# Growth through challenging times

HY22 Results Announcement 21 September 2021

Sigma Healthcare
Connecting health solutions

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- an overview of the financial and operational highlights for the Sigma Group for the half year period ending 31 July 2021; and
- a high level overview of aspects of the operations of the Sigma Group, including comments about Sigma's expectations of the outlook for FY2022 and future years, as at 21 September 2021.

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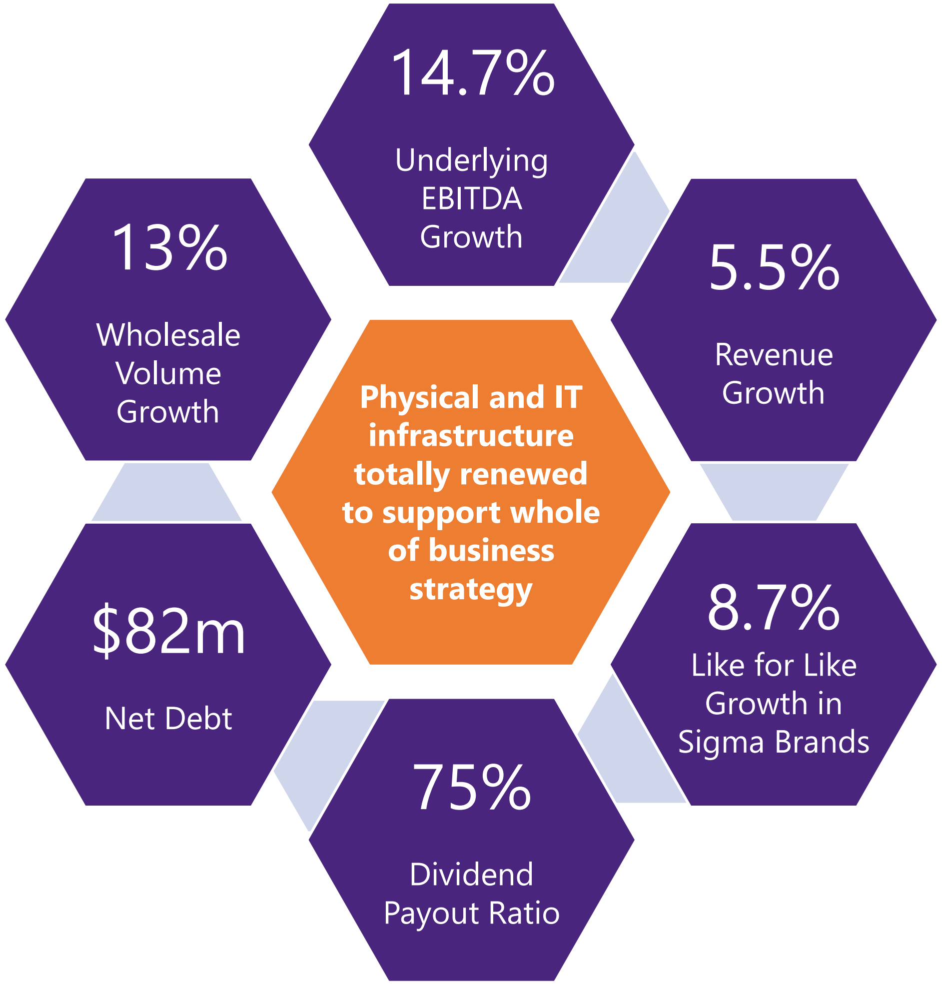
# Mark Hooper
## CEO & Managing Director

# 1H22 Overview – continued growth in challenging times

- Underlying EBITDA up 14.7% to $39.2m
  (no reliance on COVID-19 related funding)
- Overall COVID-19 had a slight negative impact on the first half, mainly in relation to sales and promotional income
- Fully franked dividend of 1.0 cent per share declared
- Net Debt of $82m – maintained a strong balance sheet to support growth
- Infrastructure investment phase now largely complete
  – SAP S/4HANA now live for Sigma
- Team and customer engagement scores continue to improve



