

Green Cross Health Limited (NZX: GXH)

Full Year Result Announcement for the year ending 31 March 2019.

GREEN CROSS HEALTH REPORTED PROFIT UP 3.2%

29 May 2019, AUCKLAND, NZ: Listed primary health care provider Green Cross Health, the group behind Unichem and Life Pharmacy, The Doctors and Access Community Health, has reported a 5.6% increase in Revenue to \$567m in the twelve months to 31 March 2019 compared to the prior period. Net Profit after Tax Attributable to Shareholders was \$16.1 million, up 3.2% from \$15.6 million (restated from \$16.8m¹) in the prior period.

Result Summary:

- Revenue of \$567m (+5.6%)
- EBITDA² at \$36.9m (+2.3%)
- Operating Profit \$29.4m (-2.2%)
- Reported Net Profit after Tax Attributable to Shareholders of \$16.1m (+3.2%)
- Pharmacy Revenue flat at \$340m, Operating Profit down 5.5% at \$27.3m
- Medical performed strongly with Revenue up 34% and Operating Profit up 20% to \$4.4m
- Community Health Revenue up 9.3% but Operating Profit \$0.1m (down \$1.1m)
- Operating Cash Flow \$29.5m (down \$3.7m)
- Net Debt \$32.5m (reduction of \$6.0m)
- Final Dividend declared consistent with prior period at 3.5 cents per share.

The prior period Net Profit after Tax Attributable to Shareholders for the year ended 31 March 2018 has been restated from \$16.8m to \$15.6m due to two changes made to the Community Health result, being the introduction of IFRS 15 during the year which required a write off of \$0.5m capitalised contract bidding costs and a \$0.7m increase in the provision for alternate leave liability due to a correction in the calculation of this provision.

¹ Restated to incorporate changes in Accounting Standards and restatement of alternate leave liability. See note 2 (c) of the 2019 financial statements.

² EBITDA is a non-GAAP measure. It is the net of Operating Revenue less Operating Expenditure and excludes Share of Equity accounted net earnings.

There are no underlying profit adjustments made to this year's result. Last year the company reported a +\$1.9m underlying profit adjustment related to a material one-off unfunded increase in leave liability as a result of pay equity legislation.³

Green Cross Health chair Peter Merton, says, "we are pleased to report revenue growth of 5.6% to \$567m over the last 12 months. The year in review has been one of transition for much of the company, as Green Cross Health has responded to increased competition in Pharmacy. The Medical division has continued to post strong results as it benefits from both organic growth and selective acquisitions. The Community Health divisional result has been impacted by a challenging funding and labour cost landscape and the company is looking for support from funders to ensure the ongoing viability of this division.

The year in review has also seen a transition in management, with Rachael Newfield beginning a newly created position as Group Chief Executive Officer in late January 2019. Rachael has significant CEO and commercial experience, having previously held the position of CEO Carter Holt Harvey Wood Products division. Management changes have resulted in higher than usual recruitment and corporate costs incurred over the past year.

The company is in a strong financial position, having generated approximately \$30m in operating cash flows per annum for the past two years and maintaining a conservative balance sheet. This position allows the company to pay dividends, withstand market pressures and invest in growth and/or pay down debt."

Unichem & Life Pharmacy Division

Pharmacy Revenue was down 0.3% at \$340m, with Operating Profit down 5.5% at \$27.3m largely because of gross margin decline, as the company responded tactically to a change in the competitive environment.

Overall, same store sales were up 1.1%. However, due to the change in sales mix and increased promotional activity, the same store gross margin was down 1.4% to 35.7%.

External challenges disrupted several stores this year, including major infrastructure works in the Auckland CBD and mall redevelopments at 277 Newmarket, Shore City, Queensgate, Courtenay Place

³ Adding the \$1.9m to the restated prior period Reported Net Profit of \$15.6m results in an Underlying Profit after Tax Attributable to Shareholders of \$17.5m for the year ended 31 March 2018. See note 6.3 of the 2019 financial statements.

and Commercial Bay. A record low cold and flu winter season also resulted in retail sales in the cough/cold and pain “over the counter” categories being down 5.9% year-on-year.

During the year the company continued its focus on optimising its pharmacy investments and made a number of changes to its equity positions in the store network including increasing its equity stake in Unichem Cuba Mall Pharmacy, the sale of its equity stakes in Life Pharmacy Tauranga and Unichem Timaru Pharmacy, the closure of Life Pharmacy Queen Street (following damage to this site) and the closure of Unichem Maxx in Auckland. Unichem Plimmer Steps Pharmacy, a greenfield site, was opened in central Wellington, whilst Unichem Pakuranga Pharmacy was relocated to an expanded site in a new, purpose-built integrated family health centre.

