

ASX Announcement (ASX: PRY)

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Primary acts to support its clinicians in settlement with Australian Tax Office (ATO) and updates its earnings guidance for FY 2015

- **PRY and ATO have agreed to offset doctor tax liabilities on practice sales against PRY tax refund for practice purchases, ensuring PRY clinicians are not disadvantaged by ATO ruling**
 - Clinicians who joined PRY prior to 30 June 2015 will not have their practice sale proceeds assessed as if these were ordinary income.
 - This removes an issue of significant concern for our clinicians and demonstrates PRY's commitment to supporting its clinicians.
 - PRY has agreed with the ATO to settle doctor tax liability of approximately \$105 million which will be offset against approximately \$155 million of tax refund, resulting in a net tax refund to PRY of approximately \$50 million.
 - See **Attachment 1** for details.
- **PRY reduces outlook for underlying earnings**
 - Trading in 4Q FY 2015 has been weaker than expected with subdued patient volumes.
 - This has been driven by a range of factors, including extreme weather events particularly in NSW, and a relatively mild cold and flu season compared to the prior period.
 - Asset impairment and other non-cash charges of approximately \$30 million will be brought to account in FY 2015.
 - Underlying¹ EBITDA for FY 2015 revised to approximately \$400 million against previous guidance of \$410-425 million.
 - Underlying¹ EPS growth for FY 2015 revised to a decline of approximately 5%.
 - Reported EPS growth for FY 2015 in the range of 17-20% due primarily to the net tax refund of approximately \$50 million.
 - See **Attachment 2** for details.

¹ Underlying EBITDA is defined as EBITDA adjusted for significant items including the ATO settlement, impairment charges, and other charges. Underlying EPS is defined as EPS adjusted for significant items including the ATO settlement, impairment charges, and other charges including the \$8.6 million accelerated asset write-down disclosed in 1H 2015.

Investor/Analyst Enquiries

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Yours faithfully

A handwritten signature in black ink, appearing to read 'Charles Tilley', written in a cursive style.

Charles Tilley

Group Company Secretary

(Attachments 1 and 2 follow)

Attachment 1: PRY enters into Heads of Agreement with the ATO

PRY is pleased to announce that it has entered into a binding Heads of Agreement (HoA) with the ATO with respect to certain tax liabilities on behalf of its healthcare practitioners arising from the acquisition of medical and healthcare practices during the period FY 2011 to FY 2015. This constitutes the entire period open to the ATO to amend tax assessments of those healthcare practitioners².

The key terms of the HoA are:

- The ATO will not commence any new review, or audit, of healthcare practitioners in relation to medical and healthcare practice acquisitions of PRY in respect of FY 2011 to FY 2015;
- The ATO will suspend immediately and terminate any current reviews, or audits, of healthcare practitioners in relation to medical and healthcare practice acquisitions in respect of FY 2011 to FY 2015;
- PRY will not exercise its review or appeal rights with respect to certain objections lodged for the FY 2011 to FY 2014 years;
- PRY will not seek certain deductions in respect of payments to healthcare practitioners in the FY 2015 year.

PRY and the ATO can now confirm that healthcare practitioners who joined PRY between 2011 and 2015, and who treated the payments they received as capital for tax purposes, will not be further assessed as if those payments were ordinary income. All health practitioners can now consider the treatment of these payments as closed for any dispute with the Commissioner and their treatment as filed in their income tax return will remain.

On 9 June 2015, PRY advised it expected to bring to account an approximately \$130 million cash tax refund in its FY 2015 financial statements for the period FY 2011 to FY 2014. This followed advice from the ATO that the cost of acquiring medical and healthcare practices was tax deductible during the period FY 2010 to FY 2014.

PRY now advises that it has subsequently agreed to settle all outstanding objections available to PRY to 30 June 2014 (i.e. approximately \$130 million), and available deductions for FY 2015 (i.e. approximately \$25 million), and certain tax liabilities on behalf of its healthcare practitioners for the period FY 2011 to FY 2015 (i.e. approximately \$105 million), for a net tax refund of approximately \$50 million.

Peter Gregg, Managing Director of Primary Health Care said: *"We thank the ATO for working closely with us to resolve this matter expeditiously and believe it is an excellent outcome for all stakeholders. Primary's healthcare professionals now have clarity and peace of mind to allow them to focus on what they do best – providing affordable, accessible healthcare to the Australian community."*

All future contracts between PRY and healthcare practitioners will be on revenue account for tax purposes for both parties. Where there are possible exceptions, the ATO's guidance regarding the correct treatment will be sought.

² The legal power of the ATO to amend tax assessments for most individual doctors and other healthcare practitioners only covers those practitioners' two most recent tax assessments, though a period of up to four years is possible for some individuals with complex tax structures.

The impact of the tax refund and settlement will be separately identified in PRY's financial statements for FY 2015.

Imputation credits

PRY is reviewing the impact the settlement may have to the franking of its future dividends, if any, and will update the market if there are any changes to the guidance announced on 29 June 2015.

Attachment 2: Trading Update

FY 2015 Guidance

PRY is updating the market on its earnings guidance for FY 2015. In light of the significant items identified below, and in order to be consistent with previous earnings guidance issued, earnings guidance is provided on an underlying³ basis.

PRY expects underlying EBITDA¹ for FY 2015 to be approximately \$400 million, which is in line with \$399 million EBITDA reported in FY 2014. This is below the previous EBITDA guidance range of \$410-\$425 million and primarily reflects subdued patient volumes across the business in the fourth quarter of FY 2015. This is driven by a range of factors, include extreme weather events particularly in NSW, and a relatively mild cold and flu season compared to the prior period.

PRY expects underlying EPS¹ for FY 2015 to decline by approximately 5% based on underlying EBITDA of \$400 million, an effective tax rate of 39%⁴ and excluding the significant items referred to below. This is below the previous EPS growth guidance of 5-12% and reflects the factors identified above.

These estimates are subject to finalisation of year end close and audit.

Significant items

The FY 2015 result will be impacted by several significant items.

1) ATO Settlement

PRY expects to bring to account the \$155 million refund as a tax item whereas the \$105 million settlement will be a combination of tax expense and non-taxable operating expense.

2) Asset impairment and other charges

PRY expects to bring to account additional asset impairment and other charges of net approximately \$30 million in its FY 2015 accounts. This consists of approximately \$11 million in asset impairments, and approximately \$19 million of other items.

PRY has recorded a charge to Depreciation and Amortisation of \$8.6 million for accelerated asset-write downs which was disclosed in 1H 2015.

Goodwill restatement

At the 1H 2015 result, PRY changed its accounting policy for the acquisition of healthcare practices, which resulted in a restatement of goodwill, other intangibles, deferred tax and retained earnings. The restatement covered the period 1 July 2004 to 30 June 2014.

³ Underlying EBITDA is defined as EBITDA adjusted for significant items including the ATO settlement, impairment charges, and other charges. Underlying EPS is defined as EPS adjusted for significant items including the ATO settlement, impairment charges, and other charges including the \$8.6 million accelerated asset write-down disclosed in 1H 2015.

⁴ While the amortisation of practice acquisition costs will be treated as tax deductible in future periods due to the certain factors relating to the ATO settlement the effective tax rate for FY 2015 is expected to be approximately 39%.

PRY expects to now apply the new accounting policy retrospectively to 1998 due to identification and analysis of accounting records covering the period from 1998-2004. This will result in an additional reduction of goodwill and retained earnings of approximately \$85 million and has no impact on current year earnings.

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