

Green Cross Health (NZX: GXH)

Annual Shareholders' Meeting, Monday, 24 August 2020 at 2.30pm.

Chair & Group CEO Speeches

Kim Ellis, Chair

Slide 6:

Before Rachael takes you through the company's financial performance and plans going forward, I'll very briefly touch on a couple of matters.

First, the impact of COVID-19 on the business.

The Government mandated Level 4 Lockdown from 26 March understandably had little impact on our FY20 results to 31 March.

In terms of impact on the new financial year that began 1 April, a number of the Group's pharmacies, medical centres and the community health operations continued to operate in a reduced capacity during Level 4 as they were classed as an essential service. The Group's activities progressively returned to full operation as alert levels reduced. Revenue was continuing to recover, now frustrated by the new Level 3 restrictions in Auckland effective 13 August.

The prospect of another year or more of closed but leaky borders and on-again-off-again economic activity in pursuit of total eradication, until a vaccine is discovered and widely implemented, is a matter of great concern.

At this stage, we do not consider that the mandated restrictions to date will have a material effect on the valuation of the Group's assets nor our ability to comply with our covenants. We will continue to review this given the recently imposed restrictions and ongoing uncertainty of the economic impacts of the Government's response to COVID-19.

We are committed to maintaining a robust balance sheet and strong cash reserves. In the face of all the market uncertainty, the Board made the precautionary decision not to declare a final year-end dividend. The Board will review the position at the half year and hopes to return to declaring dividends at that time.

Last of all, I'd like to say thank you to all the Green Cross Health staff, in every division across New Zealand for contributing to a successful FY20. And for your exceptional performance in challenging times providing an essential service during the government lockdowns. It's been great to see and to hear about our team members in every New Zealand community going above and beyond to ensure New Zealanders have access to quality care and advice. The Board and I are proud of and thankful for the key role all our staff play in supporting the health of New Zealand communities.

Rachael Newfield, Group CEO

Slide 8:

To begin, here's an overview of the current business.

Going through each of the 3 divisions:

- We are now 361 pharmacies - with 299 Unichem stores and 62 Life stores.
- We have 42 medical centres and 267,000 enrolled patients in those centres.
- Community Health employs over 3,000 support workers who conducted over 3.6m home visits last year.

I'll talk through the group financials, then take you through the financial performance and the plans going forward for each division.

Slide 9:

So starting with the group performance for the 12 months ending 31 March 2020.

In terms of financial highlights, working down the left-hand side of the slide:

- Revenue marginally increased in a very competitive environment.
- Our Operating Profit after IFRS16 (which is the new lease accounting standard that all companies have been required to adopt) increased 5.4% to \$31m.
- Our Net Profit After Tax Attributable to Shareholders fell 16.2% to \$13.5m. This was after a number of non-cash items, namely the impact of IFRS16, goodwill disposals and intangible write-downs.
- I note that Net Profit After Tax Attributable to Shareholders before those one-off non-cash items was up 9.3% to \$17.6m.

And to the right-hand side of the slide:

- Same store pharmacy sales grew 1.5%.
- The Medical division's Operating Profit increased to \$8m. This division was favourably impacted by the IFRS16 accounting change, noting IFRS16 is favourable at the Operating Profit line, but due to the interest charge, is unfavourable at the net earnings line. Without the accounting change, Medical Operating Profit was \$6.8m (a healthy increase of 54% year on year).
- Community Health had a significant turnaround with Operating Profit up to \$2.5m - an increase of \$2.4m vs. the prior year.

Slide 10:

Now to go through the key metrics:

- In the left hand graph, as I mentioned, you see Revenue marginally increased in a very competitive environment.
- In the right hand graph, Operating Profit rose to \$31m, up 5.4% year on year.

Slide 11:

- The Net Profit After Tax Attributable to Shareholders was \$13.5m. This was down 16.2%.
- However, this year's reported result was impacted by a number of non-cash one offs including goodwill disposals, intangible write offs and the first year application of IFRS16.
- Before the non-cash one-offs, the underlying NPAT attributable to shareholders was \$17.6m.

Slide 12:

Moving to the Operating Cash flow.

The business again generated strong cash flow.

Operating Cash Flow was \$54.3m, noting that the cash flow before the application of IFRS16 was \$34.8m, an increase of \$2.4m on the prior year.

The cash generated enabled us to make \$10.8m of significant investments primarily in our medical and pharmacy divisions. These included:

- An investment in Drury Surgery - this is an Auckland medical centre which we acquired just prior to year end.
- We purchased two new pharmacies in Karori Wellington. They were acquired in the final quarter of the financial year.
- We increased our shareholding in Waiuku Medical Pharmacy and also increased our shareholding in Centre City Pharmacy Dunedin.
- And we opened a pharmacy in the newly revamped 277 Newmarket shopping centre in Auckland.

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The Chair mentioned our continued focus on maintaining a strong balance sheet.

Over the year we reduced net debt to \$22.6m.

At year end we had \$10m of headroom in our BNZ group debt facility.

That's important as it puts us in a strong position to withstand the impacts of COVID-19 and flow-on economic downturn.

It also means we have plenty of room in our current funding facilities to support further investment.

Our financing ratios were all well within our required covenants.

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Last, earnings per share were at 9.42cents or at 9.85 cents post the application of IFRS 16.

Slide 15:

Now I'll talk through a bit more detail around financial performance for each division for the 12 months ending 31 March 2020 and the plans for each division going forward.

Slide 16:

The Pharmacy division.

