

ASX Announcement (ASX: PRY)



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PRIMARY ANNOUNCES FY 2016 RESULT; BUILDING A SUSTAINABLE FUTURE

Primary Health Care Limited ("Primary") today announced its results for the year ended 30 June 2016 ("FY 2016"). Primary reported underlying NPAT of \$104 million, in line with the recent trading update, in a year of transformation as management started to deliver on its strategic initiatives.

FY 2016 HIGHLIGHTS

- Reported revenue of \$1,715 million and NPAT of \$75 million, reflecting significant business changes¹
- Underlying revenue of \$1,651 million, up 3.2% on the prior year
- Underlying NPAT of \$104 million, in line with management expectations²
- Final fully franked dividend of 6.4 cents per share and total dividends of 12.0 cents per share, representing a payout ratio of 60% of Underlying NPAT ("UNPAT")
- A successful capital recycling program and reduced capital expenditure delivering a stronger cash flow and a deleveraged balance sheet with gearing at 25.2%, an improvement of 22%
- Strategic transformation gaining momentum with the introduction of capital-light healthcare practitioner recruitment packages, re-focus on core activities to drive improved returns and investment for growth

Primary's Managing Director and CEO, Peter Gregg, said: "Today's underlying results are in line with our expectations in difficult market conditions and reflect a stronger Primary, with a balance sheet that enables us to invest in people, systems and new growth opportunities. This provides the platform for growth in FY 2017 and beyond.

"The changing shape of Primary makes today's reported result hard to compare year on year. During FY 2016, we successfully completed the capital recycling of non-core assets to strengthen the balance sheet, settled significant tax liabilities on behalf of our healthcare practitioners, and changed our historical recruitment and retention model, in a year of significant change.

"The benefits of these changes are beginning to flow through and we are encouraged by the momentum we are seeing as we transition the business, notwithstanding our need to recruit a greater number of healthcare practitioners as we grow the network.

"In 2016 our GPs undertook around 8 million consultations, while 1 in 3 pathology samples were tested in our laboratories and 1 in 15 diagnostic imaging examinations were carried out in our centres. In FY 2017, we remain focused on providing the right conditions for our healthcare practitioners to continue to pursue quality care for those people who visit our clinics. To do this, we

¹ The company's reported results reflect significant business changes including the impact of the balance sheet review, restructuring and strategic initiatives, partially offset by profit on sales of a number of assets. As such, this announcement focuses on the underlying results which more properly reflect Primary's trading performance.

² As announced in trading update of 11 July 2016 and after taking into account the impact of the balance sheet review and the early sale of Medical Director.

have increased the investment in our core activities and begun the diversification of our revenue streams. This will ensure Primary's model of healthcare is sustainable well into the future, underpinned by strong market demand for our services," Mr Gregg concluded.

DIVISIONAL ANALYSIS

Medical Centres

New recruitment models were introduced in FY 2016, aimed at broadening Primary's appeal to a wider cohort of GPs. As a result, annual retention was up 35%. These capital-light models also delivered increased free cash flow, with capital expenditure reducing 35% year-on-year. However, revenue was broadly flat, impacted by starting the year with fewer than expected GPs and not meeting recruitment targets in the second half of the year.

The company has completed a review of its recruiting program and is implementing new initiatives to drive significant growth in recruiting. It also remains focused on rolling out engagement initiatives to foster an enhanced work environment and improve its brand and reputation.

Medical Centres is currently developing a pipeline of five large-scale new centres, to be funded predominantly by the Primary Health Care Property Trust, improving its medical home offerings (such as dental, occupational health and chronic care), expanding its IVF offering, and investing in next generation systems through its service agreement with Medical Director.

In March 2016 Primary announced the new Private Billing division. This business will provide Primary a diversified revenue stream, bring a new brand into the company's stable and offer patients and GPs a differentiated value proposition. The roll-out is in progress and we expect to have a number of clinics in operation by the end of calendar 2016.

Pathology

Despite a challenging operating environment in which growth rates remained below the long-term trend, Primary's Pathology division achieved revenue growth of 6.4%.

The division implemented a cost savings program in laboratories and Approved Collection Centres (ACCs) and, underpinned by this program and the delivery of procurement efficiencies, EBIT increased by 5.9%.

