

ASX Announcement (ASX: PRY)

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PRIMARY ANNOUNCES 1H16 RESULTS, UPDATES ON STRATEGIC INITIATIVES

Primary Health Care Limited ("Primary") today announced an increase in reported EBITDA of 4.0% and reported NPAT of 28.5% for the six months to 31 December 2015 (1H 2016), supported by one-off items. Underlying results¹ were in line with expectations.

1H 2016 HIGHLIGHTS

- Reported revenue of \$835.0 million up 4.6% (underlying revenue of \$815.2 million)
- Reported EBITDA of \$204.0 million up 4.0% (underlying EBITDA of \$181.9 million)
- Reported NPAT of \$68.6 million up 28.5% (underlying NPAT of \$50.1 million)
- Interim dividend of 5.6 cents per share, 50% franked, representing a 60% payout of UNPAT. The Dividend Reinvestment Plan and Bonus Share Plan have been suspended.
- Strengthened balance sheet with gearing reduced from 32.1% to 30.7%
- Recruitment and retention of HCPs ahead of expectations and capital costs for HCPs reducing
- On track to meet guidance of \$110-\$115 million FY 2016 UNPAT
- Platform for improvement

Primary's Managing Director, Peter Gregg, said: "We have delivered an underlying result in line with our expectations amid difficult trading conditions. We have made good progress with the strategic review initiatives unveiled last year. Flexible recruitment models are in place, the property trust has been established and non-core assets are being divested.

"Importantly the second half will be stronger with projects underway to drive margin expansion and recycle capital. This will deliver a platform for growth in FY 2017.

"The difficult trading conditions have, in part, come about due to the Government's desire to reduce spending on frontline healthcare, as evidenced by the MYEFO cuts, ongoing pathology and other MBS cuts. Faced with this approach, Primary is responding with several initiatives aimed at reducing

¹ Underlying results exclude one-off items relating to the gain on sale of shares in of Vision Eye Limited ("VEI") and other non-cash gains on dissolution of a Joint Venture; finalisation of the Australian Tax Office ("ATO") settlement relating to potential Healthcare Practitioners' ("HCPs") tax liabilities; other non-cash fair value adjustments and one-off items associated with implementation of the various restructuring and strategic initiatives set out in Primary's strategic updates released in August and November 2015.

and making its cost base variable, while increasing revenue with selective co-payments. In addition, new medical centre models are being developed, as well as new pathology and diagnostic imaging revenue streams, which will not rely solely on bulk-billing.”

DIVISIONAL ANALYSIS

Medical Centres

Medical Centres delivered underlying revenue of \$165.3 million and underlying EBIT of \$48.3 million for 1H 2016 after starting the year with lower than expected HCPs. Importantly, recruitment and retention of HCPs were ahead of expectations, with retention up 32% on 1H 2015, while the capital cost of acquiring HCPs reduced 18% in the period.

The division is looking to transform its HCP engagement, with flexible remuneration models broadening the appeal and better aligning the interests of the company and its practitioners. Four new large scale centres are in the pipeline to be opened in FY 2017.

The division is diversifying its revenue streams, including piloting different centre structures and private billing models. It is looking to deliver patient-centric care supported by developments in technology.

Pathology

Pathology delivered underlying revenue of \$482.3 million and underlying EBIT of \$60.0 million.

In response to the tough operating environment where growth was at historical lows, the division is reducing its costs with a focus on Approved Collection Centres (“ACCs”). The Group’s ACC numbers stabilised between October and December with 100 sites closed or exited in 1H 2016. A downward trend in ACC costs is expected in the second half of 2016. Further underperforming sites will be closed or managed, while hurdle rates have been tightened to lower rents. The division has a good platform to reset its cost base with 60% of leases renegotiable within the next 18 months.

The division is piloting selective out-of-pocket billings in certain geographies and certain tests. It is also pursuing the diversification of revenue, with discussions in South East Asia progressing.

Imaging

Imaging delivered underlying revenue of \$162.1 million and underlying EBIT of \$10.5 million, against a challenging environment.

The division is focused on improving returns on its existing asset base by enhancing the revenue mix and reducing costs, as it looks to transition from small community sites to large scale multi-disciplinary clinics, specialised centres and hospital contracts. It is undertaking a progressive introduction of selective out-of-pocket billings.

The division has executed a cost savings program, closing or managing underperforming centres and reducing labour costs, to drive profit improvements in 2H 2016. New models for equipment and remuneration are under review, to better align cash flows and reduce the capital intensity of the business.

Medical Director

Medical Director delivered underlying revenue of \$21 million and underlying EBIT of \$6.8 million. The Group is pursuing opportunities to develop new revenue streams in Medical Director around data analytics, consumer connectivity, and e-health.

Capital management

The Group will receive \$40 million for the sale of Barangaroo in March 2016, with further capital recycling initiatives including a potential ATO refund for FY 2003-07. The Primary Health Care Property Trust was established in December 2015 with \$53 million in seed capital.

The Group is focused on reducing in capital expenditure with its new recruitment models for HCPs, new funding models for imaging equipment, tighter return hurdles for all capital expenditure, and enhanced cash flow management.

Primary reduced gearing from 32.1% to 30.7%, with net debt of \$1,098 million at the end of the period. The company is targeting further improvements in its leverage through capital recycling initiatives, to bring net debt below \$1 billion, gearing below 30%, and the gearing ratio below 2.5x, compared with a covenant ceiling of 3.5x.

The company has declared an interim dividend of 5.6 cps, representing a 60% payout of UNPAT, reflective of the company's growth strategy.

OUTLOOK

The Group expects a stronger second half in 2016, underpinned by the profit improvement initiatives which are underway. Subject to trading conditions and Government review, it expects FY 2016 results to be in line with previous guidance, with underlying NPAT of approximately \$110-115 million.

Commenting on the outlook, Mr Gregg said, "There remains strong underlying demand for healthcare services in this country with a growing and ageing population. Frontline care is the most effective means of delivering healthcare and the drive to reduce healthcare spend ultimately supports the corporatised model as the lowest cost provider of this care.

"We aim to grow the size of our network and cement our position as a leading healthcare provider, becoming a partner of choice for Healthcare Practitioners underpinned by flexible recruitment models. Combining this with more diversified revenue streams, a more flexible cost base, lower leverage, and greater focus on returns on investment, the Group will deliver the pathway for growth."

ENDS

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