# Primary Health Care Limited

FY 2011 Results

12 Months Ended 30 June 2011

Investor Presentation 22 August 2011

# Financial Summary

PRIMARY HEALTH CARE LIMITED

| $m | Year ended 30 June 2011 | Year ended 30 June 2010 |
|---|---:|---:|
| Revenue | 1,322.3 | 1,296.8 |
| EBITDA | 328.0 | 331.0 |
| EBITDA Margin (%) | 24.8 | 25.5 |
| Non-recurring items | (34.7) | - |
| Normalised profit after tax before non-recurring items | 102.6 | 132.0 |
| EPS (cps) before non-recurring items | 20.7 | 27.8 |
| Fully franked final dividend (cps) | 5.0 | 10.0 |

- EBITDA and margin growth in all divisions 2H FY2011 vs 1H FY2011
- FY2011 includes incremental $15m in revenue and EBITDA funding cuts over FY2010
- Cost reduction program implemented - $34.7m pre-tax costs
- EPS before non-recurring items - 20.7 cents per share

# Income Statement

| $m | Year ended 30 June 2011 | Year ended 30 June 2010 | Six months 31 Dec 2010 |
|---|---|---|---|
| Revenue | 1,322.3 | 1,296.8 | 655.7 |
| EBITDA | 328.0 | 331.0 | 152.4 |
| Depreciation & Amortisation | (82.2) | (72.9) | (40.3) |
| Finance costs | (97.1) | (77.8) | (47.6) |
| Income Tax | (34.2) | (46.1) | (8.5) |
| Non-recurring items | (34.7) | - | (34.7) |
| **Net profit before minorities** | **79.8** | **134.2** | **21.3** |
| Minorities | (1.5) | (2.2) | (1.0) |
| **Net profit after tax** | **78.3** | **132.0** | **20.3** |

