Sigma Healthcare

Connecting health solutions

Sigma Healthcare Limited

# Full Year Results

to 31 January 2019

announced 21 March 2019

# Important Notice

The material provided is a presentation of general information about Sigma's activities current at the date of the presentation. It is information given in summary form and does not purport to be complete. No representation or warranty is made as to its completeness, accuracy or reliability. Any forward looking information in this presentation has been prepared on the basis of a number of assumptions which may prove to be incorrect.

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This presentation also contains certain non-IFRS measures that Sigma believe are relevant and appropriate for the understanding of the financial results.

# Overview

Mark Hooper, CEO and Managing Director

1. Key Highlights
2. Financial Performance
3. Business Transformation
4. Outlook

# Key Highlights - building a better future

- Results are ahead of current guidance
- High Dividend Payout Ratio maintained
- Our strategy and future direction is clear
- $100+ million efficiency gains identified to be delivered over 18-24 months
- Roadmap for FY23 EBITDA to be around the same level as FY19
- Investment cycle well advanced
- Balance Sheet will be strong with debt reduced to circa $100m by end of FY20 which provides capacity for significant growth
- Against this backdrop, the API Merger Proposal was not in the best interests of shareholders

# API Merger Proposal - background

- Proposal received from API - 0.31 API share plus $0.23 cash for every Sigma share.
- API announced in December 2018 they had acquired 12.96% of Sigma shares
- Reciprocal high level due diligence completed - validated the $60 million of potential synergy benefits
- Having now completed our detailed assessment, Sigma rejected the offer as it is not in the best interests of shareholders
- Sigma is confident it has a strong future independent of this proposal

## ASX Release

sigmahealthcare.com.au

Issued 13 March 2019

**Update on API proposal**

### Sigma Board conclusion

The Board of Sigma, along with its advisors, has now completed a detailed assessment of the API Proposal.

With the benefit of the detailed assessment of the future potential for Sigma on a standalone basis, and the due diligence conclusions, the Board of Sigma has concluded that the API Proposal is **not** in the best interests of Sigma shareholders.

Commenting, Sigma Chairman Brian Jamieson said "*The Board is confident that after thoroughly assessing the outlook of Sigma on a standalone basis, the current API proposal does not reflect the long-term prospects and value inherent in Sigma having regard to the reset cost base of the business and our own growth agenda. Therefore, after considering the API Proposal in detail, we believe it is not in the best interests of our shareholders.*"

# Project Pivot Transformation Underway

- Project Pivot – major business transformation program which commenced in Sep 2018
- Will transform Sigma by resetting the operating cost base to make Sigma more efficient and free up funds for growth
- This also incorporates the efficient transition of MC/CW
- $100+ million efficiency gains identified by detailed Accenture review (completed in Dec 2018)
  - benchmarked by separate internal analysis (completed in Jan 2019)
- Efficiency gains achievable by Sigma as a standalone business
- Implementation has commenced and will be completed in 18-24 months

## ASX Release

Issued 11 February 2019

**Sigma business review identifies a strong future underpinned by over $100m cost savings**

**Highlights**

- Business review identifies over $100m per annum of cost savings
- FY19 Underlying EBIT guidance of around $75m confirmed
- Expect to deliver FY20 Underlying EBITDA of $55-$60m
- The outlook incorporating the business review outcomes points to over 10% per annum Underlying EBITDA growth for FY21-FY23
- Expect minimal net debt from FY20 despite an extensive capital investment program and retention of a high dividend payout ratio

# Project Pivot – a structured program to transform our business

**Sigma Board**

**Project Board**

**Sigma's Transformation Management Office**
Project Management and Reporting
Change Management & Communications
Benefit Tracking

**Pivot Workstreams – $100+ million efficiency gains from program being implemented by Sigma team members, Accenture and EY**

| | |
|---|---|
| **Year 1 - FY20** | Implementation will start delivering approx 60% of annualised efficiency gains |
| **Year 2 - FY21** | Implementation will start delivering approx 40% of annualised efficiency gains |

