Sigma Healthcare

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ASX Release

Issued 7 September 2017

Sigma rewards shareholders and announces acquisition of MPS

Financial Summary

Revenue	**$2.02 billion**	**Down 6.1%**
Underlying EBIT *	$44.2 million	Down 8.7%
Reported EBIT	$42.8 million	Up 14.6%
Underlying NPAT *	$28.9 million	Down 8.8%
Reported NPAT	$27.9 million	Up 16.7%
Underlying ROIC *	16.1%	Up from 15.9%
Interim Dividend	2.5 cps	Unchanged

* Refer to Notes on final page

Highlights

- Shareholders continue to be rewarded with 2.5 cents per share dividend
- A pipeline of initiatives points to a more positive outlook for FY19
- Investment in infrastructure remains on track and under budget
- Acquisition of MPS business provides further expansion opportunities

Overview

Sigma Healthcare (Sigma) today reported a rise in Reported EBIT of 14.6% for first half of FY18, with Underlying EBIT down 8.7%. This is in line with the previous FY18 guidance to the market, with the business building towards growth in FY19.

The company's balance sheet remains very strong, underpinning Sigma's ability to invest in critical infrastructure, maintain the share buy-back, reward shareholders through the dividend, and to actively pursue further acquisition opportunities.

Significantly, Sigma today also announced the acquisition of the MPS business, the largest provider of dose administration aids to aged care facilities (refer separate ASX release).

As announced on 11 August 2017, Sigma faced a number of challenges during 1H18 which have impacted its current half year underlying performance. The company expects these to be contained to FY18, with Sigma well positioned to reap the benefits of its strategic investments in the business in the years to come.

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"We have achieved a sustained period of above market growth over the past few years. So whilst the current year was influenced by some unexpected events, these are being addressed. This has intensified our focus on our strategy and business development pipeline, including today's announcement of the acquisition of MPS. It also reinforces our belief that we are on the right track and can return to growth in FY19 and beyond," said Sigma CEO and Managing Director Mark Hooper.

Sigma has a strong track record of maintaining a disciplined focus on Return on Invested Capital (ROIC), and this year is no different. Underlying ROIC remains at a healthy 16.1%.

The Board continued to reward shareholders, maintaining a high dividend pay-out ratio (92% of Underlying profit), leading to the announcement of a dividend of 2.5 cents per share payable on 5 October 2017.

Operational comments

The sales revenue headline number was heavily impacted this year by a combination of the pull back in sales of the low margin Hepatitis C medicines, the exit of a non-compliant branded customer group, and general softer consumer sentiment. Adjusting for Hepatitis C, sales revenue was down 1.4%.

"The challenges that arose during the year are now being actively addressed. Our focus is firmly set on growing the pipeline of new members that will build momentum into FY19, and building on the momentum we are starting to see in our hospital services and third party logistics business," said Mr Hooper.

The national expansion of the Sigma Hospital Services business is also gaining traction.

"We have made significant progress in securing and expanding our base Victorian business, which has again extended its market share. This will be further bolstered by recently being awarded the tender to service the Western and Northern hospitals in Victoria's growth corridors. We are also pushing hard into the NSW and WA markets. We now have infrastructure, systems and people in place across Australia that can fully service this expansion opportunity, so we are really pleased with where this business is positioned and the opportunities in front of us," said Mr Hooper

Sigma's logistics services business meanwhile continues to attract new business. Amongst other successes, the contract to service the Department of Defence is now in operation, and will build over the remainder of FY18.

Meanwhile our investment in Project Renew continues, and whilst not being a major contributor in FY18, sustainable efficiency improvements are expected to be reported from FY19.

"Our investment in Project Renew in parallel with our distribution centre investment creates terrific momentum over the next few years. Not only does it drive operational efficiency improvements, it significantly enhances our capacity and ability to better service customers and to capture new business opportunities. It is an exciting phase that will deliver step change for the business,'' said Mark Hooper.

Capital management

Sigma has maintained a very strong balance sheet, with net debt for 1H18 ending on $72.8 million. This is expected to reach $125 million at year end (subject to any additional acquisitions), reflecting our investment in major infrastructure, a continuation of our share buy-back program, and the high percentage of profits returned to shareholders as a dividend.

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"Sigma's net debt is comfortably below one times EBITDA. This gives us great capacity to invest in opportunities that will drive the business long term, and still reward shareholders in the short term," said Sigma Chairman Brian Jamieson.

Mr Jamieson continued, "Our share buy-back program was refreshed earlier this year to provide capacity to buy-back a further 10%. We have now removed over 125 million shares from the market at an average cost of $0.75 per share. Whilst we have not been aggressive with the buy-back given our capital investment program, we have bought back and cancelled an additional 4.4 million shares in this half. We view this as a very good investment for shareholders."

Sigma rewarded shareholders by maintaining the dividend at 2.5 cents per share, paying out 92% of Underlying profit (96% of Reported profit).

"The Board was unanimous in its support for maintaining a high dividend payout ratio. We are confident in Sigma's underlying business and the levers in place to bounce back from what was a challenging period," Mr Jamieson concluded.

The final dividend is payable on 5 October 2017, with an ex-dividend date of 19 September 2017 and a record date of 20 September 2017.

Outlook

We confirm the trading update provided on 11 August 2017 guiding to expected Underlying EBIT of $90 million for FY2018. A number of factors point to a more positive outlook for FY2019.

Mr Hooper concluded, "The signs are good that momentum is swinging back in our favour. This is supported by a combination of our pipeline of pharmacy brand members, service improvements and efficiency gains from Project Renew and the opening of our Berrinba distribution centre in Queensland, along with the ramp up of new service contracts in hospitals and logistics."

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Notes

Underlying pre-tax ROIC is based on the last 12 months of underlying earnings (EBIT), excluding non-operating items, and net assets adjusted for capital work in progress on new distribution centres.

	1H18 Reported	1H18 Underlying (Note 1)	1H17 Underlying (Note 1)	% Change Underlying (Note 1)
	$000	**$000**	**$000**	**%**
Revenue	2.015.5	2,015.5	2,146.0	(6.1)
EBIT (1)	42.8	44.2	48.4	(8.7)
NPAT	27.9	28.9	31.7	(8.8)
	cents	**cents**	**cents**	**%**
Dividends Per Share	[2.5]	[2.5]	2.5	-
Earnings Per Share	2.8	2.9	3.2	(9.4)

(1) Underlying EBIT and NPAT excludes the impact of non-operating items, including restructuring costs, due diligence costs and litigation settlement expenses. Refer to the Appendix 4D as lodged with the ASX.