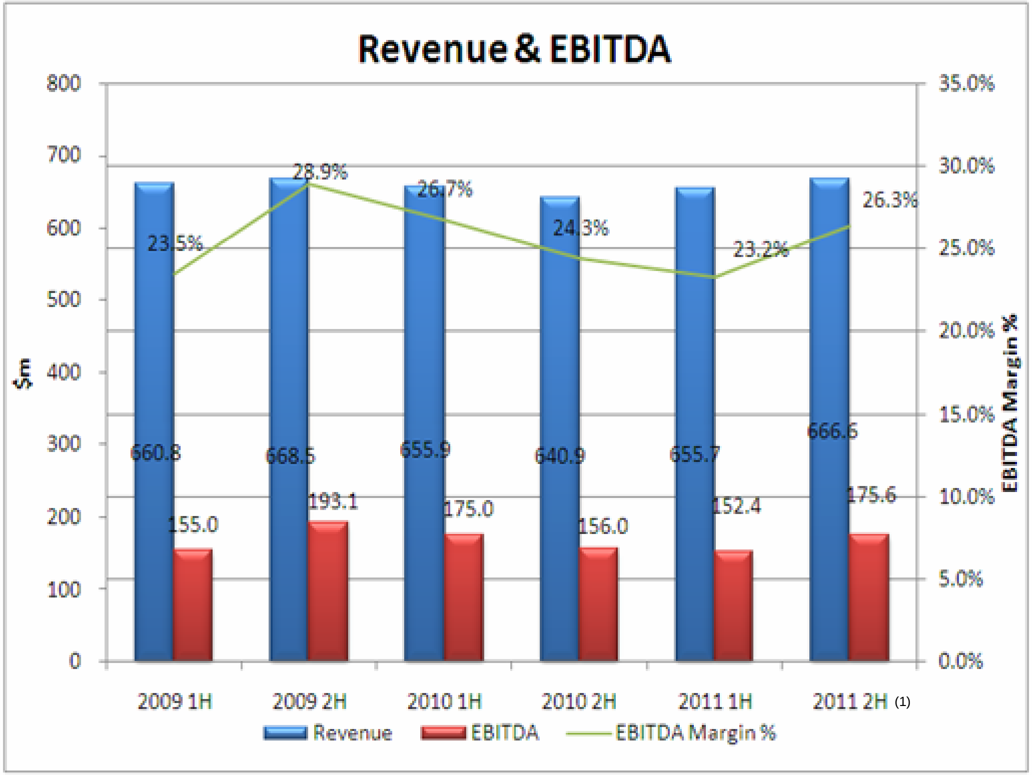
## Segment Analysis

| $m | Year ended 30 June 2011 | Year ended 30 June 2010 | Six months 31 Dec 2010 |
|---|---|---|---|
| **Revenue** | | | |
| Medical Centres | 274.6 | 259.0 | 137.5 |
| Pathology | 740.1 | 720.7 | 364.0 |
| Imaging | 285.0 | 289.1 | 145.1 |
| Health Technology | 48.9 | 46.4 | 24.5 |
| Corporate | 12.4 | 9.8 | 3.0 |
| Intersegment | (38.7) | (28.2) | (18.4) |
| **TOTAL** | **1,322.3** | **1,296.8** | **655.7** |

| | | | |
|---|---|---|---|
| **EBITDA** | | | |
| Medical Centres | 150.3 | 142.4 | 74.5 |
| Pathology | 118.7 | 135.3 | 55.3 |
| Imaging | 43.4 | 42.6 | 21.1 |
| Health Technology | 19.5 | 20.0 | 9.7 |
| Corporate | (3.9) | (9.3) | (8.2) |
| **TOTAL** | **328.0** | **331.0** | **152.4** |

# Financial Performance

PRIMARY HEALTH CARE LIMITED




- 2H FY2011 uplift in EBITDA margin and volumes across all divisions
- 2H FY2011 improved performance despite impact of QLD floods and Cyclone Yasi
- Pathology result impacted by full $45m funding cut 1 November 2009 compared with $30m impact in the year ended 30 June 2010

(1) 2011 2H Revenue and EBITDA includes revenue of $9.4m relating to proceeds from litigation. 2011 2H EBITDA Margin excluding $9.4m is 25.3%

# One-off Costs

| | $m |
|---|---:|
| Lease commitments and make good of sites | 14.7 |
| Redundancies | 9.4 |
| Legal and other costs | 3.9 |
| **Non-recurring cash items** | **28.0** |
| Assets written off at closed sites | 6.7 |
| **Total non-recurring items** | **34.7** |

- In November 2010, Primary provided a trading update which detailed a cost reduction program as a response to the funding cuts which have occurred across the healthcare industry over recent times
- Primary confirms that these actions have been completed with $34.7 million of one-off costs resulting in c.$27 million of cost savings ($18m net of revenue reductions) per annum

# Balance Sheet

| $m | 30 June 2011 | 31 Dec 2010 | 30 June 2010 |
|---|---|---|---|
| Current Assets (excluding Cash) | 183 | 163 | 181 |
| Goodwill & Intangibles | 3,164 | 3,112 | 3,075 |
| Non-Current Assets | 435 | 438 | 414 |
| **Total Assets** | **3,782** | **3,713** | **3,670** |
| Net Debt (Debt less Cash) | 1,074 | 1,036 | 979 |
| Other Current Liabilities | 174 | 178 | 171 |
| Non-Current Liabilities | 30 | 42 | 50 |
| **Total Liabilities** | **1,278** | **1,256** | **1,200** |
| **Total Equity** | **2,504** | **2,457** | **2,470** |

| | | | |
|---|---|---|---|
| **Gearing Ratio (Net Debt/Net Debt + Equity)** | **30.0** | **29.7** | **28.4** |

