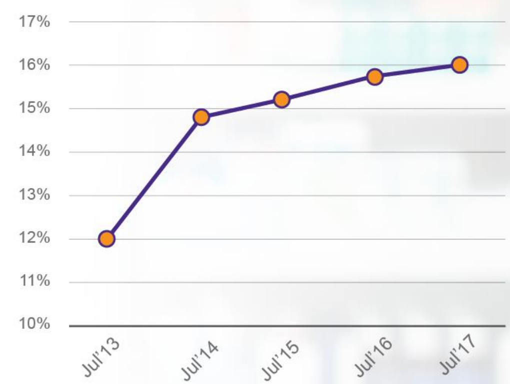
Down 8.8%



Underlying ROIC# - remains a core focus

16.1 percent

Up from 15.9%



1H18 Reported EBIT was $42.8m and Reported NPAT was $27.8m.

Underlying – refer to Appendix 2 for a reconciliation of Reported to Underlying

Our Promises

Promise	Delivered	
Grow EBIT by at least 5% for the next two years	• 1H18 Underlying# EBIT down 8.7% • Impacted by Hep-C, softer consumer spend and exit of a customer group • Cycling above market growth from 1H17	✗
Grow non PBS earnings	• Non-PBS earnings continue to grow • Other revenue up to $39.5m	✓
Maintain strong balance sheet	• Net debt of $73m. Expect $125m net debt at year end • Underpins investment profile and capital management	✓
Improve capital management	• Cash Conversion Cycle 34 days • Underlying ROIC strong at 16.1%	✓
Reward shareholders	• Interim Dividend maintained at 2.5 cents, with 92% payout ratio (underlying) • Share buy-Back – 125m shares cancelled to date (4.4m in 1H18)	✓

Refer to Appendix 2 for a reconciliation of Reported to Underlying

Financial Performance

Iona MacPherson, CFO

Group Financial Performance

- Headline sales revenue largely impacted by pull back of Hepatitis C sales ($105m reduction)
- Ex Hep-C, sales down 1.4% reflecting softer consumer spend and the exit of a customer group

	REPORTED	UNDERLYING			
$m	**1H 2018**	**1H 2018**	**1H 2017**	**Variance**	**% change**
Sales revenue	2,015.5	2,015.5	2,146.0	(130.5)	(6.1)
Gross Profit	141.4	141.4	141.8	(0.4)	(0.3)
Other revenue	39.5	39.5	39.2	0.3	0.8
Operating costs	(134.1)	(132.6)	(128.1)	(4.5)	(3.5)
Depreciation and Amortisation	(4.0)	(4.0)	(4.2)	0.2	4.8
Non-controlling interests	-	(0.1)	(0.3)	0.2	66.7
EBIT [1]	42.8	44.2	48.4	(4.2)	(8.7)
EBIT Margin	2.12%	2.19%	2.25%	(0.06)	N/A
Net financial expense	(1.9)	(1.9)	(2.3)	0.4	17.4
Tax expense	(13.0)	(13.4)	(14.4)	1.0	6.9
NPAT [1]	27.9	28.9	31.7	(2.8)	(8.8)

[1] Refer to Appendix 2 for reconciliation

Revenue and Gross Profit Drivers

Sales Revenue: Down 1.4% to $1.78bn (excluding Hep-C)

- Impacted by market wide softer consumer spend
- Hepatitis C sales down $105m (down 31%)
- Like for like sales in key brands slightly up despite softer general market conditions

Other Revenue: Up 0.8% to $39.5m

- Continued underlying growth
- Partly offset by loss of member fees from the exit of customer group to support consistent brand execution

Gross Profit: Down 0.3% to $141.4m

- Strategy continues to target 50% of earnings from non-PBS activities
- Currently at 38%

Operating Costs – Investment in Growth

Warehouse and Delivery: Up $3.3m to $67.5m

- Costs well contained to absorb
  - EBA increases, partly offset by productivity gains
  - Expanded operations (new CHS sites)