In terms of its cost saving strategy in ACCs, market dynamics changed in May with the Federal Government's announcement of a potential moratorium on licenses, as part of the election agreement with Pathology Australia on rent regulation and bulk billing incentives. The company has retained flexibility to modify its strategic and tactical responses, once clarification is received on policy settings.

The Pathology division is focused on driving further efficiencies in FY 2017 through investment in laboratory infrastructure and systems. Pathology is also undertaking revenue diversification through its investment in niche specialist services, private billing trials, and potential geographic expansion into Southeast Asia.

Imaging

Imaging operated in a difficult external backdrop with Medicare growth rates significantly lower than the long-term trend. For Primary annual volumes grew in line with market at 3.3% (adjusted for lost hospital contracts and a new immigration visa medical contracts).

After a weak first half result, EBIT momentum in the second half was stronger, up 43% on the first half, supported by site and labour rationalisation as the division reset its cost base for the future.

Primary commenced the National Capital Private Hospital contract in the ACT, expanded at Knox Private Hospital in Victoria and won the Northern Beaches hospital contract in Sydney NSW.

Moving into FY 2017, the team is focused on the realignment of its portfolio to high-value hospital contracts, Primary medical centres, and large-scale fit-for-purpose imaging centres like Bridge Road in Victoria and Varsity Lakes in Queensland.

Imaging is also offering capital-light recruitment contracts and will replace its key software systems over the next 18 months to improve service delivery. Selective private billing has been rolled out in order to diversify the division's revenue streams.

FINANCIAL POSITION

The Group is focused on enhancing its cash flow with its new recruitment models for healthcare practitioners, new funding models for imaging equipment and tighter return hurdles for capital expenditure.

Total capital expenditure³ for FY 2016 was down \$79 million to \$176 million, while medical centres' practitioner capital costs were down \$34 million to \$46 million, with over 50% of new GPs in the second half of the year joining with no-upfront fee.

Reported net debt was down \$340 million to \$816 million at the end of FY 2016, following the sale of Medical Director, Transport Health, Barangaroo and Primary's stake in Vision Eye Institute. Gearing at the end of the period was 25.2%, down from 32.4 % in FY 2015.

As part of the previously announced balance sheet review, Primary has taken \$98 million in after-tax write offs, setting the right foundations for the future.

OUTLOOK

Following the Coalition's return to Government and the undertakings given by the Coalition during the election, the industry is seeking clarity on the duration of the MBS freeze, potential fee cuts and regulations in Pathology and Imaging, and the extent and timing of the MBS review.

The demand drivers for essential front line services provided by Primary remain very positive, underpinned by a growing and ageing population, increasing chronic and complex conditions, rising patient expectations and expanding wealth per capita. With hospital costs increasing, multi-disciplinary medical centres will play a vital role in making services more accessible and more cost efficient, while enabling coordination and continuity of patients' care.

Primary aims to cement its position as a leading, quality healthcare provider and be at the forefront of efficiency and technology changes. Combining this with more diversified revenue streams, a more flexible cost base, lower leverage, and greater focus on returns on investment, the Group has the pathway for growth.

"The transformation of Primary will continue in FY 2017, with further changes and capability-build, as we look to use our stronger balance sheet to invest and grow, while delivering good health outcomes to our patients, a preferred place to work for our healthcare practitioners and staff, and growth to our shareholders. We expect to see an improvement in performance in FY 2017," Mr Gregg concluded.

ENDS

³ Capital expenditure is net of the allowable tax deduction on healthcare practitioner capital costs and excludes capital costs in Medical Director which was sold during the year.

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Primary Health Care is one of Australia's leading listed healthcare companies and has been providing quality, affordable and accessible healthcare to the people of Australia for more than 30 years. We have an expansive network of multi-disciplinary medical centres, pathology laboratories and diagnostic imaging centres, which are underpinned by our professional cohort of dedicated healthcare professionals. Primary's 'medical home' model makes healthcare services more easily accessible and more cost efficient, while enabling coordination and continuity of patient care. We pride ourselves on quality outcomes for our patients and aspire to grow our network and cement our position as the leading provider of frontline care in Australia.