

ASX Announcement (ASX: PRY)

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PRIMARY ANNOUNCES SIGNIFICANT INCREASE IN FREE CASH FLOW AS IT REPOSITIONS MEDICAL CENTRES

Primary Health Care Limited ("Primary") today announced underlying NPAT of \$92.1 million and free cash flow of \$83.6 million for the year ended 30 June 2017 ("FY 2017") at a time when the Company is undertaking a repositioning of its Bulk Billing Medical Centre division and continuing to invest for growth.

Performance <i>Year ended</i> \$M	Underlying ¹		Reported	
	30 June 2017	30 June 2016	30 June 2017	30 June 2016
Revenue	1,658.6	1,618.5	1,658.6	1,641.9
EBIT	174.6	196.3	(469.7)	114.4
NPAT (continuing operations) ²	92.1	96.8	(516.9)	38.2
NPAT	92.1	104.0	(516.9)	74.7
Dividend cps			10.6	12.0
Financial position				
Free cash flow ³			83.6	32.7
Net debt			784.2	816.0

Acting CEO, Mr Malcolm Ashcroft, said: "Primary delivered a solid underlying result with NPAT of \$92.1 million. This performance reflects the continued transformation of the Medical Centres division to produce a more sustainable business model. Our free cash flow has significantly improved enabling us to self-fund our capital and dividend requirements and reduce net debt, while we continue to invest in frontline care and diagnostic services.

"Within Medical Centres we have changed our revenue sharing arrangements with GPs and significantly reduced our capital costs. During the year, a record 153 GPs joined Primary Bulk Billing Medical Centres across the country. We also saw retention improve across the cohort and we signed on a record number of registrars. Pleasingly, there is a strong recruitment pipeline as we move into FY 2018.

"Our Pathology division has delivered above-market revenue growth and continues to expand its operations into specialty areas including dermatopathology. With greater clarity on Government policy following the Federal Budget, Primary will look to reduce cost growth in its approved collection centre ("ACC") portfolio.

"Imaging has performed very strongly with its EBIT contribution up nearly 30%, delivering on its strategy of realigning the business model to higher margin activities, optimising the asset base and controlling its costs.

¹ Underlying performance reflects Primary's core trading performance. In FY 2017 it excludes the impact of impairments, costs associated with business restructuring and transformation, and non-recurring items.

² NPAT (continuing operations) excludes MedicalDirector's result in FY 2016 which is separately disclosed as profit from discontinued operations.

³ Free Cash Flow is defined as operating less investing cash flow before capital recycling inflows. FY 2016 is also before the Australian Tax Office refund and MedicalDirector cash flows.

“We see great demand for Primary’s affordable, accessible healthcare services and continue to invest in growth initiatives. During the year, we were delighted to open Corrimal Medical Centre in New South Wales, and River City Imaging and Primary IVF in Queensland. Meanwhile, Health & Co is building a pipeline of GP clinics, with five clinics having joined the network to-date and several in advanced stages of negotiation.”

GROUP RESULTS

Group underlying NPAT was \$92.1 million, down 4.9% on FY 2016 continuing operations. A strong performance in Imaging, a solid performance in Pathology and savings in finance costs partially offset the decline in earnings in the Bulk Billing Medical Centres division from the repositioning the business.

Primary recorded a reported loss after tax of \$516.9 million. This includes a non-cash impairment charge of \$587.0 million which relates to Medical Centres goodwill and underperforming sites, including the old Symbion sites. The Company also invested \$39.2 million in restructuring and strategic initiatives and recorded \$18.1 million of non-recurring items. These items have been removed from underlying results to more accurately reflect the core trading performance of the business.

Primary delivered \$83.6 million of free cash flow³, compared to \$32.7 million in FY 2016, driven by capital-light recruitment contracts for healthcare practitioners (“HCPs”) and capital discipline. Importantly, Primary self-funded its \$128.6 million of capital expenditure requirements and \$58.4 million of dividends, and reduced net debt by \$35.5 million. Primary maintained a strong financial position with substantial liquidity available, significant headroom on bank facility covenants and the ability to self-fund its growth program.

Final dividend of 5.8 cps, 100% franked, has been approved by the directors. Total dividends for the year are 10.6 cps, 100% franked, representing a pay-out ratio of 60% of Underlying NPAT.

DIVISIONAL RESULTS

Bulk Billing Medical Centres

Medical Centres is central to Primary’s integrated health services strategy and drives value to the rest of the Group, with GPs being the gatekeepers of referrals throughout frontline care. Primary’s Bulk Billing Medical Centres division is being repositioned to produce a more sustainable business model.

Primary continues to invest in the recruitment and retention of high quality HCPs as part of this program. During the year, the division recruited a record 153 GPs across the country, up 38% on the prior year, and retention improved to 92% across the cohort.

