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Sigma Healthcare

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ASX Release

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Sigma Healthcare returns to profit, with capacity for growth

Key Highlights

Sigma Healthcare Limited (Sigma) today announced its FY23 financial performance for the year ended 31 January 2023.

	Statutory
Net Revenue	$3.66b, up 6.2%
EBITDA	$49.6m, up 65.3%
EBIT	$19.3m, up 733.2%
NPAT	$1.8m up from ($7.2m) loss
Net Debt	$67.0m, down 55% from $149.2m

Significant improvement has been made during FY23 across several key areas of the business, including:

- Simplifying business operations and processes
- Stabilising our ERP systems, with the focus now on optimisation
- Concluding the DC infrastructure rebuild phase
- Driving continual improvement in our customer performance metrics
- Renewing our strategy and leadership team to deliver a sustainable business
- Reducing year end Net Debt from $149.2m to $67.0m
- Returning to profit

Sigma CEO and Managing Director Vikesh Ramsunder said: “Following 12-months in the role, I am pleased to report that we have returned to profit, strengthened our balance sheet and made significant progress in the transformation of the company. We now have a much stronger operational platform to improve service delivery to customers, which underpins our pursuit of growth opportunities and will incrementally deliver improved financial outcomes for shareholders.”

Operational Review

Wholesale pharmacy sales revenue was approximately $3.0 billion up 2.2% during the year. Sales benefitted from strong demand for Rapid Antigen Test kits in the early months of the first half of the year, and strong sales of high cost Covid anti-viral medication in the second half. Offsetting this, were operational challenges in the first half, triggered by the implementation of the company wide ERP system. The disruption led to increased costs and resulted in a loss in market share of over 2% as we focused on system stabilisation and improving processes and practices.

Mr Ramsunder commented: "We now have great confidence in our operational ability to delivery against key customer performance metrics. Our Delivery in Full is consistently above 98% and Despatch on Time close to 100%. The opportunity for Sigma is to increase utilisation of our distribution centres by regaining the confidence of customers through service excellence and winning back market share."

During the year, Sigma announced a new Retail strategy, moving from five franchise brands to two, focusing on supporting the Amcal and Discount Drug Stores franchise brands. Whilst this may lead to some disruption in the current year, the merger of brands will provide critical mass to drive customer engagement and support our longer-term strategy. Sales in our franchise brands were up 4.2% for the year.

"The merger of the Guardian brand is on track to achieve our targets, with around 50% of our identified members already committing to convert. In parallel, we are rebuilding our internal capability to ensure we have the required skillset to support brand members, grow our private and exclusive label range, and pursue sustainable and profitable growth." Mr Ramsunder said.

On 10 March, Sigma announced that an agreement had been reached to sell the CHS Hospital distribution business for consideration of $44 million, effective 31 March 2023 (subject to regulatory approval). CHS Hospitals delivered approximately $364 million in sales in FY23, however due to structural margins in this sector, it was not profitable.

Mr Ramsunder commented: "This is the fourth transaction as part of our strategy to simplify our business and focus on our core community pharmacy operations. Hospital distribution was a very low margin business that would require significant investment to integrate into our systems and distribution capability. The sale will release $35m to $40 million of cash for the business."

With the disposal of the hospital distribution business, Sigma will rename the CHS business to Sigma Healthcare Logistics and pursue further opportunities in the third-party logistics sector.

"We currently have around 30,000 pallets of inventory under management for 3PL customers with latent capacity to absorb another 20,000 pallets following the recent extension of our Truganina Distribution Centre in Victoria."

Meanwhile, our medication packaging services business, MPS Connect, achieved 45% growth in corporate aged care facility business and 17.5% growth in packed patient numbers for the year.

"It has been a year of steady and consistent performance for MPS Connect, which was recognised for its innovation in technology through being awarded Silver at the Australian Design Awards Better Future 2023."

Strengthening our Balance Sheet has been a major focus for management during the year, resulting in year-end Net Debt reducing from $149 million to $67 million, a 55% reduction. The reduction reflects a strong focus on working capital management and a decrease in prepayments from FY22.

Outlook

Mr Ramsunder concluded: “Good progress has been made over the last 12-months to simplify our business, renew our leadership team, improve our operational performance and strengthen our balance sheet. As we continue to implement our brand consolidation and business simplification, there will be some level of disruption in the year ahead, we are however in a much better place to implement our strategy, win back customers and deliver an improved financial performance.”

“Whilst it is too early to provide specific guidance for the full year ahead, we anticipate that the steps taken in the year to improve our operational performance and cash position will lead to Reported EBIT being between $26m to $31m in FY24.

Sigma has declared an interim fully franked dividend of $0.005 per share payable on 18 April 2023 with an Ex-Dividend Date of 30 March 2023 and Record Date of 31 March 2023. In addition, the Board has approved a Dividend Policy that will return between 50% and 60% of Reported NPAT to shareholders going forward.

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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