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# CEO Address

Mark Hooper, CEO & Managing Director
Sigma Healthcare Limited, Annual General Meeting
Wednesday 16 May 2018 in Melbourne, Australia

Issued 16 May 2018

Thank you Brian, and welcome everyone to our 2018 AGM, our first as Sigma Healthcare. The change of name last year was a strong indicator of our objectives to diversify our business to become a more holistic and connected healthcare company. As part of today's presentation, I will provide an update on our financial results, current industry issues impacting our business, our priorities looking ahead, and leave you with some comments on our priorities and outlook.

First, I would like to briefly discuss our financial results for the year to 31 January which were released in late March. Clearly, our results were impacted by a number of factors that meant the results we delivered for the year did not match our expectations.

Revenue for the year was down 5.4% to $4.13 billion, largely driven by softer sales of Hepatitis C medication, which is a high value but low margin item. Adjusting for this, revenue was largely flat for the year, which was a relatively good outcome given the challenging retail trading conditions in general, and more specific to Sigma, the loss of a significant customer group during the year.

Our Reported NPAT for the year was up 3.5% to $55.4m. However, adjusting for one-off items in each year, our Underlying NPAT was down 10.5% to $59.9 million. This result was driven by a combination of factors including the decline in low margin Hep C products, and general cost increases largely on an otherwise flat revenue base.

Capital management has been and remains a core focus for management. Our disciplined approach sees our Underlying Return on Invested Capital for the year reach 16.6% and our Cash Conversion Cycle, which is a measure of how well we manage our capital, at 32 days. As we highlighted last year, our current investment cycle will see our ROIC slowly decline however this will be off a broader and more efficient business base.

One of the more public issues we confronted during the year was the supply agreement with Chemist Warehouse, on which we reached negotiated settlement during the year to enable both parties to navigate a way forward. The current agreement is due to run until mid-2019, and we expect to hold discussions with the Chemist Warehouse team over the course of this year.

Whilst the financial results did not meet our expectations, nothing in business is linear, but importantly, as Brian has already stated, we remain confident in our strategy, direction and expectations. Management remains very much committed to our existing strategy and is focused on investing for longer term growth and looking for the right acquisition opportunities when they present.

Having more clearly defined our pharmacy brand strategy, our team is making good headway in actively growing our brand membership with members who want to be part of this strong network that accounts for around 20% of consumer spend in pharmacy. Our brands are recognized by consumers, with the Guardian brand winning the Canstar Blue award in pharmacy, closely followed by Amcal. We have continued to invest in programs, products, services and data to provide pharmacists with a unique, strong and compelling offer. Our focus is very much about the customer, making the pharmacist more accessible to service customer needs.

Beyond our retail brands, our overall approach is to ensure we invest in important business enablers, such as technology solutions. We recently launched a new customer ordering platform, Sigma Connect, to make it easier for our pharmacy customers to do business with Sigma. We launched new member communication platforms, rolled out our proprietary CarePro patient portal system to help pharmacists proactively support their patients to manage their health, and we extended our industry leading Leapp pharmacy dispensary program to help pharmacists to re-engineer their workflows and better engage with patients. More recently, we announced the national roll out of the in-pharmacy sleep apnoea program across our Amcal and Guardian members.

As Brian mentioned, we also added the mps dose administration aid business and the Medical Industries Australia medical device and consumables business during the year. Whilst early days, these are great service based businesses that are less constrained by regulation, with mps in particular providing an essential dose administration service to customers. There is a great market for these services, supported by Government policy to improve medication management and help prevent hospitalization. The mps business has a tremendous opportunity to continue to expand, from aged care, hospital, community pharmacy, and in the home.

As you have seen, we are well advanced in our distribution centre investment program. On completion of this staged program, Sigma will have one of the most advanced distribution networks of any pharmaceutical wholesaler in Australia, giving us significant efficiency gains and enhanced effectiveness in servicing our customers.

This is also a key investment to support our growing hospital pharmacy business which continues to gain momentum. Sigma Hospitals was successful in winning new business during the year, including Western and Northern Hospitals in Victoria, and in expanding its footprint to have a national presence. It is an exciting time of opportunity for this business.

I will now turn to the regulatory environment.

Firstly, I would like to acknowledge the Health Minister, the Honorable Greg Hunt. His engagement with the industry, his genuine passion for pharmacy and healthcare, I think is a great positive. Having said that, we are at a point where we need to see action on two key industry issues that if not addressed, will put at risk patient access to medicines.

On the screen is a slide I presented two weeks ago at The Pharmacy Guild industry conference in Queensland which outlines our current focus areas with government.

At the heart of our concerns is the Governments own National Medicines Policy, or the NMP. The NMP is tremendous policy that ensures patient access to essential medicines anywhere in Australia usually within 24 hours. If you stop and think for a moment that a country the geographic size of Australia with our population spread, can achieve this level of patient care, it is quite extraordinary. It is the leading system anywhere in the world. CSO Wholesalers like Sigma are the arms and legs that make this possible.

Firstly, and critically, is the issue of exclusive direct distribution. Essentially, certain manufacturers have cherry picked the most profitable products for exclusive distribution direct to pharmacy, leaving the unprofitable products to CSO wholesalers to deliver, which we are obliged to do. In a cross subsidized system such as this, allowing the more profitable products to be selectively removed from the system cannot be sustained. Pharmacy can only access these products from one distributor so there is no competition, and having only one distributor introduces a single point of failure in the event of out of stock or other issues with a distributor. This is the reverse of normal disruption – it is the equivalent of telling consumers you can only use Telstra for your mobile phone service.

The second issue we seek resolution on is the wholesaler funding model. Wholesalers are paid a percentage margin on the value of the PBS products we distribute. With Government policy continuing to drive down the value of PBS products, this has substantial implications for wholesalers. We continue to consult with Government to de-link wholesalers from ongoing price decline. What we seek is consistent with the action the Government has already implemented in support of the Guild, by de-linking pharmacist remuneration from this declining PBS revenue.

On both these issues, whilst engagement with the Minister and Department of Health is positive, it is time for action.

Finally, I will just wrap up with a brief update on our progress year to date.

General trading conditions have continued to be challenging with trading for the first quarter slightly below expectations. Against this backdrop, we are now focused on a number of actions and initiatives with the objective of delivering our previous EBIT guidance of around $90 million for FY19, but more importantly to deliver long term sustainable growth. We are starting to see a return to growth in our brand member pipeline, we are having success with our mps dose administration business and in tendering for new contracts in our Sigma Hospitals business, and we will begin reaping the rewards from our current investment cycle that will add to our performance in the years ahead.

I thank you for your support and attendance today, and I will now hand back to Brian for the formalities of the meeting.

**Mark Hooper, CEO & Managing Director**
**16 May 2018**