Green Cross Health (NZX: GXH)
Annual Shareholders' Meeting, Tuesday, 30 July 2019 at 2.30pm.

Chair & Group CEO Speeches

Peter Merton, Chair

Slide 3:

Before Rachael takes you through the business results and commentary for the 2019 year, I would like to make a few comments on the non-operating side of the business.

The most significant change we have made for many years occurred last year when we appointed a new CEO, Rachael, from outside the Health industry. Our objectives and expectations were and are to take the performance of Green Cross to the next level in terms of scale and performance. We have moved reasonably quickly from a small business operating in a regulated market that we knew very well, to a more diverse set of businesses operating in a rapidly changing and less regulated environment.

We see Rachael's structured and measured approach will set the business up for a successful expansion, combined with the ability to improve current performance without the shackles of historical practices. Rachael has settled in well and is dealing with the world of health and health retailing very well.

For the same reasons we undertook an independent board review facilitated by Propero. The results of the survey have given us a number of suggested actions that will lead to improvements in the governance of your company going forward.

Several independent, non-financial, surveys have been recently published which certainly put Green Cross Health in an enviable position. In the Randstad employee survey, we were in the Top 10 companies people wanted to work at in NZ. In the 2019 KPMG Customer Experience Excellence survey we were again in the Top 10 of NZ companies.

Both of these results are a tribute to the team and the work done over many years at both the culture and branding levels. These results plus the fact that we fulfil nearly half of the country's prescriptions and are New Zealand's biggest retail brand provide a very good basis to obtain the commercial growth that we are after.

The pharmacy business is obviously the core of Green Cross and it has been the one exposed to a rapidly changing environment, specifically the growth of discounting of prescriptions by some large foreign retailers. Over the last few years we have been putting our marketing emphasis on our high value customers and this has been successful as seen by the sales numbers and the growth of our loyalty card members. Margin has been sacrificed to some extent, but new initiatives should see that recover somewhat in the future.

The discounting of the prescription fee has highlighted two main areas. Firstly, $5 (the prescription charge the government charges and we collect) matters to a lot of people and that can be extrapolated to it providing a barrier to access to medicines for many people. Secondly, there is something perverse that sees us collect a government tax, but being competitively penalised when others contravene government policy and decide not to charge it. We have been actively communicating that it is time government reviewed the prescription charge fee to ensure it is in line with their "equity of access" to healthcare policies.

The new retail environment is opening up a large range of categories that the public identify with "pharmacy". This provides our Life and Unichem pharmacies the opportunity to expand into areas that we have not been in for many years. These categories include oral hygiene, hair products, baby products, sports nutrition and the like. The marketing to public is being done for us, and we intend to capitalise on the opportunities.

The debt reduction that we have worked on for the last few years has put us in a sound position to invest more significantly in acquisitions. Where pharmacy acquisition stacks up commercially, we will pursue opportunities over the coming year. Our Access business has gone through most of the pain associated with legislation changes, although it remains a challenging environment, and our medical team are growing that part of the business well.

I would like to take this opportunity to thank the healthcare professionals around the country that represent the Green Cross brand every day in the care of patients and customers.

Rachael Newfield, Group CEO

Slide 5:

First just to recap the current make-up of the business:

- We have grown to 360 pharmacy stores – split between the Life and the Unichem brands.
- Our medical centres now number 41, with 255,000 enrolled patients.
- Community Health delivered 4.2m home visits last year and employs over 3,000 support workers.
- Each of the divisions is in quite a different space. Once we've been through the highlights of the group result, I'll take you through the financial performance of each division, along with the plan for each division going forward.

Slide 6:

Moving down the left hand side of the slide for the group results, overall revenue, EBITDA and Net Profit after tax attributable to shareholders were all up year on year.

And to the right hand side of the slide, at a divisional level, Pharmacy store same sales were up 1.1% year on year and same centre medical revenue was up 4.9%. The dividend is consistent year on year.

Slide 7:

Looking first at the Pharmacy division, our total revenue was flat at $340m, with our operating profit down 5.5% to $27.3m. As Peter mentioned, our response to the competitive environment has clearly put pressure on margins.

Same store sales were up 1.1%, which was a solid result given a record low cold and flu winter season.

From a customer perspective, the continued growth in our Living Rewards loyalty membership programme was pleasing. We grew 8% to 1.6m members.

Slide 8:

So what's the plan going forward?

