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# Media Release

**8 September 2016**

## Strong first half delivers over 15% growth

The continued implementation of a clear strategy to broaden our earnings base has seen Sigma deliver strong first half earnings growth. Reported EBIT was up 15.5%, with Underlying EBIT up 17.0% - both comfortably above revised guidance of at least 10% outlined in May this year.

| | 1H17 Reported | 1H17 Underlying (Note 1) | 1H16 Underlying (Note 1) | % Change Underlying (Note 1) |
|---|---|---|---|---|
| | **$000** | **$000** | **$000** | **%** |
| **Revenue** | 2,146,033 | 2,146,033 | 1,674,968 | **28.1** |
| **EBIT** (Note 2) | 37,297 | 48,380 | 41,353 | **17.0** |
| **NPAT** (Note 2) | 23,881 | 31,651 | 27,652 | **14.5** |
| | **Cents** | **Cents** | **Cents** | **%** |
| **Dividends Per Share** | 2.5 | 2.5 | 2.0 | 25.0 |
| **Earnings Per Share** | 2.4 | 3.2 | 2.7 | 18.5 |

**Results Highlights**

- ✓ Reported EBIT up 15.5% and Underlying EBIT up 17.0%
- ✓ Reported NPAT up 26.4% and Underlying NPAT up 14.5%
- ✓ The investment to create the largest pharmacy foot print in Australia with over 700 pharmacies now operating under the various Sigma brands has delivered approximately 20% market share of retail pharmacy sales to become a market leader
- ✓ CHS continues to deliver an expanded presence in Hospital Pharmacy and third party logistics
- ✓ Dividend per share lifted to 2.5 cents to further reward shareholders
- ✓ Upgrade to future earnings guidance for FY17 to 10%

Sigma CEO and Managing Director Mr Mark Hooper commented:

“The momentum that built through the half has exceeded expectations. To deliver underlying earnings growth of 17%, is outstanding, and the momentum has carried through into year to date performance. The growth has been sustained and has been delivered across the board, from both market share growth and other general services income growth.”

“At the same time we are also investing in strategic development opportunities that will help sustain our growth well beyond the current year. The mix of our business is shifting, so it is an exciting phase ahead for us,” he said.

Revenue for the six months to 31 July 2016 reached $2.15 billion, up 28.1% on the same period last year, heavily influenced by the PBS listing of the high cost, low margin Hepatitis C medications from March 2016. Excluding Hepatitis C, sales revenue was up 7.8%, with half of the growth coming from non-PBS revenue.

Underlying EBIT was up 17.0% to $48.4 million and Underlying NPAT up 14.5% to $31.7 million.

Underlying Earnings Per Share this half of 3.2 cents was up 18.5%, with shareholders rewarded through a lift in the interim dividend to 2.5 cents per share.

**Operational Commentary**

The six months to 31 July has seen Sigma continue to benefit from its strategic positioning to further broaden the business and drive operational improvement.

Our branded pharmacy network has continued to perform strongly over the last six months. A recent IBIS World pharmacy report shows pharmacies operating under a Sigma brand represent close to 20% market share of consumer spend in pharmacy.

Like for like sales across our pharmacy brands was up 7.2%, excluding Hep C sales.

“Amcal and Guardian have been well known brands in the market for a long time. The more recent additions of Discount Drug Stores, Pharmasave and Chemist King has meant we have the largest pharmacy footprint in Australia. We are very focused on harnessing our broader business to deliver the local services, programs, and pricing that our community pharmacists and their customers want.” said Mr Hooper.

Sigma’s retail opportunity has been expanded with entry into the Chinese market, through the online Amcal store cn.amcal.com.au.

“We entered the Chinese consumer market with a very deliberate and measured strategy, and it is exceeding all expectations to date. We know the Australian market very well, but we needed a partner to target China. Joining with Azoya for the execution of this direct to market online strategy using the Amcal brand as the banner gives us the strength on the ground to grow the awareness of the Amcal brand name. The results so far have more than doubled our expectations with strong visitation numbers, sales data and breadth of products sold through the site. This venture is at an early stage, but provides considerable scope for expansion.” Mr Hooper said.