# Financial Performance

Iona MacPherson, CFO

# Group Financial Performance

| | REPORTED | UNDERLYING | | | |
|---|---|---|---|---|---|
| **$m** | **FY2019** | **FY2019** | **FY2018** | **Variance** | **Change** |
| **Sales Revenue** | **3,976.8** | **3,976.8** | **4,094.4** | **-117.6** | **-2.9%** |
| **Gross Profit** | **273.2** | **273.2** | **284.4** | **-11.2** | **-3.9%** |
| Other Revenue | **99.5** | 99.5 | 83.5 | 16.0 | 19.1% |
| Operating Costs | **-296.2** | -282.2 | -268.1 | -14.0 | 5.2% |
| **EBITDA** | **76.5** | **90.5** | **99.8** | **-9.3** | **-9.2%** |
| **EBITDA Margin** | **1.93%** | **2.28%** | **2.44%** | **-0.16%** | **N/A** |
| Depreciation and Amortisation | -13.5 | -13.5 | -9.1 | -4.4 | 48.8% |
| Non-Controlling Interests | **0.0** | -0.9 | -0.4 | -0.5 | 109.0% |
| **EBIT** | **63.0** | **76.2** | **90.3** | **-14.1** | **-15.6%** |
| **EBIT Margin** | **1.58%** | **1.91%** | **2.20%** | **-0.29%** | **N/A** |
| Net Financial Expense | **-11.1** | -11.1 | -5.0 | -6.1 | 120.9% |
| Tax Expense | **-14.9** | -18.8 | -25.4 | 6.6 | -26.0% |
| **NPAT** | **37.0** | **46.3** | **59.9** | **-13.6** | **-22.7%** |

Refer to Appendix 2 for reconciliation of Reported to Underlying

# Revenue & Gross Profit Drivers

## Sales Revenue (Ex Hep-C): Up $108.5m to $3.75bn

- Total Sales revenue benefited from a full year contribution from MPS and MIA, growth in Sigma Hospitals, and wholesale customer account growth achieved in 2H19
- Sales excluding MC/CW were slightly ahead of prior year despite the impact of the larger than anticipated PBS reform

## Other Revenue: Up $16.0m to $99.5m

- Increase largely driven by full year contribution from MPS

## Gross Profit (Ex Hep-C): Down $10.4m to $272.4m

- Benefited from full year contribution from MPS and MIA
- Offset by the impact of PBS reform and MC/CW rebates

Hep C = High value but very low margin Hepatitis C medications that were introduced to the PBS in 2016.

# Operating Costs - investment in growth

## Warehouse and Delivery: Up $22.6m to $167.7m

- Half of increase reflects full year inclusion of MPS and MIA
- Remaining increase largely due to dual operating costs during DC transitions, and redundancy costs with closure of Belmont and Mansfield DC's

## Sales and Marketing: Up $0.5m to $65.8m

- Impact of wage indexation offset by tighter cost controls

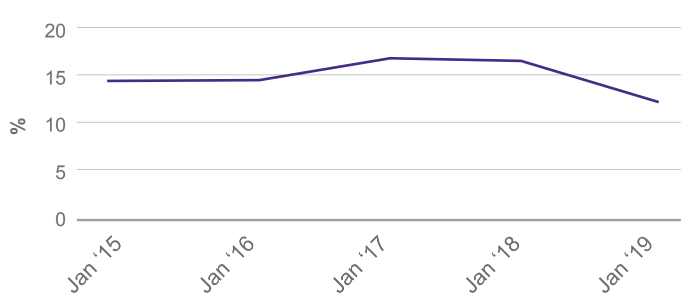
## Administration: Down $2.0m to $63.6m

- Reduction in share based payment cost due to performance targets not being met
- Includes a reduction of consultant costs relating to acquisitions, offset by costs incurred to date on Project Pivot and ERP replacement project
- Partly offset by full year costs relating to MPS and MIA

# Working Capital Management

- ROIC continues to be a strong focus as we move through our current investment cycle.
- Half of reduced ROIC driven by transition to new DC's

