

CHAIRMAN'S REPORT

Welcome to my review of Sigma's financial year which ended on 31 January 2022. In reflecting on the last 12 months, it has been a year of two distinct and contrasting halves.

The first six months were strong, with good sales growth and momentum that overcame the operational disruptions from COVID-19. Revenue for the half was up 5.5%, with our wholesale and pharmacy business continuing to grow above average market growth.

Unfortunately, in the second half we encountered greater interruptions as we implemented our new Enterprise Resource Management (ERP) system, which is a significant and necessary system upgrade for the group to reduce risk and provide a strong contemporary backbone for the business to improve our service to customers over time. The switch to a go-live environment unearthed some unexpected process issues which had an impact on our operations, our customers and our suppliers, for which we sincerely apologise. The impact flowed through to Sigma's financial performance.

Following a government policy shift to endorse the adoption of Rapid Antigen Tests (RATs) for the detection of COVID-19, Sigma experienced extraordinary and rapid volume growth

in the last month of the year that resulted in the achievement of a financial performance that was unforeseen only two months earlier.

With that context, I will now address:

1. Financial Performance
2. Operational Performance
3. Investment and Capital Management
4. Strategy
5. People and Culture

Financial Performance

For the full year, Sigma has delivered:

- Revenue up 1.3% to \$3.4b
- Reported EBITDA was down 56.3% to \$30.0m
- Reported NPAT was a loss of \$7.2m
- Dividend Per Share of 2.0 cents fully franked
- Year End Net Debt of \$149m

As outlined in my introduction, the drivers of our overall financial performance for the year have been varied in their source and timing.

Operational Performance

Our core community pharmacy and wholesale pharmacy distribution businesses have faced some challenges that have impacted customers. This is very disappointing; however these are transitory issues relating to the ERP implementation that are being addressed as quickly as possible. Our recent investments have delivered Sigma a world class network that provides significant scale, capability, and competitive advantage. Our opportunity now is to exceed our acknowledged high delivery standards that we had prior to the ERP replacement issues.

Our pharmacy brands – Amcal, Discount Drug Stores, Guardian, PharmaSave, and the newer addition WholeLife – are well recognised in the market and account for around 17% of consumer spend in community pharmacy settings. I would like to personally acknowledge and thank all pharmacists across the network for their outstanding work in supporting the community through the COVID-19 pandemic.

Our medical consumables business, Medical Industries Australia (MIA) had an outstanding finish to the FY22 year and start to the FY23 year. The adoption of RATs for the diagnosis and management of COVID-19, and the acceleration of the adoption of RAT kits in various settings across the country has exceeded expectations. With our existing supply agreement in place from mid-2021, the MIA

business was well placed to respond to these changes, asking the supplier to increase the manufacture and supply specifically available for Australia. This strong market growth continued into the early months of the 2022 calendar year before demand is expected to level out through the year.

MPS Connect, our business that provides leading medication management services, has had a disrupted year with COVID-19 restrictions in various capacities across the country limiting access to aged care facilities. In that context, the business has held ground, and has used the time effectively to develop and launch its new full end-to-end Electronic Medication Management (EMM) system, MediSphere, to aged care facilities, providing integrated solutions for patient care.

Sigma's Hospital Services business has also achieved continued growth over the last 12 months and has consolidated its position in the \$3.0 billion market. With around 10% market share at present, our expanded national presence along with a return to more normalised operating conditions is anticipated to drive ongoing growth in this sector.

Sigma's Contract Logistics business continues to pursue new contract opportunities in providing warehousing and distribution solutions to the pharmaceutical industry across Australia. The completion of our DC investment program will provide increased capacity with high quality assurance standards.

Ray Gunston
Chairman



Capital Management

Return on Invested Capital (ROIC) has always been a focus for Sigma, and whilst it has been impacted as we moved through our re-build phase, we continue to focus on ROIC as we return to a more normal investment cycle and sustainable earnings growth.

As previously acknowledged, the business performance is not where any of us would like it to be, which has impacted shareholder returns. We thank our shareholders for your patience whilst we overcome our current challenges, and have declared a 1.0 cent per share fully franked final dividend, taking the total dividend for the year to 2.0 cents per share fully franked.

Our capital investment cycle is now nearing completion, with construction commenced on a new DC in Hobart and plans to double the size of Truganina DC in Victoria. A total of around \$40 to \$45 million investment during FY23 will conclude the program. Normal ongoing capital expenditure should now stabilise around \$5m to \$10m per annum.

Sigma's Net Debt at 31 January 2022 was \$149 million.

Meanwhile, the share buy back program remains a consideration for effective capital management moving forward. Whilst we have not been active in acquiring shares under our Share buy-back program, we renewed the program in January this year to provide ongoing flexibility to be more active if we choose.

Strategy

Through the year, we continued to seek opportunities to grow Sigma through M&A activity that leverages our core skills and infrastructure, with the proposal to merge with Australian Pharmaceutical Industries (API) being the most public example. Whilst this proposal was not ultimately successful, it does demonstrate our preparedness to transact on a scale we have not previously.

Importantly, the M&A focus will remain consistent with our strategy and will continue to focus on core return metrics that are important for shareholders.

People and Culture

I would like to acknowledge and thank our dedicated team for their commitment throughout the 2022 financial year. COVID-19 has presented ongoing challenges for everyone, with our team also navigating the ERP implementation, merger discussions, and a change in CEO and CFO. I thank Mark Hooper for his leadership during his 11 years as CEO of Sigma, and Jeff Sells for stepping into the Interim CFO role, while continuing to lead his Retail Pharmacy team.

As we emerge from this period, I am incredibly grateful and proud of the way our team have united to support each other to work through the challenges collectively and position Sigma ready to embrace future opportunities.

I would also like to acknowledge the frontline healthcare workers, which includes our community pharmacies, for their unwavering support for the community through trying times.

Our DC operations at Rowville have now ceased, with services switched to our new site in Truganina with a new team. I thank all our DC team members who have supported us at Rowville and wish them success in the future. In May this year we also move to a new business support office, providing a fresh beginning for our office-based team members in a more vibrant and collaborative environment.


We are aware that our transformation has impacted the businesses and staff of our customers. We enter the 2023 financial year intent on rebuilding their confidence and trust in our company and our ability to deliver.

We now have our new CEO, Vikesh Ramsunder, who brings extensive industry experience, a fresh perspective and a growth mindset as he leads Sigma and our teams into the next phase of Sigma's long and proud history.

It is an exciting period ahead for Sigma.



Ray Gunston
Chairman



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