## Debt Position

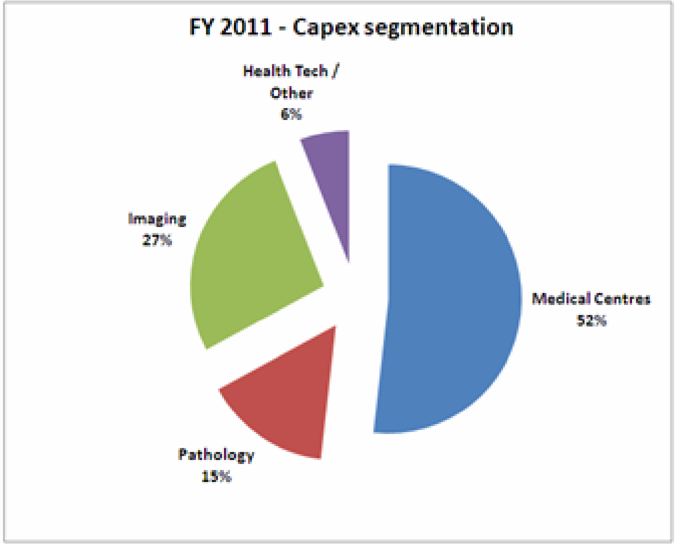
PRIMARY HEALTH CARE LIMITED

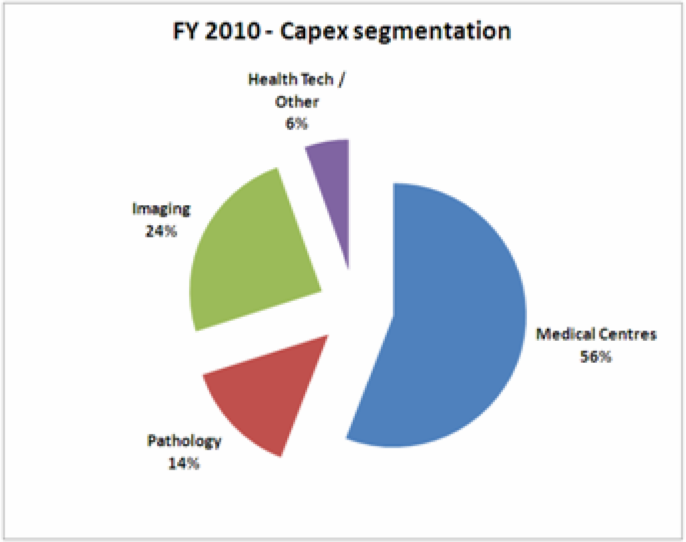
| $m | 30 June 2011 |
|---|---|
| Secured Syndicated Facilities | 965.3 |
| Cash | (43.2) |
| Retail Bonds | 152.2 |
| **Net Debt at 30 June 2011** | **1,074.3** |

- Retail Bond matures September 2015
- Secured Syndicated Facilities do not mature until December 2012
- Strong interest already received for possible early refinancing of syndicated facilities on more favourable terms

# Capital Investment

| $m | Year ended 30 June 2011 | Year ended 30 June 2010 |
|---|---:|---:|
| Property plant & equipment | 99.1 | 104.3 |
| Business acquisitions | 84.9 | 78.5 |
| Intangibles | 20.4 | 12.1 |
| **TOTAL** | **204.4** | **194.9** |



## Summary

| | Highlights |
|---|---|
| **Revenue growth & improved 2HFY2011 EBITDA** | • Revenue up to $1.322b for FY2011 from $1.297b for FY2010<br>• 2H FY2011 EBITDA up to $175.6m ($166.2m excluding net proceeds from litigation) from 1H FY2011 of $152.4m. Overall EBITDA of $328.0m ($318.6m excluding net proceeds from litigation) |
| **Underlying growth in volume** | • GP attendances showing improvement in the last quarter<br>• Pathology referrals returned to near historical organic levels during FY2011 |
| **Medical Centre EBITDA** | • Primary large scale medical centre EBITDA growth of 8% |
| **Pathology Margin** | • Pathology EBITDA margin for 2H FY2011 16.9% up from 15.2% in 1H FY2011 |
| **Imaging** | • Imaging referral volumes up 5% and continued EBITDA margin improvement |
| **Health Technology** | • Health Technology subscription renewal rates remain strong |
| **Restructure completed, savings being achieved** | • Restructuring complete with net $18m per annum savings achieved |

