Sigma Pharmaceuticals Limited

Results Presentation for the Half Year ended 31 July 2011

Mark Hooper CEO & Managing Director
Jeff Sells Chief Financial Officer

14 September 2011

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Presentation outline

- Overview – Mark Hooper
- Financial Results – Jeff Sells
- Outlook – Mark Hooper

Overview

Presented by Mark Hooper
CEO & Managing Director
Sigma Pharmaceuticals Limited

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Key financial metrics delivered

- **Profitable sales growth**
  - sales up 9% vs H1 2011 (like for like)
  - EBIT up 55% vs H1 2011
- **Reduction in working capital**
  - cash conversion cycle improves 10 days to 64 days
- Resulting **improvement in ROIC** from 7.3% to 9.3%
- **Strong cash flow** generation with operating cash flow $106 million vs $40 million (H1 2011)

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Profitable sales growth increases EBIT by 55%

- **Revenue**
  - sales up 9% (like for like) against PBS growth of 5% for the year ending 30 June 2011
  - growth through market share gains including Pharmacy Alliance Group

- **Profit**
  - EBIT of $38 million up 55% vs H1 2011 driven by improved sales volume at better margins
  - includes previously advised $4 million net gain from opening inventory positions
  - underlying margin expansion to 2.5% (reported 2.8%)

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Further improvement in ROIC

- Continued improvement in working capital position
  - cash conversion cycle improves 10 days to 64 days
  - wind back in terms reduces DSO by 5 days from FY11 year end
  - some absolute improvement due to removal of Pfizer sales
  - improved net inventory / payables position

- Improvement in 12-month trailing ROIC from 7.3% to 9.3%

- Continuing to pursue opportunities to further improve ROIC

$$\frac{\uparrow \textit{Profit}}{\downarrow \textit{Invested capital}} = \uparrow \textit{ROIC}$$

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Interim dividend

- Sustainable improvements in earnings and cash flow and a strong balance sheet provide the confidence to pay an interim dividend
- Formal declaration and payment is subject to clarity of ATO position on dividends from current year profits
- Subject to this, Sigma intends to pay an interim dividend of 1.5 cents fully franked
- Represents a payout ratio of approximately 60%
- Medium term dividend policy still under review