One of my initial observations is we very much need to focus on retail basics. This includes tightening up our buying and our selling processes and increasing our emphasis on cost and margin management. We have some work to do around our pricing strategy in particular. Competition is here and it is growing, so we need to get our basics sorted. This is going to be a big focus in the year ahead.

The work the team has started on exclusive product ranges is going well. This needs to be extended to ensuring we are capitalising on new categories and products. We need to continue to differentiate our customer offer from the competitors to ensure we protect margin.

The upgrade of lifepharmacy.co.nz is now complete. While there will be continual refinement of the e-commerce site, it is time for us to develop our online customer offer to capitalise on the investment the company has made in this asset. Similarly, we are at very early stages in the Chinese market and will keep developing our offer to these customers.

In terms of engaging with customers, New Zealanders expect retailers to have an omni-channel presence. We are no exception. We need to be using multiple channels to provide relevant information and offers to our customers. Creating a clear plan for this and starting to implement it is on the agenda for the coming year.

Coming into the business, I see the Living Rewards programme as a clear differentiator for Green Cross Health vs. its competitors. Our 1.6m loyalty members present a huge opportunity for the division. We have a massive amount of data about our customers. But, while we have a lot of data, we are only at the beginning of being able to turn it into meaningful, actionable information.

Given there are over 1,000 pharmacies in NZ and Green Cross represents 360 of them, there is still scope to grow the franchise network. We need to do that sensibly though, so we don't undermine our existing franchisees. And, of course, optimising the store network will always be continuous.

So to deliver financial returns going forward, we are in a rebuild and reshape phase. The market is changing and we need to reshape to fit the new environment. This includes investing in new capabilities and staff training.

Overall, Pharmacy has a strong base to build on - particularly the nationwide network, the strength of the Unichem and Life brands, and the Living Rewards programme. The next year is going to be a year of working on the basics to put us into a better position to enable us to compete going forward.

Slide 9:

Medical continued to deliver its growth strategy with revenue increasing to $70.5m and profit up 20.4% to $4.4m.

Same centre revenue growth was up 4.9% with patient growth up 7.6%.

Slide 10:

The plan for Medical is straight-forward.

We continue to grow the network, looking for acquisitions that stack up commercially. With 41 centres nationally, we still need more scale to become a well-recognised brand.

There is plenty of opportunity to better utilise technology to both reduce costs and to improve the customer experience. Similarly, we have scope to increase operational efficiency and lift profitability across our centres.

Last of all, there is an obvious link to ensure we are encouraging referrals to our Community Health division.

Slide 11:

And third, we come to the performance of our Community Health division.

While we grew revenue, operating profit was only $100k. That's disappointing.

As Peter mentioned, the division has gone through most of the pain associated with legislation changes. We will need to work smarter to make a return in the challenging legislative environment.

Slide 12:

So what does the future look like for Community Health?

We need to focus on the higher needs segments that utilise our more specialist care resources. And we will continue to grow our regional presence with our Total Care Health nursing business.

Using technology to minimise costs is going to be key for this division. Given the margins are low, we need to ensure we utilise technology well.

Last of all, we are conducting a review of all our contracts. We need to understand which are sustainable and which aren't. We will work with providers to rebalance services or exit as needed.

Slide 13:

We covered the consolidated financial highlights earlier, now to a bit more detail.

Slide 14:

As I mentioned earlier, group revenue was up 5.6% to $567m, on the back of growth in Medical and Community Health.

Operating profit was marginally down 2.2%, while EBITDA was up 2.3% to $36.9m.

Slide 15:

Net Profit After Tax (attributable to shareholders) was up 3.2% to $16.1m.

Slide 16:

The cashflow result was again solid. With pay equity pre-funding in the Community Health division coming to an end, operating cashflow dropped to $29.5m.

That operating cashflow was used to fund investments of $3.4m. Those investments were primarily in the Medical division to support our growth strategy. Operating cashflow was also directed to capital investment, including in IT systems, particularly in the Pharmacy division.

Slide 17:

We have maintained a conservative balance sheet which places us in a strong financial position. Our net debt reduced to $32.5m. We have plenty of room in our current funding facilities to support further investment in growth.

Slide 18:

Last of all, earnings were marginally up at 11.22 cps. And, as mentioned, the final dividend is consistent at 3.5c per share.

On a personal note, I'd like to say thank you to everyone for the warm welcome to the company. We have plenty of opportunity ahead of us. And plenty of hard work! I'm looking forward to seeing us deliver the results.

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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 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 255,000 enrolled patients at medical centres.