ASX Release

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Stronger financial performance follows operational improvements

Key Highlights

Sigma Healthcare Limited (Sigma) today announced its financial results for the full year ended 31 January 2024 (FY24). It has reported improved financial performance across the business and is now significantly stronger as it completes its two-year turnaround plans and focuses on strategic growth.

	Statutory
Net Revenue	$3.32b, down 9.2%
EBITDA	$51.53m, up 3.9%
EBIT	$23.20m, up 20.4%
NPAT (attributable to owners)	$4.5m up 149.0%

Following a transformation over the last 24-months in its operational performance and growth profile, the company said today's results illustrated that Sigma is now able to better utilise its capabilities to enhance its financial outcomes. Customer service performance metrics are now sustained at world class levels and execution of the simplification strategy has recognised an improvement in productivity and cash flow.

Some of the key features of the result include:

- Excluding merger transaction costs, EBIT of $31.4m is up 62.7% and NPAT of $12.7m
- Like-for-like sales in our franchise brands are up 9.0%
- Strong balance sheet with net cash of $356.5m at year end following the equity raise
- Delivery in full (DIF) to customers above 99% every month
- Strong growth profile through securing of the Chemist Warehouse supply contract.

Sigma CEO and Managing Director Vikesh Ramsunder said: "Today's results show that the strategy implemented over the past two years is now producing the outcomes that will help improve shareholder value.''

With the current industry funding agreements due for renewal, we continue to negotiate with government for an increased level of funding that will help deliver a sustainable industry model and secure patient access to affordable medicines for the next five years. We have also entered into a merger implementation agreement with Chemist Warehouse, with the proposed merger seeking to diversify our earnings and growth profile and create a leading Australian wholesaler, distributor and pharmacy franchisor.

Financial Performance

Total net revenue of $3.3bn was down 9.2%, largely reflecting the disposal of our hospital distribution business during the year and elevated sales of Rapid Antigen Tests (RATs) in FY23 that have not repeated.

Reported EBIT of $23.2m is up 20.4% and reported NPAT (attributable to owners) of $4.5m is up 149% from the prior year, both after absorbing initial merger transaction costs of $8.2m.

Excluding merger transaction costs, EBIT was $31.4m and NPAT was $12.7m.

Mr Ramsunder said: “With our operating performance strong, we have been able to drive efficiencies across our business, reducing total operating costs by 10.7% after absorbing merger proposal costs, providing a catalyst for our current and future financial performance.”

“The company-wide simplification program and divestment of non-core assets has delivered a leaner operating model” Mr Ramsunder said.

At 31 January 2024, Sigma ended with net cash of $356.5m, reflecting the benefit of the equity raise that was completed in January 2024. Removing the equity raise, net debt would have reduced to $37.8m, a decrease of 43% at year-end, benefitting from improved working capital management and proceeds on sale of the hospital distribution business.

Wholesale Sales and Logistics

Wholesale sales for the year were $3.1bn, up 4.3% on a like for like basis after adjusting for the disposal of our hospital distribution business during the year and the reduction in sales of RATs.

From our national distribution centre network, we have delivered over 230m units over the last 12-months across Australia and maintained our delivery in full and dispatched on time metrics above 99% through the year. Pleasingly, we have also delivered an 11% improvement in productivity across our network for the year.

Mr Ramsunder commented: “FY24 saw the recent technology investments start to pay dividends as our ERP solution was fully embedded, with excellent reliability and ability to scale our business. This has enabled our core operations to begin to operate more efficiently and effectively in consistently delivering high customer service standards”.

Inventory management has been a major focus for the last 12-months.

“Our inventory on hand reduced by $103.7m by year end, freeing up balance sheet capacity. At the same time our stock availability has improved to above 93% meaning we have more of the inventory that our customers want.”

Sigma Healthcare

Meanwhile, Sigma's third-party logistics (3PL) business has continued to expand.

"Third party logistics is an important vector for growth. We are providing 3PL services in six states across Australia to enhance customer service and access to market. Growth has been strong, with revenue up 17% and 3PL becoming a more important contributor to margin" Mr Ramsunder said.

