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ASX Release

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Momentum builds as Sigma delivers strong 1H21 result

- 1H21 Revenue $1.64bn with Like-for-like growth of 9.5% across Sigma's Pharmacy brands
- Underlying EBITDA# of $34.1m (post AASB16) driven by core business growth and stronger sales of Personal Protective Equipment (PPE). Reported EBITDA was $25.2m
- Business Transformation and Investment Program entering final stages
- Project Pivot has implemented action on $86.8m of annualised efficiency gains and remains on track to achieve its original objective of more than $100m by the end of FY21
- Strong Balance Sheet with net debt subsequently reduced to $33.6m at 31 August following the completion of the Sale and Leaseback transaction

 # Refer to Notes for a Reconciliation of Reported to Underlying EBITDA.

Overview

Sigma Healthcare (Sigma) today announced Underlying EBITDA of $34.1 million (post AASB16) for 1H21, 7.7% down on 1H20 which included the full Chemist Warehouse (CW) supply agreement. Reported EBITDA was $25.2 million, slightly up on last year.

Continued strong growth in sales underpinned the result, with like-for-like growth of 9.5% across Sigma's pharmacy brands in 1H21, and wholesale sales up 15.1% (ex-CW and Hep-C sales). In addition, the results reflect increased sales of PPE through MIA and CHS, which was partly offset by lower Merchandise and Marketing income and a higher provision for doubtful debts.

Sigma CEO and Managing Director Mark Hooper commented: "The 2020 year has presented diverse and unforeseen challenges, so to deliver a strong result in these conditions without any reliance on Covid-19 related financial support or relief demonstrates our resilience. Just as pleasing, we have now progressed to the final stages of our business investment and transformation program and significantly strengthened our balance sheet, while at the same time supporting the health and safety of our team, our pharmacy customers, and the community."

Sigma's strong Balance Sheet at half-year end was further enhanced following the completion of the Sale and Leaseback transaction on 21 August, with debt at 31 August reduced to $33.6 million.

"Whilst the vagaries of the Covid-19 pandemic make it difficult to give clear earnings guidance for FY21, early indications are the momentum will continue in the second half. We are very excited by future opportunities for growth," Mr Hooper said.

As previously announced, there will be no Interim Dividend in respect of the half year ended 31 July 2020.

Operational Comments

The investment strategy over the last few years has focused on improving our core pharmacy business, as well as diversifying our earnings.

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Mr Hooper commented: "Our reliance on the PBS is now down to around 50% of sales, which we expect to reduce further. This is partly driven by the CW transition, but also from strong growth seen in our expansion businesses, which are less reliant on the PBS and the pharmacy channel."

Core Business

- ***Retail Pharmacy*** - Like for like sales through Sigma's brands were up 9.5% for 1H21, with growth seen across our portfolio of brands and nationally.
- ***Wholesale sales*** - sales (ex-CW) is up 15.1% in 1H21 after delivering over 6% growth in 1H20. This was achieved despite Covid-19 having a slight negative impact on sales with the spike in March offset by lower sales in April and May and continued lower trading for specific pharmacy sites and export sales.

"To achieve that level of growth in wholesale sales and across our portfolio of pharmacy brands is a great reflection of the energy and focus of our team in providing genuine support for our customers. This has been reinforced through sustained improvements in the Net Promoter Score from our Voice of Customer engagement surveys," Mr Hooper said.

The reintroduction of supply of FMCG products to CW has progressed to plan and is now fully transitioned from June 2020.

Results from Sigma's pharmacy business have unfortunately been negatively impacted by reduced merchandise and marketing income, due to lower promotional activity during Covid-19 restrictions, and the increased provision for doubtful debts given the uncertainty of the current economic environment. This has however been offset by underlying growth in other parts of the business and cost reduction initiatives.

Expansion businesses

Strong growth is evident in our expansion businesses, with these channels representing around 16% of Total sales for Sigma in 1H21.