# Medical Centres: Summary

| | FY 2011 | 2H11 | 1H11 | FY 2010 | 2H10 | 1H10 |
|---|---|---|---|---|---|---|
| **Revenue ($m)** | **274.6** | 137.1 | 137.5 | **259.0** | 127.2 | 131.8 |
| *Growth % pcp* | *6.0%* | *7.8%* | *4.3%* | - | - | - |
| **EBITDA ($m)** | **150.3** | 75.8 | 74.5 | **142.4** | 68.6 | 73.8 |
| **EBITDA Margin (%)** | **54.7%** | 55.3% | 54.2% | **55.0%** | 53.9% | 56.0% |

- Revenue growth of 6% across all centres
- EBITDA growth of 8% in large scale Primary medical centres ($127.4m to $138.0m)
- 82 medical centres now operating - 56 large scale
- GPs continue to join the group with recruitment levels being maintained at prior year levels
- In excess of 10% GP patient attendance growth over the last 3 months (flat patient attendance growth prior)

## Medical Centres: Growth

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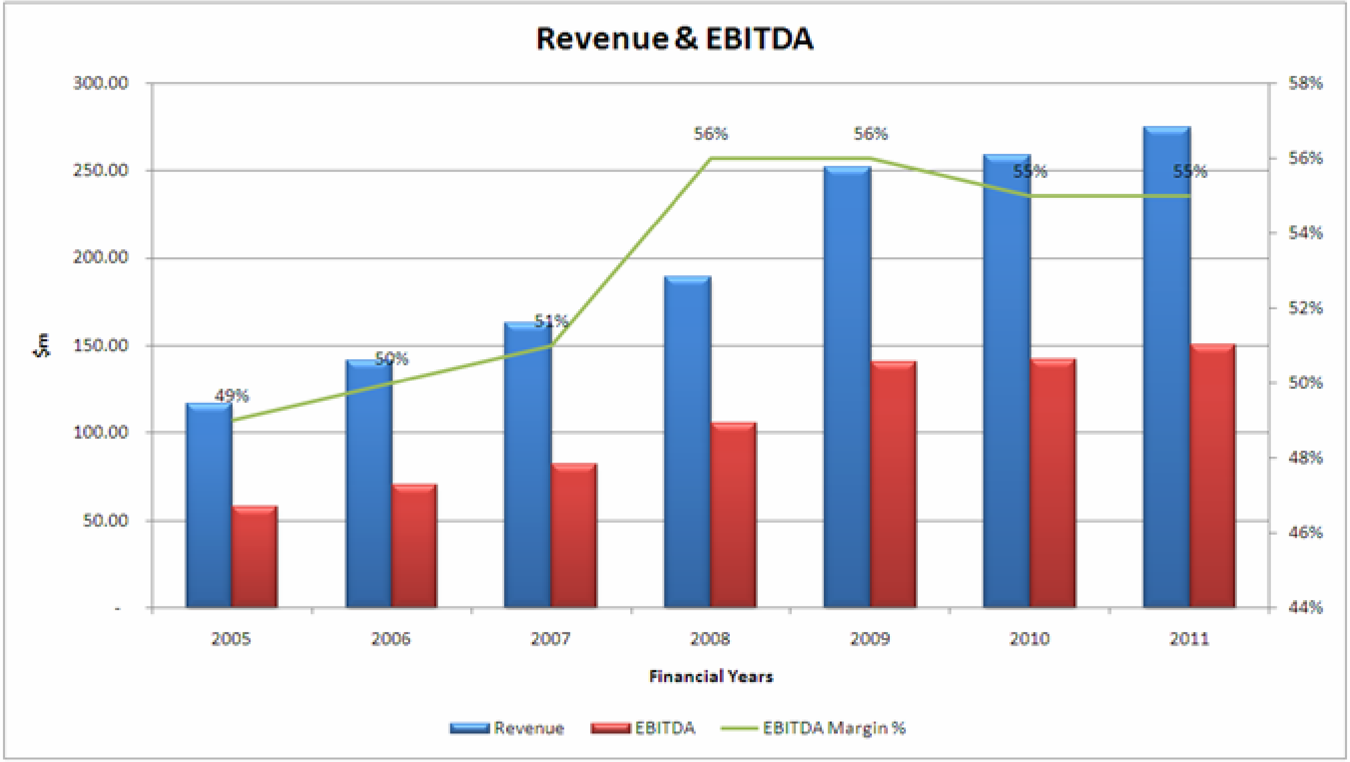
- Medical Centres has grown significantly over the last 7 years increasing EBITDA from c.$58m in 2005 to c.$150m in FY2011, achieving a sustainable EBITDA margin of 50%+.

