



14 December 2018

API ANNOUNCES PROPOSAL FOR MERGER AND SHAREHOLDING IN SIGMA

Australian Pharmaceutical Industries Limited (API) has today lodged a substantial shareholder notice with the ASX to confirm it is now holding 12.95 per cent of shares in Sigma Healthcare Limited (Sigma). API also today reconfirmed the terms of a non-binding indicative proposal made to Sigma's Board of Directors on 11 October 2018 to acquire 100 per cent of the shares in Sigma, via a scheme of arrangement (scheme). Under that proposal Sigma's shareholders would receive 0.31 API shares and \$0.23 cash for each Sigma share.

Based on the terms of the API proposal and the API share price at close of trading on 13 December 2018, the API proposal would equate to \$0.686 per Sigma share, representing:

- A 69.3% premium to the Sigma share price as at the close of trading on 13 December 2018; and
- A 46.5% premium to the one month volume weighted average Sigma share price of \$0.468.

Following implementation of the scheme, API shareholders would own approximately 63 per cent of the combined entity with Sigma shareholders owning the remaining 37 per cent.

API's Chairman, Mark Smith, said that the API Board believes a merger is the best opportunity to deliver significant benefits to both groups of shareholders, pharmacists and customers. API is seeking to work cooperatively with the Sigma Board to create more value for all stakeholders.

"A combined entity would create greater efficiencies in the wholesaling business to the ongoing benefit of all shareholders. This, in turn, would enable the combined business to provide greater assistance to pharmacists as they respond to current regulatory impacts and increasing retail competition, enabling a stronger, viable community pharmacy industry.

"In the face of slowing revenue growth, projected margin and revenue pressures due to Government policy and also increased competition, the merged business would provide scale and volume, which will give greater scope for the ongoing investment in technology that is essential to ensure a competitive, sustainable and efficient wholesale model in the future.



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"The real benefits of the proposed merger come from infrastructure and back office cost savings. Both API and Sigma share a proud history of supporting independent pharmacists and we are committed to maintaining that heritage and delivering enduring value to pharmacists and their customers. The intention is therefore to maintain both API and Sigma's retail brands," Mr. Smith said.

Based on publicly available information, API currently estimates that the acquisition will deliver annualised pro-forma gross cost savings from pharmacy distribution and corporate functions of \$60 million by year three of the merger. Subject to due diligence, it is anticipated that the proposed merger would be immediately accretive to earnings per share. API will fund the cash component of the proposal from recently secured debt facilities.

"Based on publicly available information, API believes its proposal delivers fair value to both API and Sigma shareholders. I am very confident that the strength of our combined management teams and employees would drive efficiencies to the benefit of all stakeholders," Mr. Smith said.

"Our proposal is attractive for Sigma shareholders, in that it provides an upfront cash payment and the ability to share in the upside from scrip in the merged company," he said.

API's non-binding indicative proposal was based on available public information. The proposal was subject to a number of conditions precedent, including completion of due diligence, confirmation of cost synergies and ACCC clearance.

API purchased 8 per cent of Sigma's shares from Allan Gray. Simon Mawhinney, Chief Investment Officer and Managing Director of Allan Gray said, "We have previously stated that we are supportive of consolidation in the pharmaceutical wholesaling sector and are positively disposed to efforts to expedite this consolidation."

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