Green Cross Health (NZX: GXH)
Annual Shareholders' Meeting, Monday, 25 July 2022 at 2.30pm.

Chair & Group CEO Speeches

Kim Ellis, Chair

Slide 3 - 4:

First, a few words from me before Rachael takes the floor.

FY22 produced an excellent earnings result. The company threw its weight behind NZ's response to the COVID-19 pandemic and in turn saw enhanced performance across all three divisions. The exceptional result however was once-off and while it has been useful to bank the cash the emphasis now returns to the delivery of sustained underlying earnings.

Pharmacy had a strong year, growing dispensary revenue and holding retail sales constant in a difficult market, while vaccinating the nation. Improving the pharmacy business in the face of increased competition and challenging retail conditions is the priority for Board and Management.

Medical continued its upward earnings trend assisted by eight acquisitions. And there is a healthy acquisition pipeline in place for the year ahead.

Community Health also delivered a pleasing performance notwithstanding continued inadequate funding from the Labour Government.

The FY22 earnings performance has left the company a strengthened balance sheet with no net debt at parent level and therefore well-positioned for shareholder distributions and acquisitions.

Following the pause of dividends in the FY21 year, the Board reinstated dividends in FY22, paying both an interim and a final dividend for a total of 6.5c per share for the year. Dividends were able to be resumed as a result of cash preservation and tight working capital management throughout the last two years.

In FY22 the company invested $18.7M in acquisitions (vs $8.1M in FY21). The Board's appetite for a substantial investment was demonstrated last year when the company entered a process for the potential acquisition of Tamaki Health in conjunction with PEP a leading Australian-based private equity firm. While Green Cross Health/PEP and the vendor ultimately did not share the same view on value, the Board remains focused on accelerating acquisition activity.

The Board has seen a couple of changes as FY23 unfolds.

Peter Williams is retiring at this Annual Meeting after five years. Peter is highly experienced in the pharmacy sector and has been an intelligent, forthright and valuable contributor around the table. Peter, you will be missed!

And Craig Brockliss representing our third largest shareholder has been appointed to the Board (and is up for election at this meeting). More on that later.

Now over to Rachael to take you through the FY22 results and her plans going forward.

Rachael Newfield, Group CEO

Slide 6 - 23:

Before I take you through the results for the group and then each of the divisions, I'll touch on some operational highlights for the year.

It was a busy year!

Working down the left-hand side of the slide:

- Group Revenue increased 18%.
- In Pharmacy, initial script volumes were up 6% with same store dispensary up 7%.
- We added 9 new medical centres and same store medical centre revenue grew 8%.
- In Community Health we lifted margin to 2.9%.

And looking at the right-hand side of the slide:

- We saw the $100m increase in Revenue contribute to a 47% increase in Net Earnings Attributable to Shareholders.
- We made some internal promotions, with Alison Van Wyk (who has over 12 years experience with the group), promoted to Chief Operating Officer, and Androulla Kotrotsos appointed to lead the Community Health Division. We also appointed Wayne Woolrich as GM Medical.
- We acquired five new pharmacies, and as mentioned, eight new medical practices and a greenfield medical centre.

And what did it look like on the ground?

A bit different, than it has historically.

The spread of COVID, provided an opportunity for Green Cross Health to showcase the valuable services it provides to the communities of Aotearoa.

90% of our medical centres provided COVID vaccinations.

Our nationwide network of pharmacies stepped up with Green Cross Health pharmacies representing 51% of all New Zealand pharmacies vaccinating.

And 96% of eligible medical centres provided PCR swabbing services in their communities.

On to the financials.

That activity translated to some positive results.

Group Revenue lifted to $670m, Operating Profit to $54.1m and Net Profit After Tax Attributable to Shareholders to $24.6m.

All three divisions delivered increases in Operating Profit with Pharmacy at $35.9m, Medical at $16.0m and Community Health at $5.6m. We continued to diversify our earnings base with Medical and Community Health representing just under 40% of Operating Profit for F22.

On this slide, you can see the lift in 2022 in both Operating Revenue (in the left hand chart) and Operating Profit (the right hand chart).