Sales and Marketing: Down $1.1m to $34.0m

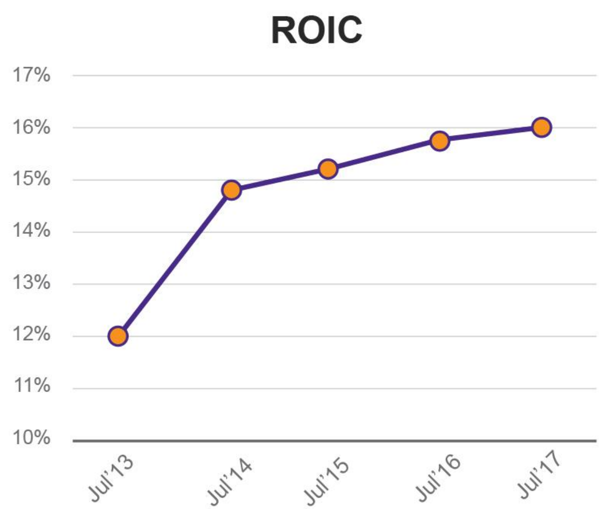
- Maintained investment in ongoing programs to support brands
- Reduction reflects lower provision for bad debt

Administration: Up $3.8m to $32.5m

- Increased investment in people, systems and processes to drive operational improvements
- Strategy and business development initiatives
- Additional legal costs incurred

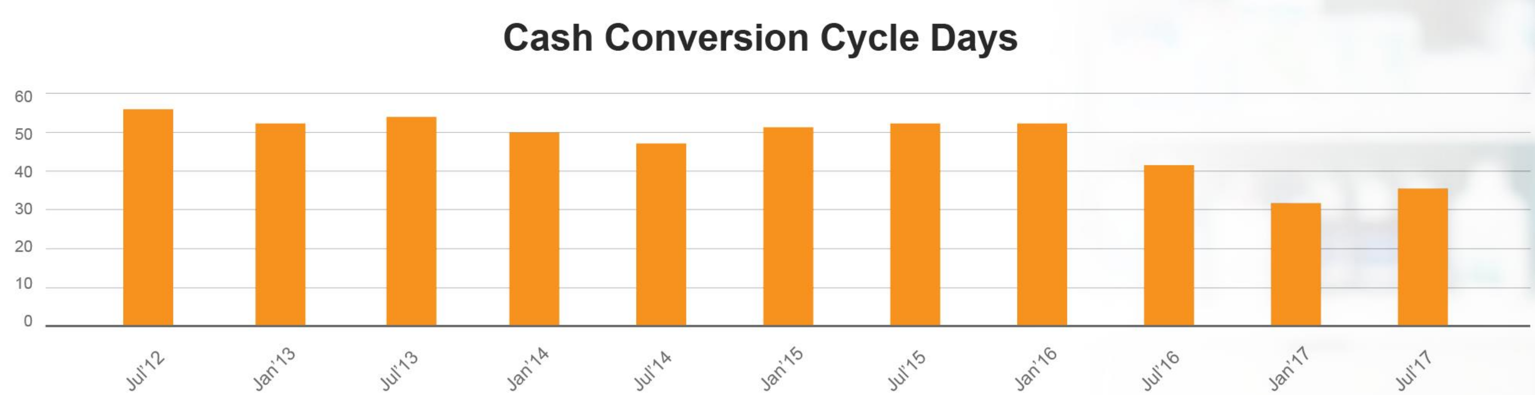
Continued Strength in Working Capital and CCC Performance

- ROIC remains a strong focus as we move through our current investment cycle.
- CCC influenced by ramp up in inventory in preparation for new supply contracts.

