

1H 2022 Results



23 February 2022

Group results

Group \$m	Underlying ¹		Reported ²	
	1H 2022	1H 2021	1H 2022	1H 2021
Revenue	1,339.0	936.4	1,338.0	927.6
EBIT	376.1	136.0	361.7	140.0
NPAT (Reported incl. discontinued operations)	245.6	75.3	233.2	62.8
Dividend cps 100% franked			10.0	6.5

Underlying results at record levels

- Underpinned by Pathology's pivotal role in COVID testing, with good growth in core business
- Labour (outside of COVID requirements), property and IT costs well contained. Consumable volume growth masking sourcing success
- Gross operating cash flow conversion >90%, normalised for high volumes in last 2 weeks. Strong capital position

Positioned for growth

- Expect catch-up for known underdiagnosis and backlog in routine care
- Baseload COVID-19 PCR testing to remain. Investment to meet new variants with lower cost/test and <24 hr turnaround times
- Axis Radiology acquisition completed, Murdoch Day Hospital development and Agilex Biolabs acquisition announced

Strong returns to shareholders

- \$140.8 million on share buyback and final FY2021 dividend
- 1H 2022 interim dividend of 10.0 cps, compared to 6.5 cps in 1H 2021 and 6.75 cps in 2H 2021

Pathology

Underlying	1H 2022 \$m	1H 2021 \$m	Better/ (worse) %
Revenue	1,112.3	711.4	56.4
EBITDA	471.1	209.2	125.2
Depreciation and amortisation	(95.3)	(82.3)	(15.8)
EBIT	375.8	126.9	196.1
Total capital expenditure	13.0	17.4	25.3

- Strong 1H 2022 performance due to COVID testing during Delta and Omicron outbreaks averaging >40k tests p/wd
- Core (non-COVID) revenue up 3% with commercial segment the highlight
- Strong period of catch-up expected for known backlog / underdiagnosis of routine healthcare
- SIP initiatives, including closure of further low-margin ACCs, delivering higher margins. E-commerce portal and consumer products launched
- Capital investment in rapid PCR testing and collection automation, digital platform development, upgraded Serum Work Area nearly complete
- Agilix Biolabs acquisition = strategic adjacency with high-margin capital-light growth profile and revenue diversification

Imaging

Underlying	1H 2022 \$m	1H 2021 \$m	Better/ (worse) %
Revenue	199.6	200.4	(0.4)
EBITDA	42.5	38.8	9.5
Depreciation and amortisation	(30.6)	(24.6)	(24.4)
EBIT	11.9	14.2	(16.2)
Total capital expenditure	38.9	4.3	Large

- Revenue reflects industry-wide impacts of COVID-19 and elective surgery restrictions
- State-based trading:
 - Above market performance in VIC and QLD (incl. inorganic)
 - On market in NSW (excl. Delta lockdown in SW Sydney, telehealth/GP shortages on Medical Centre referrals, and site closures on BUPA immigration screening contract)
- Well-placed for rebound in demand from backlog in diagnosis and surgery, with strong hospital presence
- Margin impacted by locum costs due to radiologist shortages with site labour (excl. radiologists) reduced by 4%
- SIP investments in Lumus Imaging brand / development of automated booking, referral and rostering costed in results, previously non-underlying
- Capital investment includes Axis Radiology (\$12.6 million) and imaging equipment purchased outright rather than leased since 2H 2021

Day Hospitals

Underlying	1H 2022 \$m	1H 2021 \$m	Better/ (worse) %
Revenue	24.6	24.7	(0.4)
EBITDA	6.8	8.4	(19.0)
Depreciation and amortisation	(3.8)	(3.3)	(15.2)
EBIT	3.0	5.1	(41.2)
Total capital expenditure	1.4	1.3	(7.7)