The company added three licensed stores to the branded group, which now totals 360 Unichem and Life pharmacies, of which 89 are stores in which it holds an equity stake. Prescriptions for the 12 months to 31 March 2019 totalled 7.2m across owned stores (-1.8% on a same store basis).

The upgrade of the Life Pharmacy e-commerce site was largely completed during the year, with the focus now shifted to driving traffic and sales via this channel through digital marketing and improving fulfilment capabilities.

Loyalty customers grew 8.0% to 1.6m New Zealanders participating in the Living Rewards programme at 31 March 2019. The company remains focused on providing a strong multi-channel customer experience, along with personalised customer service focused on supporting health, beauty and wellness.

During the year, Green Cross Health restructured its presence in the China Cross Border e-commerce market under a licence fee arrangement, capitalising on New Zealand’s reputation for health, beauty and wellness products. The Unichem-branded Alibaba T-Mall site is now one of the top 15 highest selling health product sites on T-Mall.

The company continues to leverage its national network to expand existing funder streams, including aged residential care and community residential care, whilst developing new strategic partnerships, such as funded health services with private healthcare insurers.

While acknowledging a changing retail landscape, the company continues to capitalise on its leading market position across New Zealand and extensive Living Rewards loyalty database. The division remains focused on its core retail disciplines, expanding its e-commerce and digital engagement and pursuing operational efficiencies.

The Doctors Medical Division

Medical Revenue increased 34% to \$70.5m, with Operating Profit up 20% to \$4.4m, driven by organic growth, selective acquisitions and improvements in operational efficiency. The division has increased enrolled patients by approximately 18,000 (+7.6%) since March 2018 to 255,000.

Two medical centres located at Waimauku and St Heliers were acquired during the year. Medical also increased its investment in two associate medical centre businesses, at New Lynn and Whakatane, moving to majority interest. The net acquisition cost invested in medical centres over the 12 months to 31 March 2019 was \$3.3m.

Operationally, Medical will continue to roll out initiatives to provide improved patient access and operational efficiency, including process improvement and labour cost control.

Green Cross Health continues to seek increased scale in Medical centres, with the *The Doctors* network now numbering 41 medical centres.

Community Health Division (*Access Community Health & Total Care Health nursing*)

Revenue growth in Community Health continued, up 9.3% to \$156.6m. However, the Community Health Operating Profit was disappointing at \$0.1m, down \$1.1m from \$1.2m⁴ reported in the prior year largely due to continued funding challenges.

Included in the \$0.1m operating result is a \$0.4m increase in leave liability resulting from support worker pay increases due to pay equity legislation. The last of these scheduled pay rate rises will occur 1st July 2021.

During the year, a new Community Health division CEO, Alison van Wyk, was appointed. Alison brings a long history with Green Cross Health and significant experience in the primary healthcare sector.

The division has also exited the underperforming Midlands DHB contract and retendered and won the Greater Wellington contract on new terms which began on 1 April 2019 alongside a new additional provider.

The division was also one of five successful organisations to be approved to deliver National ACC Integrated Home and Community Support Services which provides an opportunity for Green Cross Health to grow its market share in the ACC market.

⁴ The division's FY18 operating result has been restated to incorporate changes in Accounting Standards and restatement of alternate leave liability. See note 2 (c) of the 2019 financial statements.

The company hopes more sustainable community health funding will be a result of the health and disability funding review currently being undertaken by Government. The division is focused on working with funders of unprofitable contracts to either exit, improve funding or rebalance services supplied. It also remains focused on growing revenue in the higher clinical needs segments and continuing to pursue operational efficiencies.

Future Focus

Looking forward, the company remains focused on ensuring that Green Cross Health is well positioned to provide quality primary health care through its network of health care experts. The company is committed to investing in the expertise of its people, including significant investment in leadership training in the coming year.

Green Cross Health is confident in delivering future earnings growth, both organically and through selective acquisitions. Whilst the tougher commercial environment has limited acquisition opportunities in the short term, the company believes this cycle will change in the near future.

Green Cross Health is working closely with the Ministry of Health and District Health Boards on new services while strengthening its connection with its communities. The company's trusted brands and nationwide footprint will continue to offer convenient access to health, beauty and wellness products and services. Green Cross Health is developing income streams that use the company's nationwide network as a base for commercial success.

Dividend

The Directors have resolved to pay a fully imputed final dividend of 3.5 cents per share to shareholders on the register at 5pm on 13 June 2019. The dividend is consistent with the prior year and will be paid on 27 June 2019.



Contact:

Lisa Getkate

lisa.getkate@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 255,000 enrolled patients at medical centres.