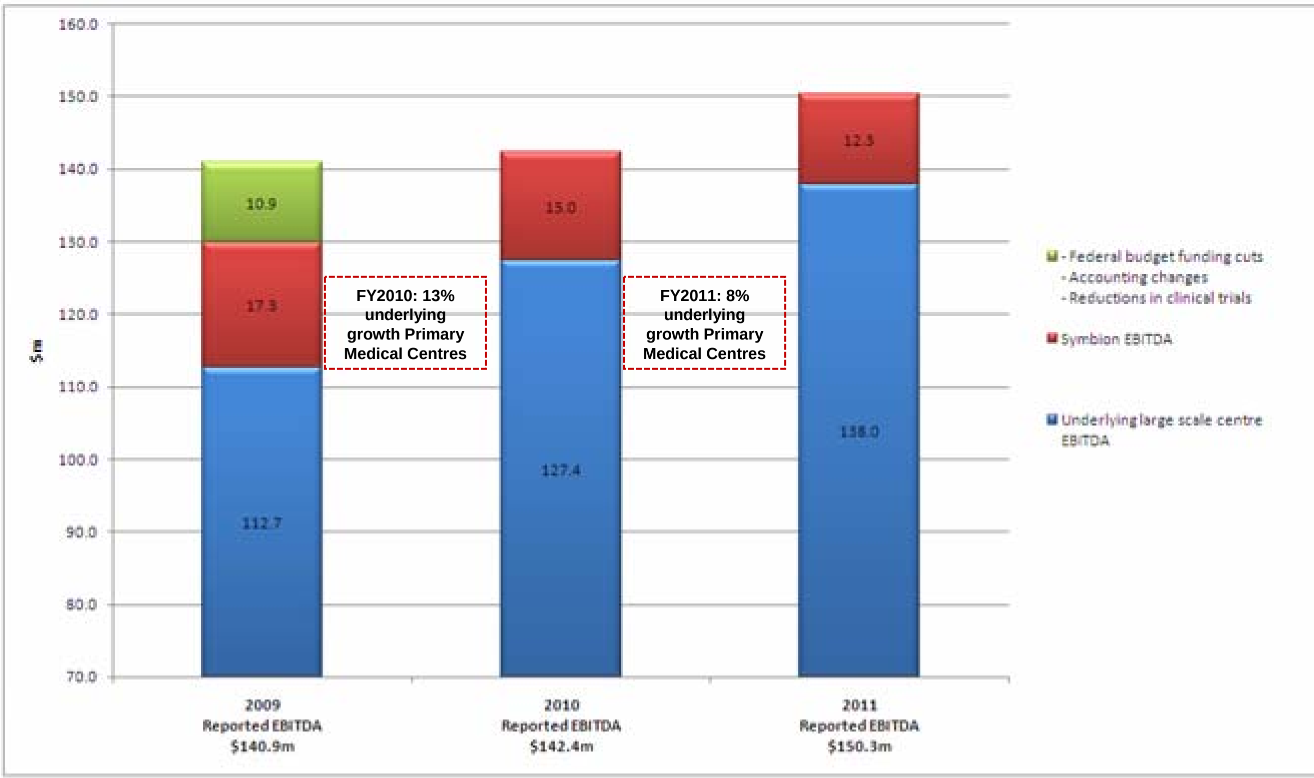
(1)




