

ASX Announcement (ASX: PRY)

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PRIMARY ANNOUNCES HY 2017 RESULT AND UPDATES FY 2017 FORECAST

Primary Health Care Limited ("Primary") today announced underlying NPAT of \$41.9 million for the half-year ended 31 December 2016 ("HY 2017"). A strong performance in Imaging, an increase in Pathology and savings in interest costs from capital recycling were offset by the Medical Centres - Bulk Billing performance, against a backdrop of on-going difficult market conditions.

Six months ended \$M	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Performance	Underlying ¹		Reported	
Revenue	808.7	794.3	808.7	814.1
EBIT	81.9	93.9	61.1	115.1
NPAT (continuing operations) ²	41.9	44.3	21.1	62.1
NPAT	41.9	49.1	21.1	67.6
Dividends cps			4.8	5.6

HY 2017 HIGHLIGHTS

- Pathology continued to deliver strong revenue growth and demonstrated its ability to adjust to the varying Government policy changes while investing in specialties including dermatopathology and in Approved Collection Centres ("ACCs")
- Imaging reported a strong result, up 59% on HY 2016, delivering on its portfolio rationalisation and operating cost programs and positioning itself for further growth through the investments made in the year
- Medical Centres – Private Billing announced its new brand, Health & Co, and a foundation partnership with Professor Kerry Phelps, with her two clinics joining the network
- Medical Centres – Bulk Billing recorded EBIT down 36%, reflecting slower than expected healthcare practitioner ("HCP") recruitment. The requirement for a higher level of HCPs is being driven by a fundamental repositioning of the division and an extensive transformation program to deliver a more sustainable business model

¹ Underlying performance reflects Primary's trading performance and excludes the impact of costs associated with business restructuring and transformation and non-recurring items.

² NPAT (continuing operations) is as disclosed in the Appendix 4D. Medical Director's result in HY 2016 is separately disclosed as profit from discontinued operations.

Primary's Managing Director and CEO, Peter Gregg, said: "Primary's result reflects our all-encompassing transformation agenda as the group continues to make essential investments in people, technology, footprint and brand. Recruitment and retention of health care practitioners is a key priority as we shift our business model to one that is flexible, sustainable and patient-centric.

"The changing shape of Primary continues to make comparisons to our prior corresponding period a challenge given HY 2016 benefitted from the gain on disposal of Primary's shares in Vision Eye Institute and the ATO settlement. Medical Centres is also experiencing an extensive shift in its model. However, on an underlying basis, Primary delivered pleasing results in Imaging and Pathology and commenced its diversification into the GP private billing market.

"The results were delivered in an environment of difficult healthcare policy where the Medicare rebate freeze and Government policy changes contributed to on-going uncertainty.

"Primary's aim is to deliver quality health services and growth to shareholders by becoming the preferred place for health care practitioners and employees to practise and for patients to visit. Today's Primary has a strengthened balance sheet and improved free cash flow, allowing us to invest in the initiatives that will shape our future. Notwithstanding near-term government policy concerns, the demand for front-line health services continues to grow driven by an ageing population and an increase in chronic disease."

DIVISIONAL ANALYSIS

Medical Centres – Bulk Billing

Revenue for Medical Centres – Bulk Billing was down \$8.3 million, or 5.0%, to \$157.0 million. Underlying EBIT was down \$15.1 million, or 36.0%, reflecting the short-term implications of a complete repositioning of the division to a more sustainable business model.

Transition to new recruitment contracts: The change from the old one-size-fits-all contracts to capital-light flexible recruitment contracts enables Primary to attract a wider cohort of HCPs and significantly reduce its capital costs. However revenue is impacted by offering a higher share of billings to HCPs. In addition Primary needs to recruit more HCP numbers than in the past due to lower average contracted hours under the new contracts. The recruitment pipeline is now improving and retention continues to be strong.

Focus on free cash flow: As a corollary to the reduced share of billings, the capital light HCP contracts have driven greater free cash flow in the division with gross capital expenditure on HCPs down \$20.9 million, or 54.9%, in 1H 2017.

Extensive transformation program: Additional investments have been made in support services and nursing capabilities for GPs, GP recruitment capabilities and employee engagement. The division also expanded its service offerings and piloted new offerings in specialist, dental, occupational health and integrated (chronic) care. While these initiatives have increased costs in the near-term, they represent an important investment in the future of Medical Centres.

