Sigma Healthcare

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Update on API proposal

As previously disclosed to the market on 14 December 2018, Sigma Healthcare Limited (Sigma) received a non-binding indicative proposal from Australian Pharmaceuticals Industries (API) to acquire all the shares in Sigma, via a scheme of arrangement, for 0.31 API shares plus $0.23 cents in cash for each Sigma share held (API Proposal).

Update on due diligence

Since January 2019, API and Sigma have engaged in a limited form of due diligence focused on the synergy and regulatory workstreams. This engagement has included the mutual sharing of high level information through virtual data rooms and in-person due diligence sessions, including API presenting to Sigma on their preliminary approach for the regulatory workstream.

The due diligence has confirmed that there is a sound basis for the $60 million per annum run-rate synergies assumption (anticipated by the third year following the merger) and that a large portion of these synergies will come from consolidating the supply chain to Sigma-owned warehouses. Significant further work is required on the regulatory workstream.

Reconfirmation of indicative proposal

On 4 March 2019 Sigma received a letter from API which reconfirmed its non-binding indicative proposal on essentially the same terms as the indicative proposal received from API on 11 October 2018, with a waiver of the condition precedent relating to confirmation of cost synergies. The API Proposal remains highly conditional and subject to regulatory approvals including any required competition approvals.

Outcome of Sigma standalone business review

As announced on 11 February 2019, Sigma has completed and validated a major business transformation review that has identified cost efficiencies of over $100 million that are deliverable by Sigma as a standalone business over the next 18-24 months. These savings are separate to the $60 million of synergies identified in the API due diligence process. This business transformation review identified that benefits from the program will see Sigma's FY23 EBITDA return to a similar level as FY19. At the same time, the current investment cycle will be largely completed, the business is expected to have a strong balance sheet with minimal debt and will have upside opportunities from acquisitions.

Sigma Board conclusion

The Board of Sigma, along with its advisors, has now completed a detailed assessment of the API Proposal.

With the benefit of the detailed assessment of the future potential for Sigma on a standalone basis, and the due diligence conclusions, the Board of Sigma has concluded that the API Proposal is **not** in the best interests of Sigma shareholders.

Commenting, Sigma Chairman Brian Jamieson said "*The Board is confident that after thoroughly assessing the outlook of Sigma on a standalone basis, the current API proposal does not reflect the long-term prospects and value inherent in Sigma having regard to the reset cost base of the business and our own growth agenda. Therefore, after considering the API Proposal in detail, we believe it is not in the best interests of our shareholders.*"

In coming to this conclusion, the Board has had regard to the following factors in particular:

- **The future potential for Sigma on a standalone basis**
    - As announced 11 February 2019, a business review undertaken by Sigma in conjunction with Accenture identified over $100 million annual cost savings post the expiration of the MyChemist/Chemist Warehouse (MC/CW) contract, with potential for further upside to be achieved;
    - The Board believes that significant shareholder value could be realised for Sigma shareholders on a standalone basis through the implementation of these cost saving initiatives over the next two years;
    - Sigma's investment in distribution centre infrastructure is well advanced, providing efficient capacity to grow; and
    - The working capital release of around $300 million from the MC/CW contract is expected to be deployed into future growth opportunities for Sigma, creating additional value for Sigma shareholders.

- **Valuation metrics**
    - Since the date of the API Proposal on 11 October 2018[1], the API share price has declined over 15%, implying a value for the API Proposal of 67 cents per Sigma share at close on 12 March 2019. This represents a 12% decline in offer value to shareholders.

- **Execution risk**
    - The returns to Sigma shareholders under the API Proposal would depend on ACCC approval of the transaction, the successful integration of the two businesses, capturing the proposed synergy benefits, as well as the continued trading performance of both businesses and market trading valuation metrics;

The Sigma Board remains committed to maximising value for shareholders and will keep shareholders informed of any further developments.

- End -

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[1] Based on 10 October 2018 close (1 day prior to the date of the indicative non-binding offer submitted to Sigma)