



MEDIA RELEASE

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Sigma and Chemist Warehouse's proposed merger raises competition concerns

The ACCC has outlined preliminary competition concerns with Sigma Healthcare Limited's (ASX: SIG) proposed acquisition of Chemist Warehouse Group Holdings in a Statement of Issues published today.

"This is a major structural change for the pharmacy sector, involving the largest pharmacy chain by revenue merging with a key wholesaler to thousands of independent pharmacies that in turn compete against Chemist Warehouse," ACCC Commissioner Stephen Ridgeway said.

"We have identified a range of preliminary competition concerns, including at the retail level and as a result of the proposed integration of the merged firm across the wholesale and retail level. We want to hear from interested parties, including rival pharmacies as we continue this review."

Sigma is one of the largest wholesalers of prescription medicines, over the counter and front of store products. Sigma also provides brand and support services to community pharmacies operating as franchisees under Sigma banners such as 'Amcal +', 'Discount Drug Stores', 'PharmaSave' and 'Guardian'.

Chemist Warehouse is a franchisor of pharmacies and retail stores under the brands Chemist Warehouse, MyChemist, Ultra Beauty, My Beauty Spot, and Optometrist Warehouse. It is also a wholesaler and distributor, and provides brand and support services to its franchisee pharmacies.

"The transaction would create a merged company that is uniquely vertically integrated across multiple levels of the pharmacy supply chain. This new business model for the pharmacy sector could raise barriers to rivals expanding or entering, which may lessen competition," Mr Ridgeway said.

"The ACCC has heard many concerns about the impact Chemist Warehouse has had on the pharmacy sector. However, the ACCC is focussed only on the impacts of the acquisition on competition, rather than the pros or cons of different business models. The key issue is whether or not the proposed acquisition weakens competition in the supply of pharmaceutical products."

The ACCC is also concerned that the proposed acquisition may harm pharmacies currently supplied by Sigma, leading to a substantial lessening of competition in pharmacy retailing.

Currently, Sigma is incentivised to maximise wholesale sales, but after the transaction, the independent pharmacies it supplies will also be competitors to Chemist Warehouse.

"In particular, we are focused on how the newly merged company may have the ability and incentive to favour Chemist Warehouse stores or worsen terms to non-Chemist Warehouse banner stores, raising their costs and rendering them less competitive," Mr Ridgeway said.

The ACCC is also concerned that the proposed merger may enable Chemist Warehouse to access and use commercially sensitive data relating to pharmacies supplied by Sigma, in a way that damages competition.

“Following the acquisition, the merged company may be able to use insights from data obtained to target pharmacies that rival Chemist Warehouse or pre-empt and undermine them,” Mr Ridgeway said.

“Currently independent pharmacies have three main choices for wholesale supply, and banner, franchise arrangements, but given the potential data concerns and risk of competitive harm, the effective options for some pharmacies may reduce to two.”

In addition, the ACCC is concerned the proposed acquisition may substantially lessen competition in pharmacy retailing because it could reduce the competition Chemist Warehouse and Sigma’s banner stores impose on each other.

“This lessening of competition may lead to reduced service quality for goods and services provided in pharmacies as well as higher prices for consumers. The transaction may also weaken the competitiveness of the different product and services offered by Sigma’s banner pharmacies,” Mr Ridgeway said.

The ACCC is also concerned that proposed acquisition could impact upstream markets for the supply of pharmacy retail products affecting, in particular, suppliers of products that compete with Chemist Warehouse and Sigma’s own-label and private label products.

“This concern is likely to be stronger in respect of products where suppliers have fewer paths to consumers, for example suppliers of prescription medicines and over the counter products that can only be supplied in pharmacies, and not for example, in supermarkets,” Mr Ridgeway said.

The ACCC has not reached a concluded view on any of the above issues.

The ACCC invites submissions from interested parties by 27 June 2024. Parties can contact the ACCC via SigmaCWG@acc.gov.au

Background:

While the application to the ACCC is a transaction where Sigma is acquiring Chemist Warehouse, this transaction is in effect a ‘reverse acquisition’ of Sigma by Chemist Warehouse, resulting in ASX listing of Chemist Warehouse.

Sigma is set to acquire all the shares in Chemist Warehouse in exchange for Sigma shares and a \$700 million cash consideration.

Upon completion of the proposed merger, Chemist Warehouse shareholders will hold 85.75 per cent of the ASX listed merged entity while Sigma shareholders will hold 14.25 per cent.

Sigma

Sigma is an ASX-listed wholesaler and distributor of prescription medicines (including Pharmaceutical Benefits Scheme (PBS) prescriptions), over the counter (OTC) and front of store (FOS) products to over 4,000 community pharmacies nationally.

Sigma’s core business activities include:

- full-line wholesale and distribution of prescription medicines, OTC products and FOS products to both its franchisees and independent pharmacies
- providing brand and support services to almost 400 community pharmacies operating as franchisees under Sigma banners:
- operating a buying group – the PriceSave program – for approximately 445 independent pharmacies
- supplying private label products under the brands ‘Pharmacy Care’, Beauty Theory’ and ‘Amcal Plus’.

Sigma also owns and operates MPS Connect Pty Ltd which offers medication packing services and management solutions to pharmacies and aged care providers. Sigma holds 51 per cent of the shares in NostraData Pty Ltd which supplies technology and data analytics solutions to pharmacies, wholesalers and manufacturers.

Chemist Warehouse

Chemist Warehouse is an unlisted Australian public company. It is a franchisor of around 600 pharmacies and retail stores under the following banners: Chemist Warehouse, MyChemist, Ultra Beauty, My Beauty Spot, and Optometrist Warehouse. Approximately 550 of these are Chemist Warehouse and MyChemist pharmacies.

Chemist Warehouse executives also have direct ownership interests in a large number of Chemist Warehouse stores.

Chemist Warehouse provides brand and supports services to its franchisee pharmacies, including but not limited to:

- media, advertising, marketing, licensing and financial support services
- supply of FOS and OTC products including Chemist Warehouse Group owned, private label and exclusive consumer brands
- support services such as negotiating supply terms on behalf of franchisees with suppliers and manufacturers to distribute FOS and OTC products.

Chemist Warehouse also owns private label product brands which it sells online and supplies to its franchisees. These include Wagner, Bambi Mini, Barely, Bondi Protein Co, Inc, and Goat.

Chemist Warehouse operates six distribution centres to support the distribution of FOS and OTC products to its franchisees. Chemist Warehouse currently obtains wholesale supply of certain FOS products from Sigma.

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