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

Chairman Address

Ray Gunston, Chairman
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This last year has been one that no one could have predicted, and as I commented in our Annual Review, it will undoubtedly go down as one of the most challenging periods in recent history.

As a nation we endured drought, flood, raging bush fires and a global pandemic. From Sigma's perspective, you can overlay that with Project Pivot, the continuation of our investment in our Distribution Centre network, and the re-build of our technology infrastructure. Above all that, we increased our support for the health and safety of our team through the pandemic so that we could help ensure the community had access to the medicines they needed no matter where they were in Australia.

The challenges and demands on our people have been extraordinary, but their commitment has not wavered.

In that context, I am incredibly proud of the resilience our team have shown over this period. They have not only dealt with all that was in front of them, but also contributed to delivering a significantly improved performance for the business, for our customers, and for shareholders. It has put Sigma in a position where we can continue to grow our business with confidence in the knowledge that we have the infrastructure to support it.

With those introductory comments, I will now focus on:

1. Our strategic direction
2. Leadership transition
3. Our infrastructure investment and the status of these critical programs
4. Capital management
5. Our inaugural Sustainability Report

I will then hand over to our CEO Mark Hooper to provide a business update.

Strategic Direction

Let me first start with our Strategy, which I know is of interest to many in the context of any implications from our recent announcement regarding the resignation of our CEO.

At our FY21 results announcement in March, we reinforced our strategic direction, which does not change with the resignation of our CEO. Our intensive period of transformation and investment is now largely behind us, which means we now have the infrastructure, systems, capability and appetite to be bolder in our pursuits.

The strategy we have been following and will continue to follow is to:

1. Drive organic growth from our existing core – we have continued to grow faster than average market growth, reflecting our innovative approach to expanding the products, services and support we offer our customers and underpinned by our new infrastructure. We have a strong wholesale and retail market presence, which we will continue to seek opportunities to grow.

2. Continue to grow and diversify within the context of our existing expansion businesses. Over the last few years, notwithstanding our focus on transformation, we have acquired

    - Central Healthcare Services or CHS to service hospital pharmacies and the third-party logistics market,

    - Medication Packaging Systems or MPS to service medication management and dose administration aid services to residential aged care and community pharmacy, and

    - Medical Industries Australia or MIA to provide medical consumables and equipment services across the market.

    These investments provided an initial foothold into their respective markets. With our transformation largely behind us, we now have the bandwidth to intensify our focus and actively seek new opportunities to not only grow within each specialty, but to also leverage these specialties across even broader related markets in a more structured way.

3. Ongoing optimisation of the now very competitive operating cost base flowing from initiatives already implemented through Project Pivot over the last two-years. This program has delivered a more efficient and effective operating platform that provides significant operational advantages to underpin actively pursuing the above mentioned and other new opportunities.

4. Leverage our investment in automated DC network and upgraded technology platforms – having built the new efficient and automated network, we now have the headline capacity to double our volumes of community pharmacy supply, and/or to tackle other similar adjacent markets that leverage the same infrastructure and provide an appropriate return on capital.

With the transformation and investment phase behind us, these renewed business and infrastructure platforms present broader opportunities for Sigma to consider within healthcare and/or other industries with similar value chain characteristics. Our significantly improved financial performance and position, our continuing disciplined investment approaches, and enhanced capacity and appetite, positions us to target opportunities that provide an improved mix of higher margin business and greater diversification to our business portfolio to further reduce our reliance on PBS business.

A change in CEO does not and will not mean Sigma deviates from the way we identify or assess opportunities, nor will it delay the execution of this deliberate, considered, and targeted strategy. It takes a collective to agree the strategy, execute the actions and deliver the benefits.

CEO transition

Turning now to the CEO transition.

We announced on 26 April that Mark Hooper will be stepping down as CEO in October after 11 years of significant contribution to the Sigma business. Mark joined Sigma at a challenging time in 2010 and has been instrumental in leading the business through many challenges, making transformational decisions to set Sigma up for long-term success.

I personally, and on behalf of the Board and team members, sincerely thank Mark for his unwavering dedication, commitment and leadership to Sigma over a sustained period. As I have just outlined, it has positioned Sigma to emerge as a much more sustainable business, with the infrastructure and financial strength to focus on accelerating our growth.

Change inevitably creates uncertainty for some, and whilst timing rarely looks ideal, importantly for shareholders, Mark has overseen and leaves us all with

- a significant business transformation that is largely complete
- the newest and most efficient DC network in the industry
- a total technology upgrade
- a business that is achieving growth above average market growth, and
- a strong balance sheet and outlook

The timing means the new CEO, once contracted, is taking the reins at a great time to drive a clearly articulated and executable strategy. Such a strategic outlook requires the longer-term leadership commitment that these directions and decisions will now provide. It also offers the incoming CEO the strong business and infrastructure platforms to shape and flex the execution and direction of the resulting strategic initiatives.