# Jackie Pearson
## CFO

# Financial Performance

| | REPORTED | UNDERLYING* | | |
|---|---|---|---|---|
| $m | HY2022 | HY2022 | HY2021 | Change |
| 1 Sales Revenue | 1,732.6 | 1,732.6 | 1,642.2 | +5.5% |
| 2 Gross Profit | 113.1 | 113.1 | 121.4 | -6.8% |
| 3 Other Revenue | 55.2 | 56.9 | 51.8 | +9.9% |
| 4 Operating Costs | -150.6 | -130.2 | -137.8 | -5.5% |
| **EBITDA** | **17.7** | **39.8** | **35.3** | **+12.6%** |
| **EBITDA Margin** | 1.0% | 2.3% | 2.2% | n/a |
| Depreciation & Amortisation | -13.3 | -13.3 | -13.4 | -0.5% |
| **EBIT** | **4.4** | **26.5** | **21.9** | **20.6%** |
| **EBIT Margin** | 0.3% | 1.5% | 1.3% | n/a |
| Non-controlling interests | -0.6 | -0.6 | -1.2 | -53.3% |
| 5 Net Financial Expense | -5.1 | -5.1 | -5.2 | -1.8% |
| Tax Benefit / (expense) | -0.1 | -6.7 | -4.3 | +56.9% |
| **NPAT attributable to owners** | **-1.3** | **14.1** | **11.4** | **+24.4%** |
| | | | | |
| **EBITDA attributable to owners** | **17.1** | **39.2** | **34.1** | **+14.7%** |

* Refer to Appendix 2 for a Reconciliation of Reported to Underlying
^ CW refers to the Chemist Warehouse Group
# SaaS – Accounting policy change under AASB 138 Intangible Assets

### 1 Sales Revenue

- Total wholesale pharmacy sales grew 13.6%:
  - Non-CW^ sales up by 3% on LY
  - CW sales up 46.8% on LY – reflecting full run rate
  - Retail brands like-for-like wholesale sales up 8.7%
- Hospital sales up 8.9%
- Sales Revenue growth partly offset by lower PPE and export sales
- COVID lockdowns have impacted revenue more than last year

### 2 Gross Profit / Margin

- Reflects a return to a more normal product sales mix following a spike in higher margin PPE sales in 1H21

### 3 Other Revenue

- Increase in merchandise income
- Offset by decrease in supplier income for PPE sales and loss on disposal of assets (excluded from Underlying)

### 4 Operating Costs

- Warehouse and delivery expenses down 3.4%
- Sales and Marketing expenses down 24.5%
- Administration expenses up 1.4%
- Reported includes $17.8m in SaaS# expenses and $4.3m one-offs

### 5 Interest

- Includes $3.3m for lease liabilities
- Debt interest was $1.9M – down 55.8% on LY

# Capital Management

## Dividends

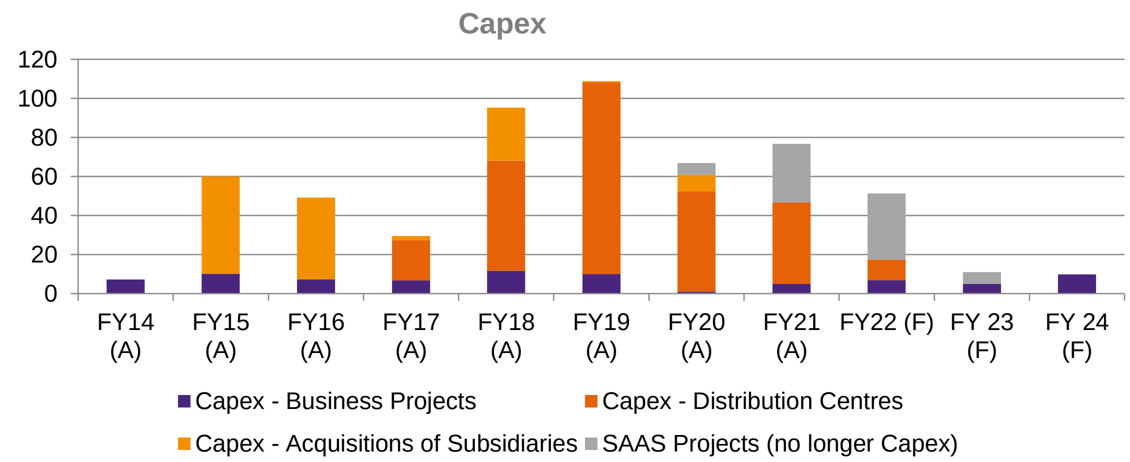
- Fully Franked Dividend of 1.0 cent per share:
  - Ex-Dividend Date – 26 September 2021
  - Record Date – 27 September 2021
  - Payment Date – 8 October 2021
- Dividend Payout Ratio of 75% (consistent with Board target of at least 70% of Underlying NPAT)

## Share Buy-Back

- Remains an option but not currently actively buying
- Focus of Board and Management is franked dividends and strategic acquisitions that are aligned with our business model, leverage our capability, and further accelerate our growth

## Capex

- Still expecting \$55m-\$60m capital expenditure during FY22 to finalise infrastructure and IT investment cycle (inclusive of SaaS projects)
- Ongoing business as usual capex expected to be around \$10m



# Capital Management (continued)

## Return on Invested Capital (ROIC)

- Underlying ROIC* of 9.8%
- Underlying ROIC remains a focus – expected to be above 10% at year end

