

CEO and Managing Director's Report



The Sigma business continues to evolve through our transformation program. We have invested in capacity, realigned our organisational structure, and empowered our teams to drive our customer-centric approach. This is an enterprise-wide strategy that is seeing encouraging results from an engaged team.

Financial Performance

While some difficult but important decisions have been made for the medium to long-term benefit of shareholders, it has unfortunately impacted the short-term reported financial performance. The reported results had to bear the impact of the wind down of the previous CW contract, redundancy and restructuring costs, and the one-off costs associated with our investment program.

Through times of significant change, it is pleasing to see positive results in our team member engagement surveys, which have also flowed through to our customer engagement surveys.

Adjusting for this, Sigma's underlying business has delivered:

- Revenue of \$3.24 billion, down 18%
- Underlying EBITDA of \$46.7 million, down 48%
- Underlying NPAT of \$12.6 million, down 72%
- Underlying Return on Invested Capital of 7.1%

Unfortunately, with insufficient franking credits we have suspended our final dividend in respect of this year and interim dividend in respect of FY21.

Retail Pharmacy

It is an often overlooked fact, but Sigma's pharmacy brands – Amcal, Guardian, Discount Drug Stores, Pharmasave, Chemist King and WholeLife – collectively account for close to 20% of consumer spend in pharmacy in Australia. It is not by accident that our network is thriving and growing faster than the market, with like-for-like sales up 11.7% for the year. We can offer Franchise Partners unparalleled choice of support through a brand or independent offer.

The growth is a culmination of investment over several years, including international study tours, to bring the latest industry thinking and trends to our members. This has seen the introduction of more structured professional service programs, the industry-leading LEAPP program to improve pharmacy workflows, sleep apnoea programs, diabetes management and dose administration services just to name a few.

We have also innovated to expand the pharmacy category. This includes the launch of Amcal+ Life Clinic with expanded consultations alongside allied health professionals, the WholeLife Pharmacy with a holistic approach to wellness incorporating health foods, and the introduction of the Doctors On Demand In-Clinic Telehealth solution to support the healthcare needs of patients. We are also rolling out programs and support to ensure our Franchise Partners are ready for e-scripts.

Wholesale Sales

This year has seen our sales teams deliver outstanding results. Wholesale sales, excluding Hep-C and sales to CW, for the year were up by 8.5%, with particularly strong results achieved in New South Wales and Queensland. This has been delivered by a focused team that has strong leadership and strategy, and clear messaging around our value proposition.

The growth has been supported by investment in our customer ordering platform – Sigma Connect – which has significantly improved the ease of doing business with Sigma. This will be further enhanced in the coming months with the internal release of our integrated Customer Relationship Management (CRM) platform.

Business Operations

Warehouse and logistics has been an area of significant focus for management this past 12-months. The scheduled exit of the CW business was managed to ensure we were not exposed to ongoing costs that were not required in the

transformed business. Most of the roles removed from the business came from the warehouse and logistics functions, in line with the reduction in volumes.

Pleasingly, through the managed exit of the CW volumes, the amount of stock in the DCs was proportionally reduced with no stock write-offs occurring in the process – an outstanding achievement given the scale of the change. That managed process is now the template for efficiently scaling back up for the supply of FMCG products to CW under the new agreement.

An emerging business for us is Third Party Logistics (3PL). We are actively pursuing opportunities in this space, leveraging the new Kemps Creek DC in New South Wales, where half of the 40,000 square metre DC is available for 3PL/4PL business to build our existing presence in this space.

Our hospital distribution business is another beneficiary of our improved DC network. We have maintained our strong market positions in Victoria and Western Australia and are accelerating our focus on other states. Sales in hospitals, excluding Hep-C, were up over 26% for the year, with a strong pipeline of growth opportunities identified.

Additionally, MPS, which provides dose administration aid services to patients, has achieved strong revenue growth during the year. MPS has the highest compliance standards in the country and is well placed to expand its presence in this market.

People and Culture

Through times of significant change, it is pleasing to see positive results in our team member engagement surveys, which have also flowed through to our customer engagement surveys. There is tremendous enthusiasm that is being carried forward into the new year.

As we now embark on the new Enterprise Resource Planning (ERP) Project, we have welcomed an experienced group of team members to Sigma to help ensure successful delivery of this business-critical project. This is one of the last remaining business transformation pieces that will enhance operational capability.

Industry Regulation

The PBS medicine distribution part of our business is heavily regulated, so we are engaged with the Department of Health (DoH) and Minister for Health on an ongoing basis. The wholesale margin is set within the terms of the Community Pharmacy Agreement (CPA), with the current CPA running until June 2020. At the time of writing, negotiations between industry, DoH and the Minister are well advanced, along with discussion regarding the Community Service Obligations (CSO) Deed to which Sigma is a signatory. This sets the high standards that must be delivered in order to be remunerated from the CSO pool. This includes holding stock of all PBS medicines, and delivery anywhere in Australia usually within 24 hours.

The critical role our team members played in ensuring isolated communities could access essential medicines during the bushfire crisis is a great example of good policy in action.

Conclusion

I am often asked if, with the benefit of hindsight, would we change any of the decisions we have made these last few years. That answer is no. The decision to invest in our DC network was critical, as it is a key enablement piece in providing efficient capacity and capability for us to embark on our growth agenda. The decision to not renew the original CW agreement was made because it did not provide our shareholders with an acceptable return. The new agreement does.

This year has clearly had its challenges, which have impacted our short-term financial performance. At the time of writing, we are now also dealing with the coronavirus pandemic, which is having an impact on everyone. However, I am confident that the decisions we have made, the plans we have in place and the transformation we have embarked on will deliver a stronger Sigma with an improved risk profile and significant capacity and capability to accelerate our growth.



Mark Hooper
CEO & Managing Director