

HEALIUS LIMITED (ASX:HLS)
ANNUAL GENERAL MEETING 2022
CEO AND MANAGING DIRECTOR'S SPEECH

Thank you, Jenny and let me add my welcome to all of you attending today either in person or virtually.

First and foremost, I too would like to thank our people for their dedication and commitment in serving the healthcare needs of Australian communities during the past financial year. I am very grateful for their untiring efforts.

The last two and a half years have been an unprecedented time for healthcare in Australia with enormous swings in demand for services. There have been times where demand has been more than 40% down on pre-pandemic levels, only to swing to more than 40% up within a few weeks. This puts extraordinary pressure on the people delivering those services.

At Healius, our people have faced every challenge COVID could throw at them and kept backing up for more. I am grateful to all our people and very honoured to have been a part of it.

I would also like to thank our executive team for their commitment and for the outstanding results they and their teams produced in another challenging year.

They are here today and are happy to answer questions when we get to that part of the meeting.

We have:

- **Maxine Jaquet**, our CFO and COO
- **Janet Payne**, our Group Executive Corporate Affairs
- **John McKechnie**, CEO of our Pathology division
- **Henry Barclay**, CEO of our Montserrat Day Hospitals division
- **Prasad Arav**, our Group Executive Digital and Technology, and
- **Mark Neeham**, our Group Executive Government Affairs.

Peter Wilson, our Group Executive People and Shared Services, has recently announced that he will be retiring. I would like to thank Peter for his contribution, advice and support over the

last three years and wish him the very best. I am pleased to welcome **Rob Phipps**, who has been appointed Group Executive People, Culture and Sustainability. Rob has extensive experience in People & Culture functions globally and he is well placed to lead this area going forward.

We are also looking forward to our new CEO of Lumus Imaging starting with us in January.

Turning to the year in review, from July 2021 to January 2022, the focus for Healius was on the provision of COVID PCR testing across Australia. Indeed, over the course of the pandemic, Healius has delivered more than 13 million COVID PCR tests.

However, since the peak of the Omicron variant in January and February of this year, demand for PCR testing has progressively declined.

PCR testing was only part of the story. Throughout the pandemic, we also provided critical non-COVID pathology, imaging and day hospital services, but at lower-than-historical trend levels, impacted by the various COVID-induced lockdowns, elective surgery restrictions and cancellations.

The strong financial performance of your Company is self-evident in the results, with a more than doubling of underlying net profit to over \$300 million and free cashflow of over \$500 million in the year. As Jenny mentioned, just under half of this cash was paid out in buybacks and dividends.

Our record results were underpinned by:

1. The Group's ability to successfully scale up and down with demand and to contain cost growth below revenue growth,
2. The implementation of nearly half of our Sustainable Improvement Program initiatives, and
3. The progress across our digital program.

In terms of our Sustainable Improvement Program or SIP, we have made substantial progress on initiatives during the year, including:

- Optimising our collection centre footprint to improve the average revenue and margin per centre,
- Re-engineering our back-office and lab processes to reduce cost,
- The introduction of tools to better manage labour in-line with demand, and
- A number of significant procurement wins.

We remain on track to exit FY23 at the target margin of 13%, or 14% after AASB-16 benefits, assuming business-as-usual volumes continue to recover as expected.

The benefit profile of our Sustainable Improvement Program (SIP) will be underpinned by the digital agenda that is underway. This digital agenda has two types of work:

- A fast-paced digitisation of customer-facing workflows where the customer is both patients and referrers, and
- A steady-paced cutover of the components of our new laboratory information system.

On the digitisation front, we introduced a range of key consumer innovations in FY22 which included:

- E-referrals in Pathology and Imaging (an e-referral is a digital order that comes directly to our lab or imaging information systems from the referring practitioner compared to the traditional piece of paper that is handed to the patient).

Other innovations are:

- A digital collections portal to deliver a seamless customer experience in our Pathology collection centres, and
- A digital “Voice of the Customer” feedback platform where our patients have rated our services highly giving Net Promoter Scores (NPS) consistently above 75. NPS scores are now embedded in management performance metrics.

By the end of this calendar year, we will have installed a new digital image and report delivery system across Lumus Imaging that will significantly enhance the user experience for our referrers.

In calendar 2023, we have a pipeline of digital products coming, including:

- Queue management to reduce waiting times for patients,
- Better digital pathology results delivery for referrers, and
- E-bookings in Imaging (where a patient can book an imaging exam directly into our imaging booking system).

The second part of our digital agenda is the steady paced implementation of our laboratory information system including the cutover of our laboratory instruments. We have already cutover one regional lab and are now configuring the first of four major labs to the new instrument manager.

You may remember we have already successfully moved our Imaging businesses onto one unified platform – a significant factor in the recent Hunter New England hospital contract win.

Healthcare has historically been slow to adopt new digital ways of connecting. Customers have consistently complained over the years of things like:

- Difficulty accessing the care they need,
- Long waiting times, and
- Problems accessing results, let alone understanding them.

At Healius, we believe our digital enhancements can change the traditional delivery of healthcare for the better.

- Waiting rooms don't have to be physical, they can be virtual, allowing you to arrive just in time to walk straight in and have your test,
- Pathology results don't have to be just numbers on a page. They can be dynamic with graphs and explanations that help you understand your health,
- E-referrals preserve the accuracy of patient and referrer information and allow the sending of reminders for testing where needed, and
- Patient portals can allow you to keep track of your imaging and pathology results on your devices. An imaging patient portal is imminent. Pathology will take a little longer.