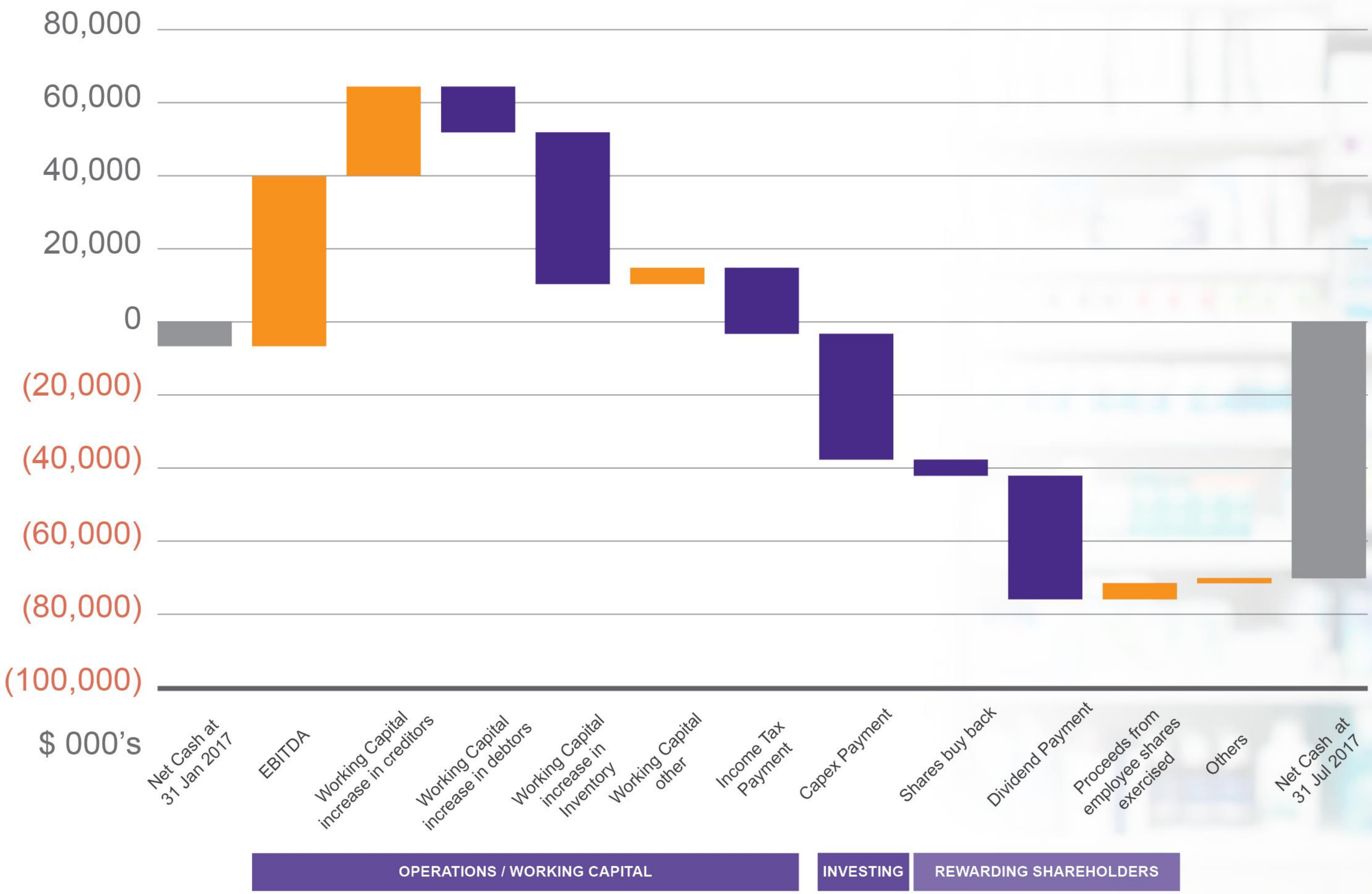


Excludes Capital WIP

	1H18	FY17
Trade Debtors (excl. Hep C)	497,399	476,556
Inventory (excl. Hep C)	334,634	295,506
Trade Creditors (excl. Hep C)	(431,582)	(398,939)
Working Cap $'000	400,451	373,123
Days sales outstanding (DSO)	48	45
Days inventory outstanding (DIO)	34	29
Days payables outstanding (DPO)	(47)	(43)
CCC Days	34	31
CCC days (excluding Hep C)	39	36