As part of a normal process, succession planning was already in place and has now transitioned to a more formal search. Maritana Partners had previously been appointed to support the Board in this regard and will now assist us as we seek the best internal or external candidate to capitalize on the opportunity that has been created to accelerate our growth ambitions.

I will provide a market update as soon as we have further information to share.

Infrastructure investment

Now to our investment program. Over the last four years, Sigma has totally renewed our physical infrastructure across Australia. This is a generational program that fundamentally enhances our ability to service our customers more efficiently and effectively and is a key enabler in our overall strategy. We now have the best and most efficient pharmaceutical distribution centre network in the industry.

It has been built not just for our business as it is today, but to also absorb the growth that we are pursuing over the next decade. That is a powerful position to be in as we seek growth opportunities.

As we highlighted during the year, we also completed a sale and leaseback transaction on the Kemps Creek NSW and Berrinba Qld DCs, which combined netted $172 million, significantly above investment cost, supporting our approach of building these facilities ourselves initially. As part of this we entered into long term lease agreements on competitive commercial rates.

The effect of this transaction, in addition to it releasing this cash, is that we retain ownership of all the automation across all sites, which has around a five-year payback, and retain ownership of the Canning Vale WA and Truganina Victoria DCs. This is a great outcome for Sigma and our shareholders.

The other critical infrastructure investment is the implementation of SAP S4/Hana, a company-wide enterprise resource planning system. This is another generational investment. Once implemented this will support the entire business and will provide significantly enhanced systems capability and data insights.

The program commenced at the start of last year, literally right as the pandemic was taking hold across the world. Despite this, we have remained largely on time and on budget, which is an outstanding achievement in the circumstances. We are progressing through User Acceptance Testing now and expect to go live with phase one in July this year. I thank our Sigma team, along with our implementation partners Accenture and InfoSys for their efforts and support to date.

Capital Management

Turning now to capital management. Firstly, it was pleasing that we were able to reward shareholders by declaring a fully franked one cent per share dividend at the full year. As previously stated, a lack of franking credits had impeded our ability to pay a fully franked final dividend last year or interim dividend this year.

Further, the Board has also committed to rewarding shareholders by targeting a dividend payout ratio of at least 70% of Underlying NPAT for the foreseeable future.

It was also positive to see our Net Debt at year end reduced to $50 million. With our investment program largely concluding this current financial year, we will see month end Net Debt peak around $140 million in October this year, before receding as a result of the strong cash generation from our operations.

Capital Expenditure is expected then to return to more normal levels of $5-$10 million per year after this current year.

In February this year we also announced an extension to our existing $250 million Receivables Purchase Facility, which is now set to mature in November 2023. This facility meets our existing funding requirements, and I thank Westpac for their ongoing support.

And whilst our share buyback program remains in place and is always an option, our intention is to utilise our strong balance sheet and cash generation to pursue opportunities for growth to more proactively drive shareholder value.

Sustainability Report

Lastly, this year has seen Sigma also publish its inaugural standalone Sustainability Report, which is available on our website.

As a large and proud Australian company and country-wide employer, Sigma takes its Environmental, Social and Governance responsibilities seriously. We have continued to improve our processes in this area. As we start to emerge from our period of transformation and investment, it was an important signalling of the maturity of the Sigma business and our commitment to making the right decisions for the right reasons.

This report establishes the pillars that underpin our Sustainability framework and sets us down the path to building a more consolidated structure around our goals and ambitions across the many activities we have been undertaking in this regard for some time. It will now enable us to better articulate our plans and targets that we will seek to achieve.

As part of our Sustainability Report, we have also outlined our initial plans in this regard out to 2030, which provides the roadmap to the areas of influence that we will target and seek to advance over the coming years.

Clearly, we are at the start of this reporting journey, but it is one that has the commitment of the Board, management and our team members.

Thankyou

Before I hand over to Mark, I would like to thank each and every one of our team members at Sigma. As I said at the outset, it has been an incredibly challenging period internally and from external forces, and our team have shown fantastic resilience to continue to deliver improved outcomes for the business, our customers, and shareholders.

I wish to acknowledge the efforts of and thank our pharmacy and broader healthcare customers who have faced all these same challenges as compassionate business owners yet continued to ensure the provision of our products and services throughout all of this to people right across Australia.

Thank you to my fellow Directors who have provided great stewardship for the Sigma business and provided me personally with great support as I transitioned into the Chairman's role.

I would especially like to acknowledge the contribution of David Bayes, who is retiring from the Board at the conclusion of this meeting. David joined the Sigma Board in June 2007 and was until last year Chair of the People and Remuneration Committee. David has been a valuable contributor to Sigma during his tenure and we wish him the best for his future.

We have made the decision not to replace David in the immediate future. We will assess this position as we continue to execute our strategy and undertake at an appropriate time a Board skills review to identify the Board's needs into the future.

I will now hand over to Mark to provide a business update before I return to run through the Items of Business.

Ray Gunston
Chairman, Sigma Healthcare Limited