Sigma Healthcare

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ASX Release

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Sigma on track to meet FY19 guidance

Financial Summary

	Reported	Underlying *
Revenue	$1.96bn, down 2.0%	$1.96bn, down 2.0%
EBITDA	$31.5m, down 32.6%	$40.3m, down 16.4%
EBIT	$25.3m, down 40.8%	$34.1m, down 22.8%
NPAT	$13.8m, down 50.6%	$19.9m, down 31.2%
Dividend Payout Ratio	119%	80%

* Refer to Notes on final page

Highlights

- On track to deliver in line with FY19 guidance
- Maintains high dividend payout ratio of 80% of Underlying NPAT
- Investment in critical infrastructure remains on track and under budget
- Business re-engineering program announced following decision not to renew MC/CW contract

Overview

Sigma Healthcare (Sigma) today announced Underlying EBITDA of $40.3 million for 1H19, down 16.4%, with Reported EBITDA impacted by one-off redundancy and restructure costs.

The company has again maintained its high dividend payout ratio to deliver an interim dividend of 1.5 cents per share payable on 29 October 2018 with a Record Date of 15 October and an Ex-Dividend Date of 12 October.

Sigma CEO and Managing Director Mark Hooper commented: “We are on track to meet FY19 guidance of Underlying EBIT of $75 million, with the 2H19 set to benefit from cost savings already achieved in the business.”

Management continues to target Underlying EBIT for FY20 of $40 - $50 million, with greater clarity expected as the detailed business re-engineering program advances (refer to Business Update below).

Sales Revenue for the six months was down 2.0% to $1.96 billion, largely impacted by the decline in low margin Hepatitis C medications and some impact from the up-scheduling of codeine-based products from February. Excluding Hepatitis C alone, sales revenue was up 3.2% to $1.82 billion. The growth is a combination of volumes up 1% and an increase in sales in the Sigma Hospitals business, partly offset by PBS reform pricing adjustments.

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Mr Hooper commented: "The twin impacts of ongoing PBS pricing reform and the continuation of manufacturer exclusive direct distribution continue to weigh on the industry and our results. Whilst we are encouraged by engagement with government, resolution and certainty is needed more than ever."

Other Revenue has continued to perform strongly up 24% on the prior period, reflecting a continued focus on driving non-PBS earnings. The addition of MPS, Australia's largest provider of dose administration services to the aged care sector and the community pharmacy sector, contributed to the growth pipeline in non-PBS revenue, with MPS achieving above expectations and plans firmly established to extend its growth in servicing community pharmacy and aged care residents with a true national presence backed by Sigma's resources.

The increase in reported operating expenditure to $152.5 million, up 13.7% for the 1H19, was the result of the inclusion of a full period of operating costs for MPS, and one-off redundancy and restructuring costs, including the closure of our Mansfield distribution centre.

Mr Hooper commented: "Costs have remained well controlled in the first half and will continue to be a major focus over the next 12 months."

Business Update

On 2 July 2018 Sigma announced that agreement could not be reached with the MyChemist/Chemist Warehouse Group (MC/CW), meaning the existing supply agreement will cease on 30 June 2019.

Mark Hooper commented: "We stand by our decision to not renew the MC/CW contract on the terms sought as it was not in the best long-term interests of the company or its shareholders. This decision will free up over $300 million in working capital and provides us with an important pivot point to re-shape and grow the Sigma business."

Sigma today also announced the appointment of Accenture to provide execution support on a major business re-engineering and cost reduction program.

"We have already started to make in-roads into our cost-out program in response to the operating environment, and these will benefit the 2H19. Stage two has now commenced and will accelerate as we near the end of the MC/CW contract on 30 June next year. This is a far-reaching and structured review not just of operating and fixed costs, but expansion opportunities and overall business re-engineering. Accenture will bring significant rigour to this process.'' Mr Hooper said.

Operational Comments

Sigma continues to invest in programs and support structures to enhance the capability of our pharmacy brand members to meet the growing demands of their customers. Sigma has over 600 pharmacies operating as one of the five Sigma brands, accounting for around 20% of consumer spend in pharmacy.

Mr Hooper commented "Our own brands are performing well in what is a challenging retail environment. Amcal has grown sales on a like-for-like basis by almost 2%, Guardian over 5% and DDS almost 3% compared to an overall pharmacy market which has contracted. We have also seen strong interest and sign up to our brands, with Guardian achieving 10% growth in member numbers so far this calendar year."

During the year, Discount Drug Stores (DDS) launched a new health food and pharmacy concept, enhancing the traditional DDS pharmacy model with a holistic organic offering focusing on promoting wellness and healthy living in addition to treating illness. This new concept provides an opportunity to expand the segment and establish another point of differentiation in the market.

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Third party logistics remains a focus area for growth, with several contracts signed late last year and early this year. Dedicated resources have now been appointed to scale up this business, with a strong pipeline of third party logistics (3PL) customer opportunities.

Capital Management

Sigma's investment in critical infrastructure remains on schedule and under budget. This $220 million investment in critical infrastructure across Queensland, Western Australia, New South Wales and South Australia will provide Sigma with the newest and most efficient fleet of distribution centres in the pharmaceutical wholesaling industry, utilising the most advanced automation capability.

This investment is underpinned by Sigma's strong balance sheet, with net debt at 31 July 2018 of $179.2 million.

Mark Hooper commented: "This debt appropriately gears the business into critical physical infrastructure that represents value well above the level of debt and will deliver significant efficiency gains across the network. Importantly, it does not curtail our ability to execute the expansion opportunities that are in front of us."

Discussing Sigma's share buy-back program, Sigma Chairman Brian Jamieson commented: "Whilst our share buy-back program remains an attractive option for the Board, we have been less active given our current investment cycle, but we will keep this under review. The Board is committed to maintaining our high dividend payout ratio to reward shareholders."

Outlook

Sigma remains on track to deliver in line with earlier guidance of Underlying EBIT of $75 million for FY19, with the second half set to benefit from costs already removed from the business. Management also continues to target FY20 Underlying EBIT in the range of $40 - $50 million, with greater clarity expected as the detailed business re-engineering program advances.

Mr Hooper concluded, "While the exit of MC/CW will of course impact the business, we are confident that we have the pipeline to grow organically across retail pharmacy, hospital pharmacy, 3PL and through services such as MPS. We will start to see benefits from our investment in efficient infrastructure and have the options to grow from M&A activity, which we are actively pursuing in the knowledge that $300 million working capital will be released."

"The major business re-engineering program is an important feature over the remainder of this calendar year as we set our path beyond June 2019. It will be a detailed and measured program that we need to go through over the next 12 to 18 months to ensure we maximise the cost efficiency and revenue growth opportunities that are in front of us."

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Notes

	31 July 2018 $'000	31 July 2017 $'000
Reported NPAT attributable to owners of the Company	**13,397**	27,808
Add: Restructuring and dual operating costs after tax	**6,090**	302
Add: Litigation and due diligence costs after tax	**386**	770
Underlying NPAT attributable to owners of the Company	**19,873**	28,880
Reported EBITDA	**31,519**	46,773
Less: Depreciation and amortisation	**6,199**	4,018
Reported EBIT	**25,320**	42,755
Add: Restructuring and dual operating costs before tax	**8,700**	431
Add: Litigation and due diligence costs before tax	**552**	1,100
Less: Non-controlling interests before interest and tax	**(473)**	(130)
Underlying EBIT attributable to owners of the Company	**34,099**	44,156
Add: Depreciation and amortisation attributable to owners of the Company	**6,199**	4,018
Underlying EBITDA attributable to owners of the Company	**40,298**	48,174