Green Cross Health (NZX: GXH)
Annual Shareholders' Meeting, Monday, 31 July 2023 at 2.30pm.

Chair & Group CEO Speeches

Kim Ellis, Chair

Slide 4:

The Board was pleased with the overall FY23 result. Net Profit After Tax (NPAT) Attributable to Shareholders of $45.2m was a company record. That headline number was driven by the successful divestment of the Community Health division. Putting that to one side, continuing operations delivered $15m of NPAT despite COVID activity of recent years largely having fallen away and the labour market providing challenge and impacting margins.

A significant project for the year was selling the Community Health division. The company ran a staged, competitive process which led to the division being sold to Anchorage Capital Partners (an Australian private equity fund) for an enterprise value of $50m. The sale completed a month prior to year-end with a reported gain on sale of $21.8m. The Board chose to divest the division to increase the focus of Rachael and her team on the pharmacy and medical divisions, where we see plenty of opportunities for growth.

The earnings result, combined with the sale of the Community Health division, bolstered the year-end balance sheet resulting in a net cash position of $34.7m. The Board declared a 28cps special dividend post balance date. Notwithstanding the dividend payment, the balance sheet remains strong and, in combination with the company's $60m debt facility with the BNZ, offers sufficient headroom to support further acquisitions and investment in the pharmacy and medical divisions.

Touching on the outlook for the year ahead, we do have some strong headwinds. In particular, labour supply constraints are leading to the use of high-cost temporary staffing and at times are restricting operations. Additionally, the wage-related inflationary impact experienced in FY23 shows no sign of softening. While cost management is imperative in response to the post-COVID revenue environment in the Medical Division, the company is looking to capitalise on the work done in recent years to improve underlying performance, particularly in the Pharmacy division, with a focus on organic growth.

I'll now hand to Rachael who will take you through the FY23 results and more detail on how she plans to deliver on the Board's expectations for the coming year.

Rachael Newfield, Group CEO

Slides 6 - 21:

Before we get into the financials and the strategy going forward, I thought I would begin with some highlights.

Group revenue increased $15.5m (which was a 3% uplift year on year). Reported Net Profit After Tax Attributable to Shareholders was up 89%. This was driven by the sale of the Community Health division – which delivered a $21.8m gain. The underlying NPAT was $15m. And in the 2022 Randstad survey results, GXH was recognised as the 6th most desirable place to work in New Zealand.

In Pharmacy the underlying revenue drivers were strong – with retail sales up 2% on the back of some recovery in CBD and large mall stores. And prescription volumes were up 10% year on year. Flu vaccinations, which have been a growth area for the division, increased again – a 93% increase year on year. And in KPMG's Customer Experience Excellence Survey our brands continued to display their strength – placing second and fourth.

In Medical the growth continued with revenue up 20%, driven by acquisitions and by organic growth at 3%. It was another busy year of acquisitions, with eight new centres acquired. And we continued to invest in the centres – with a number of rebrands to The Doctors and refurbishments of centres completed.

On to the financials. Working down the left-hand side first, as mentioned, Group Revenue was up 3%. You'll note that is from continuing operations – so that's the Pharmacy and Medical divisions – the Community Health Division is not classed as a continuing operation.

The Operating Profit was $34.3m. That's a drop year on year as expected given last year we had a record Operating Profit result, with Green Cross Health heavily involved in COVID vaccinations. And Net Profit After Tax Attributable to Shareholders was $45.2m on the back of the gain from the sale of the Community Health division.

Then to the right of the slide. Pharmacy came in at a profit of $21.1m – a drop year on year given the initial wave of New Zealand's COVID vaccinations was completed the prior year. And Medical lifted 1% to $16.2m Operating Profit. I'll talk more about the divisional results shortly.

Staying on the Group results, the first graph on the left is the revenue from continuing operations. You can see the increase to $494m which was driven by Medical's revenue growth – both new acquisitions and same centre revenue growth.

And then the graph to the right shows the Operating Profit result. You'll see the profit at $34.3m. While we have come down from the record high of FY22, the result was well up on FY21 (with 9% growth). That's because the COVID vaccinations have come off as New Zealanders are now largely vaccinated, with just day to day boosters continuing. We also saw labour cost pressure, like most New Zealand businesses.

On this slide in the top left you can see the Group Net Profit After Tax result, as mentioned already.

In the bottom left you can see how that Net Profit After Tax translates at a cents per share level with a Net Profit After Tax Attributable to Shareholders of 31.6cps in FY23.

And to the right, you see dividends of 7c per share were declared in year. Post year end, a further dividend was declared of 28c – this was on the back of the sale of the Community Health Division.

Looking at the balance sheet, the gearing ratio at year-end was 11% with a net cash position of $34.7m on balance date – supporting the post year end payment of the 28c special dividend.

And on the right, the Operating Cash Flow for the year was $45.9m. This supported investment in growth. In year the Medical division purchased another eight medical centres. And, as mentioned earlier, we continued to invest in the medical centre assets with three refurbishments completed and five rebrands to The Doctors completed in year.

So that covers the Group result, I'll next talk through the performance and plans for each of Pharmacy and Medical.

Just to set the scene, here's what the two divisions looked like in May.

The Pharmacy division represented 342 pharmacies – 57 Life Pharmacies and 285 Unichem pharmacies throughout New Zealand – from the far North to the bottom of the South Island. Our Living Rewards membership base continues to grow – now at 1.9m loyalty members. Our investment in PillDrop, while small, is going well.