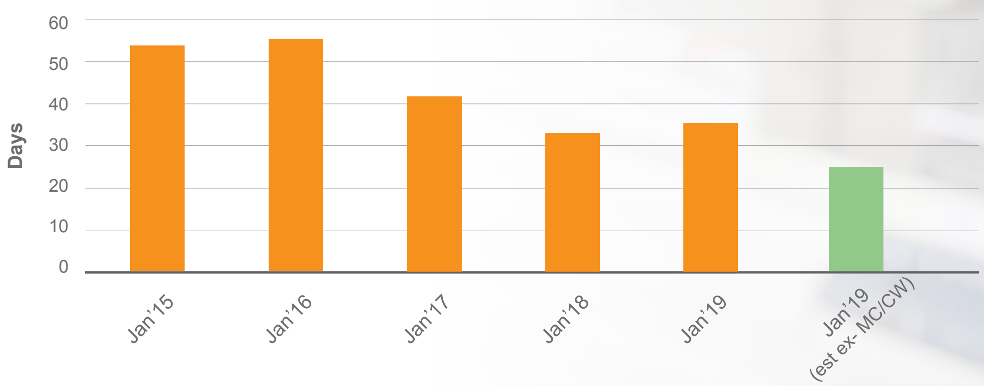
## Underlying ROIC#




#Refer to Appendix 1

| | FY19 | FY18 |
|---|---|---|
| Trade Debtors (Excl. Hep-C) | 553,426 | 510,841 |
| Inventory (Excl. Hep-C) | 336,018 | 332,354 |
| Trade Creditors (Excl. Hep-C) | (466,214) | (483,500) |
| Working Capital ($000) | 423,230 | 359,695 |
| Days Sales Outstanding (DSO) | 54 | 51 |
| Days Inventory Outstanding (DIO) | 35 | 36 |
| Days Payables Outstanding (DPO) | (49) | (52) |
| CCC Days (Excl. Hep-C) | 40 | 35 |
| CCC Days (Incl. Hep-C) | 36 | 32 |

## Cash Conversion Cycle (CCC)



# Return of MC/CW Working Capital

- Around $300 million working capital is expected to be progressively released as the MC/CW contract winds down

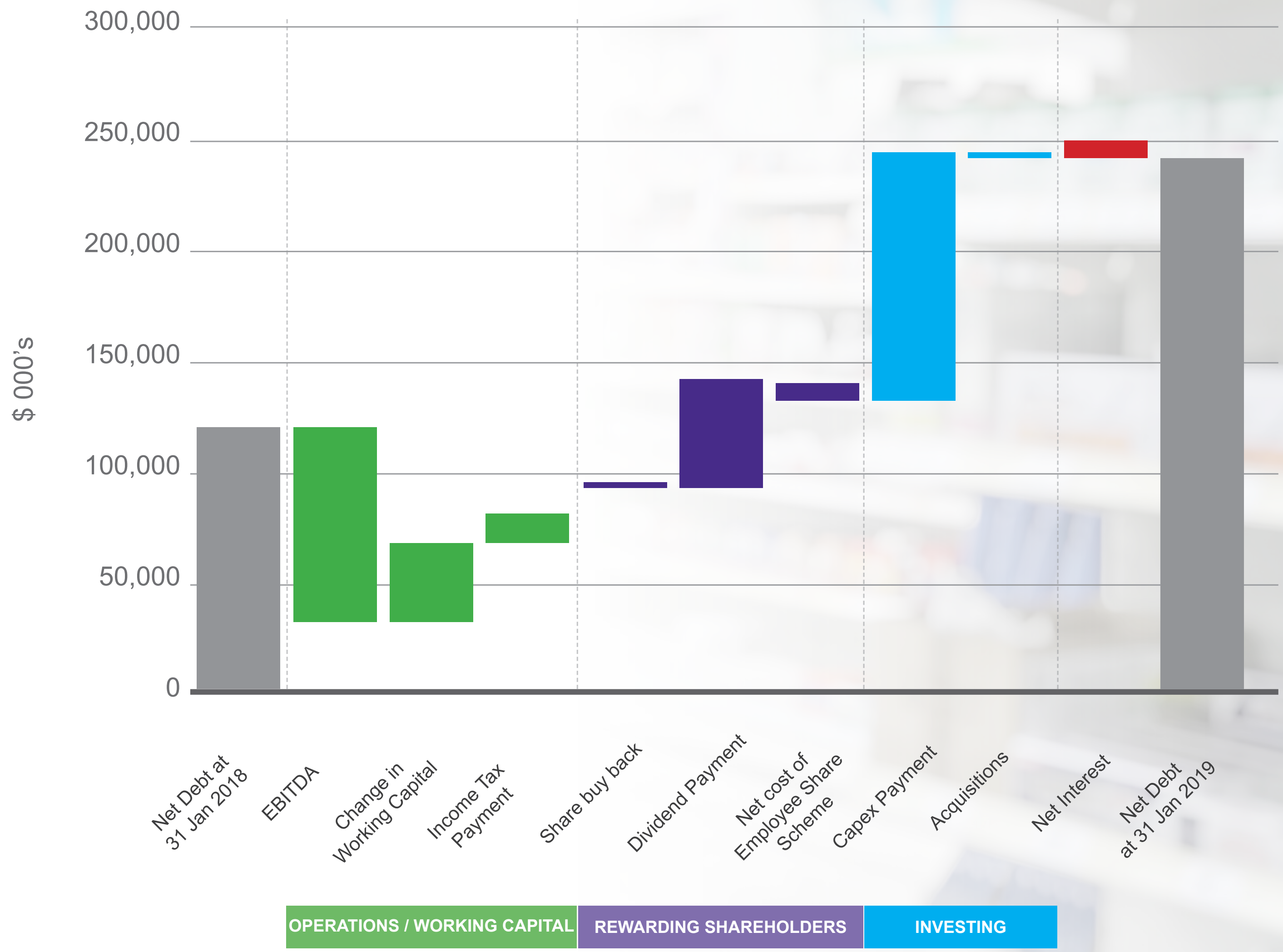
- Full unwind should be finalised by October 2019