Under the new recruitment models, Primary has significantly reduced upfront costs and thereby improved free cash flow. However, to balance the value proposition, the revenue sharing arrangements have increased in favour of the GP. Despite this shift in the division’s revenue metrics, revenue remained relatively steady at \$317.8 million compared to \$328.7 million in FY 2016, and the division has a solid recruitment pipeline moving into FY 2018.

EBIT was \$49.6 million, reflecting the additional investments in recruiting and supporting HCPs, expanding and diversifying service offerings, engaging employees, and upgrading clinics. The Corrimal Medical Centre and Brisbane IVF were also opened.

In FY 2018 Primary will roll out four new medical centres and expand IVF into Perth. The progressive unwinding of the Medicare rebate freeze is expected to deliver annualised benefits of \$3.5 million in FY 2019.

Health & Co

Health & Co, Primary’s new mixed billing medical centres business, formally launched this calendar year with its first two acquisitions and the appointment of Professor Kerryn Phelps as ambassador. At the date of this announcement, Health & Co has a total of five medical centres within its network and a strong pipeline of practices in advanced stages of negotiation.

Pathology

Primary's Pathology division is the Group's largest business and operates leading medical laboratory and pathology services. Pathology delivered revenue of \$1.0 billion, representing above-market revenue growth of 4.4%. Growth was driven by an increase in volumes and average fee per episode, including contribution from new ACCs.

The division's EBIT contribution was up by 1.0% to \$119.5 million, with recent property cost growth not yet flowing through to EBIT. With potential reregulation of ACC rents off the Federal Government's agenda, in FY 2018 Primary will focus on initiatives to reduce growth in rental costs. Approximately 70% of ACC leases are capable of renegotiation within 18 months.

Primary will focus its growth initiatives on prioritising partnerships with specialist operators aligned to its niche specialty strategy, expansion in private hospitals, and revenue optimisation from Primary's Medical Centres including services such as skin clinics.

Pathology continued to contribute strongly to the Group's cash position with a 33.6% reduction in divisional capital expenditure in the year notwithstanding investment in the Kossard laboratory during the year.

Imaging

Primary's Imaging division, under the brand Healthcare Imaging Services, partners with 115 independent radiologists to undertake a full range of medical imaging services. Imaging reported a 2.0% increase in total revenue to \$333.5 million while its organic growth was up 4.3%.

EBIT was up strongly by 29.5% to \$29.0 million, reflecting Primary's strategy of realigning its business model to higher margin activities, optimising its asset base and maintaining a focus on cost control. The division reduced its total capital expenditure by 48.3% due to on-going capital discipline and lower upfront payments to radiologists, resulting in a significantly improved cash flow contribution.

Imaging will continue to optimise its portfolio with a focus on high-end, multi-disciplined Imaging centres, with Kawana on the Sunshine Coast opened in July 2017; hospital contract opportunities, with the Northern Beaches Hospital due to commence operations in FY 2019; and opportunities to deliver enhanced services to Primary's large-scale medical centres network.

OUTLOOK

Following the Federal Government's Budget in May 2017, the broader healthcare sector has now achieved clarity on a range of health-related policy matters. Primary is pleased to see the progressive restoration of the MBS indexation on selected services and the continuation of bulk billing incentive payments for Pathology and Imaging services. The MBS Review is continuing and Primary is working with the Government in its Healthcare Home trials for chronically-ill patients.

Mr Ashcroft commented: "The fundamental drivers of our business have not changed, with a growing and ageing population underpinning demand for frontline healthcare services. With chronic conditions on the rise in Australia and hospital costs increasing, our multi-disciplinary centres play a vital role in making medical services more easily accessible and more cost efficient, while enabling coordination of patients' care.

“With a solid start to FY 2018, we continue to deliver on the Board-endorsed strategy and on transitioning Primary to a business that is flexible, diversified and patient-centric. We remain confident that the repositioning of Medical Centres and the other initiatives across the Group will deliver the pathway for sustainability and growth, and we look forward to welcoming our new CEO, Dr Malcolm Parmenter, next month.”

ENDS

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For over 30 years Primary Health Care has been one of Australia’s leading listed healthcare companies with a commitment to supporting quality, affordable and accessible healthcare for all Australians. Through an expansive network of multi-disciplinary medical centres, pathology laboratories and diagnostic imaging centres, Primary provides world class facilities and support services to independent GPs, radiologists, specialists and other healthcare practitioners, enabling them to deliver quality care to patients in partnership with Primary’s pathologists, nurses and other employees. Primary’s ‘medical home’ model makes healthcare services easily accessible and cost efficient, while enabling the coordination and continuity of patient care.