Cash Flow - Rewarding Shareholders and Investing for Growth

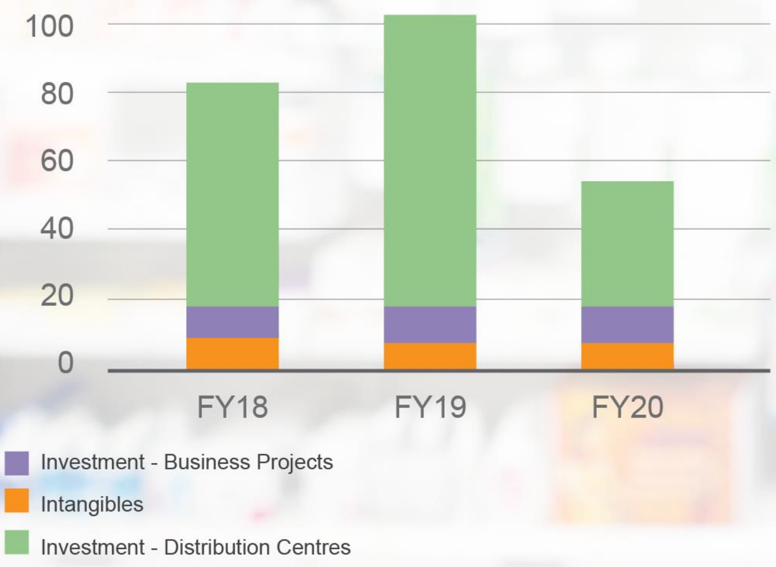


Other Financial Metrics

Capex

- $36m in 1H18, and expect $80m for FY18
- Construction of Berrinba QLD almost complete, with construction of Canning Vale WA underway
- FY19 capex expected to reach $100m with ongoing construction of Canning Vale

Forecast Capital Expenditure (A$m)



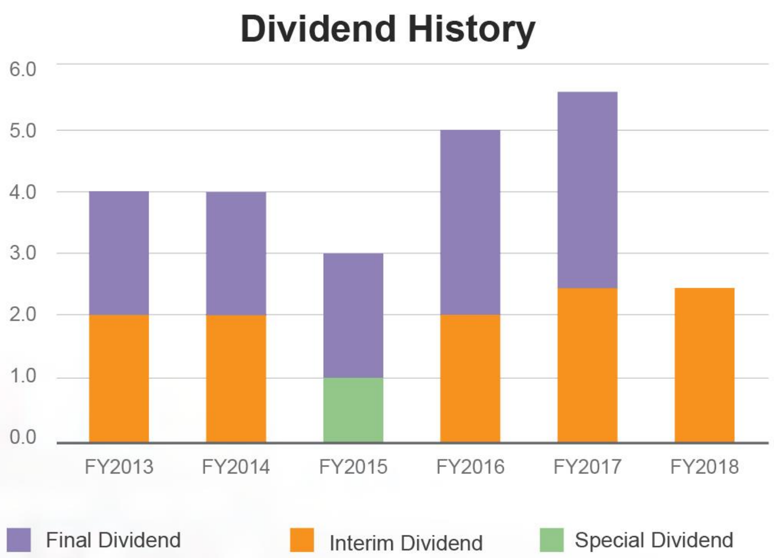
Debt/Interest

- $72.8m net debt at end of 1H18 (Debt/EBITDA ratio comfortably below 1x)
- Expect $125m net debt for FY18
- 1H18 net interest expense $1.9m
- Finalising discussions with banks to align future debt facilities to match our long term investment profile