- Release should see (subject to new business):

  - Debtors reduce by approximately $320 million
  - Inventory reduce by approximately $160 million
  - Creditors reduce by approximately $180 million

- This assumes a full exit of MC/CW

# Cash Flow - Rewarding Shareholders & Investing for Growth



# DC Investment Program On Track & Under Budget

## Berrinba - QLD $52m

- 15,000 square metre footprint
- Stocks our full range of 14,000 stock keeping units (SKU's)
- Semi-automated, goods to person (GTP) system
- Site fully operational from April 2018

## Canning Vale - WA $52m

- 15,000 square metre footprint
- Will stock our full range of 14,000 SKU's
- Semi-automated, goods to person (GTP) system
- Site fully operational from February 2019

## Pooraka - SA $20m

- 10,000 square metre footprint
- Commenced construction in September 2018
- Construction on time and under budget
- Semi-automated, goods to person (GTP) system
- Site is planned to be operational in Q4 2019

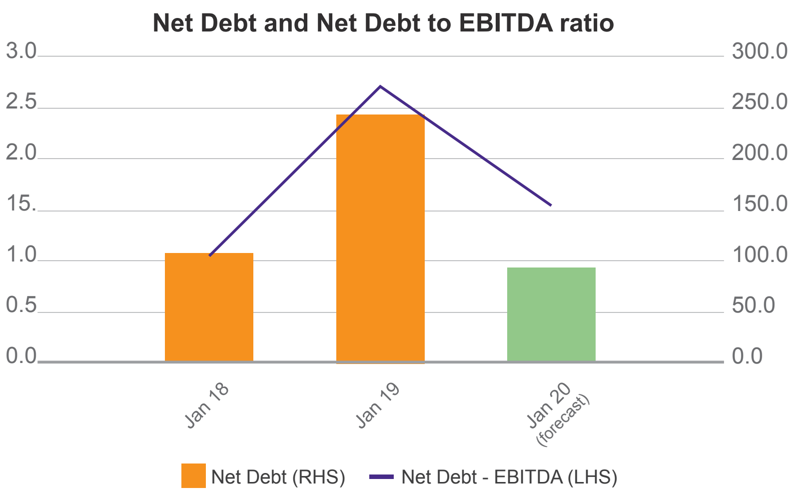
## Kemps Creek - NSW $110m

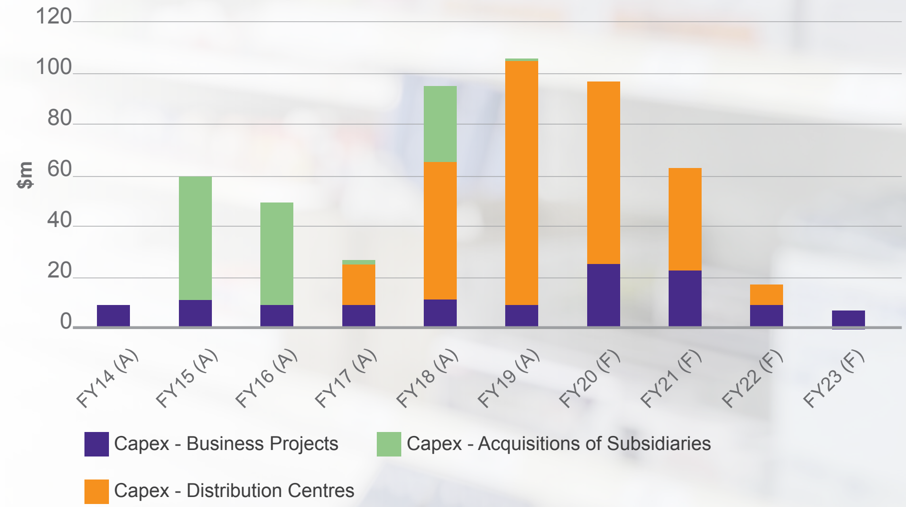
- 40,000 square metre footprint
- Construction on time and under budget
- Semi-automated, goods to person (GTP) system
- Site is planned to be operational with 3PL/4PL activities in Q3 2019
- Site is planned to be fully operational in Q1 2020