Each of the three divisions improved its Operating Profit margin and each increased Operating Profit by at least 49%.

Moving to Net Profit after Tax Attributable to Shareholders, in the top left you can see the lift to $24.6m in F22.

At a per share level, (which is shown in the bottom left) this translated to 17.2c.

On to the right hand side, as you remember, in the initial F21 COVID period the company chose to pause dividends and preserve cash during a period of great uncertainty. In the F22 year the company resumed dividends, declaring a final divided of 3.5c, bringing the total dividends for the year to 6.5c per share.

Looking at the balance sheet, the company's gearing ratio ended at 12%, with undrawn debt facilities of $44m at year end.

And the Operating Cashflow (which is shown on the right) was $44.3m for the year. Or for those that like to talk IFRS16, it was $65.8m. This supported investment of just under $25m in:

- Five pharmacy acquisitions
- Eight medical centres
- The opening of a greenfield development
- Investment in PillDrop, which is an online pharmacy that sorts and delivers prescription medicines throughout New Zealand
- Plus other digital capability and ongoing site capex requirements.

Now I'll talk to the performance and strategy of each division.

First a recap of the three divisions.

At year end the Pharmacy division comprised 345 pharmacies. The Living Rewards loyalty programme continued to grow, ending the year with 1.9m members.

Following the investments, the Medical division ended the year with 53 centres supporting 329,000 enrolled patients.

Finally, Community Health conducted 3.8 million home visits, with a workforce of 2,800 support workers and 158 clinical staff supporting 36,000 clients across New Zealand communities.

This slide shows Pharmacy Division results for the year.

Revenue was up 16% with Operating Profit lifted 49%. This was on the back of script volume and the phenomenal efforts of the team with COVID vaccinations.

The five new stores I spoke of were four in the Bay of Plenty (two in Whakatane, and two in Katikati) and one in Onehunga, Auckland.

You may recall in F21 Pharmac put in place a temporary pause on the dispensing of 3 months' medicine supply at one time which led to a temporary increase in script numbers. In F22 Pharmac reinstated three monthly dispensing and, despite that change, we achieved a 2% growth in script numbers.

Just touching on some of the highlights of the year:

Personalisation is key to our pharmacy strategy. We added over 81,000 Living Rewards loyalty members in the year. This is important because Living Rewards customers spend 62% more than non-Living Rewards customers.

Another element of our strategy is to differentiate our retail offer. In the last two years we've worked hard to create points of difference in our range with differentiated brands now 20% of retail sales for the last two years. This ensures customers come to Unichem and Life Pharmacies for their unique product needs and elevates us out of the price game.

The Pharmacy strategy is clear. We will win by focusing on the customer.

Our strategy includes differentiating our brand and products and rewarding customer loyalty. We're currently implementing a new loyalty management system to increase our segmentation and personalisation capability.

Retail disciplines are key – like all retailers, ensuring we keep evolving the store experience is crucial, pricing and margin management is exceptionally important. We've invested in specialised pricing resource and will extend this capability in the coming year.

COVID has further highlighted the need for an omni-channel customer offering. In the year ahead we'll be supporting PillDrop in the home delivery space. We'll be enhancing our online booking tool (which took 200,000 bookings last year) and working with MedAdvisor who we recently signed a contract with to expand our digital offer.

Green Cross Health fills over 30 million scripts per year. Given that scale, we advocate for equitable health outcomes for all New Zealanders, including the removal of the $5 prescription tax. Pharmacy is well positioned to support the objectives of the newly established Health New Zealand and Māori Health Authority. We're pleased that following extensive sector lobbying, pharmacy has gained approval to administer children's flu vaccinations for the first time in F23.

And last, cost – it's a tough time for all businesses right now and pharmacy is no different. Like others, we're seeing workforce shortages and inflationary pressure. We are focused on providing tools and training to our teams to maximise productivity and also making sure store occupancy costs are appropriate.

Next, the Medical division.

As you can see from the graphs on the right hand side of the slide, F22 was a growth year for Medical, with revenue up 35% to $111m and Operating Profit up 71% to $16m. As well as day to day patient services, the division provided COVID swabbing and vaccinations throughout New Zealand communities.