Continuing to Reward Shareholders

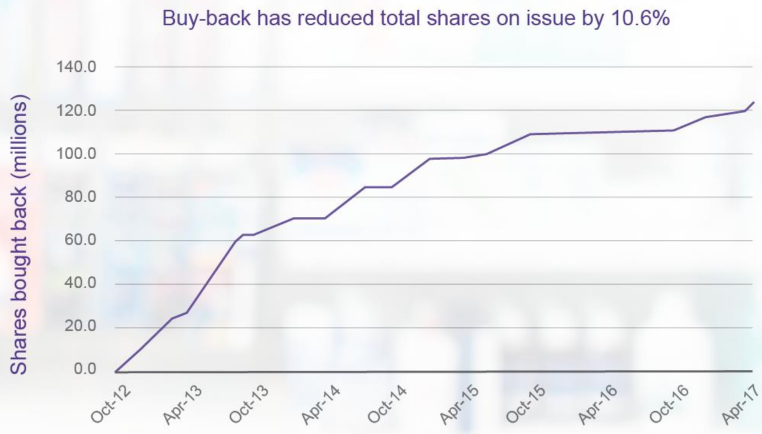
Interim Dividend

- Maintained at 2.5 cents per share (fully franked)
- Payout ratio 92% of Underlying# NPAT (96% of Reported profit)
- Equates to a yield of over 6.5%*, fully franked



Share buy-back

- Buy back renewed – 4.4m shares bought back in 1H18
- 125.4m shares bought back since program commenced at an average price per share of $0.75
- Program remains active



Refer to Appendix 2 for a reconciliation of Underlying NPAT
* Based on share price of $0.85 per share as at 6 September 2017

Business Development Initiatives

Mark Hooper, CEO and Managing Director

Acquisition of MPS - Strong Strategic Fit

- Natural adjacency with growth potential
- Important step in Sigma Healthcare's broader healthcare strategy
- Scalable platform creates opportunities to optimise our capabilities and expand our horizons

- Grow core business
- Integrate our investments
- Enter new/adjacent markets
- Select the right partners

- Optimise core capabilities

✓ Establish differentiated business models
✓ Aggregate and grow adjacent markets
✓ Build strategic partnerships

- Leverage capabilities for growth
- Scale up new business models
- Pursue leadership in adjacent markets
- Expand strategic partnerships

mps AUSTRALIA

YESTERDAY

TOMORROW

Acquisition of MPS - Natural Adjacency

- Medication management solutions and dose administration aids (DAA) for residential aged care (RAC) facility residents and community patients
- The leading player in DAA market, servicing over 37,000 RAC beds (almost 20% market share)
- Strategic growth opportunities

Acquisition metrics (for first full year of operation):

- $18.5m consideration
- Sales circa $50m pa
- Earnings accretive in first full year

Sigma Logistics Services

- Australia wide infrastructure now in place to support growth
- Includes 3PL and 4PL
- Department of Defence fulfilment contract now operational with scope for growth
  - Supply of PBS, OTC and private label products
  - Annual sales expected to be $24m-$30m
  - Looking to expand supply and services
- Pipeline of opportunities

DC Investment Update - Berrinba, QLD

Construction almost complete

- Ahead of schedule and under budget – total spend circa $55m (original est over $60m)
- Payback expected to be above business case
- Dual operating costs will be incurred in 2H18

DC Investment Update – Canning Vale, WA

Construction underway

- Approx $55m investment (including land)
- Strong payback metrics
- Anticipated completion late 2018
- Ground works completed, and structure now being formed

Sigma Hospital Services

Above market national growth

- Pharmaceutical hospital wholesaling market exceeds $3.3bn* (including Hep C)
- Above market growth – Sigma Moving Average Turnover (MAT) growth of 32% compared to 7.7% market MAT growth*
- Strong progress in all markets:
  - Vic – successful tenders in large Victorian growth corridors:
    - Western Health
    - Northern Health
  - NSW – gaining traction after initial launch. Growth expected in FY19
  - WA – launched in June 2017, with great success to date
  - QLD – establishing business with growth potential in FY19
- Annualised sales run rate now approaching $250m

