

ASX Announcement (ASX: PRY)

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PRIMARY ANNOUNCES STABLE UNDERLYING PROFIT, ACCELERATED INVESTMENT PROGRAM

Primary Health Care Limited (ASX: PRY) today announced underlying NPAT of \$92.3 million and free cash flow of \$146.6 million, for the year ended 30 June 2018 ("FY 2018").

Performance	Underlying ¹		Reported	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017
Full-Year ended \$M				
Revenue	1,740.3	1,658.6	1,740.3	1,658.6
EBIT	167.0	174.6	71.5	(469.7)
NPAT	92.3	92.1	8.9	(516.9)
Dividend (cps)			10.6	10.6
Free cash flow ²			146.6	141.5

Improved EBIT contributions from Pathology and Imaging in FY 2018 partially offset a decline in Medical Centres, where the financial results reflect the progressive transitioning to new GP contracts. A comprehensive program under Project Leapfrog aims to deliver growth in the future by recruiting significantly more healthcare professionals, increasing capacity, improving efficiency, and modernising the centres.

Underlying NPAT was in line with FY 2017, reflecting the benefits of balance sheet and cash flow initiatives. A final dividend of 5.5 cps, 100% franked, has been approved. Total dividends for the year were 10.6 cps, representing a payout ratio of 60% of Underlying NPAT.

Reported NPAT was \$8.9 million and included impairments and investment in strategic initiatives and restructuring.

"Primary Health Care is committed to delivering excellence in consumer-centred healthcare and to maximising value creation for its shareholders by providing a quality offering in frontline care," said Primary Managing Director and Chief Executive Officer Dr Malcolm Parmenter.

"Critical to achieving this, we are reformulating our value proposition to consumers and healthcare professionals alike.

"In the financial year, we grew Group revenue by nearly 5% and delivered stable underlying NPAT. We also generated a 3.6% increase in free cash flow and kept debt levels steady, reflecting a disciplined approach to spending.

"Importantly, we are progressing through the program to transition GPs onto more flexible contracts and have announced details of new and accelerated initiatives that span all of Primary's operations. Key among these is

¹ Underlying performance reflects Primary's core trading performance. In FY 2018 it excludes the costs associated with impairments and other related-items, strategic initiatives and restructuring, and non-recurring items.

² Free Cash Flow is defined as operating cash flow less maintenance capital expenditure.

Project Leapfrog which aims to comprehensively renew the operating model in Medical Centres. A re-platforming in Pathology and Imaging will deliver modern, efficient infrastructure to support future growth.

“When complete, these initiatives will place Primary at the forefront of service delivery for community-based healthcare, establish it as a Workplace of Choice for healthcare professionals, and deliver material clinical and operational benefits as well as a significantly enhanced financial performance.”

DIVISIONAL RESULTS

Pathology

Pathology, Primary’s largest division, continued to deliver growth with revenue up 5.0%. Strong performances were recorded in the niche specialities of histopathology, genetics, and veterinary pathology.

EBIT rose 1.3% to \$121 million. It would have been up 4% but for the planned divestment of the old Healthscope collection centres in Queensland and NSW, which is now complete. Importantly, Pathology reduced its property costs as a percentage of revenue, with disciplined Approved Collection Centres (“ACC”) rental negotiations.

Medical Centres

Revenue for Primary Medical Centres was down 1.4% to \$313.4 million and continues to reflect the transition of GPs onto capital-light contract models that provide them with more flexible working conditions and a higher share of billing revenue. GP gross billings rose 2.2% to \$425.2 million and both dental and IVF revenue were up. EBIT fell to \$35.8 million with approximately half of this decline attributable to newly opened greenfield centres. Normalising for this, EBIT declined \$6.9 million.

Importantly, Primary recruited a record 159 new GPs this year and laid the foundations for strong recruitment in the future. The company continued with its reset program to ensure quality GPs are practising in its clinics. Notwithstanding the short-term impact on revenue and EBIT in the year, this will deliver the right culture and a platform for long-term growth.

Health & Co

Health & Co recorded revenue of \$6.2 million. Its network now comprises 11 clinics, with practices in NSW, VIC, QLD, SA and 100 GPs or 64 FTEs. EBITDA has grown on average by 16% for practices during their first year with Health & Co, with 100% retention of GPs during the transition period and growth in new patient numbers.

Imaging

Imaging reported another good result, with revenue up 10.5% to \$368.4 million and EBIT up 16.6% to \$33.8 million, with continued strength in the hospital segment and in CT and MRI modalities. Two major new sites, Northern Beaches Hospital in Sydney and Highfields in regional NSW, will open in FY 2019.

OUTLOOK

“A growing and ageing population, increasing numbers of people living for longer with chronic illness, rising patient expectations and expanding wealth per capita all underpin healthcare demand. While Governments’ healthcare policy settings remain relatively stable, healthcare costs are increasing and private sector providers must remain agile,” said Dr Parmenter.

“Primary will continue to drive diversification of its revenue, targeting non-MBS services including expansion of its day surgery platform, specialty Pathology services and national contracts with Government and major partners.

Increasingly, the drivers of cost, convenience and technology will see a shift in consumer demand for better ways to access care. Primary aims both to influence policy debate and to lead the change in healthcare delivery, with the scale, the people and the drive to deliver this.

“Our new and accelerated investment initiatives will reformulate our value proposition and put Primary at the forefront of the industry. We will offer a Workplace of Choice environment to attract a broader demographic of healthcare professionals and an enhanced range of services and better delivery for consumers, all supported by modern, efficient infrastructure. On completion, these initiatives will deliver material clinical and operational benefits as well as a significantly enhanced financial performance.”

Primary currently expects underlying NPAT in FY 2019 to be at or above FY 2018 underlying NPAT of \$92.3 million, prior to the impact of the capital raising and the potential acquisition detailed in a separate ASX release. Based on current trading activity, industry growth is expected to be slower in 1H 2019 and then normalise to long-term growth rates. A further update regarding Primary’s trading and outlook will be provided at the AGM in November 2018.

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 professionals, 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.