

ASX Release

Issued 2 July 2018

Trading Update

My Chemist/Chemist Warehouse Group (MC/CW) contract update

The current MC/CW contract runs through to June 2019 and negotiations on a potential renewal have been ongoing since early this year. Discussions between Sigma and MC/CW have reached the stage where the proposed terms for a contract extension could not be agreed.

Mark Hooper, Sigma Managing Director and CEO said “We made it clear at the start of the negotiations that we would only enter into a new contract if it made commercial sense and provided an adequate return on invested capital. We are not prepared to risk significant shareholder funds without adequate and sustainable returns.”

“Importantly for Sigma, this decision provides a clearer future and a runway to make the required changes to re-shape the operating and fixed cost base of our business. Over \$300 million cash will be freed up at the conclusion of the contract which will enable us to expedite the execution of our strategy to diversify and strengthen our business with a broader healthcare focus,” Mr Hooper said.

Sigma will continue to supply the MC/CW Group under the terms of the existing supply agreement which operates until 30 June 2019.

Updated trading guidance – FY18/19

Following a continuation of softer market conditions, Sigma is also revising its guidance to an underlying EBIT of approximately \$75 million.

Mark Hooper commented “Trading conditions in May and June have been particularly weak. In addition, the introduction of the June PBS price adjustment had a much more significant impact than expected and was equal to the full year impact of PBS adjustments in April and October, which in the current operating environment cannot be offset. This continues to reinforce the need for government reform to introduce a margin floor for PBS wholesalers in line with the arrangements already enjoyed by pharmacists.”

“We are currently implementing initiatives to reduce our operating costs, which will provide some benefit in the second half of FY19 and will also benefit FY20 and beyond but these are not sufficient to offset the shortfall in sales in FY19.”

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Earnings guidance FY19/20

Based on current assumptions and excluding any acquisitions, Sigma anticipates underlying EBIT of between \$40 million and \$50 million for FY20.

Importantly, Sigma's balance sheet will be improved by the return of over \$300 million as the current MC/CW payment terms unwind.

The medium term strategy will be to focus on further cost reductions in the business, structural rationalisation of the Sigma DC network and targeted sales opportunities including hospitals and 3PL/4PL contracts.

Obviously the return of significant funds to Sigma also enhances our ability to look at other M&A opportunities in the short to medium term that fit our strategic direction and deliver the same or better return metrics.

Capital management

The Sigma Board confirmed its intention to continue to pay a high proportion of profits as franked dividends. The capacity to do this will also be enhanced by the return of the funds currently supporting MC/CW's trading terms.

Effective capital management remains a focus of the Board, including supporting the existing share buyback program subject to our commitments in maintaining our ongoing investment program.

Conclusion

Mr Hooper concluded, "The decision on the MC/CW contract creates an important pivot point for Sigma. It may be a step back in our short term financial results, but it improves the risk profile of our earnings and also releases significant capacity to better leverage our infrastructure and resources in areas that can provide long term sustainable growth.

The medium term target is to put Sigma in a position where earnings will be at the same level as if it had retained the MC/CW contract on the terms proposed but with the added benefit of the release of \$300 million of funding and a substantially de-risked business."

An investor teleconference will be held at 9.30am AEST today. Dial in details are attached.

For more information, please contact

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Conference Dial in Details

If you wish to participate via the conference call, you are encouraged to dial in approximately 15 minutes prior to the commencement of the briefing.

Dial-in details for this call are as follows:

Conference ID:	403385
Australia Toll Free:	1 800 558 698
Alternate Australia Toll Free:	1 800 809 971
Australia Local:	02 9007 3187
New Zealand Toll Free:	0800 453 055
NZ Local (Auckland):	09 929 1687
NZ Local (Wellington):	04 974 7738
NZ Local (Christchurch):	03 974 2632
China Wide:	4001 200 659
Belgium:	0800 72 111
Canada:	1855 8811 339
France:	0800 913 848
Germany:	0800 182 7617
Hong Kong:	800 966 806
India:	0008 0010 08443
Indonesia:	001 803 019 3275
Ireland:	1800 948 625
Italy:	800 793 500
Japan:	0053 116 1281
Malaysia:	1800 816 294
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