

Green Cross Health Limited (NZX: GXH)

Full Year Result announcement for the audited twelve months ended 31 March 2021

GREEN CROSS HEALTH REPORTS FULL YEAR PROFIT OF \$16.8M

28 May 2021, AUCKLAND, NZ: Listed primary healthcare provider Green Cross Health, the Group behind Unichem and Life Pharmacy, The Doctors and Access Community Health, reported Net Profit After Tax Attributable to Shareholders of \$16.8 million was in line with the underlying prior year result¹ and includes growth in the Medical and Community Health divisions, offsetting retail softness in the Pharmacy division.

Result Summary:

- Operating Revenue in line with last year at \$570m²
- Operating Profit (EBIT) up 13% to \$35.1m
- Net Profit After Tax Attributable to Shareholders up 24% to \$16.8m
- Pharmacy Operating Revenue down 6% and Operating Profit at \$24.1m
- Medical continued to grow, with Operating Revenue up 7% and Operating Profit \$9.3m
- Community Health Operating Revenue up 10% and Operating Profit \$3.7m.

Green Cross Health Group CEO Rachael Newfield, says, “COVID-19 and the associated economic downturn led to difficult trading conditions throughout FY21. Notwithstanding, the profit result of \$16.8m attributable to shareholders was in line with the underlying profit from the prior year, reflecting the ability of the Company to adapt to changing market conditions. The profit result was driven by strong growth from the Medical and Community Health divisions, which more than offset the weakness in the Pharmacy division caused by retail spending decline predominantly as a result of COVID-19.

As an essential service, we remained open over the lockdown periods to deliver vital primary healthcare during the pandemic and we are extremely grateful to every member of the Green Cross Health team for playing their part in supporting the health of New Zealand communities.”

Green Cross Health Group Chair Kim Ellis, commented, “the Management team has done well to reshape the business while staying true to the Green Cross Health promise of trusted care and advice. The fact that profitability has held up over the past year in the face of increased competition and COVID-19 impacts, and the significant improvement in working capital management, has positioned the Group well for future investment opportunities.”

¹ FY20 underlying result was \$17.0m. This is the reported net earnings attributable to shareholders of \$13.5m after one-off goodwill disposals of \$1.1m and intangible asset write-downs of \$2.4m.

² Operating Revenue includes \$10.8m of wage subsidy received, with the majority relating to individual pharmacies within the portfolio. In line with the objective and criteria of the scheme, pharmacies were able to retain staff during the wage subsidy period, with all amounts passed on to employees.

Unichem & Life Pharmacy Division

Pharmacy Operating Revenue declined by 6% in the year primarily due to the impact of COVID-19 and the reduced ability of customers to shop in-store during the various COVID-19 alert levels. Operating Profit for the Pharmacy division declined 4% to \$24.1m.

Same store retail revenue was down 18% year on year due to compressed retail spending, particularly in shopping mall, Auckland CBD and Wellington CBD stores, which typically represent 70% of retail revenue. During lockdowns, while our pharmacies were open, this was often with building access restrictions and customer demand for retail products was limited, particularly given a much reduced prevalence of cold and flu cases in the community as New Zealanders stayed home to prevent the potential spread of COVID-19.

Dispensary revenue was more resilient, finishing in line with last year, supported by temporary changes to repeat dispensing rules which increased repeat dispensing volumes. The number of flu vaccinations delivered by our pharmacies more than doubled year-on-year as our team improvised under the various alert level settings, including administering vaccines via drive-throughs to maximise social distancing and prioritise the health and safety of our staff and our customers.

Of our nationwide network of 357 pharmacies, as at 31 March 2021 we held an investment interest in 88. The two new Karori Pharmacies acquired in February 2020 traded for the full period, and we acquired investment interests in three pharmacies in Cambridge at the end of the period. In line with our focus on optimising our Pharmacy portfolio we closed three pharmacies during the year. This optimisation strategy will continue into the next period, both in terms of closures where we are unable to align operating costs, and strategic acquisition opportunities.

As an essential service, our pharmacies remained open over the lockdown periods to service patients and their local communities during challenging and uncertain times. COVID-19 saw our pharmacies innovate their practices; offering home delivery prescription services to their communities and rapidly adopting new electronic, paper-less prescription solutions. These changes were not without their challenges and costs, particularly with collecting the \$5 Government-mandated prescription co-payment from patients who received contactless delivery of prescriptions.

We actively represent our pharmacies as a lead Sector Representative in various negotiations with funders. We have raised concerns about ongoing pharmacist workforce sustainability, wage cost pressures and relativity, along with the inadequacy of Government funding for vital patient services.

We are encouraged by the Government's announcements regarding proposed health reforms, especially the increased emphasis on primary healthcare funding and the expanded role pharmacists can play in supporting the health of their communities.

The Doctors Medical Division

The Medical division achieved year on year growth in revenue and profitability, investing to drive patient growth both organically and through acquisitions. Medical Operating Revenue grew 7% to \$82.2m, with Operating Profit up 41%, from \$6.6m to \$9.3m. Organic growth comprised \$2.1m of the \$2.7m increase in Operating Profit.

Acquisitions in recent years have now fully integrated into the division and are performing well. Throughout the year, Gabriel Medical (Auckland), Tui Medical Centre (Whangarei) and Richmond Health Centre (Nelson-Richmond) were acquired, increasing the portfolio to 45 centres. Enrolled patients as at 31 March 2021 totalled 285,000, an increase of 18,000 (+7%) since 31 March 2020.

