

12 August 2015

PRIMARY ANNOUNCES FY15 RESULTS AND STRATEGIC REVIEW OUTCOMES

Primary Health Care Limited ("Primary") today announced an increase in Net Profit after Tax ("NPAT") of 19.1% based on revenue growth of 6.2%. The company also announced its strategic review, identifying the key drivers of future performance.

FY15 HIGHLIGHTS

- Revenue up 6.2% to \$1.6 billion
- Underlying ¹ Earnings before interest, tax, depreciation and amortisation ("EBITDA") flat at \$400.5 million
- Reported NPAT up 19.1% to \$136.5 million, reflecting the ATO settlement proceeds
- Underlying¹ NPAT up 3.9% to \$119.1 million
- Reported earnings per share ("EPS") up 17.6% to 26.7 cents per share ("cps")
- Underlying¹ EPS up 2.6% to 23.3 cps
- Final dividend of 11.0cps, 50% franked, taking total dividends for the year to 20.0cps

Primary's Managing Director, Peter Gregg, said: "The results for financial year 2015 reflect reasonable revenue growth across core businesses, in what has been a challenging transition year for the company. Importantly, we have now settled the tax treatment of healthcare practitioner acquisitions. We have also refinanced our \$1.25 billion bank facility, extending the maturity profile and improving terms."

STRATEGIC REVIEW

Primary today also announced outcomes from its strategic review. The review has highlighted Primary's unique strengths including its scale and national footprint across medical centres, imaging and pathology businesses and the opportunity with Medical Director to participate in e-health.

Mr. Gregg said: "Primary is strategically very well positioned in the Australian healthcare sector and offers significant opportunity for future growth. It has been proven many times that front-line medical care provided by GPs is the most cost-effective form of healthcare. As a consequence, we will be increasing the level of capital investment targeted at growth in the core businesses, with a strict focus on delivering appropriate returns on capital. As part of this focus, we have divested, or are in the process of divesting, non-core assets to recycle the capital into growth initiatives in the core businesses."

¹ Underlying results exclude significant items including tax deductibility of medical centre acquisitions and tax settlement of healthcare practitioners' tax liabilities, plus non-cash impairments.

Invest for growth and improve returns

- **Expand large-scale medical centres.** Primary has been a pioneer in the development of large-scale multi-disciplinary medical centres where patients can have all of their healthcare needs met under one roof. Primary sees significant opportunity to expand its footprint. Over the next 18 months, the company expects to identify five large-scale centres and one Brookvale-style super-centre of over 3,000 square metres. The Strategic Review has shown the large-scale medical centres generate revenue across the group and earn attractive returns on capital, supporting a target pre-tax ROIC of 15-20% on all new centres.
- **Improve recruitment and retention of healthcare practitioners.** There is considerable opportunity for Primary to improve capital efficiency and reduce costs through enhanced recruitment and retention of healthcare practitioners. Following the positive resolution on the tax implications of acquisition payments with the ATO, the company is developing flexible models that meet the different needs of its healthcare practitioners. Primary is also increasing its investment in clinical training through Primary Health Institute, which provides practitioners with all their continuing education needs, and in registrar training, with 31 registrars currently in its centres.
- **Invest in the existing network and expand large-scale imaging clinics.** Imaging is a high growth market reflecting the increasing use of this technology in guiding medical diagnosis and treatment. Primary will continue to invest for growth and has identified a number of opportunities to improve performance across the network. Furthermore, the Bridge Road Imaging Centre, which opened in July 2015, provides a new model for future expansion. It represents one of the country's largest dedicated imaging facilities with state-of-the-art equipment and a team of high quality experts, capable of providing patients and their specialists with the best diagnostic data available.
- **Export pathology capabilities offshore.** Demand for pathology in Australia is expected to continue to grow, primarily due to demographic factors and increasing reliance on testing and diagnosis. Primary has a leading market position in the Australian pathology market, with highly competitive laboratories in terms of both quality and efficiency. However, with growth in Australia largely restricted to organic sources, Primary is exploring expansion opportunities in offshore markets to further capitalise on the group's expertise.
- **Leverage the strategic position of Medical Director to develop new income streams.** More than 60 million patient consultations are transacted through Primary's Medical Director clinical software each year. There is a significant opportunity to leverage this footprint and offer new services and products around e-health, data analytics and consumer connectivity which will greatly increase potential income streams. The company is currently evaluating strategic partners and assessing the appropriate corporate structure for Medical Director.

Strengthen the Balance Sheet

- **Recycle non-core assets.** In July, Primary sold its stake in Vision Eye Institute Limited for \$38 million. The proceeds will be used to pay down debt. The Barangaroo property is now classified as held for sale.
- **Establish a property trust to fund new centres and clinics.** Primary will establish a property trust, or REIT, to provide a more efficient structure for the company to fund and operate its pipeline of new centres off balance sheet.
- **ATO settlement.** In July, Primary reached a settlement with the ATO regarding the tax treatment of practice acquisitions for the financial years 2011 to 2015. This will result in a net cash refund to Primary of \$45 million. Primary will also pursue an out-of-time objection for financial years 2003 to 2007, although these claims are subject to the sole discretion of the ATO.

Mr. Gregg said: "While there will be a transition period during which these initiatives are implemented, we are confident they will deliver improved growth and capital returns for the group, as they leverage off the considerable experience and strategic strengths of the company.

"In the meantime, we are driving a profit improvement program covering a range of initiatives both from the Strategic Review and from operational activities, with the aim of delivering a 2-3% uplift in annualised NPAT margins. These include:

- lowering capital costs through improved recruitment and retention of healthcare practitioners, reviewing capital spend, and REIT funding of new centres and clinics;
- driving revenue growth from capturing network benefits across the group; and
- reducing operating costs through back office efficiencies, removal of duplication, and group-wide procurement benefits.

Mr. Gregg said: "Supporting the future healthcare needs of the Australian community is one of the fundamental issues we face today. We intend to build on Primary's vision for affordable, accessible, high-quality healthcare and we see a future where multi-disciplinary centres increasingly become the preferred option for patients and take the pressure off the hospital system.

"Primary's existing scale and expertise, supported by new strategic review initiatives, ensure the company is ideally placed to grow its local business in line with the increasing healthcare needs of an ageing population and to assess strategic opportunities offshore in pathology as they arise."

ENDS

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