

ASX Release

Issued 26 September 2022

Sigma turnaround begins with ERP systems now stable and a renewed strategy outlined

Overview

	Statutory
Net Revenue	\$1.84b, up 6.0%
EBITDA	\$20.7m, up 16.7%
NPAT	(\$1.5m) loss, down from (\$1.3m) loss in 1H22
Net Debt	\$86m, down 43% from FY22 year end

Sigma Healthcare Limited (Sigma) today announced its 1H23 financial performance for the six months ended 31 July 2022, and at the same time announced the outcomes of a strategic review undertaken by the Sigma Board and new CEO and Managing Director Vikesh Ramsunder to create a stronger and more capable business with a diversified earnings base.

Net Revenue for 1H23 was up 6.0% to \$1.84 billion supported by high volume sales of rapid antigen tests. Reported NPAT was a loss of \$1.5 million resulting from specific write-offs of \$38.7 million covering inventory and asset impairments.

Net Debt at 31 July 2022 of \$86 million was down 43% from \$149 million at 31 January 2022. Sigma has declared an interim fully franked dividend of 0.5 cent per share.

Sigma CEO and Managing Director Vikesh Ramsunder commented: "We have made significant progress over the last six months and in today's results announcement set a clear direction for sustainable growth. Our ERP platform is now providing the necessary operational stability as our focus shifts to driving efficiencies, overcoming stock availability issues, and executing our strategy."

"Sigma's renewed strategy has set four key objectives that will focus on leveraging our investment in distribution infrastructure, consolidating our franchise brand portfolio to deliver a sustainable growth strategy via Amcal and Discount Drug Stores (DDS), divesting non-core assets, and diversifying our income streams in the health, beauty and wellness categories."

Operational review

Net Sales for the half were up 6.0% to \$1.84 billion, benefitting from high volume sales of Rapid Antigen Tests (RATs) particularly in the early months of the year.

Within the Net Sales result was a 3.3% decline in wholesale sales to community pharmacy, impacted by factors including ERP implementation and Distribution Centre (DC) transition issues which have largely been rectified. The decline was weighted towards PBS medicines, which were down 7.9% as pharmacists sought certainty of supply to service their customers through these months. Offsetting this, frontshop sales were up 2.7%, supported by strong sales of RATs. Pleasingly, sales to Sigma's own franchise brands were up 5.0% for the half.

Mr Ramsunder said: "Wholesale operations have incrementally improved as the first half progressed with tangible progress in key metrics such as delivery in full, albeit customers continue to be impacted by stock availability issues that are not unique to Sigma. With our systems stabilised, our focus turns to providing service excellence to win back the trust and confidence of customers, improving our in-stock position, and driving efficiencies through optimising processes and integrating subsidiary operations."

Hospital pharmacy sales have continued to grow, with sales up 7.0%, ensuring Sigma maintained a 10% share of the national hospital pharmacy market. The third-party logistics business also performed strongly, growing 15.9% for the first half. MPS Connect, our dose medication services business has returned to profit, recovering from the impact of Covid-19 and is beginning to benefit from an operational and strategic review completed to enhance performance.

Operating costs were up 5.9%, driven by higher employment costs as we dealt with the transition of operations from our Rowville DC to Truganina and ERP implementation issues, along with increased freight costs. These increases were partly offset by the lower Software as a Service (SaaS) expense compared to last year.

With our expanded Truganina DC and new Hobart DC both becoming operational from December, this concludes our major infrastructure upgrade that provides a world class DC network that can sustain our current business over the long term. Capex of \$15 million was spent in 1H23, with a further \$25 million expected in 2H23. We anticipate maintenance capex to return to \$5 - \$10 million per annum.

Strategy

Sigma is today outlining a renewed strategy involving four key elements:

1. Grow scale and profitable market share in the wholesale business
2. Consolidate and build our franchise brand network through the Amcal and Discount Drug Store brands
3. Drive diversified income streams, with particular emphasis on the health, beauty and wellness product categories
4. Deliver service excellence and make Sigma easy to do business with by consolidating business units and divesting non-core assets

Mr Ramsunder said: "I thank our customers, suppliers and the entire Sigma team for their support since I began as CEO and Managing Director at the start of 2022. The strategy outlined today will focus our team on working our assets harder whilst at the same time strengthening our franchise brand network to drive consumer engagement and brand member growth. Diversifying our streams of income will be an important lever in driving margin improvement over the longer term."

I would also like to take this opportunity to acknowledge the contribution of our previous Chairman Mr Ray Gunston who worked tirelessly on behalf of shareholders before his tragic passing a few months ago. I thank Mr Michael Sammells for accepting the Chairman role, and for his and the Boards support in endorsing the raft of changes currently being implemented, "he said.

Outlook

Mr Ramsunder concluded: "We are making strong progress in simplifying the business, streamlining our processes and improving our operational deliverables. The changes we are making extend to renewing our leadership team, providing a blend of broad experience and diverse thinking to help guide Sigma's future. Ultimately, we are progressing towards achieving excellence in customer service and delivering sustainable returns for the long-term benefit of shareholders. This turnaround process has begun and is anticipated to conclude in the next 18 months."

Whilst we are not providing guidance today, we remain confident of continuous improvement in operational performance.

Sigma has declared an interim fully franked dividend of 0.5 cent per share payable on 12 October with an Ex-Dividend Date of 28 September and Record Date of 29 September.

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

This announcement is authorised by order of the Board.

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