Sigma Healthcare

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ASX Release

Issued 23 March 2021

Sigma positioned for sustainable growth after strong increase in sales and profit

Financial highlights

- Underlying EBITDA# up 39.2% to $81.1m, slightly ahead of previous guidance, with Reported EBITDA of $94.2m up 289.2% on last year
- Fully Franked Dividend of one cent per share declared as Board targets an ongoing Dividend Payout Ratio of at least 70% of Underlying NPAT
- Net Debt reduced to $50.3m and Westpac $250m debt facility extended for a further 3 years

Operational highlights

- Pipeline of organic growth remains strong across the core and expansion businesses
- Wholesale Sales up 11.4%*
- Like-for-like Pharmacy sales up 9.0%, following 11.7% growth in FY20
- FMCG sales to Chemist Warehouse fully transitioned by June 2020

Transformational highlights

- Project Pivot transformation exceeds $100+ million efficiency target as project concludes and moves to business as usual
- Investment in new Distribution Centres and automation nears completion, and continues to deliver ongoing efficiency benefits
- Navigated COVID-19 restrictions to ensure our technology upgrades including Enterprise Resource Planning (ERP) remain on time and on budget

 # Refer to Notes for a Reconciliation of Reported to Underlying. All references to EBITDA in accordance with AASB16.
*** Reflects wholesale sales excluding sales to Chemist Warehouse (CW) in each year**

Overview

Sigma Healthcare (Sigma) today announced Reported EBITDA of $94.2 million for FY21, up 289.2% on the prior year, with Underlying EBITDA of $81.1 million up 39.2%, which is slightly ahead of the guidance provided on 8 February 2021.

Sigma CEO and Managing Director Mark Hooper commented: “This is a milestone result. We’ve delivered on our promise of transforming our business and improving our earnings as we enter a period of sustainable growth and improved returns for shareholders.”

“Significantly, Sigma has navigated the challenges of the COVID-19 pandemic without any reliance on direct government support such as Job Keeper. We have the building blocks in place to underpin our target of 10% per annum growth in Underlying EBITDA for the next two years and around $100m by FY23,” he said.

“We are also pleased to announce to our shareholders that the Board has declared a dividend of one cent per share fully franked, with a targeted dividend payout ratio of at least 70% of Underlying NPAT for the future.”

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Financial Performance

	Reported	Underlying #
Revenue	$3.40b, up 4.8%	$3.40b, up 4.8%
EBITDA	$94.2m, up 289.2%	$81.1m, up 39.2%
NPAT	$59.8m, up $72.1m from $12.3m loss in FY20	$29.1m, up 133.6%

 # Refer to Notes for a Reconciliation of Reported to Underlying. All references to EBITDA in accordance with AASB16.

Group Revenue for FY21 benefited from a combination of organic growth from our core wholesale sales and pharmacy brands, along with new business. Sales to Chemist Warehouse reached full annualised run rate by June 2020 and remains on track to achieve $800m sales over a 12-month period.

Jackie Pearson, Chief Financial Officer commented, “The combination of organic sales growth, incremental benefit from programs already implemented, and new business opportunities has seen a strong improvement in current year earnings”.

Reported EBITDA of $94.2m includes a $29.4m initial accounting gain (as defined in AASB16) on the sale of assets during the period, partly offset by one-off restructuring costs, both of which are removed from Underlying EBITDA (refer to the Notes below).

Net Debt finished the year at $50.3 million, down from $146 million the same time last year, which mainly reflects the net effect of capital expenditure and the $172 million received from the sale and leaseback of two distribution centres (Kemps Creek and Berrinba) concluded during the year.

Ms Pearson commented: “It was also pleasing to reach agreement on an extended $250 million debt facility with Westpac to cover ongoing operational and capital expenditure requirements. Month end Net Debt is expected to peak around $140 million in October 2021 in line with the conclusion of our investment cycle before receding by year end.”

COVID-19 impact

As an essential service business, Sigma has proactively managed its way through the challenges of the COVID-19 pandemic.

A cross-functional COVID-19 working group was established to update business continuity plans, implement COVID-safe plans to help protect our team members, and accelerate actions to support our front-line pharmacy members. We also actively worked with government agencies and suppliers to help to shore up the medicine supply across the nation through the height of demand.

Mr Hooper commented: “Whilst COVID-19 presented challenges during the year, overall, the net effect of strong sales of medicines and medical consumables at the peak of the pandemic outweighed the margin impact on our MPS business, merchandise and marketing income, higher doubtful debts provision, and other location or product specific impacts.”

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Operations

Sigma's Pharmacy brands have continued to perform ahead of average market growth rates. Like for like wholesale sales across our six brands (Amcal, Discount Drug Stores, Guardian, Pharmasave, Chemist King, and WholeLife) were up 9.0% for the year, on top of 11.7% growth achieved in FY20. This is a strong result in the context of the impact COVID-19 restrictions had on specific locations, some ranges of products, and reduced buying for the export market.

Total sales grew by 4.8% in FY21, with wholesale sales (excluding CW) up 11.4% compared to average market growth of 3.1%[1].

