



**Chairman's address to Green Cross Health Limited (GXH) AGM, held at @2.30pm Tuesday 28<sup>th</sup> July 2015 at the Ellerslie Convention Centre, Auckland.**

Again, thank you for attending the 2015 annual shareholders meeting of Green Cross Health. For the last few years we have focused fundamentally on two things, improved performances from our existing businesses and diversifying Green Cross Health into a more comprehensive primary care company.

Last year was significant in that the two major acquisitions. Peak Primary and Access Homehealth gave us the scale in the two other areas of primary healthcare that we had been seeking, medical practices and community care. There seems to be general consensus that our business is now well positioned to offer improved services to the ageing population, and to assist in controlling the ever spiraling costs of health treatment. There are more statistics in this area regarding cost projections, more efficient care models and opportunities, than there are in a politician's speech. From this information and our own assessment of the market we are encouraged and believe that we have a very real opportunity to create systems that are unique and really do have commercial points of difference.

An example of some of the opportunities we see include one that exists in the insurance market. Discussions with one insurer revealed that 1% of their customers contributed to 23% of their claims, with most of those claims being in secondary care. We believe a targeted comprehensive primary care program could assist in improving both the health outcomes and the fiscal situation for the company and clients.

Further, with the advent and use of "big data" it is now possible to predict exactly where future costs to the social and healthcare system will come from, and with that knowledge the ability to intervene in a preventative manner.

To capitalise on these opportunities we have identified several priorities:

- 1/Establishment of a separate integrated care business unit
- 2/Merging of Access and our nursing business Total Care Health to provide a higher level of community care nationwide
- 3/Investment in technology and systems in the community care business to improve operational efficiencies and to offer services that are home based rather than infrastructure based



4/Growth of our medical business as the GP/nurse functions are very much at the heart of primary care. There is a large opportunity for primary healthcare to contribute in a larger way to the future health of the population, through the use of targeted care and integration with other service providers. Our aim is to grow our reach in the medical area, as these practices will be the hub for future targeted primary care delivery teams.

Actions around these priorities are well under way and we look forward to reporting on their contribution in the future.

I would now like to highlight a couple of things from the recently completed fiscal year.

1/Last six months same store pharmacy retail growth up 11.5% - a fantastic result, driven by a combination of rejuvenated Loyalty program (Living Rewards) now with 900,000+ members, re-branding of 200+ pharmacies, focus on in-store experience and an improved general economy.

2/Our business is changing from a health retail business to a health services business. FY14 retail revenue was approx. 50% of group sales- predicted to be approx. 1/3 of group revenue in FY17. This change will also affect our operating margins, as our community care business is dominated by fee revenues due to pure labour cost linked to government contracts, but obviously different to pharmacy & medical. Pharmacy has a high component of product sales and our medical business has a mixture of government capitation payments and co-charges to patients, plus fee income from our managed services agreements.

3/Whilst our overall profit was slightly down, this was outweighed by what we achieved through our long term investment in the business and the investment in pharmacy retail sales ahead of the “profit reward”.

4/In the last few weeks we acquired the remaining 50% of Total Care Health from our partners Lynn and Sally. They will both stay with the business and assist in growing the nursing business nationwide through the Access infrastructure. The Total Care Health business had a great year, with sales growth of 18.6%, and profit up 126%.

5/The Access community care business is very different to our pharmacy and medical divisions as highlighted earlier, and probably needs some explanation. We identified this sector as one we thought worthy of inspection several years ago - it is a key part of primary care, it is undergoing change from a payor perspective, it is in a growth industry, currently not a sophisticated business area but opportunities exist to grow and improve through technology investment. People are always going to need care as they age so we see it as an area that has a robust future. The Total Care Health investment was our first foray into this area and after a reasonable amount of “courting” we acquired



Access. It is a high volume business with 2.8m client visits per annum by 3,500+ support workers and probably not at what one would describe as the sexy end of care. It appears undervalued by the government at the moment, but we believe changes are afoot in this regard. We are now seeing recognition at government level that if there is to be a better way of treating people late in life, there needs to be a correspondingly well trained, motivated and appropriately paid workforce. Whilst there are issues around the financials in the sector we think it fits very well with our overall strategy, provides a great service to the health needs of the community and has an opportunity to contribute to our company over time. In the short term, we see investment required at infrastructure, staffing and industry resource level (minimum wage, funding structures, and travel allowances type issues) and therefore returns may be a while in coming. However, as I mentioned earlier, there are numerous statistics that point to this being a great business area. Our job is to realise that potential.

At a balance sheet level, your company is very conservatively geared - deliberately so for the last few years as we pursued acquisitions. Our operating cash flows are such that we believe it is opportune to declare a one off special dividend of 15 cents per share - in this instance the DRP will not apply, meaning Cape and Segoura (each holding approximately 30% of the company) will take the cash dividend. Normal dividends will continue and the DRP will apply to them in the future.

This should not be interpreted that Green Cross Health has reduced its growth ambitions.

During the year, and as a result of the Access transaction we welcomed Dame Margaret Millard onto the board. Dame Margaret has provided great guidance at the community care level and across the wider governance side of the business and for that I offer my thanks.

Ian Sharp, whose governance tenure with the company began as an advisory board member of Amcal Chemists approximately 15 years ago, and therefore one who has seen the company grow from a buying cooperative into what it is today, and has probably lost count of the number of transactions and company name changes he has been involved in, has elected to retire from the board. During his long service, Ian's contribution has always had the "what is best for the company" trademark. I have had the pleasure of working with Ian for most of these years and thank him for his work and his dedication to both the board and other company committees. I hope that with now having more time to spare he can fix his golf slice and provide a decent match for his wife.

Our staff have had a huge year. Pharmacy have rebranded 200 + stores and relaunched a loyalty program, medical have doubled in size via the Peak acquisition and a few smaller ones, and Access have



moved from decades of ownership by RWNZ to a publicly listed vehicle. None of these things happen without a lot of hard work and dedication, and I trust also some enjoyable times. The board offer their thanks for all your efforts - now 5,500 of us.

We aim to expand the “Green Cross Health” brand to become a health icon, and this will start with our own staff as the ambassadors.

Again, many thanks for your attendance, and if there are any questions, myself or members of the team are quite happy to take them.