

CHAIRMAN ADDRESS
BRIAN JAMIESON, CHAIRMAN
SIGMA PHARMACEUTICALS LIMITED
WEDNESDAY 4 MAY 2016 IN MELBOURNE, AUSTRALIA

The 2015/16 year has again been a consistently strong year for Sigma. We have continued to increase our profitability through both organic growth and from our successful acquisitions that have delivered a broader business base that is less reliant on the PBS. At a high level, over the past year, Sigma has delivered:

- An increase in revenue of 10.2% to \$3.5 billion;
- Underlying Net Profit After Tax of \$59.2 million, an increase of 11.6%;
- We maintained our high dividend payout ratio, paying 91% of NPAT as a dividend
- An increased final ordinary dividend to 3.0 cents per share fully franked, rewarding shareholders for the improved performance and signaling our confidence in our future. This brings the total ordinary dividend paid in respect of the year to 5.0 cents per share;

I highlight underlying earnings as this is a more accurate measure of the normal operating performance for the year. The reported earnings were impacted by a one-off adjustment required under accounting standards to reflect that Sigma paid additional consideration to acquire a business that was more successful than we had anticipated at the time of making that acquisition.

Pleasingly, the dedication of management in implementing our strategy is now being recognized by the investment community. Sigma's share price closed at \$1.10 per share at the end of April. As shown by the purple line on these graphs, this is up over 25% for the last 12 months, and has almost tripled since this time 5 years ago when we were just at the start of implementing our new strategic plan. In both cases, Sigma has outperformed the ASX200 Index.

Whilst this is strong share price performance, it reflects the improved company performance we have already delivered! Over the same time frame, Sigma has increased underlying EBIT by over 90%, and we remain confident there is a growth pipeline ahead for us.

Turning now to capital management.

Back in October 2012 we initiated our share buy-back program. The goal when we announced the program was for Sigma to buy-back and cancel up to 10% of our shares. This year just completed has seen us invest \$11 million to buy back 14 million shares, bringing our total to almost \$82 million invested to buy back 112 million shares at an average cost per share of just \$0.73. It has been EPS accretive and positive for all shareholders as it means our growing earnings are spread across fewer shares.

With 112 million shares already bought back, this brings us to 9.4% of shares on issue when we started this program, near our intended cap of 10%.

The current share buy-back program will continue until the 10% cap is reached. At the same time, the Board will give detailed consideration to the future of the program, taking into account our strategy, capital expenditure commitments and balance sheet strength.

Importantly, Sigma continues to maintain an enviable balance sheet. Net Debt at 31 January was \$56 million, which is very low for a company with a market capitalization around a billion dollars. Recent improvement to our operations will see Sigma return to net cash by next year end, even considering our capital expenditure program ahead.

That brings me to our investment in critical infrastructure

As we have previously announced, Sigma is embarking on an investment program that will reinvigorate our network of distribution centers and drive future operational efficiency improvements.

We completed a new Distribution Centre for the CHS business in Eastern Creek Sydney. As a reminder, CHS currently provides pharmacy distribution services, and has a hospital pharmacy presence in Victoria only. This new Sydney DC became operational in October and enables our push into the NSW hospital pharmacy market and into providing third party logistics services. This is new business for Sigma.

Work has now commenced on our new site in Berrinba in South East Queensland. This is a \$65 million investment that will deliver a state of the art facility to service the Queensland market, with environmental sustainability an important feature of the design. Contracts

for construction and technology solutions have been awarded, and the new DC is expected to be operational towards the end of the 2017 calendar year.

In addition, we continue to assess our options for Sigma's other main distribution centres in both Western Australia and New South Wales. We expect to make some announcements about those in the coming months.

A sad reality of the constrictive nature of PBS reform is the need to continually seek operational efficiencies. Unfortunately this has resulted in Sigma last week announcing the closure of our Rockhampton distribution Centre from the end of May. Team members in that centre are being offered redeployment where possible, and assistance with preparing to seek new opportunities.

The success of our business is not just measured on financial performance. We recognize the important role Sigma plays in the community and in being a responsible corporate citizen.

We continue to invest in our people, and to recruit new talent into the business to bring fresh thinking. We have seen renewal at both Board and management levels, and indeed through the organization.

There are a number of points I would just like to bring out:

- The results of our team member climate survey were again positive, and show a 76% companywide satisfaction rating. We continue to focus on areas to improve.
- Our general employee share plan has resulted in 63% of all employees taking up shares in the company, demonstrating their belief and alignment with the direction of the company
- Our gender diversity profile is available on our web site, however women represent 57% of our workforce, 43% of senior management positions, and a third of our Board.
- We are unrelenting in promoting a health and safety culture throughout the business, which has seen Lost Time injury frequency rate halved from five years ago. We continue to proactively look for opportunities to improve performance.

- Sigma was the first pharmaceutical wholesaler to become a signatory to the Australian Packaging Covenant, driving sustainable packaging initiatives.
- We have maintained our push to reduce our environmental footprint, and have built in environmentally sustainable initiatives into our new Berrinba site in Queensland
- We continue to support numerous charitable causes throughout the community, and especially the Summer Foundation and Carers Australia, which we will announce more about in coming months.

All this not only contributes to making Sigma a socially responsible employer, but goes a long way to making Sigma an employer of choice.

Finally, I would like to touch on Government regulation.

At last year's AGM I flagged the impending Sixth Community Pharmacy Agreement between the Federal Government and the Pharmacy Guild that would set the regulated operating environment across the industry, including the remuneration structure for pharmacists and wholesalers.

The terms of that agreement were announced in June 2015. It provided a very good outcome for pharmacists that de-linked their remuneration from the declining PBS and increased their funding pool over the next five years. Unfortunately the outcome for wholesalers, whilst manageable in the short term, was less than ideal as a long term sustainable solution.

The Federal Government has now launched the "Review of Pharmacy Remuneration and Regulation", being chaired by Professor Stephen King. Whilst some people may be concerned by another regulatory review hanging over the industry, we are not.

This review provides opportunity for the Government and Industry, discreet from the deadlines of the community pharmacy agreement process, to thoroughly assess the industry as it is today and the long term objectives for the future. It provides opportunity to achieve equitable and sustainable outcomes that can support the industry and the community. The first consultation paper is due for release shortly, which we will analyse and provide our feedback through the review process.

Finally, as I hand over to Mark, I would just like to thank our business partners, our Board and our team members. It has been a very successful year for Sigma that is made possible by our dedicated and committed team members working tirelessly, ultimately for the benefit of shareholders.

I would also like to thank our loyal shareholders for supporting Sigma as we continue to drive our operational performance.

Thank you.

Brian Jamieson

Chairman, Sigma Pharmaceuticals Limited

4 May 2016