

CEO AND MANAGING DIRECTOR'S REPORT

The Chairman's report provides a terrific overview of the business and strategic direction for Sigma.

In my report I'd like to take the opportunity to reflect on some of the key areas of focus from the investment community.

What stands out as the major highlights for the past 12 months?

There are a number of things Sigma can be proud of this year. We have again delivered a strong underlying financial performance but, just as importantly, our business is now in a position that enables us to focus on investing for our longer term growth. This is an exciting phase for the organisation.

We have now made good inroads into reinvesting in our infrastructure, which Sigma has not done for some time. This is an important enabler to create a more efficient and effective network.

The most satisfying point, however, is the fact that our team member engagement survey tells us that we have a great culture and a great team who are engaged and motivated. As the CEO, this is a critical indication of organisational health.

What is the level of growth in the PBS, and why are you diversifying your earnings away from PBS?

From Sigma's perspective, we assume basically no growth in the PBS, whereas the Federal Government budget assumes growth. Understanding the impact of an ageing population requires the government to formulate ways to further reduce the spend into the future. So, while PBS is core, we can't sit back and rely on it to deliver our growth aspirations.

Where does Sigma's future growth come from?

We have a number of irons in the fire to deliver growth. That is important because as much as you plan for success, things will not always turn out as you expect. We are focused on delivering organic growth through our existing retail and wholesale business. We are also focused on achieving growth from just doing things better. Whilst we have come a long way in improving our operational performance, there is still significant opportunity to improve our efficiency and effectiveness, so we have a major project underway (Project Renew) to capture these benefits. Thirdly, we continue to actively look at new business opportunities that can leverage our existing capabilities and extend our reach.

We are very focused on continuing to build on our momentum.

You talk about moving into adjacencies. What does this mean?

We are interested in exploring opportunities that are healthcare related but leverage our existing core skills and capabilities, and are consistent with our overarching strategy. Our push into hospital pharmacy distribution and third party logistics are examples of natural adjacencies to where we are now operating. There are opportunities that leverage our logistics infrastructure, our retail network, our investment in data and loyalty, and expand our private and exclusive range of products. What is key is that it fits within our core and provides an adequate return on capital for shareholders.

What is your view on the future of pharmacy in Australia?

I think community pharmacy is a fantastic national resource that provides an integral role in the delivery of healthcare to all Australians. I know our brand members and our customer base more broadly are passionate about the services they can provide customers to help them better manage their health. So from Sigma's perspective, we continue to invest in products, programs, services and data to help them achieve this. We are keen to provide that connection for our members to help their customers improve their healthcare outcomes. Ultimately, if our customers are successful, Sigma is successful.



What concerns you most about the regulated industry that you operate in?

My main concern is not so much for Sigma. We have a stronger business model now, so if regulatory changes have an impact, we will adjust our business model to suit. I am more concerned that regulatory changes are being made that are ultimately and unintentionally causing structural deterioration to the objective of the government's own National Medicines Policy, and therefore the overall healthcare system. Wholesalers provide the practical mechanism that delivers timely and efficient access to medicines for pharmacies, so it is important that we have a structural funding model that is sustainable long term.

We are keen to provide that connection for our members to help their customers improve their healthcare outcomes. Ultimately, if our customers are successful, Sigma is successful.



CEO AND MANAGING DIRECTOR'S REPORT CONTINUED

Is there something that investors don't understand about Sigma?

I think there has been this perception that Sigma had no growth. It has been a slow and steady build, so I think some investors did have difficulty in understanding where our growth was coming from and in what direction we were heading. There is not one single driver of our growth. It comes collectively from organic growth, from business improvement, and from acquisitions. As we mature as a business we will continue to evolve and improve our reporting to develop the market's understanding of Sigma and the growth strategies.

Does your previous profit guidance still stand?

Yes it does. In March 2016 we provided guidance of at least 5% growth in underlying EBIT for the next two financial years, being the year to January 2017 and January 2018. At our AGM in May we upgraded our 2017 guidance to 10% and maintained our 2018 guidance. We have just delivered 12.4% underlying EBIT growth for this year, which is a terrific result. So even though it will be off a bigger base, we believe we can deliver 5% underlying EBIT growth in 2018.

Any final messages you want to send to stakeholders?

I do just want to thank those investors who have supported us over the last few years. It has at times been a gradual process, but they are now seeing the rewards. We have a clear vision of where we want to head and clear strategic direction, and I think we have the right team in place to deliver it.

This clear strategy leads in to the change of company name and logo that we are currently undergoing. Sigma has a very long and proud history that we continue to embrace. However, the business has evolved and we found having pharmaceuticals in our name clouded views about our core business, which Sigma Healthcare addresses. Our existing logo had been in use for almost 20 years, and again it was closely linked with pharmaceuticals, which the new logo addresses whilst retaining our corporate colours. Finally, I think "Connecting health solutions" really defines what our end-to-end business is about. We have fantastic suppliers, customers, pharmacists and other business partners, so Sigma can play a major role in bringing innovative and integrated health-driven programs and solutions across the healthcare supply chain.



Mark Hooper
CEO & Managing Director



