



# **Sigma Pharmaceuticals Limited**

**Results Presentation for the  
Full Year ended 31 January 2013**

Mark Hooper – CEO & Managing Director  
Jeff Sells – Chief Financial Officer

14 March 2013

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The material that follows is a presentation of general information about Sigma's activities current at the date of the presentation. It is information given in summary form and does not purport to be complete. No representation or warranty is made as to its completeness, accuracy or reliability. Any forward looking information in this presentation has been prepared on the basis of a number of assumptions which may prove to be incorrect. Known and unknown risks, uncertainties and other factors, many of which are beyond Sigma's control, may cause actual results to differ materially. Nothing in this presentation should be construed as a recommendation or forecast by Sigma or an offer to sell or a solicitation to buy or sell shares.

This presentation also contains certain non-IFRS measures that Sigma believe are relevant and appropriate for the understanding of the financial results. Refer following page and Appendix 1 for further information.

## Reconciliation from Reported to Underlying Earnings

\$m	FY2013
<b>EBIT as per Financials</b>	<b>23.1</b>
Add back: Net litigation settlement expense	48.0
<b>Underlying EBIT</b>	<b>71.1</b>

\$m	FY2013
<b>NPAT as per Financials</b>	<b>18.7</b>
Add back: Net litigation settlement expense	48.0
Less: Tax impact at 30%	-14.4
<b>Underlying NPAT</b>	<b>52.3</b>

- Overview – Mark Hooper
- Financial summary – Jeff Sells
- Closing remarks – Mark Hooper



# Overview

Presented by Mark Hooper  
CEO & Managing Director  
Sigma Pharmaceuticals Limited

## Further consolidating Sigma's progress

- Sigma has delivered on its undertakings to the market
  - Revenue increased and profitability maintained during a period of significant PBS reform and re-investment in the business
  - Improved ROIC via further reductions in working capital
- Fully franked final dividend of 2.0 cents declared
- Cash position still strong post net litigation settlement payment / high dividend payout levels / ongoing share buyback
- Initial business re-investment program substantially complete
- Well placed to deliver growth in 2013/14



## Results overview

- Sales revenue up 3.1% despite the impact of PBS reform
- Margin impact of PBS reform offset by adjustments to trading terms and Service Level Initiatives (SLIs)
- Cost base higher due to increased Logistics expenditure and re-investment to support key strategy objectives
- Underlying EBIT of \$71.1 million versus \$70.3 million pcp
- Underlying NPAT for Continuing Operations up by 4% to \$52.3 million versus \$50.3 million (pcp)
- Net cash of \$82.7 million compared to \$113.6 million in January 2012
- Underlying ROIC further improved – 13.5% versus 12.4%

## **Dividends**

- 2.0 cent fully franked final dividend declared (pcp 2.0 cents)
- High payout ratio of 90% continues to reward shareholders for improved performance
- Ongoing cash flow position should continue to support strong dividend payout ratio (subject to franking considerations)

## **On-market buy-back**

- Previously announced an on-market buyback of up to 10%
- To the end of January 2013, 23.6 million shares purchased at a total cost of \$15.9 million (represents 2% of a possible 10%)
- Suspended during blackout period (ending today) but will recommence shortly





# Financial Summary

Presented by Jeff Sells  
Chief Financial Officer  
Sigma Pharmaceuticals Limited

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# Full year 2013 income statement

\$m	FY 2013	FY 2012	Variance	% Change
Sales revenue	2,942.4	2,853.9	88.5	3.1%
Gross Profit	208.4	202.7	5.7	2.8%
Other revenue	38.8	36.6	2.2	6.1%
Operating costs	-169.2	-165.1	-4.1	-2.5%
Other	-6.9	-3.9	-3.0	-76.2%
<b>EBIT excluding litigation</b>	<b>71.1</b>	<b>70.3</b>	<b>0.8</b>	<b>1.2%</b>
Net litigation settlement	-48.0	-	-48.0	
Net financial income	1.8	1.6	0.2	12.7%
Tax expense	-6.2	-21.6	15.4	71.2%
<b>NPAT – Continuing Ops</b>	<b>18.7</b>	<b>50.3</b>	<b>-31.6</b>	<b>-62.8%</b>

<b>Underlying NPAT – Continuing Ops</b>	<b>52.3</b>	<b>50.3</b>	<b>2.0</b>	<b>4.1%</b>
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- **Revenue headline**
  - Grew by 3.1%, despite PBS price reform
  - Like for like growth of 6.1% adjusted for PBS reform
- **Gross Profit**
  - GP% steady, \$'s higher due to increased revenue
  - Customer discounts were adjusted to compensate for PBS reform
  - Newcastle refrigeration failure impacted inventory write down
- **Costs**
  - Warehouse & Delivery higher due to activity and other factors
  - Lower doubtful debts expense, Legal, IT and back office
  - Higher Admin mainly reflects business re-investment
- **EBIT**
  - Slightly ahead of last year
- **Litigation settlement**
  - Net of \$57.5 million payout, plus costs less insurance proceeds