## Cash flow and Cash Conversion Cycle (CCC)

- CCC remains consistent at 31 days
- Reflects an increase in wholesale volumes and timing of payments and receipts
- Expect CCC to return to high 20's in FY23

## Net Debt

- Net Debt $82.0m at 31 July 2021
- Month end debt peaks around $130m in December 2021 with the completion of our investment cycle
- Free-cash flow will reduce debt beyond this

| Cash conversion cycle | Jul-21 | Jul-20 |
|---|---|---|
| Trade Debtors | 341,032 | 326,121 |
| Inventory | 353,684 | 299,819 |
| Trade Creditors | (390,152) | (380,328) |
| Working Cap $'000 | 304,564 | 245,613 |
| Days sales outstanding (DSO) | 35 | 41 |
| Days inventory outstanding (DIO) | 40 | 42 |
| Days payables outstanding (DPO) | (44) | (53) |
| CCC Days | 31 | 30 |

* Underlying ROIC excludes Capital work in progress

# SAP implementation – cut over on 29 August

- Largest SAP S/4HANA implementation in Australia
- Implementation cut over occurred on 29 August
- 18-month implementation complicated by COVID operating restrictions
- A complex project delivered within budget and broadly on time
- Some operational issues on switching to the live environment that we continue to identify, manage and resolve
- Generational upgrade to systems that will support ongoing business growth

# Mark Hooper
## CEO & Managing Director

# Organic growth in Pharmacy continues

## Wholesale Sales

- Overall sales up 13.6% which includes the positive impact from CW
- Sales (ex-CW) up 3.0% – in line with market
- PBS growth is around 6% with OTC growth down 3%-4%
- Includes some ongoing impact from lower diagou activity and export sales

## Pharmacy Brands

- Like-for-like sales up 8.7% after delivering 9% in FY21
- Pipeline of new members is strong across the brands
- WholeLife and Amcal+ Life Clinic driving strong customer interest

Amcal+

CHEMIST KING discount pharmacy

DISCOUNT DRUG STORES more than just low prices

Guardian

PharmaSave

WHOLELIFE PHARMACY & HEALTHFOODS

# Expansion businesses
## Diversified growth



### Hospitals
8.9% Sales growth* (market growth circa 5%)

- Above market but impacted by COVID restrictions and some price erosion on key high-cost drugs
- Achieving strong market growth in NSW following launch last year, and commenced supply to SA in July 2021


### Contract Logistics

- Includes both 3PL and 4PL
- Over 20,000 pallets now under contract management
- Installing an additional 10,000 pallet storage capacity to support strong pipeline
- Kemps Creek now ISO accredited / finalising GMP accreditation

Sigma Hospital Services

Supported by
CHS Infrastructure

CHS

Sigma Healthcare Logistics

* Sales growth ex-Hep C

# Expansion businesses (continued)
Diversified growth

## Medication Packaging Services (MPS)

- Business performance flat given access to Residential Aged Care remains a challenge
- Significant reinvestment in business and system improvements to drive growth into FY23
- Includes upgraded software suite with eNRMC functionality which is driving strong interest from Aged Care

MPS CONNECT

## Medical Industries Australia (MIA)

- Sales and earnings well down on 1H21 given high demand experienced last year
- Focused on building sustainable and repeatable business
- Additional sourcing and selling opportunities for MIA and across the Sigma portfolio
- Medical consumables / devices an ongoing business development opportunity

MEDICAL INDUSTRIES AUSTRALIA

# Ongoing impact of COVID-19

## Community Pharmacy, Hospital Pharmacy & Aged Care

- Covax working group supporting pharmacists in COVID-19 vaccine rollout across the network
- Support for hospitals with COVID related critical drugs shortages and supply for new wards/ICUs

## Supplier & Government

- High engagement with the Department of Health, TGA and various industry bodies to help ensure equitable access to medication for all Australians
- Contributed to TGA medicines shortages working group to manage critical drugs supply
- No reliance on Government support (JobKeeper)

## Team Members

- Constant communications to our teams
- Regular reviews of protocols in line with latest Department of Health advice
- On-site vaccinations provided to our NSW based team members during the latest outbreak

## Operations

- Slightly lower sales and supplier income due to lockdowns.
- Significant impact on major CBD and airport pharmacies, especially in Melbourne and Sydney
- No repeat of ‘panic buying’ seen in March/April 2020 to offset impact of disruptions, especially higher margin PPE
- Increase in operating costs to comply with COVID-19 regulations

