

CEO and Managing Director's Report



Following a period of significant change, Sigma is now a stronger business able to sustain growth, better leverage core capabilities and continue to enhance our customer-centric approach.

Financial Performance

The last 12-months has seen Sigma's financial performance rebound strongly. We have completed our Project Pivot transformation program to deliver a more efficient operating platform and have invested in our infrastructure to enhance capability and capacity. The benefit from both these programs is ongoing and will be further realised in the coming years. Pleasingly, we have also seen strong organic growth across our core and expansion businesses. The combination of these factors has led to:

- Revenue of \$3.4 billion, up 4.8%
- Underlying EBITDA of \$81.1 million, up 39.2%
- Underlying NPAT \$29.1 million, up 133.6%
- Underlying Return on Invested Capital of 10.1%
- Earnings per share of 5.9 cents
- Dividend per share of 1.0 cents

Operational Highlights

This year has seen strong operational performance across our pharmacy wholesale business, driven by an engaged team actively supporting pharmacies and broadening our customer base.

Excluding sales to Chemist Warehouse, sales to community pharmacies grew by 11.4% over last year. This has been achieved across the network and despite the many challenges presented through the COVID-19 pandemic. Pleasingly, we also facilitated the return of the supply of FMCG products to the Chemist Warehouse Group. Supply stepped up during the year to reach full run rate by June 2020. Ongoing, it will deliver around \$800 million of annualised sales.

Combined, wholesale sales were up 4.8% for the year, an outstanding result in the circumstances.

Our retail brands have continued to grow ahead of average market growth, with sales across our six pharmacy brands up 9.0% on a like-for-like basis. Growth was seen across the network and reflects the fantastic work our team have

done in enhancing the support for our customers over the last few years. Our strategy of providing pharmacy owners with a choice of brands and an independent offer means we have been able to tailor solutions to best fit the pharmacy locations, competitive landscape, and customer demographics. The development of the WholeLife brand in the market has been particularly pleasing, providing a strong point of differentiation.

Our Hospital distribution business has again seen sales up 15% for the year despite the suspension of elective surgeries through the height of the COVID-19 pandemic. We have successfully onboarded new customers and have positioned the business to continue its strong growth trajectory.

Our contract logistics (3PL/4PL) business has also continued to grow its operations. Sales have been strong with new agreements in place, and capacity available at our Kemps Creek DC to support our ongoing growth.

MPS faced challenges this year with access to aged care facilities and their residents heavily impacted by COVID-19 pandemic. With a slowdown in activity through 2020, MPS

took the opportunity to commence work on upgrading its operating systems and customer interface to improve and integrate electronic record management and patient records and provide enhanced support for patients and their families. This will roll-out during the 2021 calendar year.

Meanwhile, Medical Industries Australia (MIA) experienced a significant lift in sales during the year, with strong demand for Personal Protective Equipment (PPE) product through the pandemic. Whilst some of this will be one-off, we have intensified our efforts in turning this into sustainable and repeatable business, consistent with our strategy of growing our medical consumables and devices business.

Transformation

Project Pivot has delivered the targets set for this critical transformation program when announced two years ago. The program was designed to deliver over \$100 million in efficiency gains by removing the variable costs to serve Chemist Warehouse, as well as drive further step changes in operational efficiencies across the entire business. With the target achieved, we have now closed Project Pivot and transitioned the learnings and ongoing activities into business as usual.

I would like to personally thank the entire Sigma team for their support and diligence in delivering against what was a demanding project that has successfully reset our operating cost base and positioned Sigma as an efficient and competitive operation from which to pursue growth opportunities.

Industry Regulation

This year saw greater regulatory certainty secured for the industry with agreement reached on the terms of the Seventh Community Pharmacy Agreement (7CPA) and the Community Service Obligation (CSO). These are critical agreements that underpin the ability of wholesalers and pharmacies to support the Government's National Medicines Policy and ultimately access to medicines for patients in the community. In addition to funding increases for pharmacies, additional funding was provided to wholesalers which goes some way to offsetting the lost ground over recent years through fiscal tightening and PBS reform. Just as importantly, the government agreed to implement a pricing floor in the calculation of the wholesale margin calculation, providing some base level funding commitment to underpin the services to government and the community.

People and Culture

Sigma's transformation has not been restricted to infrastructure and technology. We have also intensified our focus on continuously improving customer engagement through seeking structured feedback, measuring progress and taking action. This activity has resulted in tangible improvements across all key performance metrics.

Our business transformation has been supported with strong change management programs to engage and support our teams. We have provided opportunities for team members to be involved in key projects by being seconded into various roles and provided training and development opportunities to upskill where required. We have also continued to measure our team member engagement through our annual engagement survey and quarterly pulse checks, with an improvement to our two employee Net

Promoter Score (eNPS) survey items of "On balance, how likely would you be to recommend Sigma as a great place to work" (+3 from 2019) and "On balance, how likely would you be to recommend Sigma as the best choice for services provided" (+4.8 from 2019).

Of course, we also had to navigate the impact of COVID-19 and the varying lock downs and restrictions imposed across the year and to varying degrees in each State. We took early action to put in place a working group to manage the changes and provide the support and communications our teams needed. As an essential service business, it was critical we maintained a safe operating environment for our DC and medication packaging team members responsible for ensuring medicines reach pharmacies and patients, whilst providing remote support for our office-based teams working from home.

Growth Outlook

The business has overcome many challenges this year and carries great momentum into the coming financial year. We have now largely completed the critical programs that were a significant focus for the business over the last few years. It has given us the operating capacity and capability to grow and the efficient cost base to leverage. Organic growth continues to be strong in our core and expansion businesses, and combined with a strong balance sheet, this positions Sigma to actively pursue our growth agenda.



Mark Hooper
CEO & Managing Director