## Operating costs – Warehouse & Delivery

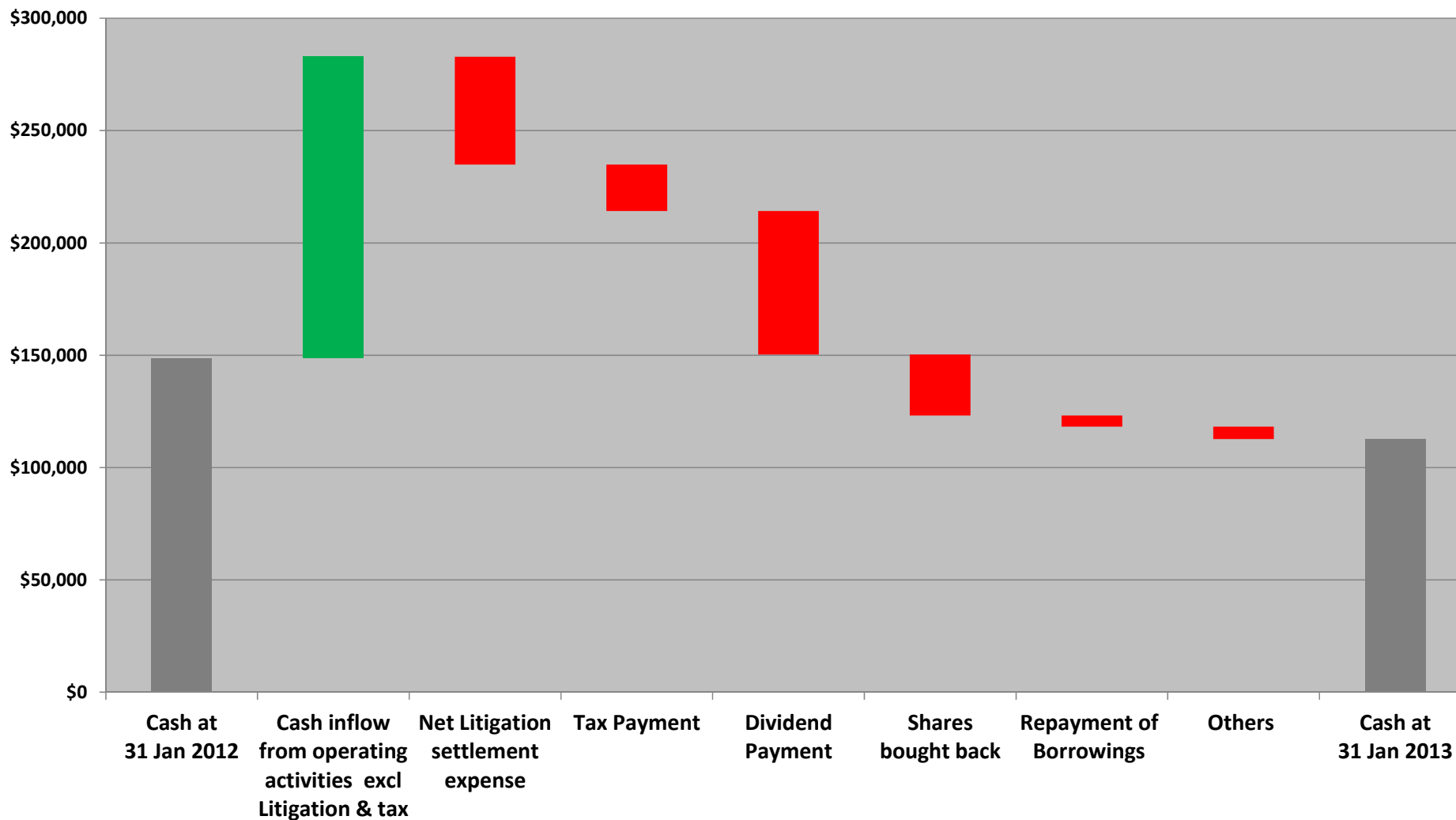
- \$10.3 million increase on the previous full year
  - units picked has increased by 6% due to market share gain
  - investment in additional warehouse supervisors to improve service delivery and facilitate further market share growth
  - Victorian industrial dispute, directly increased labour and freight by approximately \$1.0 million
  - previously announced Newcastle refrigeration failure also impacted costs
  - other freight between sites to support Victoria, and April 1 volume surge increased costs by a further \$1.0 million
- Implications for 2013/14
  - continue to re-engineer operating process and improve performance reporting
  - implement changes to transport and freight through contract tendering and consolidation of orders
  - these measures are expected to deliver savings versus 2012/13



