

ASX Release

12 May 2022

Chairman's Speech

I will start with some overarching comments. This last year the effects of the pandemic have continued to be felt around the world.

From a Sigma perspective, we navigated the Covid-19 challenges in the first six months to deliver good sales growth and momentum resulting in business growth above the market average. However, in the second half we experienced significant disruptions to the business following the necessary implementation of our Enterprise Resource Management or ERP system, which regrettably impacted our operations, our customers and suppliers.

It has been a demanding year on our people, and I am incredibly proud of their resilience and tenacity.

The Board is also highly aware that our issues have and continue to disrupt our loyal customers, and we are working with management to address these as soon as possible to enable the benefits of our infrastructure investment to flow to our customers.

We have been able to stabilize the system issues that were impacting us, but we know we have significant work yet to do on converting that to effective customer service, which will then allow us to progress towards optimizing the world class infrastructure that we now have available to drive the business forward.

These efforts and work are designed to provide sustainable returns and growth for our shareholders who we thank for their patience through this investment phase.

With those introductory comments, I will now focus on:

1. Financial and operational performance
2. Distribution Centre investment program
3. Our Sustainability Report
4. Strategy

Let me first recap our financial performance for the year ended 31 January 2022 which, as I outlined earlier, has been a year of two distinct halves. The drivers of our overall financial performance for the year have been varied in their source and timing.

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For the full year, Sigma has delivered Revenue up 1.3% to \$3.4 billion and a Statutory Net Loss After Tax of \$7.2 million - this is clearly not acceptable, and we are taking immediate action to deliver a sustainable turnaround.

The result delivered flowed from a number of factors:

1. With good sales growth and momentum in the first six months, our revenue for the half was up 5.5%, with our wholesale and pharmacy businesses continuing to achieve above average market growth.
2. In the second half, we unfortunately encountered unexpected process issues following our ERP implementation which impacted our operations and those of our customers, and extended into Sigma's overall financial performance through:
 - service disruption and therefore reduced sales to our pharmacy customers;
 - additional labour and inventory costs as we dealt with the transition of operating processes;
 - we incurred dual operating costs as we transitioned operations to our new DC in Truganina in Victoria, as well as one-off costs related to the closure of our Rowville Distribution Centre; and
 - we had a higher and new Software as a Service or SaaS accounting expense of \$31.8 million related to ERP.

The positive aspect is the majority of these impacts do not repeat in the year ahead. However, whilst the ERP system is largely stabilized, we have significant work to do over the year ahead to improve our service to customers, rebuild their trust and confidence in Sigma, and then to optimize our operational capability.

3. Our adjacent businesses performed well overall despite ongoing difficulties due to the pandemic.
 - The standout performer was Medical Industries Australia, or MIA, our medical consumables business. MIA benefitted from a government policy change late in the year that endorsed the use of Rapid Antigen Tests for the detection of COVID-19. This led to a strong finish to the FY22 year, which has continued into the early months of the current year before demand is expected to level out.
 - Our Sigma Hospital business achieved growth of 5.6% and accounts for around 10% share of the \$3 billion national hospital market.

- Our Contract Logistics business has achieved growth of 15.8% over the last 12 months, managing 30,000 pallets of medicines nationally for customers with scope for expansion.
- Meanwhile MPS Connect, which provides medication management services, experienced a disrupted year due to COVID-19 restrictions limiting access to aged care facilities.

Return on Invested Capital or ROIC has always been a focus for Sigma, so to deliver 0.4% is disappointing. This calculation reflects our transition from Underlying reporting to Statutory reporting, and is also the low point in the cycle, as we near completion of the significant investment program and take action to drive optimization, efficiency and capacity utilization across our network.

Sigma's Net Debt at 31 January was \$149 million.

Finally, we declared a 1.0 cent per share fully franked final dividend, bringing total dividends for the year to 2.0 cents per share.

We are now in the final stages of our five-year investment program which will conclude this year. We have commenced work to double the size of our owned DC in Truganina in Victoria to match the size of our Kemps Creek DC in NSW and provide capacity for business growth. We are also fitting out a new leased Hobart DC as a result of outgrowing our current facility – this will be operational in October this year. Conclusion of this investment cycle will result in a world class DC network to service our customers Australia wide.

Our 2021/22 Sustainability Report has just been released and is available on our website. It provides an overview of Sigma's approach, performance, and initiatives across key Environmental, Social and Governance matters that are important to our business and our stakeholders.

Our wider Sigma sustainability program includes a Plan to 2030 with key goals under each focus area including environmental, social and governance. We are striving to reduce our impact on the environment, further invest in the health and wellbeing of our team and the communities we serve, and to ensure we operate our business in an ethical and transparent way.

While we are progressing with our sustainability journey, the Board, management and our team members are committed to driving towards our sustainability targets and goals.

Importantly, we are making measured progress in operating sustainably, simplifying and reorganizing our business, strengthening our core and making Sigma easier to do business with.

Turning now to strategy.

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We had articulated for some time that our strategy was focused on optimizing our core wholesaling business and moving into adjacent opportunities that diversified our earnings.

In that context, during the year, Sigma entered a well-documented process to consider a potential merger with Australian Pharmaceutical Industries or API. It was important to participate to make a fully informed decision on whether a transaction with API made financial, operational or strategic sense. Ultimately, our decision to withdraw was informed by a combination of completing due diligence and the competitive bidding process.

Combining the wholesale volume of API and Sigma would have leveraged Sigma's core infrastructure investment, however it is not the only way to achieve that objective. What is clear is that we will have the opportunity to grow our business from a base of industry leading infrastructure.

