

# Chairman Address

Brian Jamieson, Chairman  
Sigma Healthcare Limited, Annual General Meeting  
Wednesday 16 May 2018 in Melbourne, Australia

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2018 financial year has been a challenging one for Sigma. Having said that, I think it is important to state that we remain totally committed to the strategy that the Board and management set several years ago.

Today I will provide you with an overview of our strategic direction, a status update of our investment program and an update on Capital Management.

A key plank of our strategy has been and continues to be focused on diversifying our earnings base, to provide us with a stronger more sustainable growth profile. Consistent with this, we have made two acquisitions during the year – in October we acquired MPS, a medication dose administration aid business that services both aged care and community pharmacy customers. This is a service based business that sources products from Sigma's distribution centre network, and provides measured and controlled medication management solutions to ensure quality use of medicines.

In December 2017 we also acquired Medical Industries Australia, which is a distributor of medical devices and consumables.

These two acquisitions are great examples of adjacent businesses that provide an ability to Sigma to broaden our earnings base, and at the same time leverage our existing infrastructure.

During the year, we made great progress in our infrastructure investment program. Management have done an outstanding job in continuing to manage the current DC network as efficiently and effectively as possible. However, the reality is that our current DC network is dated, is no longer fit for purpose, and is effectively a constraint to our long term growth aspirations. Whilst these investments don't necessarily benefit the current year results, they are vitally important for the health and progress of the Sigma business long term.

As part of our renewal program, the Board have committed to a capital investment program of over \$200 million over a three-year period. Importantly for shareholders, we have applied strong financial return metrics in making these investment decisions.

This program began with construction of our new Berrinba DC in the South of Queensland. Construction of this \$55 million DC was completed late in the 2017 calendar year, with deliveries commencing in April 2018. This investment provides Sigma with a fantastic facility that significantly improves our ability to efficiently and effectively service our Queensland and Northern New South Wales customers.

The sad reality of progress is that we did close our Mansfield facility that had served the Queensland community well for several decades. We thank our team at Mansfield who provided exceptional support in managing that facility. As part of the closure, we will be booking between \$3 to \$5 million in one off redundancy costs and between \$4 to \$5 million in one-off transitional expenses against our 2019 financial results.

Concurrently, we are making great progress in the construction of our new DC in Canning Vale in Western Australia. This also is a \$55 million investment in a 15,000 square metre distribution centre that will support the health care needs of communities such as Kununurra some 3,500 km in the north, and Esperance which is around 800km south, and everything in between. The physical building is complete, and the internal fit out stage is progressing ahead of schedule. We expect this facility to become operational in the last quarter of the 2018 calendar year.

Most recently, we have now turned soil on our third DC upgrade, in Kemps Creek in Western Sydney. This will be the largest DC investment in Sigma's history – approximately \$110 million in a 40,000 square metre facility with advanced automation capability. This is a critical infrastructure investment that will significantly enhance Sigma's ability to better service the highest populated State in Australia. Importantly, it will be a major contributor to our ability to continue to grow our hospital pharmacy and third party logistics businesses.

The capital spend program is more concentrated from what would be a normal investment cycle, but these investments are essential to our long term success.

I will now turn to our capital management.

The Board has consistently rewarded shareholders by maintaining a high dividend payout ratio. Over the last six financial years, we have an average dividend payout ratio of 85% of underlying earnings, which would place Sigma in the top third of ASX companies for payout ratios

Subject to the normal caveats, the Board is committed to maintaining a high dividend payout ratio into the foreseeable future.

During the financial year, we also continued our share buyback program. \$12 million was invested to buy back and cancel 14.6 million shares, with a further 1.2 million shares bought back since year end. This brings the total shares bought back since inception of the program in 2012 to over 131 million shares. In simple terms, this means the market value and the dividend returns from the company are spread over less shares on issue, which is a positive outcome for shareholders.

Importantly, Sigma still has a strong balance sheet with an appropriate and prudent level of gearing that retains capacity to meet our investment requirements. Net Debt at year end was \$114 million, with gearing at 18% and interest cover at 18.5 times, and we have strong cashflow generation. These are very comfortable metrics.

Turning now to our team at Sigma, we are committed to ensuring we have a balanced and motivated work force. From an overall gender diversity perspective, 58% of our team members are female. Pleasingly, this is largely reflected across the business, with females representing 42% of all managers, 50% of our executive leadership team and one-third of our Board.

During the year, we also reinvigorated the way we measure both organisational culture and team member engagement. We engaged an external partner who have collated over 54,000 pieces of qualitative data and 19,000 narrative comments. This has given us tremendous insights on our team, and has highlighted a few key indicators such as job satisfaction, pay, flexibility and workloads all benchmarking above market average. It has also highlighted a need for enhanced focus on internal communications and skill development for line managers, which we are now addressing and will ultimately lead to better engaged team members and improved service to our customer base.

The survey also highlighted that 91% of team members reported their workplace as a safe place to work, which is pleasingly reflected in our Lost Time Injury Frequency Rate of 4.91. You will also see on the screen that we had a 59% satisfaction rating in measuring a fair day's pay for a fair day's work.

Whilst this may not seem high, the market benchmark for satisfaction is only 41%. It is also very satisfying to see that around 63% of our team members are also shareholders through our employee share scheme.

Sigma is very proud of our commitment and strong support of the community. So much is done by our pharmacy members to support their own local communities. In addition, at a corporate level, Sigma supports The Summer Foundation, who seek a better life for young people with acquired disability who are forced to live in aged care. \$55,000 was donated from our supplier gala event. A further \$55,000 was also donated to Carers Australia, to aid their work in supporting the unpaid carers who underpin the health of the community. Our pharmacy brand Discount Drug Stores continued its support for Assistance Dogs, who provide services to people with disabilities, and “Free To Be”, a charity that protects children in vulnerable communities. And our Pharmasave brand has continued its commitment to the “I Give a Buck Foundation”, which supports severely disadvantaged children at a local level.

We are also very focused on controlling our environmental footprint wherever possible. This focus has resulted in over 75% of product used within the business now being diverted away from landfill. Importantly, we have integrated environmental initiatives into the design of our new DC infrastructure, including solar power systems, water recycling, and storm water collection amongst others.

Finally, I would like to acknowledge the contributions, support and commitment of the team at Sigma, our brand members and customers, and my fellow Board members. The true strength and character of individuals often shines through when faced with challenges, and we have seen that this year with our team steadfast in their commitment and dedication in driving the business to success. I thank you all, as it is this commitment that ultimately delivers shareholder value.

I will now hand over to Mark to give a brief overview of the year and our progress year to date.

Thank you.

**Brian Jamieson**  
**Chairman, Sigma Healthcare Limited**  
**16 May 2018**