Medicare freeze: The ability to attract GPs to the bulk billing centres or to grow MBS revenue has been impacted by the on-going Medicare rebate freeze. The division continues to explore options to mitigate revenue pressures with the introduction of non-MBS services.

Medical Centres – Private Billing

In November 2016, Private Billing launched Health & Co, the market-facing brand for the division. Health & Co is operating as a separate entity, leveraging Primary's scale to deliver a model that is patient-centric and focused on quality outcomes while retaining the elements both GPs and patients

value from traditional practices. To do this, the business is building capability in innovative health care, with a strong focus on digital health and technology.

In February 2017, Health & Co announced a foundation partnership with Professor Kerryn Phelps, who will work with Health & Co to develop its brand and business. Professor Phelps' two Sydney clinics have become the founding practices in the Health & Co network.

Pathology

Pathology revenue grew by \$22.6 million, or 4.7%, notwithstanding a highly competitive sector and on-going subdued Medicare growth rates.

Pathology's EBIT was up 1% to \$51.3 million with the division maintaining its focus on efficiencies, including ongoing optimisation of its laboratory infrastructure and procurement processes. During the half, Primary continued its investment in niche specialty areas of the division including Kossard Dermatopathology and Genomic Diagnostics. These specialty businesses are expected to increase their contribution to revenue and profit as they mature.

EBIT was impacted by increased property costs due to an expansion in the number of ACCs. Primary opened net 60 centres, revising the strategy to increase ACC's in direct response to the Government's change in policy before the last election to regulate rents. Primary will look to reset its strategy once the Government has provided clarity on this policy. As part of its ACC strategy, Primary also continues to close underperforming centres.

Imaging

Imaging revenue was stable at \$162.8 million, with continued growth from new and expanded sites offset by historical hospital contract losses and the closure of underperforming community sites. Adjusted for these movements, Primary's normalised Imaging revenue was up 3.5%.

During the half, Primary opened new, state-of-the art imaging facilities at River City in Queensland and expanded its footprint in the private hospital sector in Victoria. These new and expanded sites are expected to increase their contribution to profit as they mature.

Primary continued its strategic response to subdued market growth rates by realigning the business portfolio and optimising its asset base. As a result of this strategy, the Imaging division delivered EBIT of \$14.3 million, up 58.9%, and margin expansion from 5.6% to 8.8%.

The sale and leaseback of Imaging equipment has added \$5.3 million in operating lease costs offset by a reduction in depreciation and interest.

FINANCIAL POSITION AND CASH FLOW

The Group remains focused on improving cash flow and returns on capital invested. It delivered free cash flow of \$23.9 million, with savings in interest costs, HCP acquisition costs and property, plant and equipment. This included cash invested for growth.

Primary's lower financial leverage, due to the successful capital recycling program in FY 2016, continued in HY 2017 with gearing stable at 25.3%, net debt at \$821.4 million and interest costs down 28%.

The company has declared an interim dividend of 4.8 cps, franked at 100% and representing a 60% payout of UNPAT.

OUTLOOK

Primary remains focused on shifting its business model to one that is flexible, sustainable and patient-centric. Notwithstanding that Australia's growing and ageing population underwrites the long-term drivers of the business, clarity is required on near-term Government policy including on:

- the Medicare rebate freeze for GPs;
- the Medicare Benefits Schedule review;
- the proposed bulk billing incentive cuts in pathology and imaging;
- the potential regulation of ACC rents in the pathology sector; and
- the potential introduction of a quality framework for diagnostic imaging.

As a result of HY 2017 trading, the subdued environment reflected in the Medicare data, and ongoing uncertainty over Government policy and regulations, Primary now expects underlying NPAT for FY 2017 to be in the range of \$92 million to \$102 million, subject to trading conditions in the remainder of the year and the outcome of any Government policy reviews. This compares with \$96.8 million underlying NPAT from continuing operations in FY 2016.

ENDS

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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 easily accessible and cost efficient, while enabling coordination and continuity of patient care. In 2016, Primary announced its expansion into the private billing GP market through Health & Co. At Primary Health 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.