- Westside Private revenue up 24%. Group-wide experienced similar conditions to Imaging
- Well-placed for rebound in demand from backlog in elective surgery
- EBIT included:
 - Investment in development resources for growth, and
 - PCP included JobKeeper and other support payments (JobKeeper repaid in 2H 2021)
- Brookvale on-going profitability under Montserrat management
- Announced development of Murdoch day hospital and cancer centre
- Strong pipeline of roll-up and greenfield opportunities

Corporate

Underlying	1H 2022 \$m	1H 2021 \$m	Better/ (worse) %
Revenue ¹	3.4	2.3	n.a.
EBITDA	(9.6)	(4.8)	(100.0)
Depreciation and amortisation	(5.0)	(5.4)	7.4
EBIT	(14.6)	(10.2)	(43.1)
Total capital expenditure	1.7	3.4	50.0

- Consistent with 2H 2021
- As foreshadowed, undertaken capability ramp-up in IT people and systems

Trading update

Core businesses

- Expect strong trading in all businesses with Omicron peak subsiding, elective surgery and community activity returning
- Period of catch-up likely with known underdiagnosis and backlog in routine services
- Opening of borders should enable increase in overseas-trained doctors and lift referrals to diagnostics

COVID-19 Pathology

- Strong trading in January with surge in testing from nation-wide Omicron outbreak
- February testing averaging 18k/working day to-date and turnaround times under 24 hours
- Investment to lower cost per test, flex up and down, and keep turnaround times < 24 hours. Responds to Government price decrease in 2022
- Expect on-going baseload level of COVID-19 testing for clinical issues. Other respiratory testing to return
- Aligning business to 'follow the science' on likely emergence of new variants