And then on the Medical side of the business, at May we were up to 63 medical centres (an increase of two since balance date actually). That sees us at 401,000 enrolled patients. With just over 400 nurses and 400 doctors on staff, along with 21 nurse practitioners.

Pharmacy - In the top graph you can see that, even with the COVID vaccinations coming off this year, revenue was $360.4m.

In the bottom graph you can see that profit dropped to $21.1m. Why was that?

The one-off COVID activity came to an end as expected. This revenue was largely replaced – but by a different mix of revenue, at lower margins. The underlying revenue drivers were pleasing with retail revenue up 2% and script numbers up 10%. Also, we saw an impact on margins from labour cost pressures.

Our focus on the Living Rewards loyalty programme continues. We now have over 1.9m members. In year we ran acquisition campaigns, adding an additional 66,000 members.

We have now successfully transitioned to a new specialised loyalty system, which I mentioned briefly this time last year. That's important because it gives us additional capability to segment offers to customers and personalise our offers to them. Living Rewards members spend on average 65% more than non-Living Rewards members so they're a crucial customer group to retain and grow.

We continued with our retail strategy to ensure we offer differentiated products – while some elements of our product offer need to be consistent with other retailers, we also need to ensure we offer unique brands that customers can only purchase from Unichem and Life Pharmacies. Our focus on lifting the basket size led to a 1.6% increase in spend per transaction.

On the right-hand side, I've already mentioned the success with flu vaccinations. You can see the Group delivered a total of 285,000 flu vaccinations last year. That was a 93% increase year on year.

And so how will we win going forward?

It’s all about the customer. Our strategy is to ensure we’re differentiating our brands and products from the competition and very importantly, recognising and rewarding customer loyalty.

We continue to lift our retail disciplines instore as well as ensuring we’re accessible to customers in multiple channels.

Network scale is important – given the division dispensed over 34m scripts last year, we need to ensure we’re leveraging our trusted brands, and advocating for improved health outcomes for all New Zealanders. The recent removal of the $5 co-pay is an example of that – this has removed barriers and made medicines more accessible for all New Zealanders.

Finally, cost focus – a massive focus for us now, particularly given the labour cost pressure we’re seeing. We are constantly managing costs, including ensuring we have the most cost-effective resource on each activity and using technology to reduce costs.

Next to Medical. In the top left graph you can see the lift in Revenue to $133.2m – a 20% increase year on year. During the first half of the year there was some residual COVID activity - as people contracted COVID, our centres provided virtual care for patients in their homes. Acquisitions also drove the increase.

And then Operating Profit in the bottom graph rose to $16.2m, up 1%. While an increase, clearly not to the same degree as Revenue increased. That was because the prior year’s record profit included significant COVID swabbing activity which was no longer available in FY23. Also, as in Pharmacy, we saw labour cost pressures impacting margins.

At year-end the division had 386,000 patients and 61 medical centres. As mentioned, by May, those numbers had already grown to 401,000 patients and 63 medical centres.

Let’s start with the right-hand side on this slide – the photos are of two recent projects. Investing in The Doctors brand and the quality of our centres is key.

On the left-hand side you can see the focus on ramping up acquisitions has continued, with eight acquisitions in year, following a record nine the year prior. And you can see the corresponding increase in enrolled patients - noting that since year-end we have surpassed the 400,000 patient mark. Green Cross Health has New Zealand’s largest enrolled patient base.

The operational improvement projects continued – even more important given the labour cost pressures that I just mentioned.

EBIT margin came in at 12%, which is the line you can see on the right-hand side graph. Reducing other costs was a priority, with a reduction to 17% of Revenue.

Our strategy includes using our scale to drive efficiency gains. In year we commenced a roll-out of a standardised suite of practice management systems – this will support further operational efficiencies along with an improved patient experience.

Medical’s strategy is one of organic and acquisitive growth.

Again, this centres on the patient – delivering high quality care.

We will continue to scale – when we can acquire at appropriate prices, we will.

Investing in technology is key – that includes utilising data to enhance decision making and ensuring we're accessible to our patients in multiple channels.

Operational and clinical improvement are a given.

And like in Pharmacy, cost and margin focus are critical. We have a number of projects underway around workforce productivity and management.

And last of all, what does the year ahead look like?

The COVID rollercoaster appears to have come to an end – we are returning to more 'normal' trading conditions.

However, we have some real challenges with workforce shortages and inflationary pressures in both divisions. This leads to the use of contractors and locums which are expensive. We often have to source short term support from outside a region, which adds cost. We are working to limit the impact of workforce challenges as much as possible, with a number of strategies in place. Having said that, we are seeing a continued margin squeeze, particularly in Medical in the first few months of the year.

At the same time as managing the labour challenges, we are working to deliver organic and acquisitive growth.

Last of all, the removal of the $5 pharmaceutical co-pay will also support growth - as a barrier to medicines collection has been removed for all New Zealanders. We are advocating on behalf of all New Zealanders that the co-pay should not return, regardless of who is in Government and encourage you to do the same.

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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 and The Doctors medical centres, to provide support, care and advice to diverse New Zealand communities.

Providing convenient access to professional health care with 342 Unichem and Life pharmacies covering almost every New Zealand community, Green Cross Health care for 401,000 enrolled patients at 63 medical centres.