- ***Hospitals*** - market share nationally is now approaching 10% and sales (excluding Hep-C) for 1H21 are up 22%, despite some softening of demand due to the slowdown in elective surgeries in various States.
- ***CHS, MIA and Contract Logistics*** - collectively achieved accelerated growth with significant volume increases through the 1H21, with new customer wins and increased demand for PPE supply.
- ***MPS*** - has largely held ground in 1H21, with business growth impacted by the closure of many Aged Care facilities due to controls to manage Covid-19 outbreaks

Mr Hooper commented, "With Sigma's investment in new infrastructure, it has enabled our Hospital services business to expand nationally. Notwithstanding the pressures Covid-19 has put on the industry, Hospitals grew at 22% (ex-Hep-C) for 1H21, and now has a national market presence backed by critical infrastructure to sustain longer term organic and tender based growth."

"The results for CHS, MIA and Contract Logistics businesses reflect increased volumes during 1H21, achieved through both organic growth and growth directly in response to Covid-19. Sales of PPE have been particularly strong, and whilst there is some element of one-off buying in the early stages, there are trends emerging of sustained volume growth and behavioural changes that provide further business expansion opportunities beyond the current year."

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Meanwhile, MPS, Australia's leading dose administration aid packaging and services business has faced some challenges including access restrictions placed on Residential Aged Care facilities due to Covid-19 which has also impacted our ability to transition new business. This has directly caused a slowing of the growth rate anticipated. Whilst this plays out across Australia, MPS has reviewed its operations and strategy to ensure it is well positioned, resourced and ready to respond to opportunities.

Business Transformation and Investment

Progress on our business investment and transformation has continued uninterrupted and is entering its final stages.

Project Pivot

Project Pivot is a two-year program that has implemented action on $86.8m of annualised efficiency gains and remains on track to achieve its original objective of more than $100m by the end of FY21.

"Against a backdrop of the unexpected challenges of Covid-19, to remain on track to deliver the $100m annualised benefit is an outstanding result. It gives Sigma the efficient business model to grow and enhance our service offering to customers," Mr Hooper said.

Distribution Centre (DC) Investment

The investment program to upgrade our Distribution Centre (DC) infrastructure commenced four years ago and is now in its final stages.

The DC investment program has delivered Sigma generational improvements in efficiencies of operation, scale for new business growth, and the ability to better service our customers. Throughout the last 6-months, this has:

- Provided strong support for existing customers through the bush fires and Covid-19 crises
- Absorbed the 80% unplanned spike in demand in March while at the same time on-boarding a significant number of new customers
- Supported the efficient transition of $800 million of FMCG supply to CW
- Enabled the expansion of our Contract Logistics (3PL/4PL) business, and
- Improved our health and safety measures, including providing a covid-safe work environment

With four sites already completed and operational, we now enter the final stages of this investment cycle. Progress on our Truganina DC in Victoria remains on track to be completed on time despite Covid-19 impacts, with operations set to commence from November this year.

As announced on 10 August 2020, agreement was reached on terms for a sale and leaseback in relation to two Distribution Centres – Kemps Creek in NSW and Berrinba in Queensland, with Sigma committing to a 15-year lease with two five-year extensions. These agreements were finalised on 21 August.

Sigma Chairman Ray Gunston commented: "By owning and constructing these assets, we have created around $80 million in value for shareholders. At the same time, we have retained ownership of our DC's in Canning Vale in WA, and Truganina in Victoria, and all automation equipment across the network."

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Enterprise Resource Planning (ERP) implementation

Following extensive analysis and planning, Sigma commenced the implementation of the SAP S/4 HANA cloud-based Enterprise Resource Planning (ERP) solution in February 2020. This represents an investment of approximately $60 million in critical enablement technology solutions.

Mr Hooper commented: "Such an extensive whole of business system upgrade is a significant investment with many complexities of its own, so having to implement it through a pandemic creates unique challenges. I am incredibly proud of the way that the whole team working on this project have adapted to new ways of working. We are nearing the end of the critical detailed design and build phase and despite the challenges of Covid-19 we remain on time and on budget."

COVID-19

As an essential service business, Sigma moved quickly to establish a Covid-19 Working Group with representatives from across the business, to help ensure the health and safety of our team members and customers, the continuity of services, and the implementation of processes and resources to sustain the business.

Mr Hooper commented: "We took significant steps early. Most office-based teams have operated under a work from home model for a large part of this year, we reviewed our Business Continuity Plans, provided extensive support for our pharmacy franchise members, adjusted our ways of working as required, and actively worked with government and the industry to help secure the medicine supply chain and equitable patient access to medicines. Just as importantly, we provided an extensive resource Hub for all team members to support their mental and emotional wellbeing through the challenges."

