

# ASX Release

Issued 21 March 2019

## Business transformation program points to a stronger future

### Highlights

- Underlying result ahead of latest guidance
- Other Revenue up 19% to almost \$100m
- High dividend payout ratio maintained to benefit shareholders
- Investment cycle well advanced and will deliver step change in operations (efficiency and costs)
- Transformation program underway with over \$100 million efficiency gains identified as a standalone business

### Financial Summary

	Reported	Underlying *
<b>Revenue</b>	\$3.98b, down 2.9%	\$3.98b, down 2.9%
<b>EBITDA</b>	\$76.5m, down 17.5%	\$90.5m, down 9.2%
<b>NPAT</b>	\$37.0m, down 33.1%	\$46.3m, down 22.7%
<b>Earnings Per Share</b>	3.8cps, down 32.1%	4.8cps, down 21.3%
<b>Dividend Payout Ratio</b>	101.5%	80.1%

\* Refer to Notes on final page

### Overview

Sigma Healthcare (Sigma) today announced FY2019 Underlying results that were ahead of latest guidance.

Reported EBITDA was \$76.5 million for FY19, with Underlying EBITDA of \$90.5 million, down 9.2% on last year. Underlying EBIT of \$76.2m is above latest EBIT guidance of \$75 million provided in September 2018.

Excluding Hepatitis C, Sales Revenue was up 2.9% to \$3.75 billion, with growth in Sigma Hospitals and MPS medication management services businesses being major contributors. Total Sales Revenue of \$3.98 billion was down 2.9%, reflecting the \$226 million or 50% decline in sales of the low margin Hepatitis C medicines.

The Business Transformation program (Project Pivot) is underway following the completion of the initial diagnostic review by Accenture which identified over \$100 million in efficiency gains over the next two years. This is a significant program of work that will also rebase Sigma's operations to a more efficient cost base with greater capacity for growth following the end of the contract with MyChemist/Chemist Warehouse (MC/CW) in June 2019.

Sigma CEO and Managing Director Mark Hooper commented "The recent events have provided the catalyst for us to undertake a detailed review of our operations to ensure we have a sustainable business operating

efficiently, but importantly one that adopts a growth mindset to capture the emerging opportunities we see for the business.”

“We continue to have a strong balance sheet and are well advanced in our program of capital investment in automated distribution centres, technology and processes that gives us the capacity and capability to execute our strategies.”

## **Project Pivot - structured business transformation**

Project Pivot is the major business transformation program initiated by Sigma following the announcement that Sigma would not renew the MC/CW service contract.

“The initial diagnostic review, undertaken with the support of Accenture, identified over \$100 million of efficiency gains over the next two years. This has been benchmarked from both internal and external analysis. Whilst a large proportion of the cost savings come from extracting costs incurred to directly deliver services to MC/CW, additional cost savings will come from a restructure of functional areas within Sigma, and changes within our DC network”, Mr Hooper said.

“We are confident with our ability to execute our strategy to deliver these savings. This work has already commenced with plans and timeframes communicated to our DC team members in March.”

Changes announced included the difficult decisions to close our Shepparton, Newcastle and Launceston distribution centres in the second half of the 2019 calendar year in line with the wind down of our contract to supply MC/CW, along with a reduction in team members at our ongoing distribution centre network.

## **Community Pharmacy**

Sigma’s pharmacy brands continue to perform well in a competitive market.

“Like for like sales across our suite of brands was up almost 1.0%, with Amcal and Discount Drug Stores excelling. This is testament to the strong focus on professional service programs and service delivery brand members commit to deliver as part of these brand promises.”

This year also saw the launch of two new market facing brands that provide strong points of differentiation in the market. DDS Whole Life was launched, offering the traditional DDS pharmacy setting supplemented by an organic health food offering to bring holistic health management to consumers. Five stores have successfully piloted in Queensland, with the offering now moving to a national roll-out.

March saw the launch of Amcal+ Life Clinic. This is an extended professional service offering with extensive consultation space bringing connected health solutions to patients through allied health professionals. The first store will open in Burwood in Victoria in May 2019.