Franchise Brands

The last 12-months has also delivered meaningful progress in the execution of our franchise brand strategy, including the discontinuation of the Guardian pharmacy brand and an increased focus on the Amcal and Discount Drug Stores brands. We thank our former Guardian members for their commitment to the brand and their communities.

"Our attention now turns to supporting our Amcal and Discount Drug Stores brand members to better service their customers, grow their business and to grow the network. This will be aided by a stronger balance sheet as a result of the equity raise concluded towards the end of the year which will also go towards supporting the execution of our private and exclusive label growth strategy" Mr Ramsunder said.

"Our franchise members have performed well during the period, with sales on a like-for-like basis up 9.0%, indicating a strong core of franchise brand members."

Sigma remains committed to increasing the number of Amcal pharmacies to 300 brand members and DDS pharmacies to 150 brand members over the medium term.

Chemist Warehouse supply contract

In June 2023 we announced that Sigma was successful in securing the new 5-year supply contract to service the Chemist Warehouse Group (CWG). This was an important win that provides significant volume to better utilise our spare capacity. Detailed project plans to manage the onboarding of the supply contract have been implemented, covering IT, inventory build, supplier agreements, recruitment, customer metrics, and route optimisation.

"The recent $400m equity raise provides the balance sheet support to execute our plans and manage the increased working capital requirements of the CWG supply contract. Importantly, the project planning is anchored to the premise of maintaining the existing high customer service levels and stock availability for all of our customers," Mr Ramsunder said.

Execution of our plans is on track in preparation for contract commencement from 1 July 2024.

Chemist Warehouse merger proposal

In December 2023, Sigma announced a transformational merger with CWG to create a leading healthcare wholesaler, distributor and retail pharmacy franchisor ("Proposed Merger").

Mr Ramsunder said: "This merger proposal is truly transformational for Sigma. It will diversify our earnings and growth profile whilst also creating opportunities for Sigma to enhance the support provided to pharmacy owners, helping them to profitably grow their business and better support their communities."

Sigma's Board of Directors believe the Proposed Merger represents a significant and compelling opportunity which is expected to create material value for Sigma stakeholders. The Proposed Merger is subject to a number of conditions including ACCC approval, and CWG and Sigma shareholder approvals.

Sigma submitted its submission to the ACCC in February 2024, and on 8 March 2024 the ACCC commenced a public consultation process.

"This is a significant and complex transaction which will require a detailed review by the regulator. There will be community interest and a wide consultation process which adds to the complexity of predicting timeframes. We are hopeful of a decision from the ACCC in the second half of the calendar year, which will precede a number of other steps required to reach completion," Mr Ramsunder said.

Outlook

We have made good progress the last two-years in executing our strategy and strengthening our core. Momentum remains positive with year to date sales up 6.6% and the onboarding of the new Chemist Warehouse supply contract commencing 1 July 2024 which brings more than $2.0 billion new annualised revenue to Sigma.

"We remain confident in our ability to absorb the increased volume and maintain the same high standards of delivery and service for all our customers" Mr Ramsunder said.

"Following the completion of our equity raise during the year, the balance sheet is strong, and we now have the ability to fund our working capital, grow our pharmacy brands and importantly retain ownership of our Truganina and Canning Vale Distribution Centres."

"With our core business focused on medicine distribution to community pharmacy, we are more resilient against discretionary spend patterns, however growing volume, managing costs, and enhancing our margin are critical, with initiatives already in place".

"We re-affirm our medium-term EBIT target of 1.5% to 2.5% on a standalone basis," Mr Ramsunder said.
Recognising the progress made in the business the Board has declared a final partially franked dividend of $0.005 per share payable on 17 April 2024 with an Ex-Dividend Date of 28 March 2024 and Record Date of 2 April 2024.

A results briefing will be held at 10.00am AEST. For webcast details, please visit the Investor Centre located at [www.sigmahealthcare.com.au.](http://www.sigmahealthcare.com.au)

This announcement is authorised by order of the Board.

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