## Operating costs – Sales & Marketing expenses

- \$12.9 million decrease on the previous full year
  - prior year higher due to large provisioning for the Pulse Group
  - savings made in product launch costs
  - partially offset by increased resources to support merchandising and multi channel initiatives
  - some additional project management costs incurred this year, which will not repeat
- Implications for 2013/14
  - current year results more indicative of the future position
  - customer credit review processes have been strengthened
  - benefits from improved category management performance and Private Label, expected this year

# Cash flow waterfall

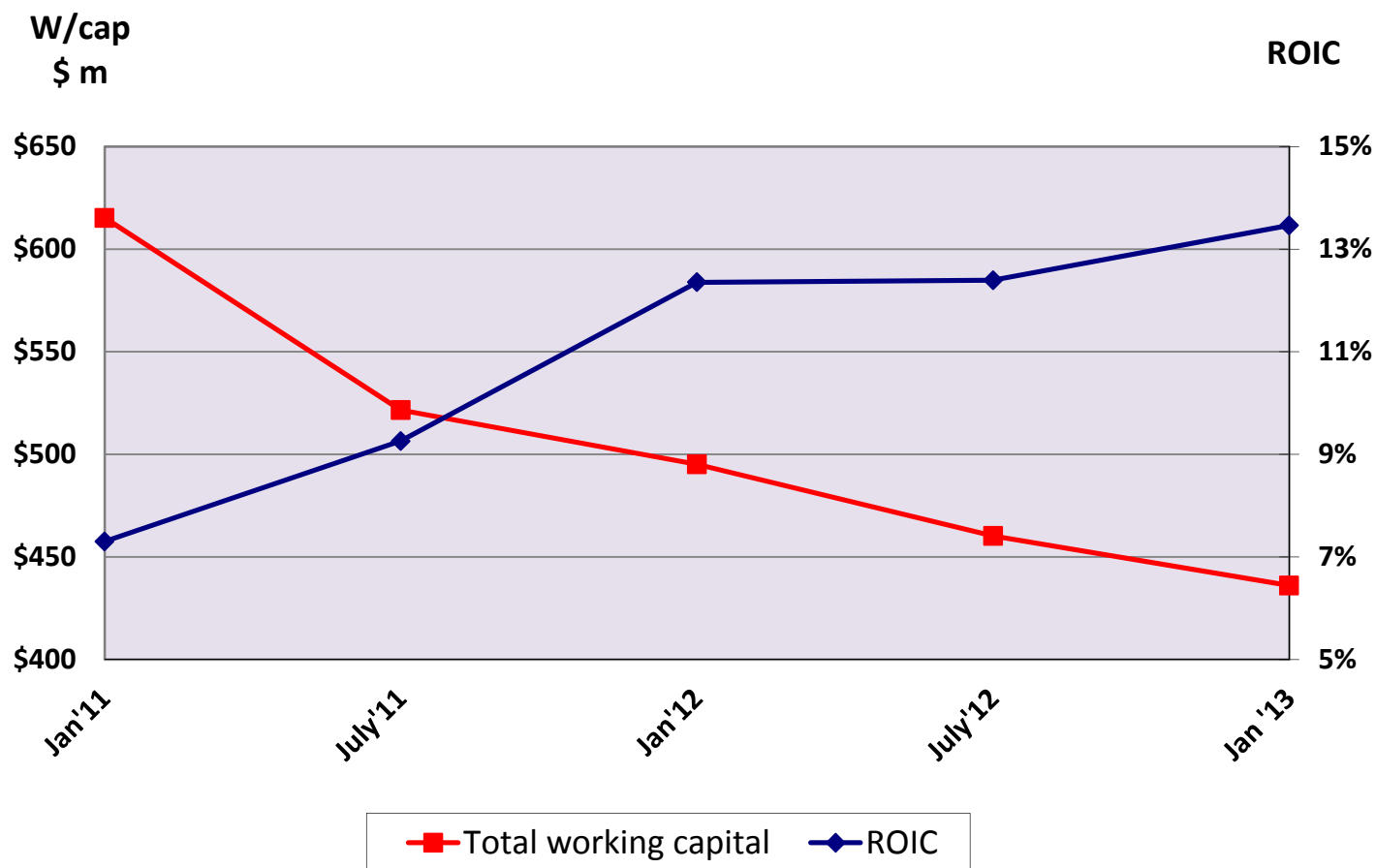


## Further working capital gains

Working Capital \$m	As at 31 Jan 2011	As at 31 Jan 2012	As at 31 Jan 2013
Trade Receivables	641	593	557
Inventories	225	214	255
Trade Creditors	-251	-312	-376
<b>Total Working Capital</b>	<b>615</b>	<b>495</b>	<b>436</b>
Days Sales Outstanding	75	76	69
Days Inventory Outstanding	30	29	35
Days Payable Outstanding	33	43	51
<b>Cash conversion cycle days</b>	<b>72</b>	<b>62</b>	<b>53</b>