"Covid-19 has introduced many challenges across the supply chain. Pleasingly, our team and our DC network have been very effective and efficient in absorbing the unprecedented volumes. We have also rolled out a number of services to support our pharmacy customers better serve their community, including E-Script readiness, home delivery services, In-Clinic Telehealth, and Covid-safe work practices," Mr Hooper commented.

Overall Sigma's financial performance reflected the net effect of higher sales of medical consumables via CHS and MIA, outweighing the reduced merchandise and marketing income, higher doubtful debts provision and other operational impacts.

Like many other businesses, Sigma faced operational challenges through the Covid-19 pandemic but has remained self-sustained with no reliance on Covid-19 related financial support or relief.

7CPA and CSO

The 2020 year has also seen the finalisation of a new five-year 7th Community Pharmacy Agreement (7CPA) and four-year Community Service Obligation (CSO) Agreement, which together set the industry remuneration framework for PBS products.

"The 7CPA and CSO agreements are collectively important to help to sustain the industry. The new agreements reached provide increased stability and funding for our pharmacy customers, and improved funding and greater recognition of the role CSO wholesalers play in supporting timely and equitable

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access to medicines across the country. It will go some way to helping to offset the impacts of ongoing PBS price disclosure reform," Mr Hooper said.
"The critical role of CSO wholesalers, together with community pharmacy, has never been more clearly demonstrated than through the support provided to Australian patients during bush fires and Covid-19. This network now stands ready to be part of the solution for the distribution and administration of Covid-19 vaccines when they become available," Mr Hooper said.

Outlook

Mr Gunston commented: "We have transformed our business, renewed our entire infrastructure and diversified our earnings. We will emerge from this period with a very strong balance sheet with minimal debt and strong growth aspirations."

Mr Gunston continued: "Reported net debt at 31 July 2020 was $179 million, which reduced to $33.6 million by the end of August. With our cash generation partly offsetting diminishing capital investment requirements, we anticipate net debt at year end of around $70-80 million."

"Our balance sheet and cash generation are strong, and the Board remain committed to returning to a high dividend payout ratio when our franking credit balance is restored," Mr Gunston concluded.

Mr Hooper commented: "I am incredibly proud to lead a great team who have overcome the challenges of bush fires and Covid-19 in the same year to not only deliver strong results this half, but also maintain our reform agenda whilst ensuring we continued to support the needs of our customers and supplier partners."

"We are in the final stages of our investment and transformation program, have made progress in diversifying our earnings to leverage that investment, obtained regulatory certainty, retained Balance Sheet strength, and have built a good pipeline across our entire business."

Mr Hooper concluded: "Whilst the uncertainty surrounding Covid-19 means we cannot give earnings guidance, we head towards FY21 and FY22 with confidence that the momentum we have been building is sustainable and repeatable."

A results briefing will be held today at 10.00am AEDT. For webcast details, please visit the Investor Centre located at www.sigmahealthcare.com.au.

This announcement is authorised by order of the Board.

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NOTES: Reconciliation of reported and underlying EBIT and EBITDA

	31 July 2020 $000	31 July 2019 $000
Reported EBIT	**11,852**	12,688
Add: Reported depreciation and amortisation	**14,548**	12,606
Reported EBITDA*	**26,400**	25,294
Add back:		
Restructuring, transformation and dual operating costs before tax	**7,788**	18,635
Due diligence, integration and litigation costs / (benefits) before tax	**2,302**	(6,238)
(Gain) / loss on sale of assets before tax	**(1,144)**	-
Underlying EBITDA**	**35,346**	37,691
Less: Reported depreciation and amortisation	**(14,548)**	(12,606)
Underlying EBIT	**20,798**	25,085
Less: Non-controlling interests before interest and tax	**(1,201)**	(682)
Underlying EBIT attributable to owners of the company	**19,597**	24,403

* Reported EBITDA Attributable to Owners Is $25,199 (Reported EBITDA minus Non-controlling Interests before Interest and tax)
** Underlying EBITDA Attributable to Owners is $34,145 (Underlying EBITDA minus Non-controlling Interests before interest and tax)