**Delivering an efficient network with capacity for growth**
**Berrinba is delivering increased volume with automation reducing total cost per unit by over 18%**

# Capex and Debt Profile

- Capex Program largely completed by end of FY21 - including all known potential investments
- FY19 Net Debt of $243m to reduce to circa $100m by end of FY20
- Net Debt is expected to fall further beyond FY20 (in the absence of any growth initiatives)
- Approved debt facilities in place to FY21
- Assumes continuation of high dividend payout ratio



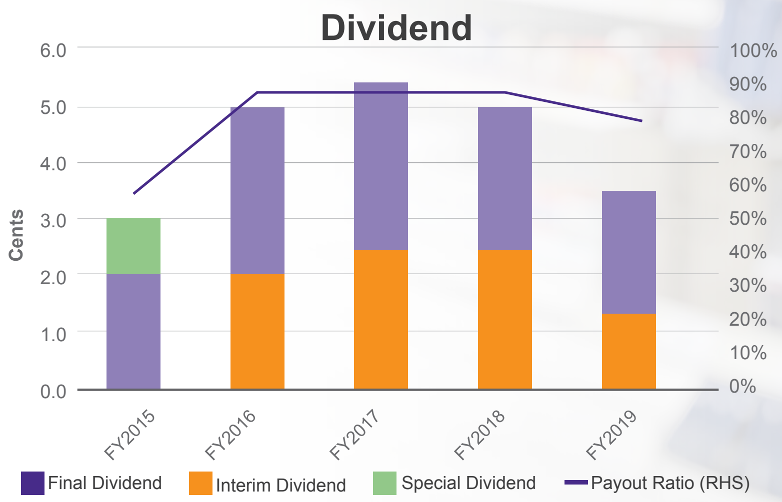
# Dividend & Share Buy-back Program

## Dividend

- Final dividend of 2.0 cents per share fully franked (total of 3.5 cents per share for the year)
- Payout ratio of 80% of Underlying NPAT (102% of Reported NPAT)
- Board committed to maintaining a high dividend payout ratio

## Share Buy-back

- Program less active during FY19 due to capital investment program
- Remains an active consideration for the Board



# Business Transformation

Mark Hooper, CEO and Managing Director

# Project Pivot - providing the platform for growth

**Pivot Workstreams –** $100+ million efficiency gains from programs being implemented by Sigma team members, Accenture and EY. Will begin to ramp up in 2H20.

**MC/CW Transition 60% of efficiency gains**

- DC network and logistics optimisation
- Labour reduction of 500 (300 employees and 200 agency staff)

**Operating efficiencies 25% of efficiency gains**

- Range optimisation
- Organisational realignment
- Right sizing organisational functions
- Improved integration of acquired businesses

**Smart spend program 15% of efficiency gains**

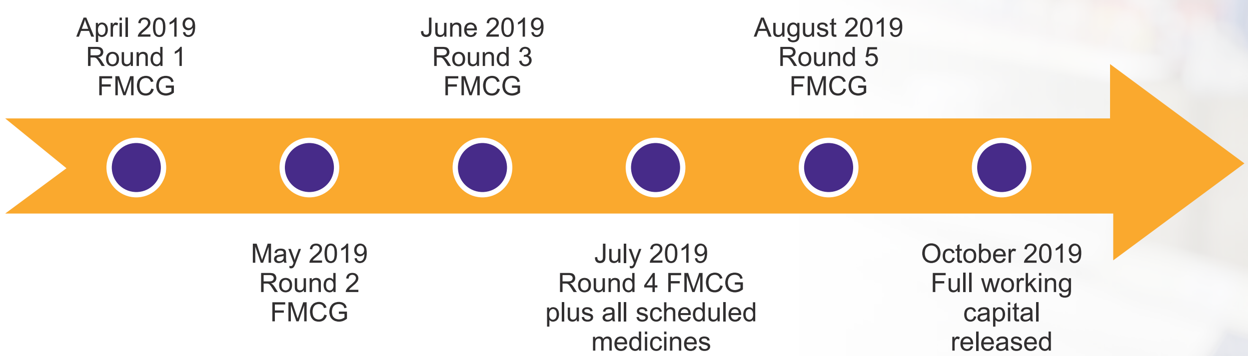
- Robust zero based budgeting and spend methodologies to be applied across all of Sigma's cost base.
- Focus on addressable indirect procurement spend