Artist's impression of Murdoch Private Hospital, Perth

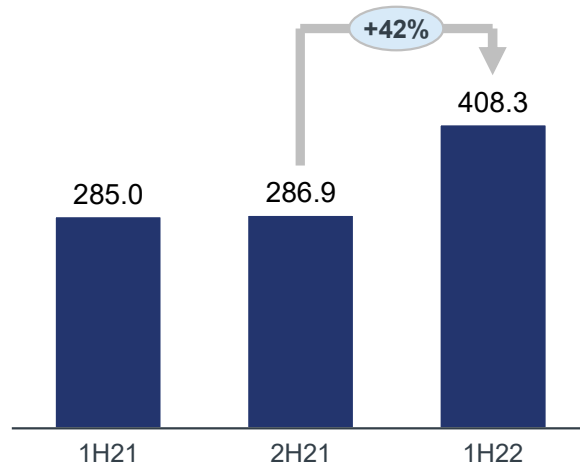


Montserrat's Murdoch Private Hospital in Perth under construction

Strong balance sheet to fund growth/sustaining capex and reward shareholders

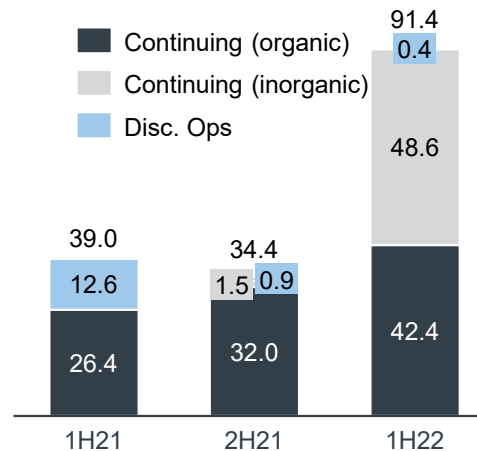
Strong cash generation

Gross operating cash flow



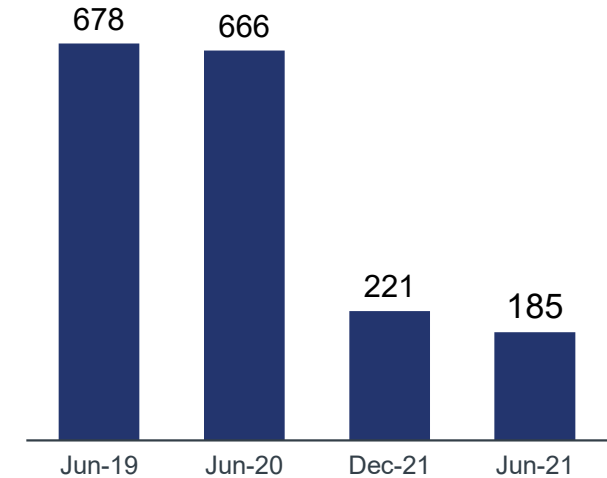
Controlled capital spend

Capital Expenditure



Flexible balance sheet

Net debt



- Gross operating cash flow increased to \$408.3 million
- Normalising for exceptionally high COVID-19 testing in last 2 weeks, cash flow conversion >90%
- Free cash flow¹ increased +37% to \$319.5 million
- Increased contribution from Pathology

- Organic capex of \$42.4 million² with disciplined expenditure:
 - Investment in digital; upgrading imaging equipment and shift to purchase from leasing since 2H 2021
- Inorganic capex at \$48.6 million:
 - Final Montserrat earn-out and settlement \$36.0 million
 - Axis Radiology acquisition \$12.6 million

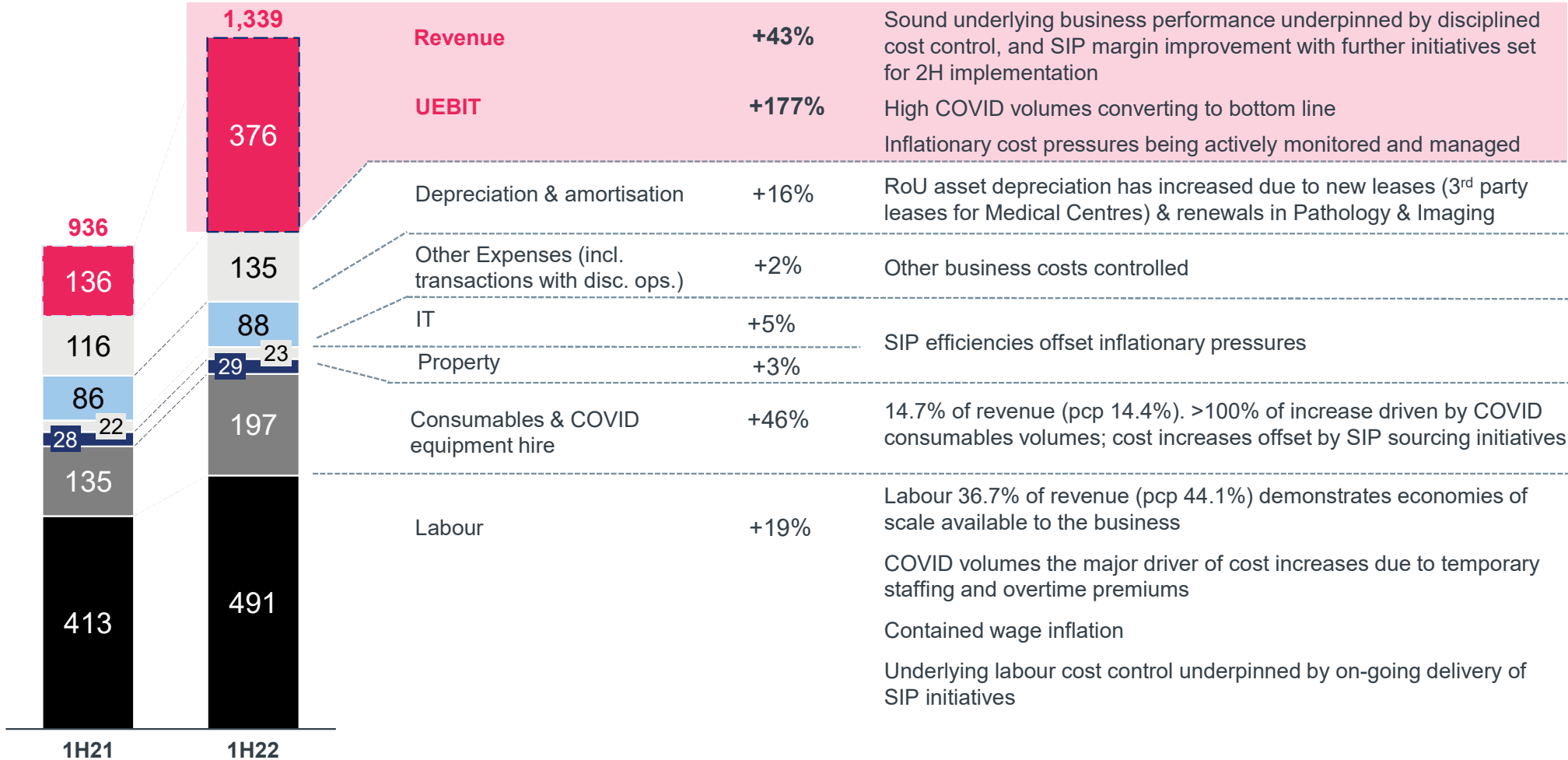
- Bank gearing ratio³**
 - Dec-21: 0.4x
 - Jun-21: 0.7x
- Interest cover**
 - Dec-21: 49x
 - Jun-21: 10x