Sigma’s wholesale distribution business continues to expand geographically and through market share growth.

“Volumes delivered were up 5.2% for the period, reflecting a combination of PBS volume growth and market share gains. Whilst our focus on driving efficiency gains has seen costs grow at a slower rate than volumes, future step changes will come when our infrastructure investment program begins to come on line towards the end of calendar 2017.” Mr Hooper said.

Sigma has also continued to broaden its third party logistics and hospital pharmacy services business through CHS. The CHS business has a good presence in the Victorian market, and is now pursuing a national presence, initially pushing north into NSW, and beyond.

“We have put in place the business plans, infrastructure, and people to continue to build important future business relationships like in hospital pharmacy services, which is all new revenue. The investment in expanding our capability positions Sigma well for future long term sustainable growth in a new area of business for Sigma.”

“Our current financial performance underpins our ability to invest in initiatives and resources that provide incremental options for our medium and longer term growth.” Mr Hooper said.

**Capital Investment**

Capital expenditure for the period reached $8.1 million as Sigma commenced its major infrastructure renewal program.

“The next three years in particular will see us invest in infrastructure that we expect to not only deliver a more efficient and effective distribution network to service our customer’s needs, but also lay the foundations for Sigma to continue to pursue growth opportunities,” Mr Hooper said.

Total capex for FY17 is expected to be around $40 million, largely reflecting the construction of the Berrinba Distribution Centre in Queensland.

**Dividend and Capital Management**

Sigma continues to maintain a strong balance sheet with capacity to invest.

Net debt at 31 July 2016 was only $55.3 million, which is expected to return to net cash by 31 January 2017. Net interest expense was just $2.3 million for the half.

Sigma Chairman Mr Brian Jamieson commented: "We have invested in rewarding shareholders through a consistently high dividend payout ratio, buying back almost 10% of our shares and investing in business expansion opportunities and enhanced capability. Importantly, our balance sheet continues to be investment grade and capable of sustaining our ambitions for growth."

Whilst Sigma's share buy-back program remains open, it has been less active in the last six months, with 1.4 million shares bought back and cancelled.

"This does not signal the end of the buy-back program, merely a slowing as we absorb our upcoming capex requirements in investing in our critical infrastructure." Mr Jamieson said.

Underlying Return on Invested Capital (ROIC) for the six months reached 15.9%, up from 15.2% in the same period last year. More importantly, the improved ROIC has been achieved off a broader earnings base.

Sigma has determined a dividend payable of 2.5 cents per share, with a payment date of 3 October 2016, ex-dividend date of 20 September 2016, and a Record Date of 21 September 2016.

**FY2017 Outlook**

Sigma is optimistic about future growth and is pleased to announce an upgrade to FY2017 earnings guidance.

"We are really pleased with how the business in now positioned. We have diversified our earnings away from PBS, which has also shifted our earnings mix between first and second half earnings contributions. Whilst the second half remains a larger overall contributor to earnings due to ongoing seasonality, this is less pronounced as we trend towards a more even balance." said Mr Hooper.

"Our business performance provides the confidence to upgrade our FY2017 earnings growth expectations to 10%.

**For more information, please contact:**

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**Notes to table**

**Note 1** 1H16 Underlying EBIT, NPAT and EPS excludes the $7.8 million pre-tax one-off adjustment as part of the CHS/DDS acquisition accounting process announced on 10 August 2015, and $0.9 million one-off amortisation of intangibles associated with the acquisition. Includes share of EBIT of equity accounted investees of $0.3m.

1H17 Underlying EBIT, NPAT and EPS excludes the $11.4 million pre-tax ($7.9 million post tax) adjustment resulting from the insurance reimbursement relating to the 2012 class action settlement.

**Note 2** **1H17 EBIT and** NPAT are after adjusting for non-controlling interests of $0.3m and $0.2m respectively (FY16: $0.04m).