Operationally, COVID-19 had a significant impact on acute patient presentations, particularly in urgent care and walk-in settings. Clinically, the strategy has been managing through the COVID-19 pandemic to keep our staff and patients safe, responding swiftly to community outbreaks and alert level changes and providing testing capabilities at a number of centres, which also helped mitigate the drop in patient presentations.

Due to operational restrictions and evolving patient preferences driven by COVID-19 lockdowns, digital capabilities were quickly enhanced. This included establishing functionality for all clinics to enable telehealth services which were widely used by patients and the launch of an in-house end-to-end video consultation platform (housecall.co.nz).

Whilst managing the short-term complexities and opportunities from COVID-19 is important, the underlying strategy remains to grow revenue organically, further reduce the operating cost per patient and target compelling acquisition opportunities, whilst delivering high-quality medical services. We are working closely with the Ministry of Health to ensure improved access and affordability to lower socio-economic groups and we welcome the Government's health reform announcements, which should see providers working more closely with central funders to address access and equity issues.



Community Health Division

The Community Health division's Operating Profit of \$3.7m was a healthy increase of \$2.5m versus the comparative period, reflecting the success of the strategy of supporting clients with higher clinical needs, ongoing service improvement and improving profitability of contracts. In addition, cost efficiencies have resulted from the investment in people, technology and systems, with cost containment and re-sizing of business operations key, due to ongoing funding constraints.

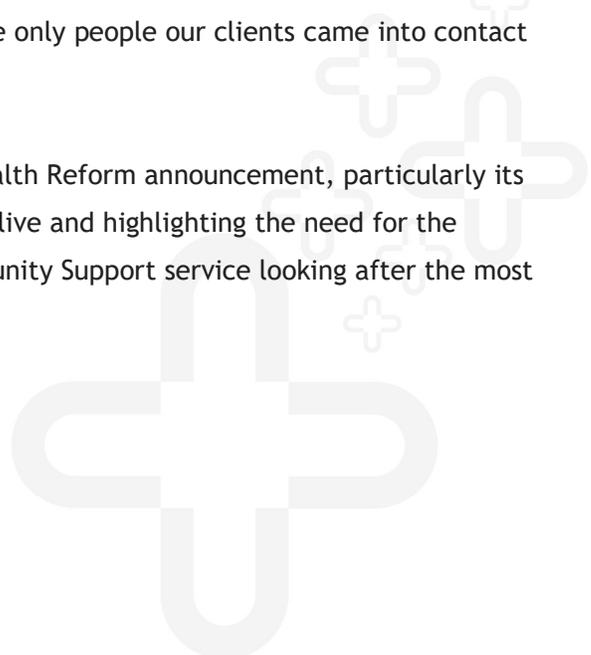
Despite the improved performance, the Operating Profit margin for the division remains low at 2%, exposing the division to adverse changes to ongoing wage pressures, costs associated with increased complexity of care and significant administrative costs. We are advocating for support from all funders to ensure the ongoing viability of the sector.

The division's specialist nursing care business, Total Care Health strengthened its brand presence whilst expanding into new segments of care, driving enhanced clinical outcomes and supporting convenient client access. The Community Health ACC business segment delivered further growth, supporting clients with both non-complex and complex care needs as well as providing 24/7 quality care.

Our investment in digital technology across the division to both improve client service and reduce administrative costs continued. During the COVID-19 lockdown we introduced functionality to enable our nursing team to provide care and support through telehealth options.

The value of the Home and Community Support sector was highlighted throughout the COVID-19 lockdowns. Access Community Health's team of over 3,000 provided care and support to our most vulnerable clients within their homes during a time of heightened anxiety and risk to both our team and clients, where our support workers were often the only people our clients came into contact with throughout this time.

We are pleased to see the intent of the April 2021 Health Reform announcement, particularly its emphasis on equity of access regardless of where you live and highlighting the need for the Government to ensure a sustainable Home and Community Support service looking after the most vulnerable people within our community.



Future Focus and Dividend

Whilst the Board accepts there is still some uncertainty ahead, it is pleased with how the Company has weathered the COVID-19 uncertainties, producing both a solid profit performance and performing an important primary healthcare role for the community in the most trying of times.

The Company continues to engage with District Health Boards and the Ministry of Health, highlighting our ability and willingness to play an increased role in the COVID-19 vaccine programme as it extends to all New Zealanders.

Green Cross Health is committed to meeting patient and customer expectations, providing all New Zealanders accessible, quality primary healthcare. As part of this commitment, we are advocating for the removal of the prescription co-payment Government tax and are expectant that the implementation of the New Zealand Health & Disability System Reforms will see the improved accessibility and affordability of primary healthcare for New Zealand communities.

The Board has decided not to declare a final FY21 dividend in order to preserve cash to assist the Company with accelerating its acquisition activities.

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About Green Cross Health

Green Cross Health (NZX: GXH) is a trusted New Zealand primary healthcare provider with multi-disciplinary healthcare teams with the purpose of working together to support healthier communities. Green Cross Health is focused on creating sustainable healthcare 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 healthcare with 357 Unichem and Life pharmacies covering almost every New Zealand community, Green Cross Health makes more than 3.7m home visits to more than 40,000 community health clients and cares for 285,000 enrolled patients at medical centres.