- Continued improvement in working capital investment whilst also growing the business
- Good DSO improvement achieved
- DIO / DPO requires ongoing refinement in coming twelve months
- Still some room for further improvement

# Record ROIC and working capital improvements delivered



Notes re ROIC calculation:

- <sup>1</sup> Capital base excludes Gateway liability
- <sup>2</sup> January 2011 and July 2011 EBIT is calculated on an underlying basis for the continuing business
- <sup>3</sup> January 2013 EBIT excludes net litigation settlement expense (refer slide 3)

# Closing

Presented by Mark Hooper  
CEO & Managing Director  
Sigma Pharmaceuticals Limited

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- Pharmacy still facing challenges from PBS reform / tougher retail environment
- Addressing this requires a focus across all of pharmacy (clinical / retail)
  - includes the opportunity to offset via service based programs (eg. meds checks)
- Prudent for Sigma to increase monitoring of customer credit
- PBS growth outlook still modest
  - statistics on PBS growth an unreliable indicator post June 2012
  - ongoing PBS reform to dampen revenue growth in next twelve months
  - ageing population will still drive underlying growth
- Further exclusive distribution arrangements by suppliers less likely but still possible

# Building the base for growth

- Circa \$15 million invested over last twelve months to get Sigma “match fit” and ready for growth
- Approximately \$5 million (mostly capital) still to be spent
- Improved platforms to support:
  - supply chain infrastructure
  - improved service and delivery
  - key retail initiatives (including loyalty and space management)
  - multi-channel and social media
  - data storage and analytics
- Supplier engagement program well underway



# Key deliverables for Operations in 2013/14

- Consolidation of market share gains in wholesaling and further development of Pharmacy Advance offer
- Growth in Retail brand membership
  - Pharmacy Alliance (PAL) deal provides a base for growth
  - further leverage of improved service offering and retail performance
  - will be delivered with improved compliance
  - Amcal profile and Guardian industry awards confirms the strategy
- Market leading multi channel (e-Commerce) platform in place
- Further adjustments to trading terms to help offset current year PBS reform
- Reduced Logistics cost base
- Inventory efficiencies realised via improved supporting systems

- The re-investment program will:
  - progressively deliver benefits weighted towards second half of 2013 and into 2014
  - drive further improvement in earnings and ROIC
- Ongoing cash flow position can support:
  - strong dividend payout ratio (subject to franking)
  - a continuation of the current on-market buyback
  - ongoing re-investment in the business
  - the ability to consider new opportunities as they arise
- Industry challenges continue but Sigma is well placed for growth in 2013/14

**Questions?**

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# Appendices

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## Non IFRS measures

- **ASIC Regulatory Guide 230 Disclosing non-IFRS information**

In December 2011, ASIC issued Regulatory Guide 230. To comply with this Guide, Sigma Pharmaceuticals Limited is required to make a clear statement about the non-IFRS information included in the market announcement and Full Year presentation for the period ending 31 January 2013.

The following non-IFRS measures are used by management and directors to assess the underlying performance of the Group

- Underlying Earnings before interest and tax (EBIT)
- Underlying Net profit after tax (NPAT)
- Underlying Return on invested capital (ROIC)

The directors consider that these performance measures are appropriate for their purposes and present meaningful information on the underlying drivers of the business after considering the impact of Net litigation settlement expense.

# ROIC performance

\$m	As at 31 Jan 2011	As at 31 Jul 2011	As at 31 Jan 2012	As at 31 Jul 2012	As at 31 Jan 2013
Net assets	832.9	676.8	682.5	669.0	610.8
Less: Cash and cash equivalents	(556.9)	(135.8)	(148.6)	(145.8)	(112.7)
Add: Interest bearing liabilities <sup>1</sup>	354.8	47.2	35.0	20.0	30.0
Capital employed	630.8	588.2	568.9	543.3	528.1
Rolling 12-month EBIT	46.7 <sup>2</sup>	54.5 <sup>2</sup>	70.3	67.3	71.1 <sup>3</sup>
<b>Underlying ROIC</b>	<b>7.3%</b>	<b>9.3%</b>	<b>12.4%</b>	<b>12.4%</b>	<b>13.5%</b>

<sup>1</sup> excludes Gateway liability

<sup>2</sup> EBIT is calculated on an underlying basis for the continuing business

<sup>3</sup> EBIT excludes net litigation settlement expense (refer slide 3)





**SIGMA**

