Green Cross Health (NZX: GXH)
Annual Shareholders' Meeting, Monday, 26 July 2021 at 2.30pm.

Chair & Group CEO Speeches

Kim Ellis, Chair

Slide 5:

I'll touch on a couple of matters before Rachael takes you through the results.

Overall the Board was encouraged by the results for the year ended 31 March 2021. Against the backdrop of all the challenges created by COVID-19, the company delivered a solid earnings and cash result.

Within that result, we grew in two of the three divisions. Medical improved margins, grew organically and made three acquisitions. Community Health which operates at very narrow margins, was able to lift Operating Profit year on year. On the other hand Pharmacy Operating Profit was down 4%. This was not just the result of an increasingly competitive pharmacy scene but also this division was the most impacted by COVID-19 with the lack of tourists, overseas students and general retail traffic in our high street and city mall stores. Pharmacy retail will continue to be challenged not just in this current year but into the future. Successful execution of our strategy to respond to this environment has the absolute focus of the Board and management.

Also absorbing considerable Board time is the capital and shareholding structure of the company and the associated low level of liquidity and analyst coverage. The solution to this conundrum will take time and is predicated on pharmacy turnaround.

Meanwhile the Company has a very strong balance sheet. When Rachael takes you through the numbers, you will see we have net cash – the result of cash preservation and tight working capital management. Combined with the decision not to declare a final FY21 dividend, the company is well positioned to accelerate its acquisition strategy.

I'll now hand over to Rachael to cover the FY21 results and more importantly her plans for the year ahead and beyond.

Rachael Newfield, Group CEO

Slide 7:

I'll start by providing a snapshot of each of the 3 divisions at year end. From left to right:

- We closed the year at 357 pharmacies – that was made up of 295 Unichem stores and 62 Life stores.
- Our medical centres numbered 45 with 285,000 enrolled patients in those centres.

- Community Health conducted over 3.8m home visits last year, looking after over 40,000 clients.

Next I'll take you through the group financials, and then go through the results for each division one by one, including covering the plans for each division.

Slide 8:

This is the group performance for the 12 months ended 31 March 2021.

Working first down the left-hand side of the slide:

- Group Revenue was fairly constant year on year at $570m
- Group Operating Profit was $35m
- Net Profit After Tax Attributable to Shareholders was up 24% to $16.8m.

And to the right-hand side of the slide:

- The Pharmacy Operating Profit was down marginally to $24.1m
- The Operating Profit in the Medical division increased to $9.3m
- Community Health continued to lift in profitability with Operating Profit up to $3.7m.

Slide 9:

Looking at the trend for the key group metrics:

- The top graph shows the group Operating Revenue, you can see this was again constant year on year
- The bottom graph shows group Operating Profit which lifted to $35.1m, up 13% year on year.

Slide 10:

- And moving to Net Profit After Tax Attributable to Shareholders, this increased to $16.8m, up 24% year on year
- For completeness, I note that the 2020 reported result was impacted by goodwill disposals and intangible write offs of $3.5m.

Slide 11:

Next to the Operating Cash flow.

Once again the business generated solid cash flow.

The cash generated was $71.8m, or $52.1m excluding the application of IFRS16 (which to refresh your memory, is the accounting standard for leases).

While we were fairly conservative around investment last year given the uncertainties caused by COVID-19, we did invest $9.2m of the cash generated.

The investments included:

- An investment in three new pharmacies in Cambridge which were acquired just prior to year end
- And in keeping with our strategy to grow the Medical division, we bought three medical centres last year.

Slide 12:

Turning to the debt position, we have worked hard to maintain a strong balance sheet. Over the year we went from a net debt position of $22.6m net debt to a positive $12.9m net cash position.

We also placed a huge emphasis on working capital management, which contributed to that positive result.

The debt position is important as it puts us in a strong position to withstand the impacts of COVID-19 which, as we saw in Wellington at the end of June, are certainly not yet behind us.

And as mentioned in our end of year release, we have preserved cash to assist the Company with accelerating its acquisition activities. We also have $41m headroom in our BNZ group debt facility.

Last of all, all our financing ratios were well within covenant requirements.

Slide 13:

Last, earnings increased to 11.7 cents per share.

Slide 14:

So now we move to divisional performance for the year ended 31 March 2021 and the plans for the year ahead.

Slide 15:

Starting first with the Pharmacy division. There's no doubt it was a difficult year.

- COVID-19 saw a reduced ability of customers to shop in store during the various alert levels. This, combined with increased competition, meant we saw Pharmacy Revenue finish down 6% and Operating Profit down 4% to $24.1m
- We were grateful for the Government wage subsidy, which was passed on to staff and helped individual pharmacies retain staff during the period
- We continue to refine our store portfolio – the two stores in Wellington acquired February 2020 are now well integrated into the portfolio and, just prior to year end, we invested in three new stores in Cambridge
- While retail sales were difficult, dispensary sales were more resilient. Our same store script numbers grew 4% year on year, with temporary changes to dispensing supporting that, along with the significant emphasis we have put on our repeat reminder system, which now supports over 600,000 patients.

Slide 16:

Clearly we have some challenges in the Pharmacy division. Going forward, the division has four focus areas.

