

Green Cross Health (NZX: GXH)

Half Year Result Announcement for the unaudited six months ending 30 September 2019

GREEN CROSS HEALTH REPORTS INTERIM PROFIT OF \$7M

26 November 2019, AUCKLAND, NZ: Listed primary health care provider Green Cross Health, the group behind Unichem and Life Pharmacy, The Doctors and Access Community Health, reported a 2% decrease in Revenue to \$275m in the six months to 30 September 2019 compared to the prior period. Net Profit After Tax Attributable to Shareholders was \$7.0 million, after a -\$0.9m impact of applying the new IFRS16¹ accounting standard. Before the application of IFRS 16, Net Profit After Tax Attributable to Shareholders was steady at \$7.9m compared to \$8.1 million in the prior period.

Result Summary:

- Revenue of \$275m (-2.5%)
- Operating Profit \$16.0m (+7.4%)
- Net Profit After Tax Attributable to Shareholders of \$7.0m (-14.1%)
- Net Profit After Tax Attributable to Shareholders before the application of IFRS16¹ \$7.9m (-3.0%)
- Pharmacy Revenue down 4.5% and Operating Profit down \$1.7m at \$12.2m
- Medical performed strongly with Revenue up 10.9% and Operating Profit up 87.1% to \$3.8m
- Community Health Revenue down 4.0% and Operating Profit up \$1.1m to \$1.0m
- Operating Cash Flow \$22.1m (before the application of IFRS 16 \$13.1m)
- Net Debt reduced \$11.9m to a conservative \$32.2m
- Interim Dividend consistent with prior period at 3.5 cents per share
- The full year impact of IFRS 16 on Net Profit After Tax Attributable to Shareholders is estimated to be between -\$1.3m to -\$1.7m based on current leases.

Green Cross Health Group CEO Rachael Newfield, says, “Pleasingly, the Medical and Community Health divisions have seen material improvements in profitability during the period. While we have seen the continuation of a challenging competitive landscape, we are buoyed by how company profit has held up against this backdrop. In the Pharmacy division, the period has been about building capability in all functional areas, to ensure the Company is well-equipped to navigate these challenges going forward. With a solid balance sheet following the reduction in Net Debt, we are well positioned to withstand market pressures and invest in growth opportunities.”

¹ The application of IFRS 16 has meant operating leases have been brought onto the Balance Sheet in the interim period with a corresponding lease liability. The operating lease charge has been replaced with the amortisation of the right-of-use asset and lease interest charges in the Statement of Comprehensive Income. The interim period ended 30 September 2019 was impacted by this change, with EBITDA increasing by \$9.0m, EBIT increasing by \$1.7m and Net Profit After Tax Attributable to Shareholders decreasing \$0.9m. No prior period adjustment was made for the application of IFRS 16.

Unichem & Life Pharmacy Division

Pharmacy Revenue saw a decline of 4.5% following prior period store closures as part of our ongoing portfolio review, while same stores revenue held flat at +0.4%. Operating Profit was down \$1.7m to \$12.2m as the retail environment continues to provide customers with increasing choice, creating pressure on margins. Further, the company incurred a number of one-off costs as it made changes to staffing structures, including recruitment of a new Group CFO and new General Manager - Marketing, and information technology and depreciation cost impacts as investments from prior periods were operationalised.

We continue to further strengthen our digital capability to utilise our 1.6 million Living Rewards loyalty database to obtain insights and to provide authentic, personalised engagement with our customers. Our Living Rewards customers spend over 40% more per annum than non-Living Rewards customers. Our ongoing investment in an automated prescription reminder service to support patients with adherence to medicine has now reached a milestone of 200,000 customers enrolled in this valuable service. Repeat prescription collection was 7% higher than prior period.

In the first half of the year, the company continued its focus on core retail disciplines. The company progressed its pricing and margin management plans to schedule, with initiatives to lift gross margin beginning to deliver results towards the end of the period. The company also commenced work on its product range review, including a focus on exclusive distribution arrangements. In the stores, we continue to focus on realigning occupancy and labour costs to the changing market conditions.

It has been particularly pleasing to see the expert care and advice our teams provide, coupled with our professional in-store experience, recognised during the period in the KPMG 2019 Customer Experience Excellence Report, which placed Unichem Pharmacy at No. 6 and Life Pharmacy at No. 15. The report measures the top brands excelling in customer experience, based on a survey of almost 3,000 consumers across New Zealand.

