Sigma Healthcare

Sigma Healthcare Limited
ABN 15 088 417 403
ASX code: SIG
3 Myer Place Rowville Victoria 3178
T +61 (03) 9215 9215
F +61 (03) 9215 9188
sigmahealthcare.com.au

ASX Release

Issued 22 March 2018

Sigma rewards shareholders and continues to reinvest in the business

Highlights

- Shareholders continue to be rewarded with a final dividend of 2.5 cents per share
- Investment in automated Distribution Centre (DC) infrastructure and process improvements becoming operational to drive efficiencies and customer service enhancements
- Successful integration of Medical Packaging Systems (mps) and national growth in hospital services business provides further expansion opportunities

Financial Summary

	Reported	**Underlying ***
Revenue	$4.13b, down 5.4%	$4.13b, down 5.4%
EBITDA	$92.8m, up 4.0%	$99.4m, down 8.8%
EBIT	$83.7m, up 3.4%	$90.3m, down 10.0%
NPAT	$55.4m, up 3.5%	$59.9m, down 10.5%
Earnings Per Share	5.6 cps, up 3.7%	6.1 cps, down 9.0%
Dividend Payout Ratio	96.5%	88.7%

* Refer to Notes on final page

Overview

Sigma Healthcare (Sigma) today reported a rise in reported EBIT of 3.5% to $83.7 million for FY18, with Underlying EBIT down 10.0% to $90.3 million. This is in line with the previous FY18 guidance to the market.

Whilst reported Sales Revenue was down for the FY2018, Sales Revenue excluding the low margin Hepatitis-C medication (which were expected to decline post the initial sales uplift from launch of these products) was steady for the year, with growth sufficient to offset the market conditions.

The company is pleased by the performance of its recent acquisition, mps, which provides dose administration aid services, and the expansion of Sigma Hospital Services, which is achieving strong growth nationally. Sigma's focus on infrastructure investment, including new distribution centres (DC's) in WA, NSW and Queensland, is now starting to come on stream. Construction is complete at Berrinba in Queensland, and began operations at the end of February 2018. Construction in Canning Vale in Western Australia is well advanced, with construction soon to begin in Sydney. This investment is being supplemented by Project Renew, which is addressing functional and process improvements across the business.

In addition, Sigma's balance sheet remains very strong, underpinning its ability to invest in critical infrastructure, reward shareholders through dividends, and to actively pursue further acquisition opportunities.

Sigma has underlined its commitment to shareholders, with the Board announcing a fully franked dividend of 2.5 cents per share. With 88.7% of underlying NPAT returned to shareholders as a dividend, this continues the Directors' long-standing commitment to maintaining a high dividend payout ratio.

Despite some challenges in FY18, Sigma remains well positioned to capture the benefits of its strategic investments in the business in the years to come.

"This is an important turning point for Sigma. We are confident in our strategy and that the benefits will start to flow through from some of the strategic investments we've made and our commitment to infrastructure spending to make our business more efficient. We are positioning Sigma for growth in the coming years," said Sigma CEO and Managing Director Mark Hooper.

"Today's result is in line with guidance. We are working harder than ever to ensure we can grow and diversify our earnings, improve customer service and keep a close eye on costs. We are also very focussed on being more aggressive on an M&A front,'' he said.

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 was 16.6%*, a strong return in the midst of our investment cycle. Whilst ROIC remains a focus, our current significant and necessary investment program in new warehouses in three States will see this reduce slightly for a period in the coming years.

Operational comments

The sales revenue headline number was heavily impacted this year by the expected decline in sales of the low margin Hepatitis C medicines. Adjusting for Hepatitis C, sales revenue was broadly flat, which is a relatively good outcome against the backdrop of the exit of a large co-branded customer group in Queensland and general softer consumer sentiment.

Sigma's retail brands continue to invest in ways to improve workflows and upskill the pharmacist to allow them more time assisting customers as well as growing revenues. The LEAPP Dispensary Excellence Program unveiled to support Amcal and Guardian pharmacies is industry leading and has been very well received by participating members. Participants through the program have recorded trading growth that is outperforming the market.

The national expansion of the Sigma Hospital Services business continues to gain traction. Sigma Hospital Services is generating a fresh revenue stream for the Group, and achieving strong growth that is currently being reinvested back in the business to continue its growth momentum, including expansion to Western Australia to provide a national presence. Sigma Hospital Services has secured some important contractual wins in the past half year, including Northern Health and Western Health, both located in Melbourne.

Sigma's acquisition of Central Healthcare Services (CHS) in 2014 as a standalone pharmaceutical wholesaling business has proven to be strategically important.

"Expanding the CHS network to have a national presence is a key enabler in supporting our aspirations for the Sigma Hospital Services business. We now have the ability to service the hospital market across Australia with a differentiated offering. This has led to Sigma Hospital Services achieving some good contract wins, but also supports CHS in its own right achieving some important contracts including the contract to service the Department of Defence which will continue to build over FY19," said Mr Hooper.

* Refer Notes on final page for reconciliation

Meanwhile, Sigma's investment in Project Renew continues, and whilst not being a major contributor to EBIT in FY18, longer term efficiency improvements are anticipated.