- All store pharmacy Revenue was down 1% given some store closures in the prior year and early F20.
- Operating Profit was down \$4.8m to \$22.5m. Part of this decline was the non-cash items I spoke about earlier.
- Like any national retailer, refining and evolving our store portfolio is always ongoing. As I mentioned, we acquired two new stores in February 2020 in Wellington and invested in a rebuild in 277 Newmarket. We also opened Unichem Parklands Medical Pharmacy in Christchurch - a greenfield pharmacy co-located with a medical centre. We also rebuilt Unichem Highland Park Pharmacy in Auckland, a new co-located medical centre replacing our previously closed store.
- Pleasingly our same store sales grew 1.5% with our pharmacy script numbers up 1.3%.
- And our Living Rewards loyalty membership numbers grew year on year to 1.7m members.

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The pharmacy division has four focus areas:

1. As a health retailer, embedding core retail disciplines continues to be critical.
 - We will continue to evolve our product offer - that's even more important in a post COVID-19 world as New Zealand deals with the ongoing economic consequences from COVID-19.
 - Further, we continue with a strong focus on margin management - both further reviewing our store pricing and ensuring we are buying cost effectively.
2. Winning in retail, requires strong customer engagement.
 - We continue to invest in our digital capability for our 1.7m Living Rewards customers so we can provide them relevant and timely communications.
 - Promoting further growth in our ecommerce channels is important - whether that's providing information to allow customers to research products before they shop in store or allowing them to shop online and have the product delivered to their home, we need to be accessible to our customers in all channels.

- Working jointly with the Pharmacy Guild, we continue to advocate for the removal of the \$5 prescription tax so that all New Zealanders can have equitable access to medicines. We are disappointed the Government has not yet removed a key barrier to medicine access and we continue to push for the charge to be abolished.
3. Leveraging our network scale remains key.
- As a national retailer we will continually evolve, adapt and improve our equity store footprint.
 - And we maintain focus on leveraging the investment in both our bricks and mortar and our trusted Unichem and Life brands to connect with our customers.
4. Finally, a strong focus remains on financial returns.
- In the next period, retail performance will face challenges from modified consumer spending as a result of COVID-19, coupled with ongoing competitive pressures. We will continue to adapt.
 - As part of this, priority is being placed on recalibrating labour and occupancy costs, to ensure the cost structures of our pharmacies are right-sized.

Slide 18:

On to the Medical division.

- Medical Revenue grew 8.5% to \$76.5m. This was primarily from organic growth.
- We saw Operating Profit increase 81% to \$8.0m. This was helped by a \$1.2m positive non-cash impact of adopting IFRS16, without it, the result would have been a very solid \$6.8m Operating Profit.
- Operating Profit margin improved to 8.9%, excluding the impact of IFRS16.
- Enrolled patients were up, from 255,000 last year end, to now 267,000. The increase was a combination of organic patient growth and the purchase of Drury Surgery just before year end.
- That purchase lifted our portfolio to 42 medical centres.

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The focus for medical remains consistent.

We continue to grow our network scale.

- We are focused on building The Doctors brand, establishing the brand as a trusted, recognisable brand in the regions in which it operates.
- We continue to target both organic revenue growth and also acquisitions where they make sense commercially.

As with the pharmacy division, patient engagement is key to the success of any business.

- We saw during the first wave of COVID-19 that being able to interact virtually with our patients became increasingly important. As a result, we have an increased focus on deploying digital technology so that we can provide care to patients in the manner that suits them.
- We continue to work with funders to ensure equitable access and support for our patients.

And last, we continue to focus on financial returns.

- Increasing our operational efficiency, including through improving workflows and reducing costs continues to be important.
- We continue to work on lifting utilisation of our services via systematic triaging of patients - COVID-19 has actually assisted that with many patients becoming exposed to new methods of engagement and enjoying the benefits of different approaches.

Slide 20:

The last of the divisions is Community Health.

- In this division, Revenue marginally reduced year on year - it was down 0.5% following the exit of unprofitable contracts. Our strategy in this business is not to focus on the top line, as not all business is profitable.
- As I mentioned earlier, we achieved a turnaround in Operating Profit. It increased to \$2.5m or \$2.4m excluding the impact of IFRS16. This was on the back of cost improvements of 3%. We had a significant focus throughout the year on utilising technology to improve efficiencies and reduce costs, while still supporting a client-centred approach.
- While the results are a significant turnaround, the Operating Profit margin is still very slim in this division. We continue to advocate for additional sector funding for the community health sector across New Zealand.

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In the Community Health division we continue our current plans.

In terms of service offering,

- We remain focused on the higher clinical needs segments where higher financial returns are possible.
- We continue to expand our geographic coverage of Total Care Health - our Community Nursing business. We invested further during the year in areas such as Hawkes Bay, Tauranga and Northland.

As with the other 2 divisions, using digital technology is important.

- We will continue to utilise technology to both reduce our costs by improving the efficiency of our workforce, and also to improve client outcomes.

And finally, given the slim operating margins in this division, a focus on financial returns is critical.

- We will continue to focus on areas where we can reduce costs.

- We will continue to focus on contract profitability - targeting growth in areas that provide an opportunity for financial return as not all contracts in this sector are good contracts to pursue.
 - And as I mentioned, continued advocacy for sustainable government funding for this sector remains a must. To deliver support to our most vulnerable in their communities, requires sustainable funding.
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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 361 Unichem and Life pharmacies covering almost every New Zealand community, Green Cross Health's 8,000 team members make more than 3.6m home visits to more than 42,500 community health clients and care for 267,000 enrolled patients at medical centres.

