

Green Cross Health (NZX: GXH)

Half Year Result Announcement for the unaudited six months ending 30 September 2020

GREEN CROSS HEALTH REPORTS HALF YEAR PROFIT OF \$8.8M

25 November 2020, AUCKLAND, NZ: Listed primary healthcare provider Green Cross Health, the group behind Unichem and Life Pharmacy, The Doctors and Access Community Health, reported revenue of \$277m for the six months to 30 September 2020, consistent with the prior period. Net Profit After Tax Attributable to Shareholders of \$8.8 million includes growth in the Medical and Community Health divisions, offsetting weakness in the Pharmacy division.

Result Summary:

- Revenue of \$277m
- Operating Profit (EBIT) of \$17.9m
- Net Profit After Tax Attributable to Shareholders of \$8.8m
- Pharmacy Revenue down 5% and Operating Profit down 11% at \$10.9m due to the impact of COVID-19 on retail sales
- Medical division continues to grow, with Revenue up 8% and Operating Profit at \$5.7m
- Community Health Revenue up 10% and Operating Profit at \$2.4m
- Government wage subsidy amounts of \$8.0m included in Group Revenue and passed on to employees
- No interim dividend declared due to ongoing uncertainty in the market, relating to COVID-19 and the associated economic downturn.

Green Cross Health Group CEO Rachael Newfield, says, "Against a difficult backdrop created by COVID-19, the growth in the profitability of the Medical and Community Health divisions has been encouraging. The Pharmacy division endured a tough six months, with retail gross profit down 24% due to the impact of COVID-19 and the corresponding squeeze on retail spending. Wage subsidy amounts of \$8.0m are included in Group Revenue for the period, with the vast majority relating to the 87 individual pharmacies within the portfolio. In line with the objective and criteria of the wage subsidy scheme, the pharmacies were able to retain staff during the wage subsidy period, with all amounts passed on to employees.

As an essential service, we remained open over the lockdown periods to serve patients and the community during uncertain and challenging times. We remain cautious given the uncertainty caused by COVID-19, and therefore focus remains on maintaining a strong Balance Sheet and on cash preservation."

Unichem & Life Pharmacy Division

Pharmacy Revenue for the period saw a decline of 5%, reflecting the impact of COVID-19 on the ability of customers to shop in-store during the various COVID-19 alert levels, as well as some pharmacy closures. Operating Profit was down \$1.3m to \$10.9m.

Dispensing activity was supported by temporary changes to repeat dispensing rules, which increased dispensing revenue and gross profit. However, this was more than offset by the COVID-19 impact to retail sales in shopping mall and Auckland and Wellington CBD stores, which contributed to retail gross profit being down 24% on the prior period.

The Pharmacy division has progressed its pricing and margin management plans, and also commenced work on its product range review, including exclusive distribution arrangements. In our pharmacies, we have also made progress on realigning occupancy and labour costs to the changing market conditions.

In the period, the greenfield pharmacy site in the Commercial Bay development in Auckland's CBD began trading, and we saw the two Karori pharmacies in Wellington, acquired in February 2020, trade for the full period.

COVID-19 saw our pharmacies innovating by offering home delivery prescription services within their communities, although this in turn created increased costs and challenges with collecting the \$5 Government-mandated prescription co-payment from consumers given the move to contactless delivery methods. We continue to call on Government to review the intention of the co-payment policy and ensure it is in line with Government's "equity of access" healthcare policies.

We expect retail sales performance will face challenges from changes in consumer retail spending as a result of COVID-19, coupled with competitive pressures facing the sector. We are focused on core retail disciplines including pricing and product range, the development of further professional service offers to our customers as well as ensuring occupancy and labour costs are right-sized by store. The optimisation of our pharmacy investment portfolio is a priority, both through potential store closures and assessing strategic acquisition opportunities.

The Doctors Medical Division

Medical Revenue increased 8% to \$41.0m, with Operating Profit at \$5.7m, driven by organic and acquired revenue growth and improved operational efficiency. The recent acquisitions in late FY20 (Drury Surgery and purchase of a patient book into The Doctors Fred Thomas) have also added to the increase in revenue and operating profit. The Doctors network currently numbers 43 medical centres, with the addition of Gabriel Medical Practice (Mt Roskill) just before the end of the period.

Operationally, COVID-19 has had a significant impact on acute patient presentations, particularly in Urgent Care and walk-in clinic settings. In some areas this has been mitigated by revenue from COVID-19 swabbing activity. Our previous focus on embedding telephone triaging of patients has enabled the shift to phone and video consults during lockdown periods to be more seamless. This has been followed-up with initiatives to enable remote payment handling in clinics, plus development of a more end-to-end video consultation platform (housecall.co.nz). Investing in infrastructure that caters to the growing trend for patients to access their clinicians through online channels, will remain a priority.

We have worked closely with funders to ensure General Practice services remain sustainable and have moved to more bulk-funded arrangements with PHOs, particularly in the Auckland and Bay of Plenty regions. We expect the implementation of recommendations of the Health & Disability System Review will see providers working more closely with central funders to address access and equity issues.

These activities, combined with the growth of enrolled patients during the period, to 269,000 enrolled patients, allowed the division to deliver an increased return.

We remain committed to providing high-quality services, with all practices in the group fully accredited for national quality standards and having a strong focus on patient safety, patient health outcomes and continuous quality improvement. Increasing scale and operational capability in the Medical division is at the core of the division's growth strategy, along with selectively acquiring practices.

Community Health Division

Revenue for the period in the Community Health division increased by 10% to \$82.5m; this is mainly due to the strategy of supporting clients in the community with higher clinical needs coupled with service improvement, enabling our most vulnerable clients to successfully live independently within their own homes.

Supported by our ongoing focus on efficiency and cost management, the Community Health division returned an Operating Profit of \$2.4m. Despite the improvement, the operating profit margin for the division remains low at 3%.

The division's specialist nursing care business, Total Care Health continued to consolidate its presence and service in existing regions while expanding into new segments of care, driving enhanced clinical outcomes and supporting convenient client access. Investing in developing enhanced technology aimed at supporting improved client-centred care remains paramount to the division's strategy.

The Home and Community Support sector remains vulnerable due to ongoing wage pressures, compliance costs and significant administrative costs, with limited uplift in funding. We continue to advocate for support from all funders to return the sector to a position of sustainability and to recognise the value of supporting our most vulnerable populations to live within their communities for longer.

Outlook and Dividend

Green Cross Health is focused on delivering earnings growth whilst refining its operating model to adapt to changing market conditions. The Company has worked to maintain a strong Balance Sheet (including not paying a full year dividend for FY20) in light of the challenging landscape that has been shaped by the COVID-19 pandemic. In order to safeguard this position and to capitalise on acquisition opportunities that may eventuate as a result of the economic climate, the Board has resolved not to declare an interim dividend.

Green Cross Health is committed to providing all New Zealanders accessible, quality primary healthcare. As part of this commitment, we will continue to advocate for the removal of the prescription co-payment Government tax, and remain optimistic that the implementation of the recommendations from the New Zealand Health & Disability System Review will see the improved accessibility and affordability of primary healthcare for New Zealand communities.

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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's 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 358 Unichem and Life pharmacies covering almost every New Zealand community, Green Cross Health's makes more than 3.6m home visits to more than 42,000 community health clients and cares for 269,000 enrolled patients at medical centres.