

# Chairman Address

Brian Jamieson, Chairman  
Sigma Healthcare Limited, Annual General Meeting  
Wednesday 13 May 2020 in Melbourne, Australia

Issued 13 May 2020

Well what a 12-months we have just had. In any ordinary year, a business transformation program of the scale we embarked on - designed to achieve over \$100 million in efficiency gains - would be enough to stretch management and the business. But this has been no ordinary year.

Over and above this we have successfully defended a takeover offer, commenced operations at three new Distribution Centres, kicked off a SAP implementation program, launched the Salesforce Customer Relationship Management platform, facilitated the smooth end of the Chemist Warehouse supply agreement before we successfully won back a large proportion of that business, we extended our pharmacy network, continued to grow our hospital pharmacy customer base, have dealt with logistical challenges to support the community through the devastating bushfires, and now have been dealing with responding to the challenges of COVID-19.

I will leave the detail on that to Mark, but let me say, I am incredibly proud of the way that the Sigma management team and all team members have embraced everything that has been thrown at them this year. Through all of this we have just got on with making Sigma a better business for the long-term benefit of shareholders.

With that context, the financial results for this year were always going to be difficult and complicated to follow.

Revenue for the year was \$3.2 billion which is down from \$3.9 billion last year. This reflects the supply to Chemist Warehouse for five months, largely ending at 30 June, and then some phased supply recommencing from December 2019 under the new agreement for FMCG products only. The fact that a new agreement was entered into so soon is a testament to the way that our team have managed the overall process and the service levels Sigma provides.

What is perhaps overshadowed in this number is that our retail pharmacy brands – Amcal, Guardian, Discount Drug Stores, Pharmasave, Chemist King and Whole Life Pharmacy, have achieved like for like sales growth during the year of 11.7%, significantly above market. Around 20% of consumer spend in pharmacy is in one of those brands. This flowed into our Ongoing wholesale Sales Revenue being up 8.5%. In addition, our sales to hospital pharmacy were up 26% for the year as we continue to extend our reach in this market.

So I am confident that the underlying operating business is in good shape.

Reported EBITDA for the year was \$24.2 million, impacted by a number of one-off costs incurred whilst we undertook the transformation program. Adjusting for that, Underlying EBITDA was \$46.7 million.

Net Debt for the year ended at \$146 million.

The board unfortunately had to take the decision to suspend our final dividend for this year. Whilst we are not alone this year, our decision was influenced by having insufficient franking credits. We continue to have total confidence in the business, our path through the Covid-19 challenges, and our cash generation. We will review our position as the year progresses.

Turning to our capital investment, we have maintained an accelerated and concentrated capital investment program these past four years, which will conclude over the next 18 months. This has seen over \$220 million invested in generational change that will deliver an industry leading distribution centre network that significantly improves our operational capacity and efficiency.

This investment cycle has seen Sigma acquire land, construct purpose-built distribution centres, and fit them out with the latest automation. This has been completed at Berrinba in Queensland, Canning Vale in Western Australia, Pooraka in South Australia and Kemps Creek in New South Wales.

More importantly, the decision to own and manage the construction of these distribution centres has not only ensured we have the facilities we need operationally, it has also seen the creation of significant shareholder value which is not currently recognised in our accounts. We have flagged our intention to review a potential sale and leaseback of these facilities to realise that value, and I will leave that to Mark to provide an update shortly.

Our investment cycle will conclude with the implementation of a new ERP – or Enterprise Resource Planning system, which will be deployed during FY21. Significant planning and analysis work went in to managing the process and ultimately selecting the SAP S/4 Hana and SAP Next Generation Product Suite. Whilst the Covid-19 pandemic did impose some early challenges, good progress has been made to a point of validating the proposed operational framework. We have partnered with Accenture and Infosys, both experienced partners in SAP implementation programs, and we are confident we will achieve the desired outcomes from the program.

I would also like to make reference to the proposed merger put forward by API which played out during the year. Just to recap, API had acquired 12.95% of Sigma as at December 2018. Having considered their proposal and established a clear road map for the medium to long term future of Sigma as a standalone business, we rejected their proposal, and API sold their holding and exited our share register in December 2019. We remain absolutely confident this was and still is the right decision for shareholders.

At the time of rejecting the proposal, we announced that over \$100 million of efficiency gains would be achieved over the next two years through Project Pivot – as at 31 January action had been taken on achieving \$62 million of that, with progress continuing. As I have just outlined, our capital investment program is nearing completion and is already delivering an outstanding result for our customers and for Sigma shareholders.

Before I hand over to Mark, I would like to mention the work we do on Corporate Social Responsibility.

We have continued our efforts to improve our Environmental footprint, through reducing energy use, efficient routing of logistics services, adopting environmentally friendly packaging, and effective waste management. Our new DCs were constructed with an eye on minimising our environmental footprint, which they have done. They have also proven their worth through standing up to the challenges society faced recently with the bush fires and Covid-19.

During the bush fires, Sigma made financial and product donations to the communities in need. Above that, I want to recognise our team members who went to extraordinary efforts, partnering

with Essential Services and local pharmacies, to support the isolated communities to receive essential medicines and provide the support they needed. During the year, we also continued to provide direct support to customers, charities and communities in need, including Vinnies and The Summer Foundation.

Just finally, as I address the meeting for my last time as Chairman, I thank all our shareholders for your support over many years as we have faced and overcome many challenges and taken the opportunities available to us.

In particular, I would like to thank my fellow Directors for their support, the executive team for their passion in driving the business, and especially Mark for his unwavering work ethic, drive and commitment in always seeking the best outcome for Sigma and our shareholders.

Thank you, I will now hand over to Mark.

**Brian Jamieson**  
**Chairman, Sigma Healthcare Limited**