(1) All figures based on reported results for the Medical Centre division of Primary. Note Symbion acquired effective 1 March 2008. Post Symbion acquisition, head office costs were reported as a separate segment in the Primary Group Annual Report from 2008 (not deducted from Medical Centre segment).

# Medical Centres: Underlying Performance

- Continued underlying growth in Primary's 56 large scale medical centres
- With a platform of established centres we will focus on GP back-filling aiming for double digit EBITDA growth



# Medical Centres: GP back-filling

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- Focus in the coming year will be to backfill all centres at all stages in their age profile
- We can increase the number of GPs by c.40% without further spending on increasing capacity at existing centres or building new centres
- On average GP's experience a c.30% gross billings lift in their first year from their warranted income prior to joining. With subsequent year on year growth in each year thereafter

| 2011 Medical Centres (56 in total) | | | |
|---|---|---|---|
| Age of centre | # Centres | Proportional % Contribution to Overall Med Centre EBITDA | Total number of GP's |
| < 1 year | 3 | 1% | 26 |
| 2-3 years | 12 | 10% | 137 |
| 3-5 years | 10 | 21% | 131 |
| 5-7 years | 10 | 17% | 161 |
| > 7 years | 21 | 51% | 332 |
| **Total** | **56 Centres** | **100%** | |

# Medical Centres: Outlook

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- Recent improved trend of increases in GP patient attendance which continues to date
- Current focus on GP back filling
- Primary has been able to double its business in Victoria and Queensland over the last 3 years. Primary has opened 4 medical centres in Western Australia in the last 18 months
- Targeting double digit revenue and EBITDA growth

