Sigma Healthcare Limited
ABN 15 088 417 403
ASX code: SIG
3 Myer Place Rowville Victoria 3178
T +61 (03) 9215 9215
F +61 (03) 9215 9188
sigmahealthcare.com.au

ASX Release

Issued 21 September 2021

Sigma delivers 14.7% growth in Underlying EBITDA

Highlights

- Underlying EBITDA# up 14.7% to $39.2m, with Reported EBITDA up 42.9% to $17.7m
- Fully Franked Dividend of 1.0 cent per share declared, reflecting a Dividend Payout Ratio of 75% of Underlying NPAT
- Group Revenue up 5.5% to $1.7 billion
- Wholesale Sales up 13.6% including sales to Chemist Warehouse (CW)
- Like-for-like Pharmacy sales in Sigma's brands is up 8.7%
- Net Debt of $82m at the end of 1H22
- New CEO expected to be announced in the near future

 # Refer to Notes for a Reconciliation of Reported to Underlying. All references to EBITDA are in accordance with AASB16. Reported EBITDA reflects SaaS Accounting Policy changes.

Overview

Sigma Healthcare (Sigma) today announced Reported EBITDA of $17.7 million for 1H22, up 42.9% on the previous corresponding period. Underlying EBITDA was up 14.7% to $39.2 million.

Sigma CEO and Managing Director Mark Hooper commented: "It is pleasing to navigate a challenging operating environment and still deliver a strong set of results for the half. Our community pharmacy brands have again delivered industry leading like-for-like growth of 8.7%, with our upgraded infrastructure easily absorbing a 13% increase in wholesale volumes for the half."

"Just as pleasing, we are now emerging from a period of significant investment and transformation which has set the business up for the next wave of growth, including the pursuit of acquisition opportunities."

The Board have maintained a high dividend payout ratio, declaring a dividend of 1.0 cent per share payable on 8 October. This represents a Dividend Payout Ratio of 75% of Underlying NPAT.

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Financial Performance

	Reported	Underlying #
Revenue	$1.73b, up 5.5%	$1.73b, up 5.5%
EBITDA	$17.7m, up 42.9%	$39.2m, up 14.7%
NPAT	($1.3m), up from ($4.3m)	$14.1m, up 23.7%

 # Refer to Notes for a Reconciliation of Reported to Underlying. All references to EBITDA in accordance with AASB16, with Reported EBITDA also reflecting SaaS Accounting Policy change.

Group Revenue for the 1H22 was up 5.5% to $1.73 billion, a great result considering some negative impacts from the sustained COVID-19 challenges and the related extended periods of restrictions and lockdowns (particularly towards the end of the period).

Growth was driven from a combination of above market organic growth across our pharmacy brands and independent network, a full run rate of sales to Chemist Warehouse (CW) during the period, and pleasingly from the efforts of the sales team the incremental on-boarding of a number of new customers across the half. PBS sales were up 14% for the half, with OTC sales up 32%. Excluding CW, OTC sales were down 5.4%, reflecting general market conditions including the softer cold and flu category.

Jackie Pearson, Chief Financial Officer commented, “It was pleasing to achieve sustained revenue growth in a period that still had the negative impacts of COVID-19 restrictions and given the increased demand that was seen in the corresponding March and April last year, including higher margin PPE.”

Underlying EBITDA of $39.2m was up 14.7%, reflecting the higher revenue growth, and the margin benefits associated with a more efficient operating platform across the business.

A Reported NPAT loss of $1.3m reflects the changed accounting treatment required from the adoption of the SaaS Accounting Policy changes under AASB 138 Intangible Assets. The impact of the accounting policy change requires IFRS compliant organisations to expense SaaS arrangements, including those currently held in capitalised work in progress. Sigma has consequently expensed $17.8m in the current period relating to ERP costs and $14.0m in the corresponding period in 1H21.

The Underlying NPAT of $14.1m, which was up 23.7% on the previous year, flows from the positive operating performance outlined above, ie. sales growth and operational platform efficiency.

Net Debt finished the half at $82 million, below our initial expectations. Month end net debt is expected to peak at around $130 million later in the year, now expected in December, before reducing in early FY23.

“The strong free cash flow from operations we will see going forward can support both organic growth as well as reward our shareholders through high payout ratios. Our improved balance sheet position, with longer-term and better structured debt facilities, not only underpins this but also gives us the capacity to look at further growth options,” Ms Pearson said.

Other business performance

Sigma continues to focus on growing our expansion businesses to diversify our earnings and grow their contribution to profitability.

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- Contract Logistics now have over 20,000 pallets under management, with a further 10,000 pallet storage capacity coming online. This business continues to grow strongly
- Hospital Revenue is up 8.9%, impacted by COVID-19 restrictions and some regulatory price erosion for existing products. Strong momentum is building in NSW and we have now launched in South Australia.
- Medical Consumables is cycling a very strong 1H21 that included significantly higher demand which has not repeated. MIA is focused on initiatives to build sustainable and repeatable business longer term.
- MPS medication packaging has operated in challenging COVID-19 conditions in supplying an impacted Residential Aged Care market. The business has used this 6-months to enhance its systems, improve data security, further improve quality assurance and accuracy rates, which are already best in class, and is working with Government in trialing new electronic record requirements. Despite the challenges, MPS has won several tenders during the year, which will provide momentum into FY23.