Financial Results

Presented by Jeff Sells
Chief Financial Officer
Sigma Pharmaceuticals Limited

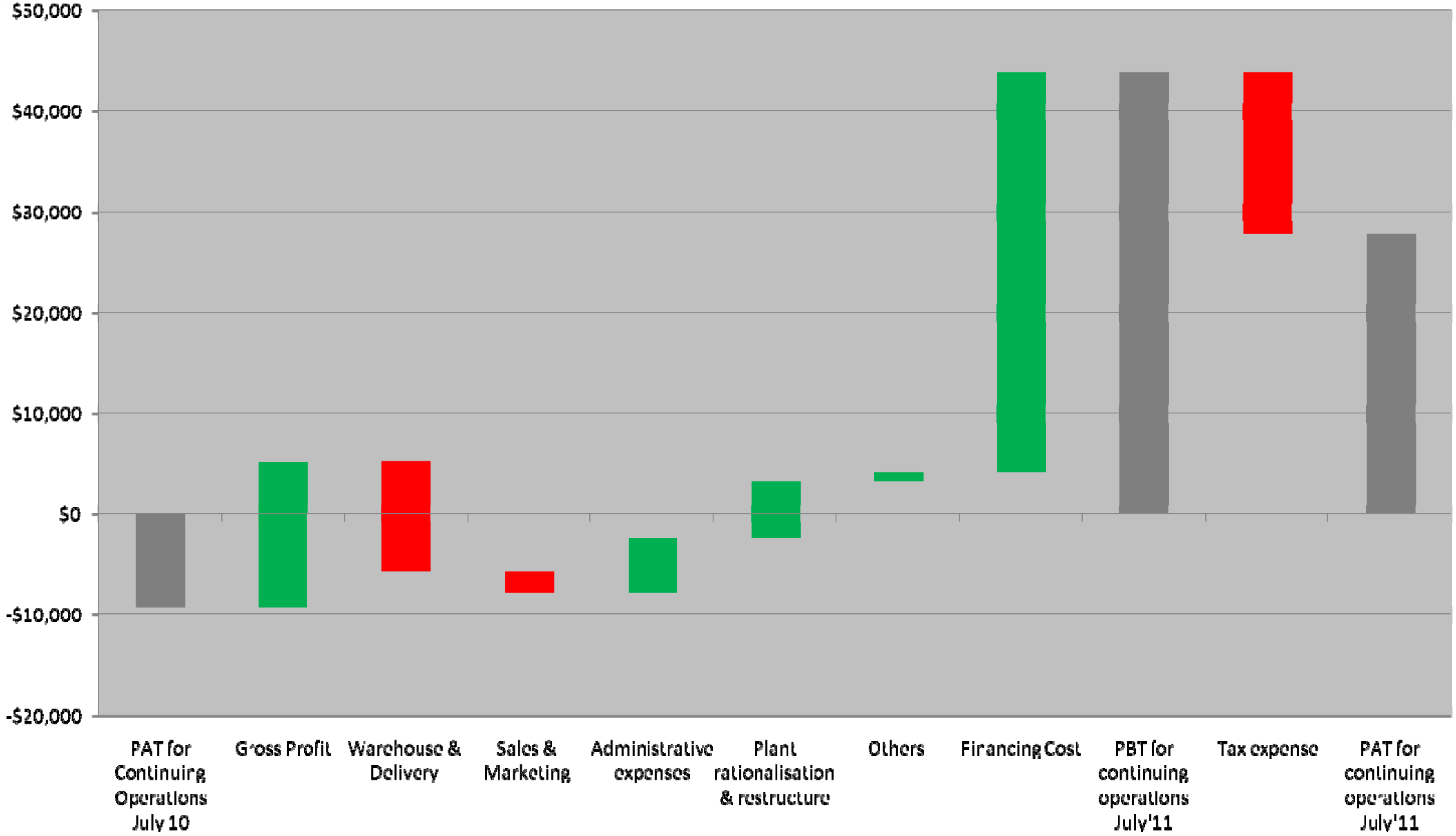
H1 2012 income statement summary

A$m	2012 H1	2011 H1*	Change
Revenue	1372.3	1406.5	-34.2
EBIT	38.0	24.5	13.5
Net Financing Costs	2.0	-37.7	39.7
Tax Expense/benefit	-12.1	4.0	-16.1
NPAT	**27.9**	**-9.2**	**37.1**
Discontinued Operations	-1.2	-201.9	200.7
Net profit/(loss) for Sigma Group	**26.7**	**-211.1**	**237.8**

*2011 H1 figures have been adjusted to reflect reclassification of some revenue streams and Retail income previously shown as part of the Pharma results and restatement of a number of inventory and promotional transactions

- Revenue growth up 9% (like for like)
- EBIT of $38m includes one-off net benefits of approximately $4m from inventory
- Net interest income due to strong cash position
- Discontinued operations Aspen working capital and tax adjustment

Improvement in earnings driven by higher GP and lower financing costs



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EBIT up by 55% and margin improvement

A$m	2012 H1	2011 H1	Change
Sales Revenue	1372.3	1406.5	-2.4%
EBIT	38.0	24.5	55.3%
EBIT Margin	**2.77%**	**1.74%**	

- Reported revenue down 2.4% vs H1 2011 but up by 9% on a like for like basis
- Customer terms and cost reductions offset impact of Pfizer and PBS reform
- EBIT growth driven by improving underlying sales volume