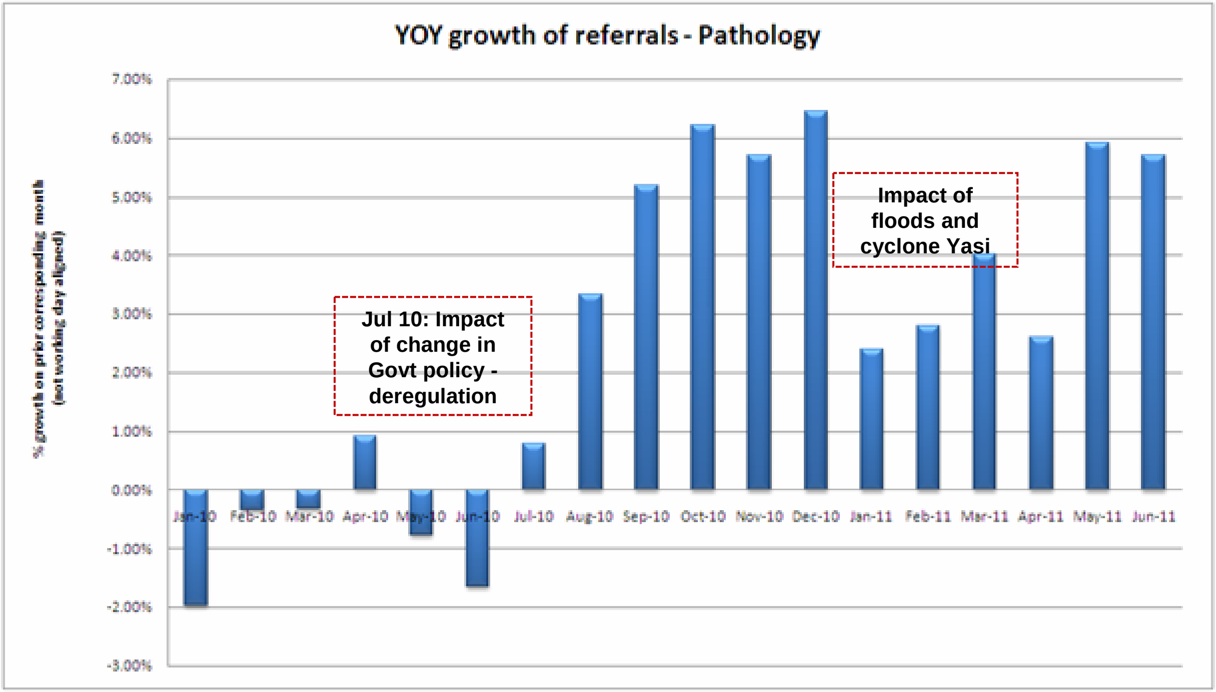
# Pathology: Summary

| | FY 2011 | 2H11 | 1H11 | FY 2010 | 2H10 | 1H10 |
|---|---|---|---|---|---|---|
| **Revenue ($m)** | **740.1** | 376.1 | 364.0 | **720.7** | 357.2 | 363.5 |
| *Growth % pcp* | *2.7%* | *5.3%* | *0.1%* | *-2.3%* | *-4.1%* | *-0.5%* |
| | | | | | | |
| **EBITDA ($m)** | **118.7** | 63.4 | 55.3 | **135.3** | 61.9 | 73.4 |
| **EBITDA Margin (%)** | **16.0%** | 16.9% | 15.2% | **18.8%** | 17.3% | 20.2% |

- FY2011 EBITDA adversely impacted by:
  - First full 12 months of funding cuts (estimated $15m impact)
  - Cost pressures associated with deregulation
- Seeing return to historical referral growth levels
- 170bps improvement in EBITDA margins in second half

