



Head Office: 108 Wrights Road,
P O Box 411, Christchurch, New Zealand
Telephone: 03-338-0999
Fax: 64-3-339-5111
E-mail: ebos@ebos.co.nz
www.ebos.co.nz
Auckland: 243-249 Bush Road, Albany
P O Box 302161 North Harbour Postal Centre
Telephone: 09-415-3267
Fax: 64-9-415-4004
E-mail: ebosaki@ebos.co.nz

EBO: ANNUAL MEETING AT CHRISTCHURCH

ANNUAL ADDRESS BY MANAGING DIRECTOR MARK WALLER

The past year has demonstrated the capabilities of the wider EBOS Group to shoulder shocks from both economic and natural phenomena.

Our internal systems and operations coped well with the series of natural disasters during the period September 2010 to June 2011. Our employees have been simply outstanding in their response to such crises; those most personally affected continuing to put our customers first and keeping everything moving.

Importantly our IT systems are protected with a sophisticated DISASTER RECOVERY plan which includes mirrored back ups on off site machines.

Our warehousing and distribution base is diversified across several locations.

As the chairman has alluded in his address, we are fortunate to be operating in two relatively robust economies.

(Slide 'Macro Situation')

Yet I have to say doing business in both Australia and New Zealand is very demanding and getting more so with economic recovery delayed in both countries. Australia in particular is a 2 speed economy with mining/minerals strong and the rest of the economy weak.

However, we are not immune from economic forces of the magnitude that have rumbled on since 2007-08 and it is evident that it is going to take a lot longer to see the expected recovery, in Australia and here in New Zealand. Economic growth has been very slow in both countries and both show unusually low levels of consumer confidence, although business confidence is a bit more resilient.

EBOS has, in my view, shown an ability to move with the changes in the healthcare sector and it remains essential that we remain masters of our own destiny with some of the changes yet to come in Healthcare reforms.

Our 2011 annual report provided a 'heads-up' for shareholders – major changes lie ahead with:

- New opportunities created by technology and innovation.
- The population of emerging nations will expect better healthcare. For example in 1981 the poverty rate of China was 53%. Today it is just 2.5%, according to World Bank data.
- An ageing of populations causing increased numbers of people with diseases and disabilities.

I noted recently that in New Zealand alone a quarter of a million New Zealanders are already aged 75 and above and the demographics show a rise in the ranks of our senior citizens for some decades. All of this means simply one cold truth – a continuing rise in the cost of healthcare.

The New Zealand government has done reasonably well to slow the annualised rate of growth in the costs of healthcare through a range of health policies, whilst also improving performance. The major focus is on productivity and how we can get more for the dollars spent.

A rising health budget has been apparent for many years as this chart shows (multi-decade graph) There was a period between 2002 and 2008 when hospital staffing costs surged.

Medical and nursing costs per output increased 50%, or 7.0% per annum over this period. Even when inflation adjusted medical and nursing costs per output increased 27.3% during this period, or 4.1% per year on average. New Zealand competes internationally for doctors and nurses and there were significant wage settlements for senior doctors, resident medical officers and nurses employed by DHBs. The total costs of the Government's health system got almost as high as \$14 billion a year in mid-decade.

(Slide on 'Government's Core Spending')

It may surprise shareholders to learn just how large the health system has become. Let's take a quick look:

(Talk to 2 slides 'A Complex Health System')

(Slide 'Other Players')

(Slide – 'The New Zealand Health System')

EBOS provides sales and services right across this broad healthcare base.

(Slide: Photo : 'Where the Health Dollars are Spent')

(Slide: 20 DHBs)

(Slide: State health Budget trend)

The upward spiral of costs related to the effects of an ageing population on front-line spending, primary care, national distribution systems, all present a huge challenge that will require Government to be more flexible about building private-public partnerships.

Through our pre-wholesale business Healthcare Logistics and our wholesale companies Health Support Ltd and ProPharma the EBOS Group has implemented a highly efficient relationship with DHBs based on fee-for-service.

(Slide 'Wider EBOS Customer Base')

(Slide 'EBOS NZ Market Position')

(Slide 'EBOS has a Vital Role')

EBOS has an important role to play in improving the health of citizens in New Zealand, Australia and the Pacific.

We can help Governments achieve even greater efficiencies, and we are the logical key supply chain partner. We can contribute to the development of a more efficient health system by offering services in national product procurement, further utilisation of our national distribution network and our excellence in Information Technology. All of which will spread the health dollars further.

(Slide 'EBOS is a key national supplier')

(Slide 'EBOS Customer Focused')

(Slide 'Opportunities in Medical devices')

An interesting new concept has emerged for expensive consumable products. In an effort to lower cost, innovative manufacturers have launched "reposables".

These are medical devices that have some componentry that is disposable and other parts that are able to be cleaned, sterilised and re-used.

Hospitals and the specialists who work in them are increasingly aware of the opportunity to break the costly practice of throwing out an entire device. The value to the surgical customer is obvious.

The Health Sector should focus on their core task of looking after patients.

Everything other than core health services should be outsourced to the most efficient private sector operators.

(Slide 'EBOS is a key national supplier')

(Slide 'EBOS Customer Focused')

We believe EBOS is a business that can provide cost-saving solutions. We are highly flexible to market changes and EBOS provides rapid movement of healthcare products through the supply chain to hospitals, primary care and the aged care industry at very competitive prices and acceptable margins.

We are a proven performer!

The Australian health system operates on a decentralised basis with funding voted on a state by state basis. Australia therefore is behind NZ in targeting health reforms.

We continually review our sales and marketing strategy for Australia supported by our centres of excellence in distribution and I.T.

It is my view that within 5 years many multinational Healthcare companies will be forced to exit their expensive Australian subsidiaries. NZ has already gone through this process which has created opportunities for EBOS.

(Slide 'Acquisitions')

Let me close with a few comments on where we are at in respect to expanding our operational footprint by way of acquisitions.

As the chairman highlighted, we have a very strong balance sheet. Having fulfilled a commitment to improving shareholder returns by way of the 20 cents per share special dividend in the latest year, we wish to deploy our cash resources and zero gearing in the direction of new growth opportunities.

I said in the annual report that we are ready to embark on an important new phase, looking at opportunities in New Zealand, Australian and beyond.

How far have we got with that?

We are well positioned in New Zealand, and have a strong and developing market in Australia and the Pacific. Accordingly, we have looked at making an acquisition in a new market and we refined the opportunities to an attractive proposition in the United Kingdom.

Planning was well advanced to crystallise the opportunity – however, the continuing deterioration of market conditions in England and the European Community for which the UK is a springboard led us to decide at board level that the timing was too risky.

In times of high uncertainty, it is prudent to re-focus on the existing markets that are best known. We always have a number of acquisition prospects and have quickly moved on to evaluate another significant opportunity which is NZ/Australia centric.

(Slide 'Outlook')

FUTURE

- Difficult market conditions are likely for at least 1H12.
- Our focus remains on leveraging our core competencies to achieve future growth.
- We see a compelling logic for an incoming government to enter into meaningful discussions related to public-private partnerships in procurement and distribution.
- We have the balance sheet to support another series of strong growth steps. The preferred route is to extract value from an earnings positive acquisition.

SPECIAL COMMENT

I would like to make special mention of the sad passing of Maurice Ryan recently. Maurice was a senior colleague for 20 years and also a director of EBOS.

THANK YOU.