Sigma Healthcare

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# ASX Release

Issued 25 March 2020

## Growth through transformation

- Underlying EBITDA# of $46.7m, in line with guidance
- Business Transformation on track - over $62m of annualised benefit achieved by year end
- Core business performing well, with Ongoing Revenue* Growth of 8.5%
- Sigma's Pharmacy brands achieved like-for-like growth of 11.7%
- Capital structure under review to further strengthen the Balance Sheet and free up latent value for growth

**# Refer to Notes for a Reconciliation of Reported to Underlying EBITDA**
*** Ongoing Revenue relates to the Sigma business excluding Hep-C and sales to Chemist Warehouse (CW).**

## Overview

Sigma Healthcare (Sigma) today announced Reported EBITDA of $24.2 million for FY20, with the result mainly impacted by the one-off costs of transforming the business. Underlying EBITDA of $46.7 million was in line with updated market guidance provided in December 2019.

Sigma CEO and Managing Director Mark Hooper commented "It is pleasing to report a result that is in line with guidance, built upon a period of significant change as we continued to successfully implement our structured Project Pivot transformation program through FY20 and continued our investment program."

"We expect strong growth for the year ahead which has been initially boosted by abnormally high demand flowing from the COVID-19 pandemic. However, given the uncertainty caused by COVID-19 we are not giving full year guidance for FY21", Mr Hooper said.

Sigma also recently announced the commencement of a process to review a sale and leaseback of its Distribution Centre (DC) network to unlock unrecognised value in land and buildings and strengthen the balance sheet.

"Early indications are that this portfolio of assets are now valued significantly above our original $160 million capital investment. Realising this unrecognised value will generate significant opportunities to both reduce debt and pursue further growth options", Mr Hooper said.

Mr Hooper commented "It has been a challenging time with the bush fire crisis and now COVID-19, placing significant pressures on the supply chain. While we have seen a significant increase in demand for medicines and FMCG products for the first seven weeks of this financial year, it is impossible to predict how this will unfold for the remainder of this year. One thing I am certain of however, is the determination of our team, suppliers and pharmacists to continue to serve the community during this difficult period."

As previously announced, there will be no Final Dividend in respect of the year ended 31 January 2020, with the interim dividend in respect of FY21 also been suspended.

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## Business Transformation and Investment

Sigma's business transformation and investment program is progressing to plan. Actions have been taken in Year 1 of Project Pivot to achieve over $62m (annualised) of the targeted $100+m efficiency gains. Whilst some delays mean this is now a three-year transformation with benefit to be realised in FY21 and FY22, the quantum remains on track.

"We have also undertaken generational change in our DC infrastructure that provides significantly increased physical capacity and operational efficiency and will open up business expansion opportunities to support suppliers through third party logistics services. This new DC infrastructure has performed exceptionally well in dealing with the sustained high demand through the COVID-19 disruption" Mr Hooper said.

Following extensive analysis and stress testing, Sigma commenced the investment in information technology solutions through implementation of the SAP S/4 HANA cloud-based Enterprise Resource Planning (ERP) solution.

"We selected the SAP S/4 HANA after a rigorous process and have now inducted over 60 new team members experienced in SAP implementation, supported by Accenture who have significant expertise with complex SAP implementation projects. This is an agile program of work that will move quickly and will provide a quantum leap in our technological capabilities." Mr Hooper said

"This follows the recent upgrade of our Customer Relationship Management (CRM) systems to Salesforce, which is an important enablement resource for our sales team. It provides improved visibility and functionality, has a whole of business focus, and is totally consistent with our commitment to help our customers run better businesses." Mr Hooper said.

## Operational Comments

Sigma's underlying business has continued to perform strongly.

"Our wholesale team have achieved outstanding results in a challenging market. In the past year, we have onboarded a significant number of new customers who represent annualised sales in excess of $180 million. Importantly, they are a mix of customer type and location, adding to business diversification and sustainability" said Mr Hooper

Excluding Chemist Warehouse (CW) and high cost Hepatitis-C (Hep-C) sales, revenue from the remainder of Sigma's ongoing business was up 8.5%, with growth from our customer base helping to overcome the ongoing impact of PBS price disclosure reform, which had a 1.6% price impact over the course of FY20.