¹ Free cash flow measured by gross operating cash flow, less tax and maintenance capex

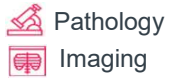
² Organic capex of \$42.4 million is stated before deducting \$0.7 million of proceeds from sale of pp&e per cash flow. 1H 2021 restated for Adora moving to discontinued operations

³ Bank gearing ratio is calculated based on net debt plus \$20.0 million of parent company guarantees. Underlying EBITDA is before the impact of AASB 15 and 16 and adjusted for share-based payments

Cost containment in inflationary environment



SIP Phase II progressing from pilot to roll-out



■ Completed ■ In progress

	Major initiatives	Division	Current implementation status				
			Scoping	Design	Pilot	Roll-out	Implemented
Grow the core 	ACC network optimisation (Phase II)		2nd phase of ACC opportunities identified		Implement new network opportunities		
	B2C & B2B products		e-Commerce portal and consumer products commercialised			Extend B2B offering	
	Imaging branding and same-site growth		Lumus Imaging brand launched nationally; physical transition at 55 sites				~85 sites
Labs of the future 	Standardised lean operations		Pilots completed in DOR and QML		Rollout lab management / op systems		
	Digital pathology		Solution for Vets built		Pilot human application in LAV and KOSSARD		
	Instrument management system		Vendor and solution strategy locked		Migrate instruments in first Lab		
Digital journeys 	E-referrals		Designed for roll-out in LAV; Imaging pilot in QLD			Launch in other BUs	
	Collector portal		Pilot and rollout completed in one region				Complete rollout nationally
	Courier route optimisation		Solution determined		Rolling out optimisation tool		
Productivity potential 	Rostering & dynamic labour demand		Time & Attendance module rolled out		Rostering module piloted and training initiated		
	Retenders and sourcing		Reprice for consumables, FM, fleet, 3PL, software			Vendor consolidation & ESG	
	Booking optimisation (Phase I)		Implementation of new workflows in ultrasound			Full rollout and tracking	

Effective use of capital for portfolio growth

What we've done

Allocating for growth and capital-light businesses



- Sale of Healius Primary Care
- Adora IVF brought to market
- Scalable investments incl. SWA and RIS upgrades

Increasing returns from distributed & networked assets



- SIP Phase I focus on rapid cash generation
- Complementary roll-in acquisitions
- Greenfield development incl. Murdoch Day Hospital

Accelerating high & rapid growth platforms



- Agilex acquisition provides Australian platform in high-growth, global clinical trials
- Doctor/B2B/B2C strategies in Pathology for above market growth

