



13 March 2019

Market update on API-Sigma merger proposal

Australian Pharmaceutical Industries Limited (API) has noted Sigma Healthcare's (Sigma's) announcement that it has rejected the non-binding indicative offer (NBIO) put forward by API to merge the companies. Based on Sigma's announcement, it is clear that API's NBIO to pursue a merger of API and Sigma is unable to be taken forward.

API's proposal represents a highly attractive premium of 41.8%¹ relative to the undisturbed volume weighted average price of Sigma shares in the one month prior to the 14 December 2018 announcement of the NBIO proposal.

API notes that the Sigma Board has elected to terminate discussions in relation to a highly synergistic merger proposal and instead prioritise the uncertain restructure of its standalone business. Based on work undertaken jointly by the two companies, the merger transaction would likely have realised \$60 million per annum in synergies by year three of a merger, which is significant in the context of the current combined EBIT of the two companies of \$132m².

In contrast, the publicly available information on the restructure of Sigma's standalone business remains highly uncertain and unclear, while the business itself will be significantly downsized, following the decision by Sigma's major customer (Chemist Warehouse) to take its business elsewhere. API notes that very little information has been provided by Sigma in relation to its intended restructure. Based on Sigma's publicly disclosed earnings guidance, it is clear that a substantial portion of the claimed \$100m cost savings will be offset by lost Chemist Warehouse revenue.

The Sigma Board has chosen a path to restructure its significantly downsized business, rather than pursue a merger to create a future that benefits consumers, pharmacists and both sets of shareholders.

API has closed its data room and is reviewing its shareholding in Sigma which it acquired in the latter part of 2018. API remains focussed on executing its growth strategy articulated at its Annual General Meeting in January 2019.

Ends

1. Based on the terms of the API NBIO and the API share price close of trading on 12 March 2019
2. Assumes broker consensus FY20 EBIT of \$41m for Sigma and API's FY18 underlying EBIT of \$91m. Note that Sigma's FY20 EBIT includes earnings from Chemist Warehouse that will not recur in FY21

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