## **Sigma Hospitals and MPS**

Sigma Hospitals, a national distributor of healthcare and specialty products and services to public and private hospitals, has continued to grow market share, increasing sales by over 20% to move to almost 9% of the market. From a strong footprint in Victoria, the business has now established a growing national presence, achieving a similar market share level in Western Australia.

“The business continues to be in growth phase with significant opportunities to continue to expand our reach, contract base and service offering,” said Mr Hooper.

Medication Packaging Services (MPS) which was acquired by Sigma in September 2017, is continuing to consolidate its strong position in the medication management market. MPS manufactures dose administration aids (DAA’s) from four TGA approved facilities for our aged care and community pharmacy partners nationally.

Mr Hooper commented “Medication compliance & management is a critical issue for our health care system. The high quality and compliance standards that MPS provides represents a unique opportunity to reduce these medication related hospital admissions and to deliver positive health outcomes to our ageing population through our national community pharmacy network. This is a further example of our strategic focus on delivering consumer centric ‘precision medicine’ initiatives”.

## Capital Management

In December 2018, Sigma announced a new \$500m debt facility with Westpac, including a short-term facility that will reduce with the release of working capital from the end of the supply contract with MC/CW.

Sigma Chairman Brian Jamieson commented “At a time of business transformation, this was a significant show of support from Westpac. The facility supports the ongoing investment in our distribution centre and IT infrastructure and provides short term funding flexibility to support business operations. Whilst debt at year end was \$243.2 million, this will very quickly reduce with the release of working capital around September this year, with debt expected to return to circa \$100 million by 31 January 2020.”

Whilst Sigma has not actively pursued the share buy-back program this year, this remains a live option looking forward.

Mr Jamieson commented “We were deliberately restrained in our buy-back activity during the year. With our infrastructure investment now well advanced, our business transformation program underway, and our balance sheet strong, we remain open to returning to a more active period ahead.”

Sigma announced a Final Dividend for FY19 of 2.0 cents per share, bringing total dividends paid in respect of the year to 3.5 cents per share, representing 80.1% of Underlying NPAT.

“The Board remains committed to returning a high proportion of our Net Profit After Tax to shareholders as a dividend, and this year is no exception,” said Mr Jamieson.

## API merger proposal

As announced on 13 March 2019, Sigma has made the considered decision that the merger proposal put forward by Australian Pharmaceuticals Industries (API) was not in the best interests of shareholders.

Mr Jamieson commented, “Whilst the Sigma Board is not philosophically against industry consolidation, the assessment of management, the Board and our advisors was united – this proposal was not in the best interest of Sigma shareholders. Our Project Pivot review and the cost efficiencies to flow from it, along with the structural reforms we are implementing to provide step change to our operations, give us great confidence in the direction we are heading and the future of our business on a standalone basis.”

## Outlook

Sigma confirms guidance of \$55-60 million EBITDA for FY20.

Mark Hooper concluded “We are confident that Project Pivot will rebase our operating cost base by over \$100 million, but just as importantly will free up capacity for growth. Our investment program is well advanced to provide the physical capacity for growth, and by FY20 our Balance Sheet will have financial headroom for growth.”

**The final dividend is payable on 29 April 2019, with an ex-dividend date of 3 April 2019 and a record date of 4 April 2019.**

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**NOTES:**
**Reconciliation of Reported to Underlying Earnings**

	<b>FY19</b>	<b>FY18</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Reported EBITDA</b>	<b>76,550</b>	<b>92,833</b>
Add:		
Restructuring and dual operating costs before tax	13,115	3,715
Litigation and Due Diligence costs before tax	863	3,199
<b>Underlying EBITDA</b>	<b>90,528</b>	<b>99,747</b>
Less: Non-controlling interests before interest and tax	(855)	(409)
<b>Underlying EBITDA attributable to owners of the company</b>	<b>89,672</b>	<b>99,338</b>

	<b>FY19</b>	<b>FY18</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Reported NPAT attributable to owners of the company</b>	<b>36,520</b>	<b>55,059</b>
Add:		
Restructuring and dual operating costs after tax	9,180	2,601
Litigation and Due Diligence costs after tax	604	2,239
<b>Underlying NPAT attributable to owners of the company</b>	<b>46,304</b>	<b>59,899</b>