# Clear and consistent strategy

**Optimise an efficient operating cost base** from initiatives already implemented

**Leverage our investment** in automated DC network and upgraded technology platforms

**Drive growth** from existing core business

**Drive organic and acquisitive growth** from expansion businesses


**Together with an engaged team, this underpins our growth ambitions and our ability to execute strategy**

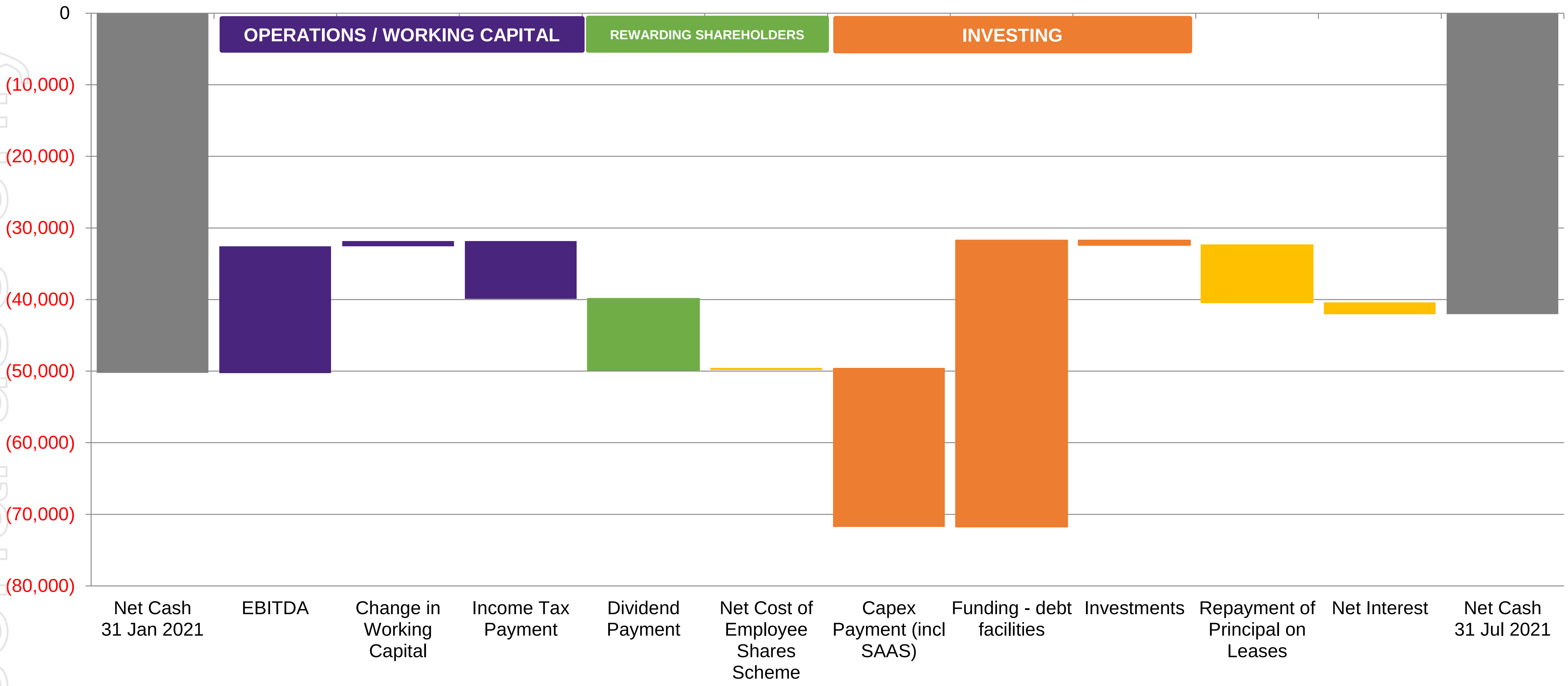
# Outlook

| | Outlook provided at FY21 | Updated Outlook |
|---|---|---|
| **Target:** **CAGR >10%** **~$100m by FY23** | Targeting Underlying EBITDA CAGR* of 10% for the next two years. On target to meet $100m Underlying EBITDA by FY23 | **FY22 –** now expecting closer to 5% Underlying EBITDA growth, reflecting the increased impact and uncertainty from COVID-19 restrictions in 2H22. **FY23 –** continue to target $95-$100m Underlying EBITDA. Further updates at FY22 results |
| **ROIC > 10%** | Underlying ROIC to remain above 10% | On target for FY22 Underlying ROIC to be above 10% |
| **DPR > 70%** | Targeting a Dividend Payout Ratio of at least 70% of Underlying NPAT | Delivered 75% in 1H22 |
| **Business Development Growth** | Pursuing M&A opportunities to accelerate our expansion businesses | In active discussions on a number of opportunities |

*Cumulative Annual Growth Rate

# Appendices

# Appendix 1 – Cash flow



# Appendix 2 – Reconciliations

### *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 |

***•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.***

# Thank you