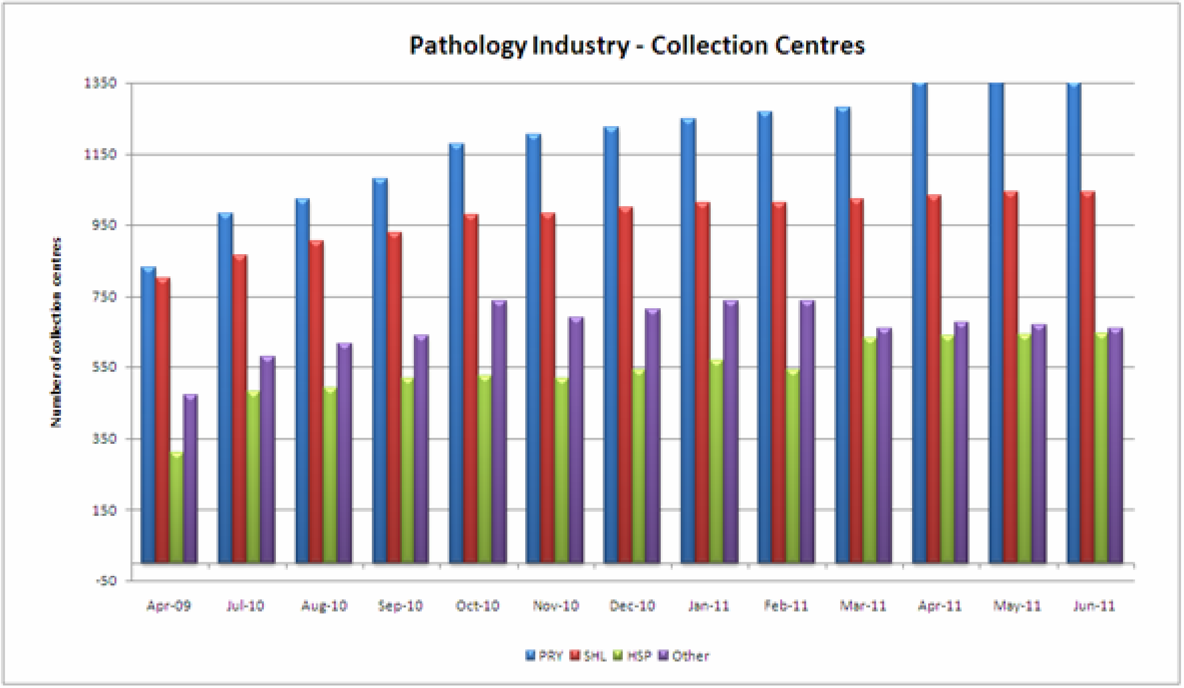
## Pathology: Revenue

- Revenue adversely impacted by first full 12 months of funding cuts and impact of Cyclone Yasi and floods
- Expansion of market share (need to exclude Qld to ensure like-with-like comparisons)
- Return of episode growth appears to be correlated with deregulation of collection centres



# Pathology: Cost Structure

- Deregulation of collection scheme has introduced significant new costs (rent and staff)
- Primary has retained its market share of collection centres pre & post deregulation (stable @ 33%)
- Primary has capability to reset cost base




Source: Merrill Lynch Equities Australia Ltd

# Pathology: Outlook

- Industry dynamics fundamentally changed
- Seeing significant industry scale back in breadth and coverage of services
- Rate of growth in collection centre roll-out has slowed across industry
- Memorandum of Understanding 1 July 2011 for five years provides funding stability
- Primary well placed strategically

# Imaging: Summary

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| | FY 2011 | 2H11 | 1H11 | FY 2010 | 2H10 | 1H10 |
|---|---|---|---|---|---|---|
| **Revenue ($m)** | **285.0** | 139.9 | 145.1 | **289.1** | 142.0 | 147.1 |
| | | | | | | |
| **EBITDA ($m)** | **43.4** | 22.3 | 21.1 | **42.6** | 19.6 | 23.0 |
| **EBITDA Margin (%)** | **15.2%** | 15.9% | 14.5% | **14.7%** | 13.8% | 15.6% |

- FY2011 EBITDA and margin improvement reflecting:

  - restructuring during the year

  - continued recruitment and conversion of leading radiologists to “fee for service” model

  - focus on cost management

- Underlying referral numbers positive with volumes up 5% - retention of core market share

# Imaging: Outlook

- Primary will continue to focus on:
  - recruitment and retention of leading radiologists
  - moving towards a “fee for service” model with radiologists
  - continue to drive operational improvements ~ turn around times, technology etc
  - cost containment and leveraging the recent investment in the business
  - completion of IT roll-out in FY2012

## Health Technology

PRIMARY HEALTH CARE LIMITED

| | FY 2011 | 2H11 | 1H11 | FY 2010 | 2H10 | 1H10 |
|---|---|---|---|---|---|---|
| **Revenue ($m)** | **48.9** | 24.4 | 24.5 | **46.4** | 22.3 | 24.1 |
| *Growth % pcp* | *5.3%* | *9.4%* | *1.6%* | - | - | - |
| **EBITDA ($m)** | **19.5** | 9.8 | 9.7 | **20.0** | 10.3 | 9.7 |
| **EBITDA Margin (%)** | **39.9%** | 40.1% | 39.6% | **43.1%** | 46.2% | 40.2% |

- Software products renewal rates remain high amongst major products ~ Medical Director, PracSoft and Blue Chip
- Removal of government funding for Medicare transition support program reduced revenue and EBITDA by $1.2m
- Opportunity to grow the business:

  - Drive outcomes in eHealth

  - New functionality for software

  - Enhanced products for new markets (specialists)

## Summary

- Clear strategy to be a low cost provider of quality medical services
- Primary well positioned to capture increased demand via capacity in medical centres and the investment made in pathology and imaging
- Backfilling of GPs is a focus for medical centres
- Focus on organic revenue growth and margin improvement with a more stable revenue base in Pathology
- Incremental EBITDA and margin improvements to continue in Imaging
- Health Technology will use its unique position to drive outcomes in eHealth change

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