All of these and more are on the way – and they have the potential for real benefits to health as well.

For example, we know that more than 20% of people who are asked by their doctor to have a pathology test don't get around to doing it. Perhaps with better communication we can reduce that number.

As I mentioned, in addition to the digitisation of customer interfaces, we are upgrading our laboratory information system over the next 18 months. There are efficiencies to be had from the standardisation of many laboratory tests across all our labs and the unification of our multiple systems onto a single platform.

We have come a long way as a company over the last few years. We now have a streamlined portfolio, with the sale of the Medical Centres business in FY20 and more recently the sale of Adora Fertility.

As evidence of this, 99% of our FY22 EBIT came from diagnostics compared to 59% in FY19.

We are now undertaking a sales process for our Day Hospitals division. As you may be aware, Healius has been delivering services in day and short-stay hospitals for a long time. The division grew substantially with the acquisition of Montserrat in 2018.

The sale of this division will enable us to realise our investment and leave us with a portfolio of diagnostics businesses that are well placed for growth.

In FY22, we continued to invest in diagnostics:

- We acquired Axis Diagnostics in Queensland, developed two Imaging facilities in NSW and rolled out the new Lumus Imaging brand,
- We won a substantial hospital imaging contract covering 32 hospitals across the Hunter New England Local Hospital District. This means that together with our Northern NSW contract, Lumus Imaging provides reporting services for almost all hospitals in NSW, north of Newcastle.
- In January, we acquired Agilex Biolabs, one of Australia's leading bioanalytical laboratories. While too small to report separately, Agilex has high growth and high margin potential and is a logical adjacency to Healius' existing core pathology business. We have seen growth in Agilex with year-on-year revenues up 52% and the pipeline up 80%. Our current focus is in supporting Agilex to service the demand that is patently there and grow profitably. We expect it to achieve a double-digit ROIC target within 5 years and become an integral part of a specialty pathology division over this time.

While investing in growth, as Jenny stated, we intend to maintain a strong balance sheet with a target gearing ratio of 1.7 to 2.2x. We are focussed on small bolt-on acquisitions, such as Axis Diagnostics, but we will also create space for more medium-sized acquisitions in Imaging, when trading returns to higher levels and where we see value-accretion.

Turning to our trading, our business-as-usual, or non-COVID revenues, grew 5.5% compared to the prior comparable period in quarter one.

- In Imaging, we are seeing progressive and strong above-market growth.

Last week's revenue was up more than 13% on the average in July, which was our low point.

It's the result of the investment we have made and continue to make in digital, together with a rebound in hospital volumes.

- In non-COVID Pathology, trading is growing steadily but progressively.

Last week's revenue was up more than 8% on July's average.

However, COVID testing has continued to drop away in Australia. Our tests per working day are now under 4,000 in October. We have moved COVID testing into our normal network and have shut down many of our drive-through sites. We are now treating it as part of our BAU service.

In terms of profitability, managing the transition away from COVID testing, the costs of sick leave, of site closures when understaffed, and of last-minute patient cancellations made performance choppy during the quarter.

We are resetting our cost base as we progressively close COVID infrastructure and align to where long-term volumes appear to be landing. We will have a reset cost base in the second half of the year.

Conditions changed rapidly in the first quarter. The trend in business-as-usual testing is definitely improving but still has some way to go to reach the long-term trend line. In terms of potential FY23 outcomes, we would like to see a few more weeks of trading. Armed with that knowledge, it is our intention to provide a full year forecast before the end of the calendar year.

Most importantly, underlying healthcare demand drivers remain strong, including population growth and an ageing population with greater longevity but more complex health issues.

With these drivers, reversion of our volumes and revenue to long-term growth rates is expected to occur. It always has in the past.

I also expect to see a period of catch-up for the known underdiagnosis in the system over the past three years. Unfortunately, diseases such as cancer do not go away simply because people are not being screened. In fact, they progress. The level of underdiagnosis in Australia remains of concern.

A small baseload level of COVID-19 testing is also likely to continue as COVID-19 also remains of clinical concern.

The exact timing of the return of business-as-usual services is hard to predict as there is still some hesitation around accessing care especially among the more vulnerable in society – although this is definitely reducing.

There is also a well-publicised shortage of GPs in this country with many of the older GPs hanging up their stethoscopes during COVID-19 and not enough medical students opting for a career in general practice.

The Government has indicated it will:

- Free up the red tape that slows the migration of overseas trained GPs to Australia, and
- Allocate funding in the upcoming Budget to improve the financial attractiveness of general practice as a career for medical graduates.

The reversion to long-term BAU growth trends, the backlog of underdiagnosed illnesses, and a small but likely baseload level of COVID testing in combination should deliver strong growth through the latter part of FY23 and into FY24. Healius is well-positioned to capitalise on that growth.

In the meantime, we are adjusting to a world with lower COVID screening including resetting our cost base, delivering on the Sustainable Improvement Program, and moving at pace with the digital initiatives in the pipeline.

In conclusion, if we compare where we are today with where we were before the pandemic, we are in a far better position. We have:

- A well-placed and scalable portfolio in attractive diagnostic markets,
- More competitive networks including a more profitable collection centre footprint,
- Growing margins through our Sustainable Improvement Program,
- A compelling digital proposition with a customer-centric re-orientation,
- Broader growth options including in high-burden disease groups and pathology specialties such as genomics and clinical trials,
- Less capital intensity in our business, and
- Greater free cashflow to deliver this growth.

Thank you for listening.

I will now hand you back to our Chair, Jenny Macdonald.

ENDS