

Green Cross Health Limited (NZX: GXH)

Full Year Result announcement for the audited twelve months ended 31 March 2020

## GREEN CROSS HEALTH REPORTS FULL YEAR PROFIT OF \$13.5M

**25 June 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 \$568.5m for the year to 31 March 2020, consistent with the previous year. Net Profit After Tax Attributable to Shareholders was \$13.5 million, after a -\$0.6m impact of applying the new IFRS 16<sup>1</sup> accounting standard. The result was also impacted by goodwill disposals of -\$1.4m and intangible asset write-offs of -\$2.4m (after tax).

### Result Summary:

- Revenue of \$568.5m (+0.2%)
- Operating Profit (*EBIT*) of \$31.0m (+5.5%)
- Net Profit After Tax Attributable to Shareholders of \$13.5m (-16.2%)
- Net Profit After Tax Attributable to Shareholders before one-off non-cash items<sup>2</sup> was \$17.6m (+9.3%)
- Pharmacy Revenue down 1%. Operating Profit down \$4.8m at \$22.5m, or down \$2.6m at \$24.7m excluding one-off non-cash items (FY19: \$27.3m)
- Medical performed well, with Revenue up 8.5% and Operating Profit up 81.1% to \$8.0m
- Community Health Revenue flat and Operating Profit up \$2.4m to \$2.5m
- Operating Cash Flow \$54.3m (before the application of IFRS 16: \$34.8m)
- Reduction of net debt by \$10m, with group debt facility headroom of a further \$10m
- COVID-19 impact not material for the year ended 31 March 2020.

Green Cross Health Group CEO Rachael Newfield, says, “the result for the year was positive, with revenue constant year on year. The turnaround in the Community Health division, combined with the continued growth of the Medical division, more than offset the ongoing competitive pressure in the Pharmacy division. Pleasingly, our Balance Sheet has strong liquidity, which will enable the Company to traverse the next period, with challenges stemming from COVID-19 and the related impact on customer spending. It also positions the company well to selectively consider acquisitions over the medium term.”

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<sup>1</sup> The application of IFRS 16 has meant operating leases have been brought onto the Balance Sheet in the year with a corresponding lease liability. The operating lease charge has been replaced with the amortisation of the right-of-use asset and lease interest charges in the Statement of Comprehensive Income. The year ended 31 March 2020 was impacted by this change, with EBITDA increasing by \$19.5m, EBIT increasing by \$3.8m and Net Profit After Tax Attributable to Shareholders decreasing \$0.6m. No prior period adjustment was made for the application of IFRS 16.

<sup>2</sup> One-off non-cash items include goodwill disposals of \$1.1m (total goodwill disposals of \$1.4m less \$0.3m attributable to non-controlling interest), intangible write-downs of \$2.4m plus the IFRS 16 application impact of \$0.6m.

## ***Unichem & Life Pharmacy Division***

Pharmacy Revenue declined marginally (-1%) in the year, reflecting some store closures in the prior year and early FY20, offset by two new pharmacies in Karori Wellington which were acquired in February 2020. Same store revenue was up 1.5% year on year, driven by dispensary volumes which saw an increase in repeat prescriptions by 4.7% - highlighting the value of our automated script reminder service, which now has over 200,000 customers.

Operating Profit was down \$4.8m to \$22.5m, with part of this decline attributable to goodwill on disposals of \$1.4m, the write-down of intangibles \$3.3m (before tax) and a higher depreciation charge as investments in prior periods were operationalised. Offsetting these one-off non-cash items, was a +\$2.5m impact from IFRS16 at the Operating Profit line. The write-down of intangible assets was after a strategic review of internal projects' performance and with impairment required for those not aligned to the division's strategic direction.

Focus continues to be on protecting margin via a differentiated pricing strategy as well as implementing a revised product offering which includes greater emphasis on exclusive distribution arrangements. Our online offer continues to evolve, with our fulfilment capabilities and processes now well established, particularly given customer demand during the COVID-19 lockdown period.