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Understanding EBIT growth

	H1 2011	H1 2012
Reported EBIT Margin	1.74%	2.77%
Less 2011 Restructuring Costs	0.41%	
Less 2012 Net Inventory		0.23%
Underlying EBIT	2.15%	2.54%

Improvement is a combination of:

- adjustment to trading terms for Pfizer
- increased gross profit from sales volume

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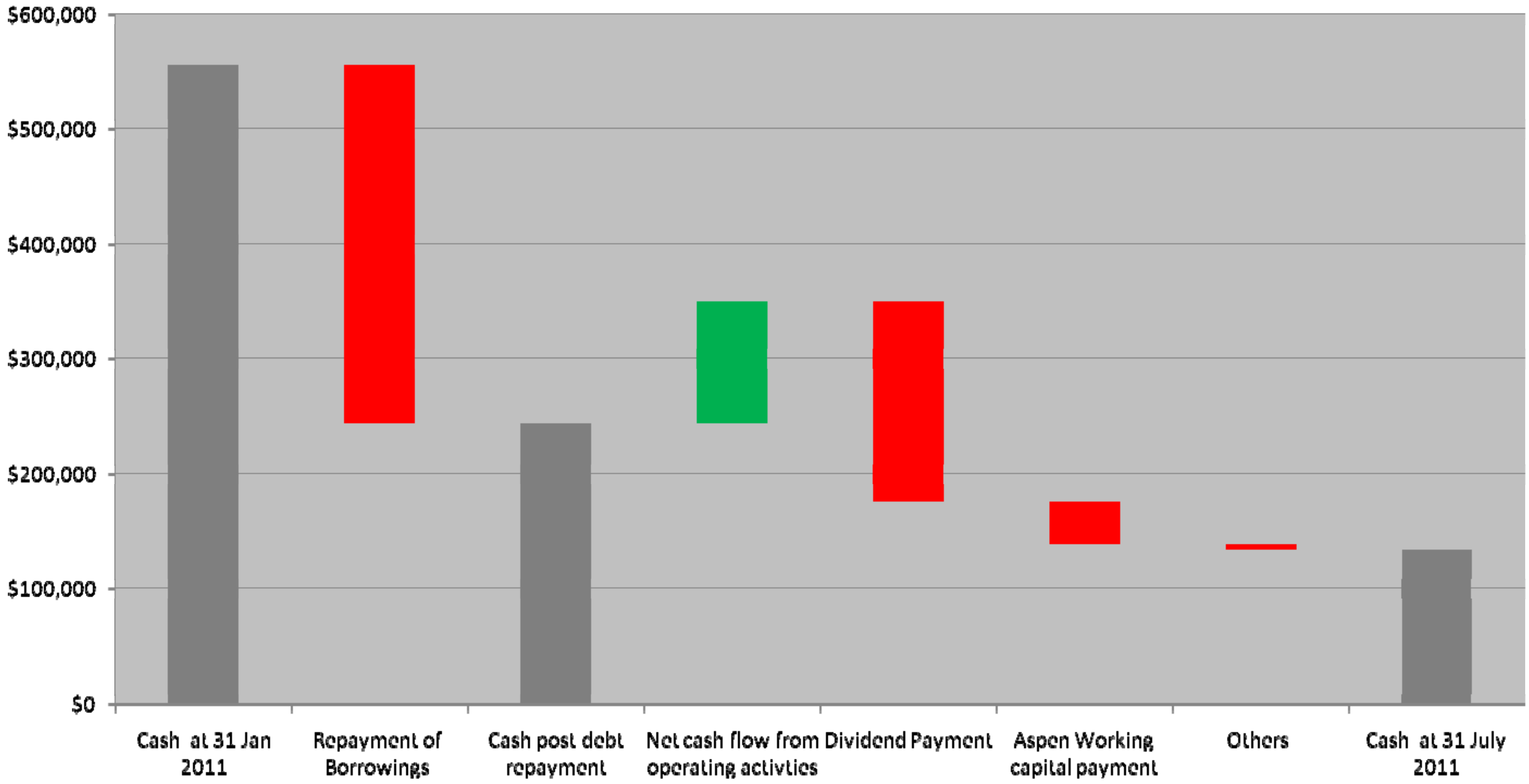
Operating costs

