



STOCK STORY

One of the standout results during the last quarter was the performance of Sigma merger-hopeful, Chemist Warehouse. We first purchased a position in Sigma back in December 2023, shortly following the announcement of its proposed merger with Chemist Warehouse.

Our attraction to Chemist Warehouse is straightforward; few businesses possess such a dominant competitive position in their respective niche as the Chemist Warehouse franchise. The company employs a similar model to many discount retailers, leveraging its large scale to negotiate cheaper prices from suppliers and pass the savings on to customers. This creates a positive cycle where lower prices attract more customers, which further boosts sales and negotiating power with suppliers. As a result, Chemist Warehouse generates best-in-class sales per square metre compared to global pharmacy peers. The company is run by a founder-led management team with significant skin in the game and the balance sheet is in a strong position.

The company also possesses a long growth pipeline. Chemist Warehouse accounts for less than 10% of pharmacies in Australia. Just by replicating its store penetration in Victoria across other states, Chemist Warehouse could grow its Australian store network by 65%. The company also has several irons in the fire internationally, with 70 stores located across New Zealand, Ireland and China. There are potentially decades of strong store rollouts ahead of the business, and the company's franchise model allows for this expansion with minimal capital investment, with the potential to create significant economic value for shareholders.

The fly in the ointment, however, is whether the deal gets blocked by the ACCC. At our average purchase price of around \$1.10, we considered the probability of ACCC approval, as well as the upside and downside valuation scenarios. Under that analysis, we viewed the risk reward as highly favourable. The recent announcement regarding Chemist Warehouse's enforceable undertaking, which was likely developed in consultation with the ACCC, indicates to us that the chances of approval have significantly improved. At today's share price of around \$2.00, there is clearly substantial downside if the deal is blocked, and we have trimmed our position slightly to reflect this risk. However, given the compelling long-term opportunity and what we consider to be a probable deal completion, we remain holders.

By Will Granger, Portfolio Manager

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