The acquisition of eight centres, along with the opening of The Doctors Greenlane greenfield development took our enrolled patient base to 329,000 and our centre total to 53 at 31 March.

As well as supporting the country's COVID efforts, during the year we focused on operational efficiency initiatives in day to day operations.

In the left hand graph you can see the results of initiatives to improve productivity, leading to a year on year reduction in the employee cost percentage. We also implemented a number of cost management initiatives in the year, particularly in the IT and recruitment space, to lift margins. Combined these led to a lift in our EBIT margin to 14.4%.

In the top right you can see acquisition progress. We've consistently stated we're targeting inorganic growth. In the last two years we have invested in internal clinical and commercial capability and, as a result, we have developed a strong pipeline of potential acquisitions. The 9 new clinics were two in each of Whakatipu, Christchurch and Wellington, along with three in Auckland.

And in the bottom right you can see the continued growth in patient numbers. We now have 329,000 enrolled patients – the largest enrolled patient base of any primary care provider in New Zealand.

Medical's strategy is to grow organically and inorganically.

The Doctors brand is gaining traction, becoming synonymous with high quality patient care delivered by our expert teams.

Scale is important, with a plan to continue acquiring in F23.

COVID has elevated the importance of technology in the Medical division. We have invested in HouseCall, our virtual consultation platform. Also, in the year ahead, we will improve our systems to provide richer data to support decision making.

As you've seen the division is focused on operational improvement – we continue to look for opportunities to both lift margin and provide superior clinical services.

And finally, given the workforce challenges facing New Zealand right now, we're supporting our teams to provide care for their patients as cost effectively as possible.

The third division – Community Health.

F22 was another year of growth with Revenue up 12% to $192m and Operating Profit lifting $1.9m to $5.6m.

Our strategy of focusing on the higher clinical needs segment has driven top line growth. The relentless focus on cost efficiencies has led to the bottom line improvement. This is especially important in this division given the low margins.

Given low margins are synonymous with this sector, we continue to advocate for additional Government funding to support sector sustainability.

And to look in a bit more detail at both the revenue and cost drivers:

On the left graph you can see the lift in revenue to $192m in F22. The blue is the higher clinical needs revenue, our target segment. In F22 this reached 20% of revenue. Our investment in systems, processes and people is paying off.

And to the right, you see the relationship between employee costs and EBIT. As we have implemented processes and reporting to deliver services more efficiently, we have improved results. Our digital initiatives such as our client portal (which had a 61% increase in users year on year) and our support worker virtual assistant have allowed us to reduce costs, while improving the client experience.

The strategy in Community Health is to target profitable market segments.

We are focused on higher clinical needs growth and providing this cohort of clients an excellent service.

As with the other divisions, technology has a critical role. We will be expanding use of our client portal in the year ahead, as well as investing in systems to deliver further back office efficiencies.

While we have lifted EBIT, the division is still only returning 2.9%. We continue to advocate for sustainable funding. We look after many of New Zealand's most vulnerable and will be looking for the newly created Health New Zealand and the Māori Health Authority to support the sector.

Given the slim margins, workforce productivity and tight contract management remain key.

So to pre-empt the question, what does the year ahead look like?

As you've seen, F22 was an exceptional year, with the results buoyed by COVID activity.

Given New Zealand has now moved to living with COVID, we expect F23 to be more in line with pre-COVID profitability levels, adjusted for acquisitions.

Further, the balance sheet allows for dividends as well as accelerated acquisition activity. On that note, we have already added two new medical centres since balance date, so as at today we actually have 55 centres.

Finally, I would like to say thank you to the Green Cross Health teams. Last year was a challenging year. The teams in all three divisions rapidly adapted our business model, time and time again, and went above and beyond to support New Zealand communities during a time of huge uncertainty. We are very grateful.

I'll now pass you back to Kim.

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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 345 Unichem and Life pharmacies covering almost every New Zealand community, Green Cross Health make more than 3.8m home visits to more than 36,000 community health clients and care for 329,000 enrolled patients at medical centres.