COVID-19 impact

Sigma has continued to proactively manage its way through the challenges of the COVID-19 pandemic.

Mr Hooper commented: "The 1H22 has been impacted by COVID-19 and particularly the repeated lockdowns across the Eastern Seaboard later in the half. Whilst COVID-19 also impacted 1H21, that was outweighed last year by the strong sales in medical consumables (including PPE) during the early peak. This has not been replicated in 1H22."

"Protracted lockdowns have impacted sales across Australia, with the largest impacts experienced in States where Sigma has larger market share - Victoria, New South Wales and Queensland. To deliver the financial results we have in 1H22 against this challenging backdrop is an outstanding achievement. The more severe lockdowns in recent months do however create a more uncertain environment for the second half."

Sigma has continued to actively support the health of team members through the pandemic, including facilitating an onsite vaccination program for all team members in our sites in NSW, with the support of our industry body the NPSA and the Government. We look forward to extending this onsite vaccination program beyond NSW.

"As a healthcare company, it was gratifying to see our team members in NSW embrace the importance of getting vaccinated and play our part in protecting the community and starting to see a shift towards the economy opening up," Mr Hooper said.

Business Transformation and Investment

Over the last 18-months, Sigma has also undertaken a major IT platform upgrade with the implementation of SAP S/4HANA cloud-based Enterprise Resource Planning solution (ERP), which went live in late August.

Mr Hooper commented: "This has been the largest SAP S/4HANA cloud-based implementation in Australia. It has been a significant milestone to go live on 29 August. To complete this project within budget and broadly on time, despite the significant disruptions and challenges caused by the pandemic from the start, is an outstanding achievement."

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The new ERP will ultimately deliver significantly enhanced customer and supplier interfaces, and improved data capture and capability. It is a generational change that will support the growth of the Sigma group in the years ahead.

As we near the completion of the Truganina DC in Victoria, the Sigma Board recently approved the replacement of our Distribution Centre in Hobart, Tasmania to further enhance our logistics platform. This will be a leased facility, with capex expected to be under $5 million, and the site anticipated to go live in the third quarter of 2022.

Outlook

Chairman Ray Gunston outlined his confidence in the direction and prospects for Sigma in the years ahead.

"We have achieved strong growth in our business this half through a challenging period of ongoing transformation and a global pandemic. Our restructuring and reinvestment phase is now largely behind us and has significantly improved the efficiency and capability of Sigma, which is reflected in these results. We now have bold ambitions to leverage that investment to strengthen our market position and accelerate our growth in areas that are consistent with our existing strategy."

"This next phase of business growth will occur under a new CEO for Sigma who will be announced in the near future. Our incoming CEO will have the ability to explore opportunities and leverage the improved operating platform we have now put in place. We are already in active discussions on a number of M&A opportunities," Mr Gunston said.

Mark Hooper concluded: "We have emerged from the challenges of the last 18 months to deliver a strong first half result and have the business in good shape. However, with the increased impact of COVID-19 restrictions that are expected to stretch well into the 2H22, we are now expecting FY22 Underlying EBITDA growth to be closer to 5%."

The interim dividend is payable on 8 October 2021, with an ex-dividend date of 26 September 2021 and a record date of 27 September 2021.

A results briefing will be held at 10.00am AEDT. For webcast details, please visit the Investor Centre located at www.sigmahealthcare.com.au.

This announcement is authorised by order of the Board.

Contact:

Gary Woodford
Corporate Affairs Manager
Sigma Healthcare Limited
gary.woodford@sigmahealthcare.com.au
0417 399 204 | 03 9215 9632

Steve Dabkowski
BlueDot Media
steve@bluedot.net.au
0419 880 486

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NOTES:

Reconciliation of Reported (IFRS) and Underlying EBIT and EBITDA

	31 July 2021 $000	31 July 2020 (1) $000
Reported EBIT	**4,373**	(1,061)
Add: Reported depreciation and amortisation	**13,338**	13,452
Reported EBITDA	**17,711**	12,391
Add back:		
Restructuring, transformation and dual operating costs before tax	**1,642**	7,788
Due diligence, integration and legal costs before tax	**903**	2,302
(Gain) / loss on sale of assets before tax	**1,710**	(1,144)
SAAS – accounting policy change before tax	**17,837**	14,010
Underlying EBITDA	**39,803**	35,347
Less: Reported depreciation and amortisation	**(13,338)**	(13,452)
Underlying EBIT	**26,465**	21,895
Less: Non-controlling interests before interest and tax	**(643)**	(1,201)
Underlying EBIT attributable to owners of the Company	**25,822**	20,694

Reconciliation of Reported (IFRS) and Underlying NPAT

	31 July 2021 $000	31 July 2020 (1) $000
Reported NPAT attributable to owners of the Company	**(1,300)**	(4,328)
Add back:		
Restructuring, transformation and dual operating costs after tax	**1,150**	5,452
Due diligence, integration and legal costs after tax	**632**	1,611
(Gain) / loss on sale of assets after tax	**1,129**	(1,144)
SAAS – accounting policy change after tax	**12,486**	9,807
Underlying NPAT attributable to owners of the Company	**14,097**	11,398

(1) ***The comparatives have been restated to reflect the change in accounting policy as a result of implementing the IFRIC agenda decision on configuration or customisation costs in a cloud computing arrangement. Refer to the financial statements for further detail.***