- All IT costs are now allocated against the business, single operating unit
- Administration costs have decreased due to ongoing cost savings, and lower professional fees from H1 2011
- Logistics and warehouse costs higher
  - incremental volume increase
  - rent at Rowville
  - running two sites in Victoria for part of half year
  - CPI increases
  - Aspen distribution booked in COGs (offset by GP income)
- Further improvement opportunities will require investment in systems

Debt reduced, operating cash higher



Further improvements in working capital

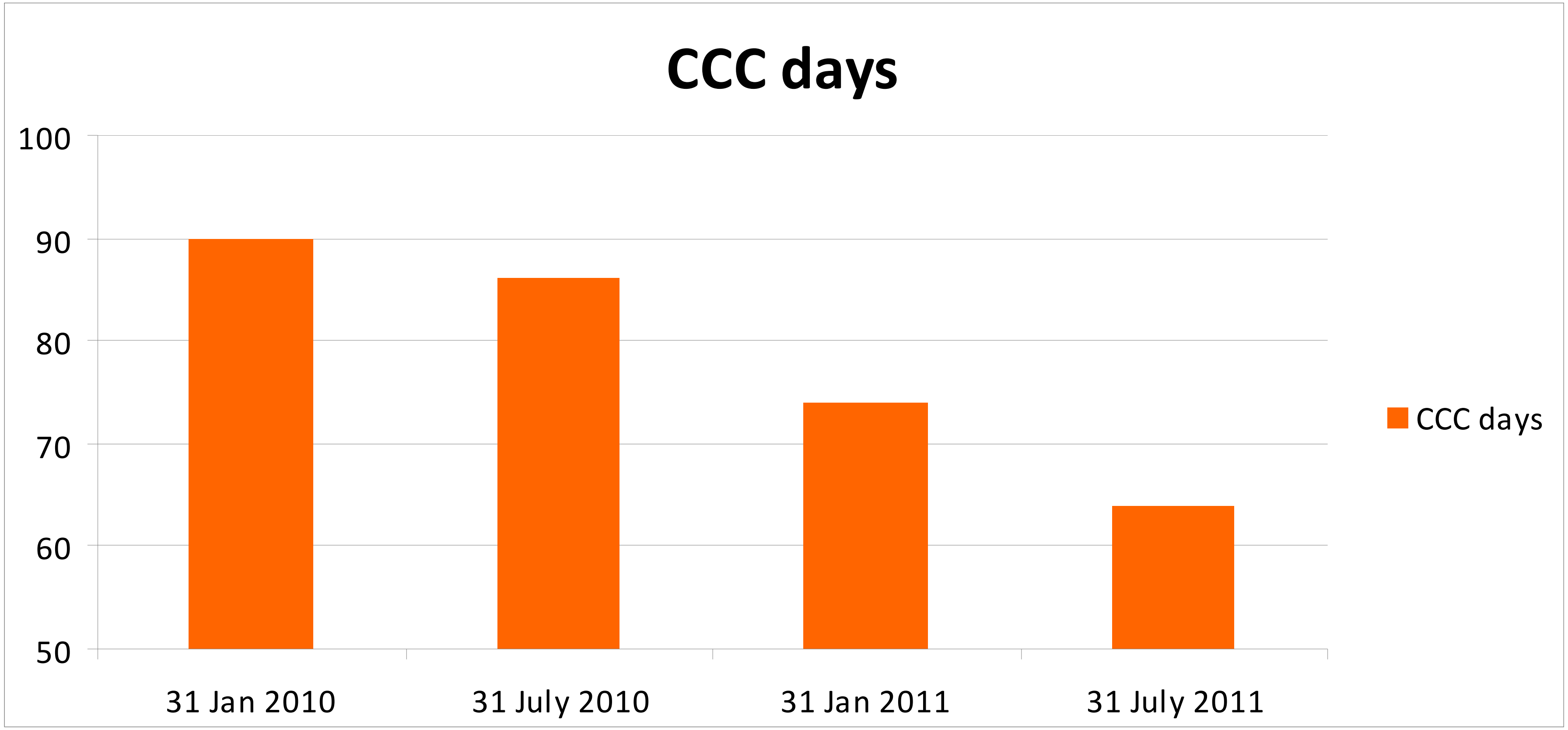
Working Capital $m	As at 31 July 2011	As at 31 Jan 2011*	As at 31 July 2010**
Trade Receivables	581	641	772
Inventories	275	226	352
Trade Payables	334	251	347
Total Working Capital	522	616	777
Days Sales Outstanding	72	77	86
Days Inventory Outstanding	38	31	45
Days Payable Outstanding	46	34	45
Cash Conversion Cycle days	64	74	86

