Chairman's Report

We have a strong sales pipeline built off the efforts of an energised team with a clear focus on the customer and helping pharmacies run better businesses.

The past 12 months have been a period of significant transformational change for our business.

Importantly, our core business has continued to build momentum towards the end of the current financial year. We have a strong sales pipeline built off the efforts of an energised team with a clear focus on the customer and helping pharmacies run better businesses, and our retail brands are performing well above growth rates seen in the market, a reflection of the commitment and investment made in our brands to deliver a clear value proposition.

This time last year I discussed progress on the investment in our network of critical Distribution Centres (DCs). This is generational change in operations that commenced in Queensland in May 2016, and has now seen an unprecedented four new state-of-the-art DCs opened.

This investment of over $230 million will drive significant operational efficiency improvement, enhance customer service levels, create capacity for growth, reduce our environmental footprint through the installation of solar power and water capture and recirculation, and provide our team members with a better working environment.

Last year I also discussed the launch of our Project Pivot transformation program, which was prompted by the decision not to renew the Chemist Warehouse (CW) contract. How things change in 12 months. The transformation program is well advanced and on target to achieve the $100+ million efficiency gains we outlined. In an unexpected turn of events, a new service agreement with CW was signed in November 2019 for the distribution of Fast Moving Consumer Goods (FMCG) products commencing from 1 December 2019, and reaching full run rate by June 2020. This new agreement is expected to bring annualised sales of between $700–$800 million under terms that meet the commercial requirements of both parties and is a good outcome for Sigma shareholders.

These activities combined provide a positive outlook for the 2021 financial year and beyond.

During the year we also stared into the prospect of a merger proposal, which ultimately did not proceed. Your Board and management were united in our view that any proposal had to make commercial and financial sense for Sigma shareholders and our customers, taking into account our transformation and investment program, and not adversely impacting the positive momentum our team members had worked hard to achieve.

Importantly, last year we took steps to help ensure we retained our key people to guide the business through these challenges and into the year ahead.

Financial Performance

The planned exit of the CW business and the significant transformation undertaken subsequently meant the current year reported financial performance was always going to be challenging. While our underlying business is performing strongly, these factors have impacted Reported Earnings.

Alignment of senior management remuneration to shareholder value remains a core value. As a result, performance incentives were not paid in respect of the financial targets. In recognition of the transformation work completed during the year, incentives were paid on personal targets.

Transformation Program – Project Pivot

Project Pivot has seen Sigma take action on over 60% of the efficiency gains identified at the commencement of the program. While there has been some delay in realising some of the remaining benefits, over $62 million of annualised benefits have been achieved, and we remain confident the $100+ million of identified efficiency gains will be achieved.

In delivering this program, we have:

- Reviewed and reduced our discretionary spend
- Restructured our operations to better reflect business requirements, leverage capabilities, and enhance output

- Provided enhanced capability, capacity and support to empower our team members to grow the business
- Removed over 300 permanent roles

Such significant transformation programs have many challenges and unfortunately impact our team members. I wish to acknowledge those team members who are no longer with Sigma and thank them for their contribution.

Investment Focus – a 'Growth Mindset'

This year has seen the continuation of our ongoing investment cycle. Having commenced operations at our new DC in Berrinba, Queensland, in April 2018, we also launched operations at three new DCs – Canning Vale in Western Australia in February 2019, Pooraka in South Australia in October 2019, and most recently Kemps Creek in New South Wales in January 2020. To provide some perspective, at 40,000 square metres, the Kemps Creek DC is twice the size of the Melbourne Cricket Ground playing surface.

All sites were delivered on time and under budget, with significantly increased capacity and capability to further enhance service to our customers. They all include design features to help reduce our environmental footprint and improve the safety of our team members.

Our investment focus now shifts to the commencement of our Enterprise Resource Planning (ERP) Project. This ERP Project will see several legacy systems across the business replaced with a single platform to provide an integrated approach and support our growth strategy.

Capital Management

Efficient and prudent management of our capital remains a strong focus of the Board.

With our accelerated investment profile, our net debt position has increased to $146 million at year end. As we near the conclusion of that investment phase, we will now review our capital management strategy to ensure our balance sheet supports growth and therefore ultimately shareholder returns.

An unfortunate implication of the one-off costs incurred to transform our business has meant that we have insufficient franking credits and have therefore suspended our final FY20 dividend and interim FY21 dividend.

While our share buy-back program remains an option, it remains inactive as we progress through our investment cycle. We do not anticipate that changing during FY21.

Board Renewal

I am writing this report in the knowledge that it is my last as Chairman of Sigma. It has been a great privilege to lead Sigma over the last 10 years of the Company's 108-year history.

We have had some challenges in this period; however, I am incredibly proud of the way the Directors, management and all team members have continued to pull together to pave the way for a stronger Sigma.

I am also pleased that Ray Gunston, who has been on the Sigma Board since 2010, will step into the Chairman role. Ray has excellent financial and commercial acumen and will bring a strong strategic focus to the future of Sigma.

In February we welcomed Mr Michael Sammells to the Board. Michael brings significant financial and commercial experience, as well as industry experience through various roles within Healthcare. Michael is well qualified to assume the role of Chairman of the Risk Management and Audit Committee.

As I sign off, I would also like to personally thank our shareholders. I am confident I leave Sigma in capable hands and in a much stronger position for sustained success in the future.

Brian Jamieson
Chairman