Sigma's pharmacy brands have continued to perform above average market growth, with like for like sales across our brands up 11.7% (excluding Hep-C).

"Our strategy has focused on helping our customers run better businesses. This in turn has led to great results from our Voice of Customer engagement, which is translating into improved business performance. Sales to franchise partners has performed strongly, and our brand member pipeline is healthy. We have also continued to innovate with the launch of the Amcal+ Life Clinic model, and the national expansion of the WholeLife brand" said Mr Hooper.

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Since November, we have allocated additional resources to begin incrementally servicing the significant FMCG volume requirements of CW. This contract brings approximately $800 million revenue per annum to Sigma under a 4.5-year agreement that further diversifies our earnings away from PBS. We have also signed a new 5-year agreement to service the Pharmacy Alliance Group (PAL), with a 5-year option. PAL have a national network of over 700 independent and co-branded member pharmacies and is expected to continue to contribute over $500 million revenue per annum.

Sigma Hospitals has continued to achieve strong organic and tender based national growth, with market share now approaching 10% and sales (excluding Hep-C) for the year up 26%. Sigma Hospitals is also working closely with State Health authorities as we collectively work through the supply challenges experienced with COVID-19.

Meanwhile, MPS, Australia's leading dose administration aid packaging and services business, is growing market share with sales up 13%, with its three TGA accredited facilities playing a critical role in safely supporting the controlled medication needs of aged care and pharmacy patients.

"Third Party and Fourth Party Logistics (3PL/4PL) is an emerging business for Sigma, with the team adding a number of new customers and currently tendering for additional business opportunities. Our new ISO 9001 accredited DC at Kemps Creek in New South Wales has opened up significant capacity that we did not previously have to service this market" Mr Hooper said.

## Capital Structure

Sigma last week announced a review of a structured sale and leaseback transaction in respect of the DC infrastructure investments.

Mr Hooper commented "We always said we wanted to own and control the build phase of these DCs. By doing that, we have created significantly increased value that is not currently being recognised. A potential sale and leaseback will help unlock that value and provide capacity to support our growth agenda."

Sigma's year end net debt position is $146 million, up slightly on forecast, largely due to increased working capital commitment relating to the positive but unexpected return of the FMCG supply contract for CW.

## Outlook

Sigma Chairman Mr Brian Jamieson commented, "I am pleased on behalf of all shareholders to see that Sigma is now entering a phase of strong growth supported by a transformed infrastructure network that will provide efficient operations to better service our expanding customer base for many years to come."

"We are well prepared for taking advantage of future opportunities as we continue to strengthen our balance sheet. In fact we are well placed to pursue further 3PL/4PL opportunities, grow the hospital pharmacy business and further support our retail pharmacy customers," said Mr Jamieson.

Mr Hooper concluded, "Today's result demonstrates that sales and our pharmacy member pipelines are strong, and we are seeing the benefits of our investment in our DC network to not only deliver efficient services, but to manage the challenges experienced through the impact of COVID-19. Whilst we are not in a position to provide earnings guidance, we are confident the underlying business is in a phase of strong growth."

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"I have been particularly proud to lead an organisation that, in partnership with our branded and independent pharmacy customers, has not only ensured the distribution and supply of medicines through the worst bush fires in Australia's memory, but also now facing up to the challenges created by COVID-19. I would like to thank all our team members, suppliers and our front-line pharmacy network for their ongoing efforts."

A results briefing will be held at 10.00am AEDT. For webcast details, please visit the Investor Centre located at www.sigmahealthcare.com.au.

*This announcement is authorised by order of the Board.*

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## NOTES:

**Reconciliation of Reported to Underlying EBITDA**

| | FY20 ($000) | FY19 ($000) |
|---|---|---|
| **Reported EBITDA** | **24,200** | **76,550** |
| Add (before tax): | | |
| Restructuring and dual operating costs | 39,662 | 13,115 |
| Due Diligence and Legal costs | (4,261) | 863 |
| Impact of adoption of AASB 16 | (11,517) | - |
| **Underlying EBITDA** | **48,084** | **90,528** |
| Less: Non-controlling interests before interest and tax | (1,373) | (855) |
| **Underlying EBITDA attributable to owners of the company** | **46,711** | **89,672** |