- Inventory increase includes carrying Aspen at full value
- ROIC (on a trailing 12-month basis) = 9.3% up from 7.3% at year end FY11

** relates to continuing businesses only*

*** includes previously owned Pharma business*

Faster cash flow conversion



Outlook

Presented by Mark Hooper
CEO & Managing Director
Sigma Pharmaceuticals Limited

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Industry outlook – potential challenges on the horizon

- There are further challenges ahead

- PBS reform (April 2012 and ongoing)
  - minimum of 23% cut in over 180 molecules from April 2012
  - may lead to no PBS growth in 2012 or potentially slightly negative
  - may require further adjustments to customer discounts

- Still some potential for expansion of exclusive supply arrangements
  - Pfizer move has caused considerable disruption within Pharmacy
  - any increase in exclusive supply arrangements may require further review of current service arrangements

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Sigma better placed to address these challenges

- Sigma is in an improved position to address these issues
  - solid operating performance
  - strong balance sheet
- Clearly defined strategy around re-invigorating core business
- Senior management structure now finalised with the appointment of Gary Dunne, Group General Manager Healthcare
  - extensive Retail and Logistics experience
- Sigma will continue to take appropriate action as required

Wholesaling – further opportunities from a sound base

- "Profitable" market share gains
  - organic growth and Pharmacy Alliance Group the key drivers to date

- Continuing to pursue opportunities to improve our operational efficiency and cost base
  - operational review and improvements underway
    - working towards improved efficiency in Logistics and support functions
    - additional investment in infrastructure
  - supporting systems review in progress (including IT)
  - bulk of remedial expenditure likely in 2012

- Planned investment in new skills and infrastructure

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Further Investment in Retail

- Retail remains a key part of customer engagement
- Additional resources allocated to:
  - grow Amcal Max / Amcal & Guardian
  - grow and improve Private Label offering (up 19% vs H1 2011)
  - continuous Retail brand improvement
- Launch of Health Management Services
- Improving supplier engagement

Amcal AmcalMax

Guardian PHARMACY

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Outlook for 2H

- 2H should be slightly stronger due to minor seasonality in results and full impact of Pharmacy Alliance Group
- Assumes ongoing trading with a significant customer (may continue without a formal contract from 1 October 2011)
- Net inventory gains of $4 million will not repeat
- Further work to be done on improving efficiencies / cost base
- Medium term dividend policy still under review

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Summary

- First half has delivered on:
  - profitable sales growth
  - reduced working capital / improved ROIC
  - strong cash flow generation
- Sigma intends to declare an interim dividend
- "Preferred Partner" status in Pharmacy pursued through re-invigoration of the Sigma business – "*right strategy, right structure, right people*"
- While there are potential industry challenges on the horizon, Sigma is in an improved position to address these

Questions

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