

ASX Announcement (ASX: PRY)



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PRIMARY ANNOUNCES STRATEGIC GROWTH INITIATIVES, TO BE FUNDED VIA AN UNDERWRITTEN \$250 MILLION PRO RATA NON-RENOUNCEABLE ENTITLEMENT OFFER

- ~\$140 million investment over three years in Medical Centres to increase capacity, deliver additional services and recruit and retain health care professionals
- ~\$100 million investment over five years in a superior and differentiated pathology infrastructure platform to increase efficiency, deliver improved clinical outcomes and support continued growth
- Strategic growth initiatives targeting greater than 15% return on investment following completion
- Primary is in exclusive negotiations to acquire a leading operator of day hospitals. Total potential investment of up to ~\$140 million over a three year period, including an upfront payment of \$75 million (if the acquisition proceeds), and future contingent payments related to operational milestones and performance¹
- Funded by a 1 for 5.21 underwritten entitlement offer to raise approximately \$250 million

Primary Health Care (ASX: PRY) ("Primary") today announces a number of new and accelerated strategic growth initiatives to meet the continued demand for high quality, affordable and consumer-centred health services.

Primary Managing Director and Chief Executive Officer, Dr Malcolm Parmenter said "Primary plays a critical role in caring for Australians through our unique network of large-scale multi-disciplinary medical centres, pathology laboratories and diagnostic imaging centres. We are committed to investing in, improving and growing our operations to position Primary to play a leading role in delivering frontline care in the future, and maximising value and sustainable returns for its shareholders."

Strategic growth initiatives

Medical Centres investment program

Following a comprehensive site-by-site review, Primary has identified a number of opportunities and initiatives to better leverage its unique portfolio of large-scale medical centres. These initiatives are expected to be implemented over the next three years and will comprise:

¹ The acquisition is not guaranteed to proceed and is subject to the negotiation of binding agreements and completion of due diligence. If binding agreements are entered into, they will likely be subject to a number of customary conditions precedent to closing.

- *Property* - modernisation, improvement and extension to the current service offering at 52 medical centres²;
- *Process* - implementation of a digital operating platform to support online appointments and drive significant operating efficiencies; and
- *People* - a people strategy designed to establish Primary as a workplace of choice. This will enhance Primary's ability to attract and retain health care professionals and create a strong patient loyalty base.

These initiatives are expected to drive a substantial increase in patient capacity within Primary's existing network, through additional physical infrastructure and a targeted 45% increase in net GP headcount over the next three years.

This additional capacity, combined with the investment in a digital operating platform, is expected to generate a 10-15% uplift in average gross billings per hour by FY 2021 with an expected average of \$1 million of EBIT across all 73 centres.

New Pathology infrastructure platform

Primary will invest approximately \$100 million over five years to implement a modern Laboratory Information System ("LIS"). Implementation and roll-out of the new LIS will commence in the second half of 2019 and is expected to be completed by FY 2022.

This single, integrated information platform will replace the existing 25 year old system across all of Primary's collection centres and laboratories and is expected to deliver a number of clinical and operational benefits, including improved pre-analytical accuracy, faster turn-around times and improved business intelligence.

Primary expects LIS to generate net benefits of around \$20 million per annum once embedded in the business through cost savings from automation, standardisation of work practices and FTE efficiency. Further, Primary expects that the improved platform will position the business to grow its market share in higher margin and faster growing complex testing.

Potential acquisition

Primary is in exclusive negotiations to acquire a leading operator of day hospitals across a number of states. The business generated FY 2018 pro forma EBITDA of \$7 million³.

Under the indicative transaction terms, Primary will make an upfront payment of \$75 million, plus further contingent payments (subject to a cap) over the next three years based on delivery of future operational milestones and performance.

The potential acquisition provides opportunities for synergies through provision of additional services to Primary's IVF patients and incremental pathology volumes. In combination with Primary's five existing day surgery facilities, the potential acquisition would provide a scale platform to further grow Primary's non-Medicare funded revenues.

² 64 centres receiving an uplift of which 52 will be reconfigured with new GP consulting, dentist surgeries, ACCs and other services.

³ FY 2018 pro forma EBITDA based on unaudited management accounts provided by the vendor for the eleven months to May 2018, with one month of management forecast for June 2018, and adjusted for: (i) non-recurring items; (ii) non-operating items (including costs related to the development of new facilities); (iii) incremental corporate costs; and (iv) incremental earnings from a pending private hospital acquisition. The unaudited FY 2018 pro forma EBITDA has been provided by the vendor. Primary is unable to verify the accuracy or completeness of the unaudited FY 2018 pro forma EBITDA.

Entitlement Offer

To fund the strategic growth initiatives and the potential acquisition (if it proceeds), Primary will undertake a \$250 million fully underwritten 1 for 5.21 accelerated pro rata non-renounceable entitlement offer ("Entitlement Offer").

Under the Entitlement Offer, eligible shareholders are invited to subscribe for 1 new Primary share ("New Share") for every 5.21 existing Primary shares held as at 7:00pm (Sydney time) on Wednesday, 22 August 2018 ("Record Date").

All shares offered under the Entitlement Offer will be issued at a price of \$2.50 per New Share, which represents a 17.8% discount to the theoretical ex-rights price of \$3.04⁴ on Friday, 17 August 2018.