**Implementation will start delivering**

- Approx. 60% of annualised efficiency gains in Year 1 (FY20)
- Approx. 40% of annualised efficiency gain in Year 2 (FY21)

# MC/CW Transition

- Transition team has been in place for 6 months, supported by EY
- Good relationship with MC/CW team, transition timelines agreed
  - All scheduled medicines transition on 1 July 2019
  - FMCG transition progressively from April 2019
  - Expect all transition to be complete by August 2019
- Provides certainty for business transformation planning
- Delivers over half the anticipated $100+ million efficiency gains
- Working capital release occurs between June - October 2019



# DC Network Update

The transition of the MC/CW volume has lead to the following decisions, which were announced to our teams in March

- 3rd quarter 2019 - closure of our Shepparton, Newcastle and Launceston DC's, with services to be picked up by our remaining DC network
- Labour reductions in remaining DC's in line with reduction in volume
- Total labour reduction of 500 (300 employees plus 200 agency staff)

Support and outplacement services are being provided to affected team members

# Costs of Achieving $100+ million Efficiency Gains

- One-off costs of $30-$35 million will be progressively incurred to achieve the step change in ongoing costs
- Includes consultancy costs, redundancy, outplacement services, DC closure costs
- Will be reflected in Reported not Underlying earnings

# Our Retail and Wholesale Network

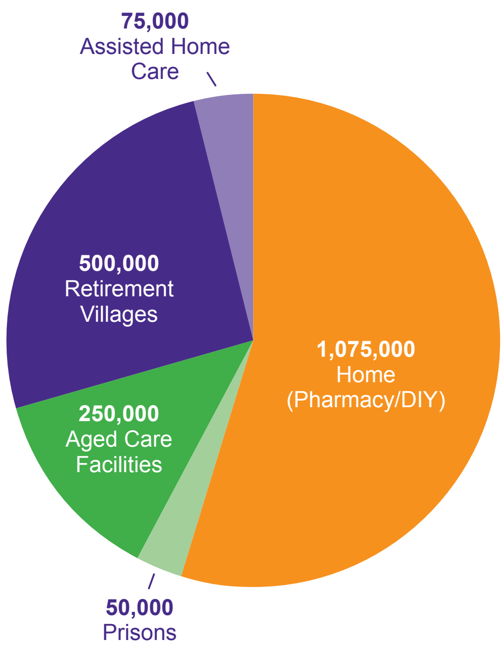
- Like for like sales up almost 1% across our brands
- Sigma's retail brands have almost 20%* market share of consumer spend - second to MC/CW
- Launched new DDS WholeLife brand to expand the category
- Amcal+ Life Clinic launched this month - go live in May
- DDS – winner of the Roy Morgan customer Satisfaction Award for Pharmacy
- Brand member numbers growing with a strong pipeline
- PriceSave independent offer re-launched

CUSTOMER SATISFACTION AWARDS
DISCOUNT DRUG STORES
CHEMIST/PHARMACY OF THE YEAR AUSTRALIA
2018
ROY MORGAN

** Reference: IBISWorld Report January 2019*

# Strong Growth Opportunities

MPS Market Opportunity




## Sigma Hospitals

- Excluding Hepatitis C, Sigma Hospitals market share at 8.7% (up from 7.2%)
- Revenue growth excluding Hepatitis C up over 20%
- Pipeline of potential contacts identified

## MPS

- Three TGA approved facilities servicing Community Pharmacies and Aged Care facilities Australia wide
- The only DAA endorsed by the Pharmacy Guild of Australia
- Only 25% of potential customers currently use DAA
- Industry leading product accuracy rate