Growth was stronger in PBS sales, which were up 12.4% compared to market growth of 5.5%[1]. Meanwhile, Sigma achieved OTC sales growth of 4.9% in a market that declined by 2.8%[1], mainly reflecting lower export demand and the impact of COVID-19 on some specific categories such as Cough and Cold and specific pharmacy locations.

"The strong performance in our brands and wholesale sales are not only seen in the financial performance, but also in our Voice of Customer measures which shows sustained improvement off the back of our customer-centric focus," Mr Hooper said.

Improved regulatory certainty on remuneration was also a feature of this year.

Mr Hooper commented: "Through our involvement with industry body the NPSA[2], we actively engaged with Government on the terms of the 7th Community Pharmacy Agreement and Community Service Obligation agreement as they applied to wholesalers. These agreements provide important operational certainty for the industry to underpin the supply of essential medicines to the community for the next four years."

Sigma hospitals achieved sales growth of 15% despite elective surgeries being suspended and delayed in most States. This follows 26% growth achieved in FY20. Meanwhile, Sigma's diversification into Medical consumables delivered a strong performance primarily due to sales of Personal Protective Equipment (PPE). This was partly offset by the impact that COVID-19 had on our MPS medication management business, especially in Victoria.

"Whilst some of the PPE sales achieved in FY21 are COVID-19 related and therefore may not be repeated, it has provided a significant opportunity to fast-track our position in this market to drive sustainable growth."

Business Transformation and Investment

Sigma is now in the final stages of its major infrastructure investment program that will see a total of around $400 million invested in the most technologically advanced and efficient Distribution Centres in the industry, as well as a total rebuild of our technology footprint.

With four new Distribution Centres already completed and fully operational, our new site in Truganina in Victoria is well advanced and is servicing hospitals and contract logistics customers.

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[1] Market growth based on IQVIA data
[2] National Pharmaceutical Services Association

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Sigma has also supported an acceleration of digital initiatives underpinning the delivery of healthcare and medication management services for patients, such as the acceleration of E-scripts.

Meanwhile, the implementation of SAP S/4HANA cloud-based Enterprise Resource Planning (ERP) solution remains on track and on budget despite the disruptions caused by COVID-19 restrictions.

"To our teams' credit, they have remained agile in their ways of working through a pandemic without compromising the results we set out to achieve. We are now in user acceptance testing and will be ready for initial deployment in the third quarter of this year," Mr Hooper said.

Project Pivot, the transformation program announced in 2019 has now concluded, having delivered on the target of $100+ million in efficiency gains.

"Project Pivot was run in parallel with our investment cycle and was an important program in re-setting the business operations and costs of doing business. Having now reached over the $100+ million target set and achieved the operational efficiency gains through the program, the benefits are now embedded in our ongoing ways of working," Mr Hooper said.

Outlook

Chairman Ray Gunston said shareholders should be confident about Sigma's future growth prospects.

"We have taken significant strides to transform our business, upgrade our infrastructure, improve our operating performance, and enhance our culture. At the same time, we have reduced net debt to $50m at year end. Collectively, it means we are now in an improved position to execute our strategy and actively pursue opportunities for sustainable growth including in our expansion businesses."

"With franking credits now available, we have also reinstated our dividend, declaring one cent per share fully franked. Further, the Board has targeted a Dividend Payout Ratio of at least 70% of Underlying NPAT to reward shareholders," he said.

Mark Hooper said: "Following a period of significant change, Sigma is now a stronger business and on track to delivering our targeted 10% annual organic growth over the next two years. Having targeted $100m Underlying EBITDA by FY23, we now approach that milestone with far greater confidence. We also sharpen our focus on business development to accelerate our expansion businesses, including in the medical consumables and devices space." Mr Hooper concluded.

The final dividend is payable on 21 April 2021, with an ex-dividend date of 6 April 2021 and a record date of 7 April 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.

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NOTES:

Reconciliation of Reported (IFRS) to Underlying

	31 January 2021 $000	31 January 2020 $000
Reported EBIT	**63,210**	(3,058)
Add: Reported depreciation and amortisation	**30,988**	27,258
Reported EBITDA	**94,198**	24,200
Add back:		
Restructuring, transformation and dual operating costs before tax	**14,716**	39,662
Due diligence, integration and litigation costs / (benefits) before tax	**3,687**	(4,261)
(Gain) / loss on sale of assets before tax	**(29,444)**	-
Underlying EBITDA	**83,157**	59,601
Less: Reported depreciation and amortisation	**(30,988)**	(27,258)
Underlying EBIT	**52,169**	32,343
Less: Non-controlling interests before interest and tax	**(2,096)**	(1,372)
Underlying EBIT attributable to owners of the company	**50,073**	30,971
Underlying EBITDA attributable to owners of the company	**81,061**	58,229
Reported NPAT	**59,761**	(12,330)
Add back:		
Restructuring, transformation and dual operating costs after tax	**10,301**	27,763
Due diligence, integration and litigation costs / (benefits) after tax	**2,581**	(2,983)
(Gain) / loss on sale of assets after tax	**(43,558)**	-
Underlying NPAT	**29,085**	12,450