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Mark Hooper, CEO & Managing Director
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As Brian indicated, we are already making good progress with implementing the changes that I am confident will lead to a stronger business longer term.

Today I will cover:

1. Project Pivot transformation, including the transition of the Chemist Warehouse business
2. An update on our ongoing investment program and the resulting funding outlook
3. Briefly cover the current regulatory environment
4. And will close with some remarks regarding the year to date performance

First to the important program of work we have called “Project Pivot”.

Business transformation programs such as Project Pivot often take a catalyst. The decision not to continue with the Chemist Warehouse contract was the catalyst for us to review our entire operations and organisational structure and identify opportunities to enhance our future.

The extensive review undertaken with Accenture identified over $100 million of annual efficiency gains that are achievable over two years. Follow up analysis with Accenture, EY and Sigma team members has given us great confidence that the benefits are real, are achievable, and are commercially sensible.

Activity in the first three months of this year has reinforced our confidence that the efficiency gains will be achievable. As we flagged at our full year results in March, more than half of the annualised gains are achieved in FY20 largely aligned with the timing of the end of the Chemist Warehouse contract.

We announced in March that we would commence a staged reduction in our work force, with approximately 300 permanent positions no longer required, largely from our bigger metropolitan DC’s, and a reduced pool of agency staff required. This is an unfortunate reality of volumes reducing post the conclusion of the Chemist Warehouse contract. As part of this, we also made the difficult decision to close our Newcastle, Shepparton and Launceston DC’s, which unfortunately are all now uneconomical to retain. Our team members across all sites are being supported through this process, and services will transition to our ongoing national DC network to ensure we continue to provide high service levels to all our customers.

As already noted, an important element of the program is to manage the orderly wind down of services to Chemist Warehouse. Given the volumes involved, the most critical aspect for Sigma was to ensure clear timelines and processes for this to occur which then allows us to efficiently manage the wind down of associated costs.

Our team have worked closely with Chemist Warehouse to manage the process that will see the supply of scheduled medicines shift on 1 July in accordance with our contract ceasing and FMCG product shifting in managed tranches over several months and is currently scheduled to finish in September this year.

I will now turn to our continuing capital investment program. This is an important part of setting up the business for the step change in our operating costs and improving operational capability.

As we have previously announced, we are making good progress with our DC investment program. This is a significant investment with over $220 million already spent or committed to be spent to build and fit out four state of the art facilities in Queensland, Western Australia, NSW and Adelaide. This investment gives us the best network in Australia that will drive operational efficiencies and provide significant capacity for growth. The facilities will service community pharmacy and hospital pharmacy, and support our growth aspirations in third party and fourth party logistics.

Importantly, the decision to invest in these DC's makes commercial, operational and financial sense even with the Chemist Warehouse volume removed. Our Queensland facility has now been in operation for almost a year and a half and is performing ahead of our investment case, and our WA facility began operations in January this year and is also ahead of business case. We expect our South Australian site to be operational in the last quarter of 2019, and our NSW DC will also commence providing third party logistics services in the third quarter of this year.

The next two years will also see the implementation of a new ERP system across the business. A process has been concluded, with the cloud based SAP 4 HANA selected as the preferred solution, with selection of the system implementor now under consideration.

This has been a significant and truncated investment cycle that is well advanced and will be largely complete by the end of FY21 at which time we should return to a more normal maintenance capex spend of around $10 million per annum.

At the same time, we have geared the balance sheet into these physical assets. To support this, during the year we agreed $500 million in debt facilities with Westpac, with half being a three-year facility and the balance an overdraft and short-term debt facility to coincide with the release of working capital from the Chemist Warehouse contract. As a result, our net debt peaked at $243 million as reported at 31 January this year and will very quickly come down to under $100 million this year, of course subject to any acquisitions. This puts our business in a strong position with our asset renewal program well advanced and minimal net debt.

On the regulatory front, Sigma was successful in the latest tender for the CSO or Community Service Obligation. This provides access to a pool of funding in return for meeting high standards for the distribution of PBS medicines. The new agreement runs until July 2020 with two options for extension.

Pleasingly, the government made the decision to retain the high standards required to be met in order to access the funding. The CSO is an incredibly important public policy that ensures equitable access to medicines for anyone anywhere in Australia usually within 24 hours, underpinning the Governments National Medicines Policy. Its importance is recognised through the warehouse network of the CSO distributors being placed on the National Critical Infrastructure list.

Of course, we face a Federal election this coming weekend. Engagement with the Department of Health and both political parties have been encouraging in terms of recognition of the important role CSO distributors play in supporting the health of the nation.

Whilst the issues I raised at last year's AGM remain today, particularly the anti-competitiveness of Exclusive Direct distribution, we anticipate renewing this engagement in the coming months with whoever governs past next weekend.

I will now just finish off with a quick update on our business operations and how the year is tracking so far.

Our community pharmacy network continues to perform well. We have built the most comprehensive suite of brands and services in the market, with a deliberate strategy designed to give pharmacists the choice of the brand offering that best suits their business model, demographics, competition and community needs.

During the year our Discount Drug Stores brand launched a new differentiated pharmacy model called Whole Life Pharmacy and Health Foods. This model provides a retail pharmacy environment with a significant focus on wellness and range of foods and products traditionally only found in Health food stores. There are nine of these now operating, with six in Queensland, two in Western Australia and one in New South Wales with plans to expand the roll out from July.

We are also now launching the new Amcal+ Life Clinic. This new format expands health services provided in the community, including extensive consultation suites to incorporate allied health services. The first concept store is being constructed in Burwood in Victoria and is expected to be fully operating within eight weeks.

Pleasingly, Discount Drug Stores won the 2018 Roy Morgan Customer Satisfaction Award for Pharmacy of the Year, which is tremendous recognition for the work our pharmacists and their teams do in supporting the community. It is also great to see Guardian announced as the best performer in this category for the month of February, closely followed by Discount Drug Stores.

Sigma Hospitals has continued the momentum we have built over the last couple of years. This has seen this business win contracts such as Northern and Western Hospital in Victoria and reach around 20% market share in Western Australia in a very short period.

We are also actively pursuing opportunities in the provision of third party logistics services, commonly known as 3PL and 4PL services. We will leverage our new DC infrastructure and have appointed an experienced logistics team to focus on accelerating our growth.

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

The first three months of the year have been in line with our expectations.

Our like for like sales in our own brands are up over 4% year to date, with the Amcal brand in particular performing strongly, and we have a healthy pipeline of prospective members. We have also reinvigorated our independent community pharmacy offer which is showing good signs of growth in a competitive market. Our Hospital pharmacy distribution achieved sustained growth through the first quarter with no signs of this abating. And we are making progress in establishing and expanding our 3PL and 4PL capability and presence.

The well managed wind down of supply to Chemist Warehouse and reduction of associated costs is proceeding to plan. An unfortunate reality is the reduction in our work force, with around one-third of the 300 team members we announced in March having already finished with Sigma, with further reductions largely complete by October this year. We thank each of them for their contributions and wish them well for their future.

Importantly, we remain on track to deliver our Underlying EBITDA guidance for FY20 of $55 to $60 million, with net debt expected to return below $100 million by year end. We are well advanced with our investment cycle and have a strong balance sheet that will support future growth aspirations.

Clearly, we are going through significant change that will also have some one-off costs to obtain the ongoing benefits. Having said that, the first three months of this year have given us greater confidence that the business is tracking in line with expectations and we can deliver the outcomes we have outlined from Project Pivot to return Sigma to be a more efficient, effective, and sustainable business.

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
15 May 2019