CEO ADDRESS
MARK HOOPER, CEO & MANAGING DIRECTOR
SIGMA PHARMACEUTICALS LIMITED
WEDNESDAY 3 MAY 2017 IN MELBOURNE, AUSTRALIA

Thank you Brian, and welcome everyone to our 2017 AGM. Today is a fairly unique AGM, where we open the meeting with one identity and hopefully close it with another, but I will come back to that shortly.

2016/17 has been the third successive year of strong growth in underlying earnings. This year was even stronger than we anticipated at the outset when we provided our two-year growth guidance. Obviously, this bigger earnings base provides its challenges for our growth rate in the year ahead, but we remain focused on delivering that outcome.

For me, what is pleasing is that the growth we have achieved is coming from a number of sources. This is consistent with our messaging over the past three years about diversifying our earnings, strengthening our core, and investing for our long-term growth. The focus on broadening our earnings base will continue in the years ahead.

Aside from the headline financial metrics that Brian has already highlighted, this year we have also delivered in a number key areas:

- Our Underlying EBIT was up 12.4% to break through the $100 million mark;
- Our Underlying Return on Invested Capital reached a record high of 16.8%. This is a tremendous result when you consider that just six years ago, it was under 7%. Having said that, there is no merit in chasing an ever increasing ROIC just for the sake of it. Building an earnings base that does not significantly dilute our current ROIC position is our preferred strategy. Our upcoming investment cycle will also see this pulled back to more sustainable levels off a broader and more efficient business base.
- We also significantly improved our Working Capital position and our Cash Conversion Cycle, which is effectively a measure of how we manage our capital. This reached 31 days, another record for Sigma, and again compares to over 90 days six years ago. To put it in context, over the last six years we have better utilized the equivalent of over $500 million in cash to either grow our business or return to shareholders.

- We have also commenced the reinvestment phase that we have previously flagged to shareholders. This is an important milestone in our maturity that will contribute to our next wave of growth from both an efficiency and effectiveness measure. I will discuss this a little more shortly.

We are always very diligent in striving to achieve the things we say we will achieve, and this year was no different. In March last year we committed to:

- Grow non-PBS earnings – our strategy now sees this approaching 40% of our earnings
- Maintain a strong Balance Sheet – we still only have $8.7 million of net debt and have retain significant capacity to invest for our future
- Reward Shareholders – we paid out 89% of Underlying NPAT as a dividend, lifting the dividend in respect of the year from 5.0 cents per share to 5.5 cents per share

In May last year we also made our first foray into the China market. This was a very measured strategy that leverages the strong Australian heritage in the Amcal brand and our online platform. It is in partnership with Azoya to leverage their logistics and marketing strengths in the Asian market, and provides a low risk growth option for Sigma. As a startup venture, this has performed well above our own expectations, and whilst still not a major contributor to our earnings, provides another option for growth longer term. We are now assessing a push into Hong Kong and other markets.

Whilst the financial results were strong, we have deliberately taken the opportunity to reinvest in capability that will help us deliver long term sustainable growth and returns for shareholders. This investment has included:

- Establishing a new team which we call Project Renew, to complete a comprehensive review of end to end processes to drive operational efficiency and effectiveness. This is headed by Jackie Pearson, and is backed by internal subject matter experts and supporting advisors. Whilst it is currently a cost to the business, it will improve the efficiency of our business, and the early indications are for a very strong payback in the medium term.
- Establishing a new strategy and business development team within Sigma to more actively seek opportunities to expand our operations. This is headed up by Jeff Sells, and is backed by a team of people to support this.

- Invested in project management capability to support our distribution centre reinvestment program. This is a major capital investment program that we are committed to getting right.
- Investing in people to accelerate our expansion to a national hospital pharmacy footprint driven to reach our aspirational goals in this market. Again, this is a current cost to the business but we are confident it will be a long term driver of growth
- Invested in business solutions and resources to improve our capability and enhance our support for the retail network. This has also seen our strategic partnership with Fred IT, part of the Telstra Health group, to roll out our Next Generation of cloud based retail solutions.

On the regulatory front, the independent Pharmacy Remuneration Regulation Review panel continue to conduct their review of the pharmaceutical supply chain, including the role of manufacturers, wholesalers and pharmacies. We continue to engage with Government and other relevant stakeholders, both as Sigma directly and through our industry body the National Pharmaceuticals Services Association, to ensure our voice is heard as we seek to ensure the longer-term sustainability of the industry. This is what ultimately underpins the Governments own National Medicines Policy that ensures consumers have timely and effective access to medicines anywhere in Australia.

Whilst cheaper medicines are good for the government, patients, communities and our health system, a continuation of the current remuneration operating framework is not sustainable longer term. As it stands now, less than 10% of medicines are profitable to distribute, and this cannot be sustained longer term.

What we are seeking is a model that de-links wholesaler remuneration from the structural decline in the price of medicines that is being driven by government policy. The implementation of a pricing floor, whereby wholesale margin is applied to the price subject to a minimum, will deliver this, and can be achieved within the existing Government budget estimates. We await the outcome of this review, and ultimately the Government's interpretation and action.

So how is our outlook for the year ahead.

As has been reported elsewhere in the market, industry sales for the first quarter have been more subdued than many anticipated. This appears to be in part driven by a general market softening in sales of OTC products in particular. For Sigma, it is also driven by our strategic decision to sharpen our focus on delivering a consistent brand proposition and customer experience. Our focus remains on partnering with brand members who want to be part of a strong brand proposition that puts pharmacists at the centre of supporting community health.

On a more positive note, our third party logistics business and our national hospital pharmacy expansion are showing good signs of gaining traction and should continue to grow their contribution to bottom line growth in the second half and in to 2018. Likewise, some benefits from Project Renew should start to kick in through the second half of this year.

This general softer start makes this year more challenging. Nonetheless, we will maintain our focus on delivering growth of at least 5% in Underlying EBIT for the full year. We do however expect it to be weighted towards the second half as we begin to see returns from some of our investments. Importantly, we strongly believe we have the roadmap in place to deliver long term sustainable earnings growth.

Finally, you will have seen today that shareholders are voting on the change of company name from Sigma Pharmaceuticals Limited to Sigma Healthcare Limited. Our business has over 105 years of history which we will continue to embrace. However, we also continue an evolution into a broader and more holistic healthcare business that is built from more than just products. This new name and tagline – Connecting Health Solutions – encapsulates who we are and our aspirations to be a more connected business that values partnerships and the communities in which we operate, and brings integrated and innovative health driven programs and solutions. This is a whole of business transition that we will continue to evolve and develop, and is a very exciting time for Sigma and our future direction.

As I hand back to Brian, we will share with you our proposed new Sigma identity. Thankyou.

Mark Hooper, CEO & Managing Director
3 May 2017