

**CEO ADDRESS**  
**MARK HOOPER, CEO & MANAGING DIRECTOR**  
**SIGMA PHARMACEUTICALS LIMITED**  
**WEDNESDAY 7 MAY 2014 IN MELBOURNE, AUSTRALIA**

Thankyou Brian, and welcome everyone to our 2014 AGM.

The last 12-months have been another period of significant developments for Sigma. We have continued to build on the investments made over the two preceding years, and I believe now have the company in a position to grow. A little more on that shortly.

Firstly to our financial results for the year.

As Brian mentioned, sales for the year were up 1.1% to \$2.97 billion, achieved off the back of 3.3% growth in volumes delivered during the year. Growth in sales revenue was lower than volume growth due to the impacts from ongoing Federal Government reform of the PBS, which in this 12-month period alone, we estimate has impacted Sigma's sales revenue by around \$100 million.

With the six monthly Government PBS reform now a constant overlay on the industry, we continue to minimize the impact through reducing our own costs and adjusting customer discounts.

Despite the higher volumes delivered, increased utility costs, and EBA wage increases, we were pleased to be able to hold distribution costs relatively flat for the year. This was a great result, achieved through implementing various operational efficiency gains at our distribution centres. This will remain a focus for us moving forward.

Meanwhile, we continue to invest in enhancing our retail and marketing activities to help grow ongoing sales. This includes improvement in category management capabilities, the launch of our multi-channel platform, supporting an expanding pipeline of private and exclusive label products, and the launch of our structured Professional Services program.

The net effect was a Reported EBIT of \$70.3 million, and underlying EBIT, after adjusting for one-off items, of \$71.2 million, slightly ahead of last year.

The cash received from the sale of our Clayton property is effectively being reinvested into our earnings accretive acquisition of CHS which we announced on 26 March. CHS provides Sigma with an exciting growth opportunity. It is a full line wholesaler offering a complementary service model to that of Sigma. It also has over 140 pharmacies under the Pharmasave banner, and has a presence in the hospital distribution market. We expect CHS will contribute around \$3.5 million to EBITDA in its first full year within Sigma.

Our ongoing focus on providing superior customer service was again recognised during the year. Guardian Pharmacy has now won back-to-back the 2012 and 2013 Roy Morgan Research Customer Satisfaction Award for Pharmacy, and the 2012 and 2013 Canstar Blue Most Satisfied Customer Award. This is great public recognition of the consistency of service offered by our Guardian pharmacists.

For shareholders, Sigma continues to operate from a position of financial strength. We have a strong and transparent balance sheet, and over the last three years have maintained our net cash position. We have tightened credit and inventory terms to achieve a record cash conversion cycle for Sigma of 50 days. As this graph indicates, we have consistently improved our Return on Invested Capital, achieving a ROIC of 14.6% this year, another record high for Sigma. At the same

time we have reinvested in our business, continued to reward shareholders with a fully franked dividend of four cents per share, and maintained the share buy-back program.

Turning to the year ahead, we have invested in our business and are well positioned to generate the rewards.

We have also flagged our intention to continue to invest in driving operational efficiencies in our Brisbane and Sydney distribution centres. Up to \$15 million has been earmarked to be spent this year, with similar levels of investment likely to be required in the following three years. This is an investment in our future that is expected to deliver a relatively quick pay-back period. A site has been identified for Brisbane, with the business case being further developed. The Sydney investment is in early planning stages.

We have taken a leading position in implementing a structured Professional Services program to differentiate our brands. This includes the in-store hearing tests that ran for five weeks, as featured on channel nine news, and the world first Kidney Health program that will launch later this month in conjunction with Kidney Health Australia. For those here in the room, a free kit is available after the meeting if our qualified pharmacist advises the product is suitable for you. We have also this week announced the commencement of a “Be Good to Yourself” pilot program with health insurer nib, to be run in selected NSW pharmacies on a trial basis. More programs will follow in the coming 12-months.

We have launched over 100 private and exclusive label products into our pharmacy network, with another 200 products in the pipeline. We have made a strong start in our partnership with Boots Laboratories, with the Boots Serum7 range very quickly moving to become the number one brand in its category in our brand member stores. We are also extending our beauty offer beyond the colour THEORY range to include beauty THEORY and skin THEORY, which is being developed with our international partners including Boots.

In the current year, the first three months of operations have been in line with our expectations. Whilst the Government PBS price disclosure implemented in April had a slightly bigger impact than initially expected, this was largely offset by a continued focus on costs and adjusting customer trading terms.

In closing, clearly industry challenges remain, and Sigma and our customers are not immune. We have invested for our future in the things that matter – re-energizing our retail network, supporting customers through Professional Services, strong supplier relationships, and growth opportunities through CHS. We are also committing to reinvesting in our distribution centres to improve operational efficiency and capability.

We remain confident that we have made the right investments in the business to drive our vision of making Sigma Australia’s partner of choice in Health, Beauty and Wellbeing.

**Mark Hooper, CEO & Managing Director**  
**7 May 2014**