



PROPOSAL FOR API-SIGMA MERGER

14 December 2018

AGENDA

- Proposal and current status
- Rationale and outlook
- Approach and benefits
- Next steps and timing

PROPOSAL AND STATUS

Current shareholding and proposal before the Sigma Healthcare Limited (Sigma) directors

Status	
Non-binding indicative offer (NBIO) presented to the Sigma Board on 11 October 2018	<p>To merge the companies with a cooperative approach so that Sigma shareholders will receive, for each Sigma share they hold:</p> <ul style="list-style-type: none">• 0.31 API shares• \$0.23 in cash <p>This equates to \$0.686 for each Sigma share and is a premium of 46.5% to the one month volume weighted average Sigma share price of \$0.468 as at the close of trading on 13 December*</p> <p>It is also a 69.3% premium to the Sigma share price as at the close of trading on 13 December 2018</p>
API shareholding in Sigma	API currently holds 12.95%

API's preference is to take the next steps with Sigma so that all shareholders can share in the benefits of a merged entity. The NBIO is conditional on, among other things, completion of due diligence and ACCC clearance.

*Based on API's share price of \$1.47 as at the close of trade on 13 December 2018

MERGER RATIONALE AND OUTLOOK

The rationale for merging the companies is more compelling than ever due to:

- Ongoing Government funding for the Community Service Obligation remaining flat while input costs are increasing
- Pharmaceutical Benefits Scheme (PBS) Reforms continuing to drive price deflation and compress revenue
- The industry landscape remaining highly competitive with new entrants and further disruption likely

The API shareholding in Sigma has the intention of:

- Ensuring API holds strategic options in the future shape of the industry
- Demonstrating confidence that now is the right time to move to consolidation

Detailed due diligence is required to gain certainty on the benefits and confirm required funding arrangements.

APPROACH AND BENEFITS

API's intent is to strengthen the underlying assets for all shareholders and create a more sustainable pharmacy industry.

The current NBIO reflects:

- Public financial information available in respect of Sigma
- A focus on infrastructure and back office consolidation benefits in the pharmacy distribution assets
- An intent to maintain the integrity of the current retail brands in both companies

An estimated \$60 million in gross financial benefits through merging the companies factored into the current NBIO:

- Pharmacy distribution and back office cost savings
- Further benefits may be uncovered once due diligence conducted
- Current cost of debt facilities that supported share purchase in Sigma are subject to market conditions, are largely offset by forecast dividends over a 12 month period

NEXT STEPS

API is seeking full engagement with Sigma and to be able to deliver a binding proposal early in 2019.

Key steps in the process are:

- API has advised the Australian Competition and Consumer Commission (ACCC) of its shareholding and intent to seek a merger with Sigma
- Engagement with the Sigma Board to allow the full merger benefits to be reviewed and agreed so that all shareholders can share in the upside of the combined entity
- If agreement is reached with Sigma the process for ACCC regulatory clearance could run until mid-2019
- During the next phase API expects to operate its business as usual and will not seek representation on the Sigma Board

API will keep the market informed of any further developments as required



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