* Source: IMS data June 2017

Amcal Online – Extending Our Reach

Amcal China site

- Partnership with Azoya just over 1 year young
- Sales to China have more than doubled initial expectations
- Over 50% of site visits each month are repeat customers
- Strong growth in product categories outside of the core baby formula and vitamin range
- Looking to leverage e-Commerce platform into other Asian markets

New Customer-Centric Model to Support Our Strategy

Customer Management

- Retail Pharmacy Brands
- Retail Pharmacy Wholesale
- Healthcare Services
- Supplier Solutions
- Community Health

Service Level Agreements

Enterprise Wholesale Operations

Distribution processes and technology are **standardised** across the Group to enable maximum productivity and efficiency. The most appropriate infrastructure or service is used to support the needs of the specific Customer Group

Group Services

Functions across the enterprise to support the customer facing activities and revenue generating operational activities. This is a mixture of corporate processes and technology that are **standardised** and **centralised** as well as customised support where appropriate (e.g. analytics)

Re-aligning the business to support our strategy – from a functionally based operating model to a more customer-centric model with centralised and standardised support

Outlook

Mark Hooper, CEO and Managing Director

Sustained Pipeline of Growth

	Performance Drivers	FY18	FY19	FY20
Core business	Organic Growth	×	✓	✓
BAU improvements	DC optimisation program	Investment phase	✓	✓
	Project Renew	Investment phase	✓	✓
	Improved retail compliance and buying programs	In progress	✓	✓
New business	Hospitals/3PL growth	✓	✓	✓
	Acquisitions and expansion into adjacencies	✓		

Outlook

- FY18 – Confirming current guidance of Underlying EBIT of $90m
- ROIC will remain a strong focus
- Share buy-back remains in place
- High Dividend Payout Ratio expected to be maintained
- Reorganisation to improve customer focus and support strategy
- Continue to actively seek acquisition opportunities
- Building to deliver growth in FY19 and beyond

Thank you

Sigma Healthcare
Connecting health solutions

Appendix 1 – ROIC Reconciliation

$m	31/07/13	31/07/14	31/07/15	31/07/16	31/07/17
Net Assets	573.0	568.8	550.1	551.0	532.9
Less: Cash and cash equivalents	-151.9	-34.7	-45.6	-40.8	-23.2
Add back: Interest bearing liabilities	125.0	0.6	60.5	96.0	96.0
Adjusted for One-Off Items including WIP capex	0.0	0.0	0.0	0.0	-61.8
Capital employed	546.1	534.7	565.0	606.2	543.9
Rolling 12 months Underlying EBIT	64.6	79.6	86.1	96.2	87.7
Underlying ROIC	**11.8%**	**14.9%**	**15.2%**	**15.9%**	**16.1%**

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.

Appendix 2 – Reported to underlying reconciliation

	31/07/17 $'000	31/07/16 $'000
Reported EBIT	42,755	37,297
Add:		
Restructure Costs (before tax)	431	-
Due Diligence Costs (before tax)	1,100	-
Litigation settlement expense (before tax)	-	11,368
Underlying EBIT	44,286	48,665
Less: Non-controlling interests before interest and tax	130	285
Underlying EBIT attributable to owners of the company	44,156	48,380

Appendix 2 – Reported to underlying reconciliation

	31/07/17 $'000	31/07/16 $'000
Reported NPAT attributable to owners of the Company	27,808	23,693
Add:		
Restructure Costs (after tax)	302	-
Due Diligence Costs (after tax)	770	-
Litigation settlement expense (after tax)	-	7,958
Underlying NPAT attributable to owners of the company	28,880	31,651