"We remain committed to what Project Renew can deliver in terms of driving operational efficiencies, enhancing our capacity and our ability to better service customers as well as facilitate the capture of new business opportunities. The ongoing roll-out of our Sigma Connect ordering portal is a great example of initiatives to make it easier for our customers to deal with Sigma,'' said Mark Hooper.

"The addition of mps to our business has been pleasing. mps provides centralised dose administration aid services and support in the aged care and community pharmacy settings, both large and growing market segments that remain highly fragmented and untapped. mps has a great pipeline of opportunities for development," said Mr Hooper.

The more recent acquisition of the business of Medical Industries Australia (MIA) provides Sigma's first foray into the business of distribution of medical devices and consumables to hospitals, pharmacy and aged care. Whilst small, it provides a platform to approach a new market segment for Sigma.

"Both mps and MIA are natural adjacencies that are aligned with Sigma's existing business and broader vision of Connecting Health Solutions," said Mr Hooper.

Capital management

Sigma has maintained a very strong balance sheet, with net debt for FY18 ending at $113.6 million, reflecting a combination of our investment in major infrastructure, the acquisitions of mps and MIA, a continuation of our share buy-back program, and the high percentage of profits returned to shareholders as a dividend. Consistent with our ongoing investment in infrastructure, net debt is expected to reach $250 million at FY19 (subject to any additional acquisitions).

"Sigma has shown its continued commitment to its shareholders through its dividend policy and that will remain. I'm pleased to say we continue to have a very strong balance sheet. This gives us great capacity to continue to invest in opportunities, which is not limited by our major investment cycle linked to new DC facilities under construction in Western Australia and NSW. Where we see attractive M&A prospects, Sigma will continue to pursue them," said Sigma Chairman Brian Jamieson.

Mr Jamieson continued, "Our share buy-back program continues to operate, albeit we do not anticipate being aggressive given our capital program. We have bought back over 130 million shares since inception, 14.6 million of them in this financial year."

Sigma rewarded shareholders by maintaining the dividend at 2.5 cents per share, paying out 88.7% of Underlying NPAT.

"The Board was unanimous in its support for maintaining a high dividend payout ratio in the current year, and currently foresee no reason for this to change in future years. We are confident in Sigma's underlying business and the longer-term opportunities for growth," Mr Jamieson concluded.

The final dividend is payable on 20 April 2018, with an ex-dividend date of 5 April 2018 and a record date of 6 April 2018.

Outlook

A number of factors point to a more positive trend in our underlying business, although this is likely to be skewed towards the end of FY19 and in to FY20. Our new Berrinba DC will scale up over the first few months of this year, delivering a sustainable step change in operational efficiencies. The closure of our Mansfield DC will see approximately [$5.3] million in one-off costs incurred in FY19.

We continue to see good momentum in our Hospital Services business, and the acquisition of the mps business provides great leverage opportunities. Concerted efforts continue in order to restore our core pharmacy sales pipeline, with this also likely to benefit future earnings. As a result, we continue to maintain our previous guidance of circa $90 million Underlying EBIT for FY19.

Mr Hooper concluded: "We are positive about the longer term future. We have realigned our operational platform to better ensure our business can drive the next phase of Sigma's growth. We have the people, technology, data and infrastructure plans in place to improve earnings and benefit from efficiency gains. The opening of our Berrinba distribution centre in Queensland is an important milestone in illustrating our commitment to world-class logistics, whilst our focus on process improvements and cost management continues to be driven by Project Renew."

Sigma also today announced the appointment of Goldman Sachs as its financial adviser to assist with M&A and strategic advice.

"We are committed to our strategy of diversifying our earnings, and whilst we have made some inroads with small acquisitions in recent years, this appointment provides the resources and framework to accelerate the execution of our strategy within the remit of our disciplined investment criteria," said Mr Hooper.

Contact:

Gary Woodford
Corporate Affairs Manager
Sigma Healthcare Limited
gary.woodford@sigmahealthcare.com.au
0417 399 204 | 03 9215 9632

NOTES:

Reconciliation of reported vs underlying EBIT

	31 January 2018 $000	31 January 2017 $000
Reported EBIT	**83,747**	80,955
Add:		
Restructuring and dual operating costs before tax	**3,715**	-
Acquisition and due diligence costs before tax	**3,199**	-
Litigation settlement expense before tax	**-**	11,368
Provision for doubtful debtors - single pharmacy group before tax	**-**	8,262
Underlying EBIT	**90,661**	100,585
Less: Non-controlling interests before interest and tax	**(409)**	(357)
Underlying EBIT attributable to owners of the company	**90,252**	100,228

Reconciliation of reported vs underlying NPAT

	31 January 2018 $000	31 January 2017 $000
Reported NPAT attributable to owners of the company	**55,059**	53,184
Add:		
Restructuring and dual operating costs after tax	**2,601**	-
Acquisition and due diligence costs after tax	**2,239**	-
Litigation settlement expense after tax	**-**	7,958
Provision for doubtful debtors - single pharmacy group after tax	**-**	5,783
Underlying NPAT attributable to owners of the company	**59,899**	66,925

Underlying ROIC calculation

	31 January 2018 $m
Net Assets	**515.3**
Less Cash and Cash equivalents	**-82.2**
Add back interest-bearing liabilities	**195.8**
Adjusted for one-off items including WIP capex	**-86.1**
Capital employed	**542.8**
Rolling 12 months Underlying EBIT	**90.3**
Underlying ROIC	**16.6%**