During the period, Green Cross continued its advocacy role in negotiations with Government funders. A Pharmacy Contract variation was agreed which delivers a sector-wide funding increase of \$18.5m from 1 October 2019. Green Cross Health continues to voice concern that some competitors are contravening Government policy by not charging the \$5 prescription co-pay. We continue to call on Government to review the intention of the co-pay policy and ensure it is in line with Government's "equity of access" to healthcare policies.

Going forward, the company continues to optimise its footprint and capitalise on growth opportunities with a focus on its new Pharmacy build programme. Three pharmacies are due to open in the second

half of the financial year - Life Pharmacy in Westfield Newmarket, Auckland, and two Unichem pharmacies in Highland Park, Auckland and Parklands, Christchurch.

The Pharmacy division will continue to focus on leveraging the significant strengths we have with our trusted Unichem and Life Pharmacy brands, our national footprint and our Living Rewards loyalty programme membership. We remain focused on core retail disciplines including pricing, product range and cost management to continue adapting to the changing market conditions.

The Doctors Medical Division

Medical Revenue increased 10.9% to \$38.0m, with Operating Profit up 87.1% to \$3.8m, driven by improved operational efficiency, a focus on organic revenue growth and the impact of recent successful acquisitions. The Doctors network currently numbers 41 medical centres.

Operationally, Medical continued to roll out initiatives to provide improved patient access and capacity management. These initiatives, combined with the growth of 1,000 enrolled patients during the period (to 256,000 enrolled patients), allowed the division to deliver an increased return per patient.

Increasing scale and operational capability in Medical continues to be at the core of the Medical division's growth strategy, along with selectively acquiring practices.

Community Health Division

The exiting of two unprofitable District Health Board contracts meant Revenue in Community Health declined by 4.0% to \$74.9m; one contract was re-tendered with 50% regained at sustainable margins.

Our plans to focus on profitable contracts rather than top line growth, began to deliver results with Community Health returning an Operating Profit of \$1.0m, up from -\$0.1m. During the period the division continued with its strategy of focusing on higher clinical needs, bedding in the ACC Integrated Home and Community Support business that it was awarded following a successful tender at the end of last financial year. The division's specialist nursing care business, Total Care Health continued to expand into new regions and new segments of care, targeting convenient client access.

A large focus in the period was driving operational efficiency through cost management and an ongoing investment in technology, supporting a client-centric approach coupled with improved profitability.

While the division has seen an uplift in profitability, a shortfall in funding continues to adversely impact the Home and Community Support sector and we are looking for support from funders to ensure the ongoing viability of this division.

Future Focus

Green Cross Health is focused on delivering future earnings growth, both organically and through acquisitions. We continue to refine our operating model to fit the changing market. Another ongoing priority for the Company is advocating for the removal of the prescription co-payment Government tax, with the aim of increasing accessibility and equity for all New Zealanders. We continue to call on funders to review funding in the Community Health division to ensure the sector is sustainable.

Green Cross Health is committed to providing all New Zealanders accessible, quality primary health care. Our nationwide footprint, offering convenient access to health, beauty and wellness products and services through our network of health care experts supports New Zealand communities.

Dividend

The Directors have resolved to pay a fully imputed interim dividend of 3.5 cents per share to shareholders on the register at 5pm on 11 December 2019. The dividend is consistent with the prior year and will be paid on 19 December 2019.

Contact:

Ben Doshi

ben.doshi@gxh.co.nz

Rachael Newfield

rachael.newfield@gxh.co.nz

About Green Cross Health

Green Cross Health (NZX: GXH) is a trusted New Zealand primary health care provider with multi-disciplinary health care teams with the purpose of working together to support healthier communities. Green Cross Health is focused on creating sustainable health care solutions with positive outcomes and experiences.

New Zealand owned and operated, Green Cross Health operates under branded groups Unichem and Life Pharmacies, The Doctors medical centres, Total Care Health community nursing services and Access Community Health to provide support, care and advice to diverse New Zealand communities.

Providing convenient access to professional health care with 360 Unichem and Life pharmacies covering almost every New Zealand community, Green Cross Health's 8,000 team members make more than 4.2m home visits to more than 30,500 community health clients and care for 256,000 enrolled patients at medical centres.