1. **The Customer**

   - Our Living Rewards membership is now at 1.8m members. Last year, we invested in a tool to track customer spend and trigger automated offers to encourage repeat business. Given COVID-19 last year, we didn't get a lot of opportunity to use it. This year, we will further develop our capability around connecting with our loyal customers. Investment here is important because Living Rewards customers spend about 50% more than non-Living Rewards customers

- We all know COVID-19 has accelerated the opportunity for ecommerce. Just prior to year end we launched a pharmacy services booking tool on both our Unichem and Life pharmacy websites. In the year ahead we will further develop our digital offering, to ensure both our products and services are accessible to our customers on their terms
- Advocating for the sustainability of community pharmacy and accessibility of medicines for all patients remains on the agenda. Disappointingly, it wasn't part of this year's Government budget. We are still calling on the Government to remove the $5 prescription tax so that all New Zealanders can have equitable access to medicines.

2. **Retail disciplines**

   - While we have made some good progress around our retail offer, this work must continue into the next period both in terms of range and pricing strategies
   - Going forward, one of our key differentiators in market will be our professional service offers, coupled with relevant products. We will further evolve our care and advice offering
   - We also have a programme in place to lift our retail standards, to deliver a consistent and professional in-store experience.

3. **Network Scale**

   - At year end we had an equity interest in 88 pharmacies. Retail revenue from the portfolio is currently more weighted to malls and CBDs rather than regional and medical centre co-located pharmacies. We will keep optimising the portfolio in the year ahead
   - Leveraging our network of over 350 stores, along with the Unichem and Life Pharmacy brands remains a priority
   - Given the current health reforms under consideration by Government, we will keep engaging with Government and funders on system design – you'll see this as a constant across all divisions
   - And some of our stores are now involved in the rollout of COVID-19 vaccinations. Given pharmacy success with flu vaccinations, we see the COVID-19 vaccine as a natural extension and are keen to support a quicker roll out of the vaccine in New Zealand. We will keep pushing Government and the 20 DHBs to increase pharmacy involvement, dependent on them having stock of the vaccine of course.

4. **Financial returns**

   - With the impacts of COVID-19, along with increased competition, this division is certainly seeing margin pressure. To combat that, our strategy is about providing customers personalised, localised care and advice along with relevant products at fair prices – we will keep adapting in the year ahead

- In regards to the 88 store portfolio, in the coming year we will keep working on recalibrating labour and occupancy costs, to ensure the cost structures of our pharmacies are right-sized.

Slide 17:

In contrast, the Medical division continued to grow year on year:

- Medical Revenue grew 7% to $82m while Operating Profit increased 41% to $9.3m
- Organic growth comprised $2.1m of the $2.7m growth in Operating Profit year on year. Our focus on operational efficiency saw margins further improve
- At year end we were supporting 285,000 enrolled patients across our 45 medical centres.

Slide 18:

So what's next for the Medical division? The plan is constant.

Ensuring we meet our patient's needs is paramount

- We will continue to improve utilisation and service levels for patients through systematic triaging systems
- Last year we expanded the use of digital technology in centres including introducing online consultations. We have more work to do to increase the uptake of these services in the year ahead
- As with pharmacy, we are also keen to support New Zealand with COVID-19 vaccinations and are knocking on the doors of Government and all DHBs to expand our role.

Sector representation

- As a representative of 285,000 enrolled New Zealanders, we will be staying close to the design of the NZ health system reforms and looking for opportunities to contribute and we will work with funders to ensure equitable access and support for our patients.

We continue to grow our network scale

- We remain intent on building The Doctors brand in the regions in which we operate, with a number of campaigns planned across multiple channels
- And size is a key driver for the division. We'll achieve this through both organic growth from patient enrolments, along with acquisitions of further medical centres.

And last, financial returns

- Ensuring we benefit from our scale and further driving operational efficiency are important in the year ahead
- We will also be working to integrate last year's acquisitions and in year acquisitions.

Slide 19:

Finally, to Community Health.

- Revenue grew 10% last year, up to $171m. Pleasingly, our Operating Profit lifted to $3.7m
- Our growth has resulted from targeting high clinical needs areas, along with a focus on efficiency
- At 2% Operating Profit margin the division is clearly still operating at very low margins so advocating for additional funding to support future investment and sustainability in this division remains a priority.

Slide 20:

There are four areas of focus for the Community Health division in the year ahead.

We are continually refining our service offering

- As results have shown, the higher clinical needs segments need to be where we target our efforts
- We expanded our geographic coverage of Total Care Health last year; we need to bed those expansions in and expand further again in the year ahead
- And, again, this division is well placed to support COVID-19 vaccinations.

Utilising technology is key

- Digital technology allows us to enhance efficiencies and service for clients. Further development of our staff app and patient portal is on the plan
- We also will keep working on back office efficiencies, investing in technology to support improvement.

A common theme in all three divisions is sector representation

- We look forward to further engagement with those leading the NZ health system reforms, with the aim that the result is a less bureaucratic, more patient-centred system
- And as mentioned, this sector is in clear need of additional funding to ensure ongoing sustainability so that those most vulnerable can be supported to stay living in their homes.

Which leads to the final area, **financial returns**

- Managing and reducing costs is a given
- And we will constantly review the profitability of all contracts, ensuring we target the higher margin areas.

And before I finish, I would like to say a massive thank you to all the Green Cross Health team members for the past year. While operating a business always has its challenges, COVID-19 has certainly added another level of complexity. As an essential service our teams went above and beyond, and continue to go above and beyond, caring for the people in our communities.

Thank you. I'll now pass you back to the Chair.

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 357 Unichem and Life pharmacies covering almost every New Zealand community, Green Cross Health make more than 3.7m home visits to more than 40,000 community health clients and care for 285,000 enrolled patients at medical centres.