Our immediate focus is to optimize our existing operations, better leverage our core infrastructure and capabilities, and longer term, to consider M&A opportunities that complement and support that. This will be led by Vikesh, who brings extensive industry experience, a fresh perspective and a growth mindset to Sigma.

Before I hand over to Vikesh, I would like to acknowledge and thank each of our Sigma team members who have been incredibly resilient during an exceptionally challenging period.

I would also like to thank and acknowledge the efforts of our pharmacy and healthcare customers who have continued to provide front line support to communities around Australia. Their compassion and dedication to healthcare is outstanding.

Thank you also to my fellow Directors who have provided support to me and the Sigma business.

Finally, I would like to say how delighted the Board is to have Vikesh in the CEO seat of this Company. Having only arrived in January of this year after all the challenges of COVID impacted travel and recruitment processes, Vikesh in his early days here has been able to bring a new set of leadership skills and broad industry experience to Sigma that have already had the impacts of:

- sharpening the business focus on our customers;
- simplifying the business operations;
- clearly diagnosing core issues and challenges with the ERP and implementing a clear set of actions primarily around change management; and
- refreshing our strategic focus around our core business.

I will now hand over to Vikesh to say a few words before I return to run through the Items of Business.

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CEO Speech

Thank you, Ray. I would also like to take this opportunity to welcome our shareholders joining us here today.

Ray has provided you with the overview of the past year and as I am new to Sigma I will provide you with some insights into:

1. My background and experience;
2. Feedback from my first three months at Sigma; and
3. A short Business Update on our year to date performance for FY23.

I commenced with Sigma as CEO on the 1st of February 2022. Prior to that, I was the CEO of the Clicks Group, which is the largest listed health and beauty retailer in Southern Africa with a market Cap of 7bn dollars. The Group has in its stable South Africa's largest pharmaceutical wholesaler 'UPD' of which I was Managing Director from 2010 until 2015. I worked at the company for 28 years having started on the shop floor and working my way up across all facets of the business.

In a very short time if you were to ask my team about me, they will tell you these four things:

- I value simplicity and focus on doing the basics really well
- I measure everything that matters to our customers
- I am action oriented and outcomes focused and hold my people accountable
- I am committed to delivering returns to shareholders

This is what informs my ways of working and decision making.

From my experience, I know that success begins with servicing the customer exceptionally well. This will be core to moving Sigma forward and where our work must begin.

I have been at Sigma for three months and have formed a clear understanding of our challenges and the work we need to do to improve our performance. I had the opportunity to speak to our customers and shareholders recently during our results roadshow and at the Pharmacy Guild conference in March. I have also visited many customers across the network, as well as teams within our DCs.

Firstly, as Ray has already outlined, we have clearly had ERP implementation challenges which have impacted service delivery. I know what truly matters to our customers is for Sigma to have stock available, to consistently deliver on time, and to deliver it in full. This is now my number one priority and into the future.

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We have certainly started to make progress in this area but there is much work to be done to ensure consistent execution daily. Sigma has a long history with wholesaling at its core. We need to return the Sigma wholesale business to one that is again trusted to deliver on time and in full.

Secondly, the Sigma business is more complex than it needs to be. I am very focused on creating a simplified business model and eliminating the complexity within our structures and processes so it is easier for customers and suppliers to do business with us.

Thirdly, from my experience I can confidently say we have world class infrastructure that we can utilize better. This presents us with an opportunity to leverage these strategic assets and enhance our shareholder returns. I will turn my attention in the coming months to work out how we can best achieve this.

Finally, Sigma is a 110-year-old company with a proud history and strong retail brands - this provides a solid foundation for a sustainable recovery.

I will now provide you with a business update.

At our Full Year results announcement, I indicated to the market that we will not be providing guidance for FY23 but expect to return to profit.

Trading in the first three months of the year supports this. Whilst core wholesale sales to pharmacies have continued to be impacted by our ERP issues, sales of Rapid Antigen Tests in the first three months have remained resilient. We also continue to see good sales growth in our Hospitals and Third-Party Logistics businesses, which have not been as impacted by ERP issues.

Our delivery in full, in-stock and delivery on-time measures, which are critical for pharmacy customer satisfaction, are progressively returning to levels previously seen before the ERP implementation at all our sites except Victoria. I however recognize there is still significant work to be done to provide these service levels consistently.

The transition in January from our Rowville DC to our new Truganina DC in Victoria has proven to be a significant challenge. There is an entire new team at a new DC, dealing with new systems and processes. This situation is challenging in its own right but has been exacerbated by skilled labour shortages.

Performance has improved here, however operational execution remains well below our other facilities, so we have increased resourcing and training to fast track improvements in execution.

As a business we are currently not operating at our optimum so process improvements and change management will continue for the remainder of the calendar year.

I have set three objectives for the balance of this year.

1. Getting the basics right and putting the customers' needs at the center of everything we do.
2. Simplifying the corporate and people structures to ensure accountability and excellence in execution.
3. Producing clear, consistent and transparent reporting to elevate decision making.

The opportunity for Sigma is to better utilise and leverage the investments already made. We can then drive operational efficiencies, facilitate growth and improve shareholder returns.

I am currently working with my executive team and the Board to clearly define the strategy and direction for the business, which I look forward to sharing with you at our next results presentation in September.

Finally, I would like to finish by thanking our customers, our team members, the Board and shareholders for your ongoing support, as we work through what is an incredibly challenging and demanding period for everyone.

This announcement is authorised by order of the Company Secretary.

For more information please contact:

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

Steve Dabkowski
Blue Dot Media
steve@bluedot.net.au
0419 880 486