CEO ADDRESS
MARK HOOPER, CEO & MANAGING DIRECTOR
SIGMA PHARMACEUTICALS LIMITED
WEDNESDAY 4 MAY 2016 IN MELBOURNE, AUSTRALIA

Thank you Brian, and welcome everyone to our 2016 AGM.

During the last year, we have remained focused on our business, and implemented our strategies to drive success and lessen our reliance on PBS.

When we announced our full year results last year, we said to the investment market that we would:

- Grow EBIT by a similar amount as the year before
- Grow non-PBS earnings
- Maintain a strong Balance Sheet
- Reward Shareholders

I am pleased to say we exceeded expectations on all measures. Underlying EBIT was up 13.7% compared to the previous year's 11% increase. Other Revenue grew almost 40% and non-PBS sales revenue increased from 33% to 35%. We ended the year with just $56 million in debt and an expectation of being back to net cash by next year end. We bought back an additional 14 million shares, and we rewarded shareholders by increasing our full year ordinary dividend from 2.0 cents per share to 3.0 cents per share. There is a lot to be proud of.

So what were the key drivers of our success?

The benefits from our acquisition of CHS, Discount Drug Store, Pharmasave and Chemist King continue to flow through. These businesses are performing well ahead of our expectation when we acquired them. Over 300 pharmacy brand members were added to our network and are bringing incremental sales through our wholesaling operations.

CHS continues to grow its core pharmacy distribution business, has cemented its 20% market share in the hospital pharmacy market in Victoria, and has more recently pushed in to the NSW market. A new DC completed in NSW in October provides access to the largest hospital pharmacy market in Australia. The national hospital pharmacy market is around

$2.5 billion, providing great opportunity for us to expand. In addition, the new DC provides capacity and capability to access third party logistics work in that market. These are both new earnings streams for Sigma.

Our Amcal and Guardian brands also continue to grow and grow their levels of brand compliance. This is important in driving consistency across the network for the benefit of patients, Sigma and our pharmacy partners

Sigma is committed to putting the role of the pharmacist at the centre of healthcare solutions for their customers. It has seen us introduce a number of Professional Service programs, such as the in pharmacy Coeliac testing and the Kidney Check programs, and our Be Good To Yourself partnership with nib insurers, which is aimed at providing holistic and integrated healthcare and weight management solutions for customers. We are now focused on further improving dispensary efficiency to provide pharmacists with greater scope to come out from behind the counter and consult with their patients.

Our growing network of brands now sees Sigma with the largest pharmacy footprint in Australia with over 700 pharmacies operating under one of our brands. This scale provides significant future opportunity to drive buying efficiency and effectiveness.

The combination of the acquisitions and organic growth saw our underlying Gross Profit improve by 10.9% to over $260 million, and contributed to our Underlying EBIT margin growing to 2.6%.

The other major contributor to underlying EBIT margin was the growth in other revenue, which was up almost 40% to $73.2 million. This is a collective of improvements coming from a number of areas including brand member fees, improved merchandise and marketing income, commission revenue and other service fees. In addition, our range of over 800 private and exclusive label products have continued to grow and deliver incremental bottom line performance.

These all fit within our strategy of diversifying away from our reliance on PBS revenue.

Yes the PBS will always be at the core of what we do and our PBS volumes are growing through a combination of market share gains and organic growth. However, PBS reform continues to drive down the price of medicines, and as a wholesaler we are remunerated based on a percentage of the value of what we deliver. In addition, our remuneration is capped when it comes to the new and more expensive medicines that are being listed on the PBS. This all means that we have a compromised solution that currently hangs together but is not sustainable long term.

So the Review of Pharmacy Remuneration and Regulation is a very welcome and timely review that has the opportunity to secure the future of the industry and the National Medicine Policy, away from the glare of an impending deadline of an agreement with the Pharmacy Guild.

We have also continued to focus on Return on Invested Capital as a key measure of business performance. We have delivered underlying ROIC this year of 14.6% on a broader earnings base. We have also put in place commercial arrangements that should see this continue to improve in the year ahead.

Amongst them are commercial arrangements agreed with our pharmacy customers, including our largest customer in Chemist Warehouse that will see significant improvement in our working capital in the year ahead. This is effectively cash that we will bring back into the business, contributing to our funding of the DC investment ahead of us and returning Sigma to net cash at the end of this current year.

Finally, pharmacies and pharmacists continue to be publicly recognized as one of the most trusted and respected professionals. So it is again pleasing that two of Sigma's brands, Amcal and Discount Drug Store, have been publicly recognised.

Amcal has recently been awarded the Readers Digest Quality Service Award winner for the second year running. Meanwhile the Mandurah Discount Drug Store in WA was presented the NDSS Community Pharmacy of the Year award during National Diabetes Week in August.

As I have mentioned, Sigma is committed to providing structured programs that help our pharmacy brand members support the health of their customers, and I know from talking with our members that they are passionate about supporting the health of the community. I congratulate all our brand members for their consistent service excellence in delivering healthcare solutions to the community.

Sigma is driven by a supportive and collegiate culture that builds industry partnerships to achieve sustainable success. We invest in our people and our relationships to make this happen, so I thank all our suppliers, team members and customers for your ongoing support.

So how is our outlook for the year ahead.

While there will always be challenges we are confident about the future for Sigma. Our diversified business is now better placed to deal with a regulated operating environment. We have invested in a number of initiatives that will drive future earnings, including the third party logistics business, hospital pharmacy services, private label product, and other service income. We continue to look for opportunities to drive value for shareholders.

We broke away from historical convention at our March results announcement to provide profit guidance of “at least 5% EBIT growth per annum for the next two years”. This was a clear signal to the market that we believe we have a roadmap of earnings growth ahead of us from our strategy of investing in non-PBS initiatives. The first three months of this current financial year has reinforced this belief. Whilst our full year guidance remains unchanged, our current performance for the year to date has us on track to deliver at least 10% underlying EBIT growth for the first half.

Thank you and I will now hand back to Brian.

Mark Hooper, CEO & Managing Director
4 May 2016