Furthermore, we continue to strengthen our digital capability to leverage the 1.7 million Living Rewards loyalty database, obtaining insights to ensure we can personalise our offering to customers and engage with a customer segment that spends on average 40% more than non-Living Rewards members. In the next period, retail performance will face challenges from modified consumer spending as a result of COVID-19, coupled with ongoing competitive pressures. Priority is being placed on recalibrating occupancy and rent costs, to ensure the cost structure of our pharmacies are right-sized in light of these pressures. Our national footprint and trusted Unichem and Life Pharmacy brands provide a solid foundation upon which we can successfully adapt our business to the changing market conditions.

## ***The Doctors Medical Division***

Medical Revenue grew 8.5% to \$76.5m, with Operating Profit up 81.1% to \$8.0m. This performance was the result of improved operational efficiency, organic revenue growth and an IFRS16 impact of +\$1.2m. Acquisitions in recent years have now fully integrated into the division, and nearer the end of the financial year, Drury Medical Centre was added, increasing the portfolio to 42 centres.

Enrolled patients at 31 March 2020 totalled 267,000, which include increases from the Drury acquisition as well as the purchase of a doctor's book which was amalgamated into The Doctors Fred Thomas.

The Medical division continues to work closely with the Ministry of Health and Primary Health Organisations to ensure equitable access to primary healthcare throughout New Zealand. The initiative to increase access to health care for Community Services Card holders has improved affordable access to lower socio-economic groups.

Operationally, the Medical division improved its focus on triaging of patients via Healthcare Homes, an operating model designed to improve utilisation and provide superior patient outcomes. The division commenced trialling the provision of digital health services in a number of centres prior to year-end.

Going forward, the strategy remains to grow revenue organically, while further reducing the operating cost per patient and targeting compelling acquisition opportunities.

### **Community Health Division**

Pleasingly, the Community Health division saw a healthy increase in Operating Profit to \$2.5m, an increase of \$2.4m over the comparative period. The key driver of the improvement in performance was operational efficiency with costs decreasing -3.0% on reduced revenue of -0.6%, highlighting the success of cost management and investment in technology, while still maintaining a client-centred approach. The cost containment and re-sizing of business operations have been required due to ongoing funding constraints.

During the year, we continued to focus on higher clinical needs, bedding in the ACC Integrated Home and Community Support business that was awarded following a successful tender at the end of last financial year. The division's specialist nursing care business, Total Care Health continued to expand into new regions and new segments of care, targeting convenient client access.

Notwithstanding the improved performance, the slim operating profit margin of 1.6% exposes the division to adverse changes in the Home and Community Support sector. More funding is required to ensure the ongoing viability of the Community Health division and the sector as a whole. This sentiment was reflected in the Government's Health and Disability System Review of March 2020, which highlighted that the health and disability system is significantly underfunded.

Going forward, the focus for the division remains on profitability of contracts rather than top line revenue growth as well as advocating for additional sector funding.

### **COVID-19, Dividend and Future Focus**

The Board recognises there is continuing uncertainty as a result of COVID-19, and whilst it has confidence in the resilience of the company to navigate this period of volatility, it is committed to maintaining a strong balance sheet in order to absorb the impact of COVID-19 and the associated economic downturn. The company has done this with an absolute focus on preserving cash inducing drawing down a portion of unutilised bank facilities to shore up liquidity. In addition to weathering the storm of lockdown this approach helps protect the company from the need for a dilutive capital raise and positions the Company to be able to capitalise on future opportunities. With this in mind, the Board has made the precautionary decision not to declare a full year dividend. Subject to liquidity, the Board expects to return to declaring dividends from November 2020.

Going forward the company remains committed to delivering to patient and customer expectations. The company is focussed on right-sizing its cost base, targeting labour and occupancy cost reductions, as well reviewing the Pharmacy and Medical portfolios to determine any sites which will not be sustainable going forward.

Green Cross Health is committed to providing all New Zealanders accessible, quality primary healthcare. As part of this commitment, the company continues to advocate for the removal of the prescription co-payment Government tax and for increased funding in the Home and Community Support sector.

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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 361 Unichem and Life pharmacies covering almost every New Zealand community, Green Cross Health's 8,000 team members make more than 3.6m home visits to more than 42,500 community health clients and care for 267,000 enrolled patients at medical centres.