## Pharmacy

- Pipeline of potential brand members is strong
- Like for like sales continues to perform well

## Other

- 3PL/4PL - leveraging our integrated infrastructure to accelerate growth

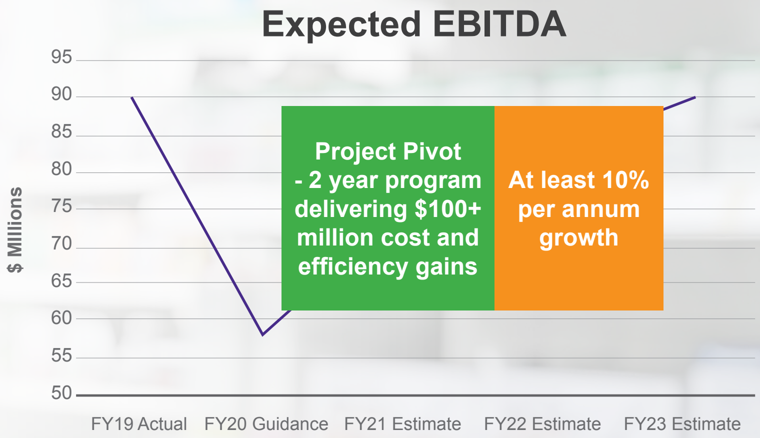
# Outlook

Mark Hooper, CEO and Managing Director

# EBITDA Guidance

## Includes:

- $100+ million per annum efficiency gains achieved progressively over FY20 and FY21
- $300m working capital release reducing debt
- Allowance for new Vic DC if required
- Investment in IT systems commencing late FY20




## Excludes:

- Any acquisitions or aggressive growth assumptions
- Investment of the $300m working capital release
- Costs of realising benefits (treated as one-off) - estimated at $30 - 35 million

# Outlook - a better future

- Progress already made on our Project Pivot transformation program
- Confident on delivering $100+ million efficiency gains over the next two years
- MC/CW exit will impact 2H20 results partly offset by the commencement of cost savings from Project Pivot
- Our investment program is well advanced and Capex spend returns to normal level by FY22
- High dividend payout ratio expected to be maintained
- We will have a strong balance sheet with debt circa $100m by the end of FY20 with capacity and appetite for growth
- Confirming EBITDA guidance for FY20 of $55 - $60 million (consistent with previous EBIT guidance provided)
- By FY23 we expect our EBITDA will return to a similar level as achieved in FY19

Sigma Healthcare

*Connecting health solutions*

# Thank you

# Appendix 1 – ROIC Reconciliation

| $m | 31-Jan-15 | 31-Jan-16 | 31-Jan-17 | 31-Jan-18 | 31-Jan-19 |
|---|---|---|---|---|---|
| Net Assets | 573.1 | 553.7 | 538.6 | 515.3 | 514.3 |
| | | | | | |
| Less: Cash and cash equivalents | -34.3 | -17.5 | 7.7 | -82.2 | -72.6 |
| | | | | | |
| Add back: Interest bearing liabilities | 0.6 | 74.1 | 1.0 | 195.8 | 315.8 |
| | | | | | |
| Adjusted for One-Off Items including WIP capex | 0.0 | 0.0 | -26.3 | -86.1 | -132.7 |
| | | | | | |
| Capital employed | 539.4 | 610.3 | 521.0 | 542.8 | 624.8 |
| | | | | | |
| Rolling 12 months Underlying EBIT | 78.4 | 89.1 | 92.0 | 90.3 | 76.2 |
| | | | | | |
| **Underlying ROIC** | **14.5%** | **14.6%** | **17.7%** | **16.6%** | **12.2%** |

Underlying pre-tax ROIC is based on the last 12 months of underlying earnings (EBIT), excluding non-operating items, and net assets adjusted for capital work in progress on new distribution centres.

# **Appendix 2** – Reported to underlying reconciliation

| | FY19 $’000 | FY18 $’000 |
|---|---|---|
| **Reported EBITDA** | **76,550** | **92,834** |
| **Add back:** | | |
| Restructuring and dual operating costs before tax | 13,115 | 3,715 |
| Litigation and Due Diligence costs before tax | 863 | 3,199 |
| **Underlying EBITDA** | **90,528** | **99,748** |
| Less: Non-controlling interests before interest and tax | (855) | (409) |
| **Underlying EBITDA attributable to owners of the company** | **89,673** | **99,339** |