ASX Release

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Strong operational and financial performance as focus shifts to growth strategy

Key Highlights

Sigma Healthcare Limited (Sigma) today announced its financial performance for the half year ended 31 July 2023 (1H24).

	Statutory
Net Revenue	$1.68b, down 8.4%
EBITDA	$36.7m, up 77.6%
EBIT	$22.4m, up 314.9%
NPAT	$11.2m profit up from ($1.5m) loss

Sigma has delivered a strong rise in profits as it continued to make significant progress during the first six months of the financial year in driving operational improvement, simplifying its business, enhancing financial performance, and executing its strategy to enhance shareholder returns.

Some of the key features of the result include:

- 7.5% revenue growth on a like-for-like basis
- 21% reduction in operating expenses compared to 1H23
- 99% Delivery in Full (DIF) to customers year to date
- $3 billion in revenue in the first full year of the new supply agreement with Chemist Warehouse (commencing 1 July 2024)

Sigma CEO and Managing Director Vikesh Ramsunder said: “We have made significant progress the last six months to improve our operational and financial performance. Service levels are at an exceptionally high standard, and at the same time operating costs are down 21% as we begin to leverage the investments made over the past six years. We have also taken tangible steps in executing our strategy to deliver sustainable and profitable growth. Securing the largest customer supply contract in the pharmaceutical wholesale industry was an endorsement of our improved service capability.”

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Operational and Financial Review

Group Revenue was down 8.4% versus 1H23, reflecting the impact of discontinued operations in the current year and the benefit in prior year from the Covid related sales of Rapid Antigen Tests (RATs) that is not repeating. On a like-for-like basis, after adjusting for sales of RATs and the disposal of hospital assets, total wholesale sales were up 7.5% to $1.5 billion.

Profit for 1H24 has materially improved on the prior period. Reported EBIT of $22.4m is up 315% and Reported NPAT of $11.2m is up from a loss of $1.5m in 1H23. This includes $8.8m net profit on disposal of our hospital distribution business. On a like-for-like basis, EBIT is up $24.4m from an $8.5m loss in 1H23, and NPAT is up $13.0m from a $9.1m loss in 1H23.

Gross Profit was down 16.2% for 1H24, which reflects the benefit of higher margin sales of RATs in the 1H23 that has not repeated.

Operating costs for 1H24 of $127m are down $34.3m or 21.3% on 1H23. This was achieved through a combination of factors, including improved overall work rate in our logistics operations, the benefits of streamlined processes across our network, reduced IT and labour costs, and the elimination of non-repeating costs in 1H23 associated with discontinued operations.

Depreciation and amortisation are down $1.0m to $14.3m for 1H24, whilst net interest expense for the half is up $2.0m to $8.3m, largely reflecting increased interest rates. Net Debt ended the period at $82.2m, slightly down on the comparable period last year.

Mr Ramsunder said: “Service standards in Sigma’s wholesale operations have remained at a consistently high level for close to 12-months. Sigma delivered over 113 million units in the first half, with the Delivery in Full metric consistently above 99% across our customer base. Importantly, we have also enhanced our inventory management by reducing our stock holding, but still improving stock availability for our customers.”

“With our wholesale operations now effectively functioning, our focus has firmly shifted to driving our growth strategy.”

“We will focus on providing our brands with high standards of retail management and specialist pharmacy services support. Our current objective is to achieve brand membership of 300 Amcal pharmacies and 150 Discount Drug Stores over the medium-term.”

Significant progress is also being made in executing our private and exclusive label strategy.

Mr Ramsunder said: “Private and exclusive label is an important strategic driver, delivering differentiation and enhanced margin. We have recently recruited a strong and focused team who have already developed a pipeline of over 300 products, with more than 250 of these expected to be launched during FY25.”

“The third vector for growth is our third-party logistics (3PL) operations, which has continued to achieve good growth. We have expanded our 3PL operations to provide services from six States across Australia, enabling improved flexibility and speed to market for customers. We currently have over 33,000 pallets under management and have moved over 60 million units during the half. 3PL is an important contributor to margin, and we will continue to seek new opportunities to foster growth.”

Pleasingly, we also announced the completion of a new supply agreement with Chemist Warehouse for the supply of PBS medicines and FMCG products, commencing on 1 July 2024.

“This is a good outcome for our shareholders. The new five-year agreement will leverage the automation in our distribution centres and is consistent with our strategy of growing scale and profitable market share in our wholesale operations.”

Outlook

Mr Ramsunder concluded: “The execution of our strategy has been strong and pleasing. Our ERP system is stable and functioning well, and our core wholesale operations are performing to a consistently high standard. We have improved our customer service levels, re-based our inventory and re-set our retail strategy. At the same time, we have commenced the process of extracting the efficiencies from our investments and set the business up to achieve strong growth by securing a large new supply contract next year.”

“As we head into the second half, we will continue to invest in our retail and private label strategy, divest non-core assets and prepare the business to absorb the increased Chemist Warehouse volume, but we remain confident in our ability to deliver our previously stated guidance of Reported EBIT of $26m to $31m.”

Consistent with the company’s Dividend policy, Sigma has declared an interim fully franked dividend of $0.005 per share payable on 11 October 2023 with an Ex-Dividend Date of 25 September 2023 and Record Date of 26 September 2023.

A results briefing will be held at 10.00am AEST. 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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