Approximately 100 million New Shares will be issued under the Entitlement Offer. New Shares will rank equally with existing Primary shares but will not qualify for the FY 2018 final dividend.

Jangho Group, Primary's largest shareholder, is supportive of the company and has provided an irrevocable commitment to subscribe for 100% of its pro rata share of the Entitlement Offer⁵.

The Entitlement Offer is fully underwritten.

Entitlement Offer timetable

A timetable of key dates in relation to the Entitlement Offer is set out below. The timetable is indicative only and dates and times are subject to change without notice.

Event	Date (2018)
Trading halt and announcement of Entitlement Offer	Monday, 20 August
Institutional Entitlement Offer and Institutional Bookbuild opens	Monday, 20 August
Institutional Entitlement Offer and Institutional Bookbuild closes	Tuesday, 21 August
Trading halt lifted and announcement of results of Institutional Entitlement Offer	Wednesday, 22 August
Record Date under the Entitlement Offer	Wednesday, 22 August (7.00pm)
Retail Information Booklet despatched and Retail Entitlement Offer opens	Monday, 27 August
Institutional Settlement date and Dividend Record Date	Tuesday, 28 August
Institutional Allotment and Trading Date	Wednesday, 29 August
Retail Entitlement Offer closes	Friday, 7 September

⁴ The TERP is a theoretical price at which Primary shares trade immediately after the ex-date for the Entitlement Offer. The TERP calculation has been calculated on an ex-dividend basis to reflect that shares issued under the Entitlement Offer will not qualify for the FY 2018 final dividend.

⁵ To be settled as part of the Retail Entitlement Offer.

Retail Allotment Date	Friday, 14 September
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Retail Trading Date	Monday, 17 September
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The above timetable is indicative and subject to variation. Primary reserves the right to alter the timetable at its absolute discretion and without notice, subject to ASX Listing Rules and Corporations Act 2001 (Cth) and other applicable law. All dates and times refer to Australian Eastern Standard Time (AEST).

Additional details

Further details on the strategic growth initiatives, the potential acquisition and the Entitlement Offer are set out in the Investor Presentation provided to the ASX today. Details of Primary's FY 2018 financial performance and FY 2019 outlook are set out in a separate presentation also lodged with the ASX. These presentations contain important information, including key risks and foreign selling restrictions, with respect to the Entitlement Offer.

If you have any questions in relation to the Entitlement Offer, please contact the Primary Health Care Limited Entitlement Offer Information Line on 1300 850 505 (within Australia) or on +61 3 9415 4000 (outside Australia) at any time from 8.30am to 5.00pm Monday to Friday during the Retail Entitlement Offer Period. You can also go to Primary's website at www.primaryhealthcare.com.au. For other questions, you should consult your broker, solicitor, accountant, financial adviser, or other professional adviser.

King Wood and Mallesons is acting as Primary's legal adviser.

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About Primary: *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.*

IMPORTANT NOTICES

Not for release or distribution in the United States

This announcement has been prepared for publication in Australia and may not be released or distributed in the United States. This announcement does not constitute an offer, invitation or recommendation to subscribe for or purchase any security or financial product and neither this announcement nor anything attached to this announcement shall form the basis of any contract or commitment. In particular, this announcement does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States or any other jurisdiction in

which such an offer would be illegal. Neither the entitlements nor the new shares have been, or will be, registered under the U.S. Securities Act of 1933, as amended ("U.S. Securities Act") or the securities laws of any state or other jurisdiction of the United States. Accordingly, the entitlements may not be exercised or taken up by, and the new shares may not be offered or sold, directly or indirectly, to persons in the United States unless they have been registered under the U.S. Securities Act (which Primary has no intention or obligation to do or procure) or are offered and sold pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and any other applicable securities laws of any state or other jurisdiction of the United States.

Financial information and forward-looking statements

You should note that this announcement may include certain pro forma financial information of Primary and/or potential acquisition target, which is for illustrative purposes only and is not presented as being indicative of Primary's views on its future financial condition and/or performance, and that such pro forma financial information does not purport to be in compliance with Article 11 of Regulation S-X of the rules and regulations of the U.S. Securities and Exchange Commission.

This announcement may include certain financial measures that may be considered "non-GAAP financial measures" under Regulation G of the U.S. Securities Exchange Act of 1934, as amended, and are not recognised under Australian Accounting Standards ("AAS") or International Financial Reporting Standards ("IFRS"). Such non-GAAP and non-IFRS financial measures do not have a standardised meaning prescribed by AAS or IFRS. Therefore, the non-IFRS financial information is not a measure of financial performance, liquidity or value under the IFRS and may not be comparable to similarly titled measures presented by other entities, and should not be construed as an alternative to other financial measures determined in accordance with AAS or IFRS. You are cautioned not to place undue reliance on any non-GAAP and non-IFRS financial measures, which are unaudited, included in this announcement.

You should note that this announcement may contain certain "forward-looking statements", including but not limited to projections, estimates and guidance on Primary's future financial performance and outlook including the impact of a potential acquisition, and that such forward-looking statements are provided for illustrative purposes only and are not indicative of Primary's actual performance for the relevant period; are based on assumptions and contingencies that are subject to change and involve known and unknown risks and uncertainties and other factors that are beyond the control of Primary and may not be reliably predictable; and should not be relied upon as an indication or guarantee of future performance, and that actual results, performance and achievements may differ materially from those expressed or implied in such forward-looking statements and any assumptions on which these statements are based.