What we're working on

- Capital flexibility to pursue acquisitive growth
- Digital overhaul in Pathology and Imaging
- Synergy realisation between portfolio of businesses
- Investor Day to explain growth thesis

- SIP Phase II targeting 300 bps sustainable margin improvement
- Extend market position of core businesses through small-scale roll-in M&As where opportunities arise

- Detailed post-acquisition planning with Agilex:
 - business development
 - new market growth
 - services expansion
 - synergies with Pathology



Healius Group today

Building a sustainable business

Our Business

Sustainable Improvement Program aptly named with investment to drive growth

- ✓ Data-led operations
- ✓ Consumer-centricity
- ✓ Product innovation
- ✓ Network optimisation
- ✓ Core competencies for the future

Our Shareholders

Streamlined portfolio delivering higher returns and cash flows

Murdoch development and Agilex acquisition

Share buy-back completed

Progressive dividends

Strong balance sheet to fund further growth

Our People

Rewarding those who went above and beyond in COVID pandemic

New tools for Managers to support hiring and onboarding

Enhanced benefits and communications programs

New Standards of Behaviour and Conduct policy

Our Communities

Pivotal role in Australia's response to the pandemic with surge testing capacity

On-going investment in capacity and efficiency to meet potential demands of new variants

Non-COVID healthcare services delivered safely, efficiently and effectively despite lockdowns and isolation requirements

Our Customers





Investing in leading-edge applications to permanently change for the better how consumers access diagnostic healthcare in Australia

Commitment to carbon neutrality by 2025 with emissions reductions in train

Comprehensive ESG review undertaken with initiatives being developed

Sustainable Improvement program (Phase II)

Targeting 300 bps margin improvement by FY 2023 and step-change capability uplift

<p>“Grow the Core”</p> 	<p>Network Commercial/ revenue</p>	<p>Customer-segment based growth strategy to increase revenue growth in core Australian markets for diagnostic services; optimising mix & product, price and distribution ACC and Imaging site network and capacity optimisation</p>
<p>“Labs of the Future”</p> 	<p>LIS Digitisation & Automation</p>	<p>Holistic modernisation of central pathology laboratories in a department-by-department approach Optimising and standardising the information and physical workflows across our four central laboratories</p>
<p>“Digital Journeys”</p> 	<p>Digitisation & Automation</p>	<p>Enhancing customer and employee experience through the development of digital products Digitising and automating manual or paper-based workflows for doctors, consumers and employees</p>
<p>“Productivity Potential”</p> 	<p>Workforce Sourcing</p>	<p>External spend and internal labour productivity across the Group Disciplined spend management through price negotiation with vendors, volume and demand management by the businesses, and procurement policies & controls</p>

A specialist diagnostic and day hospitals business

We are focused on leveraging established market positions, management capability and scalability in Pathology, Imaging and Day Hospitals

Pathology



- Scale player in mature market (#2)
- 1 in 3 pathology samples tested in Healius laboratories
- Established state-based brands
- Strong response to COVID-19 pandemic
- Clinical leadership in growth areas including genetics and dermatology and now clinical trials
- State-of-the-art, automated Serum Work Area
- Scalable platform with laboratories of the future to unlock margin growth

Imaging



- Scale player in growing market (#3)
- 3m+ radiology examinations p.a.
- Strong position in attractive hospital sector
- Comprehensive, multi-disciplined community sites
- Single, unified and leading IT platform successfully delivered
- Enhancing experience through digital products and automating workflows to unlock margin growth

Day Hospitals



- Market with economic, technological and regulatory tailwinds
- Major player in a fragmented industry
- Westside Private - prototype for Short Stay surgery in Australia with large theatres, overnight beds and advanced sterilization facilities
- Strong growth since acquisition
- Successful funding model including established Hospital Purchaser Provider Agreements

A market leading network

Australia-wide coverage

2,277 Total sites



2,122
Pathology

2,027 ACCs
95 Laboratories



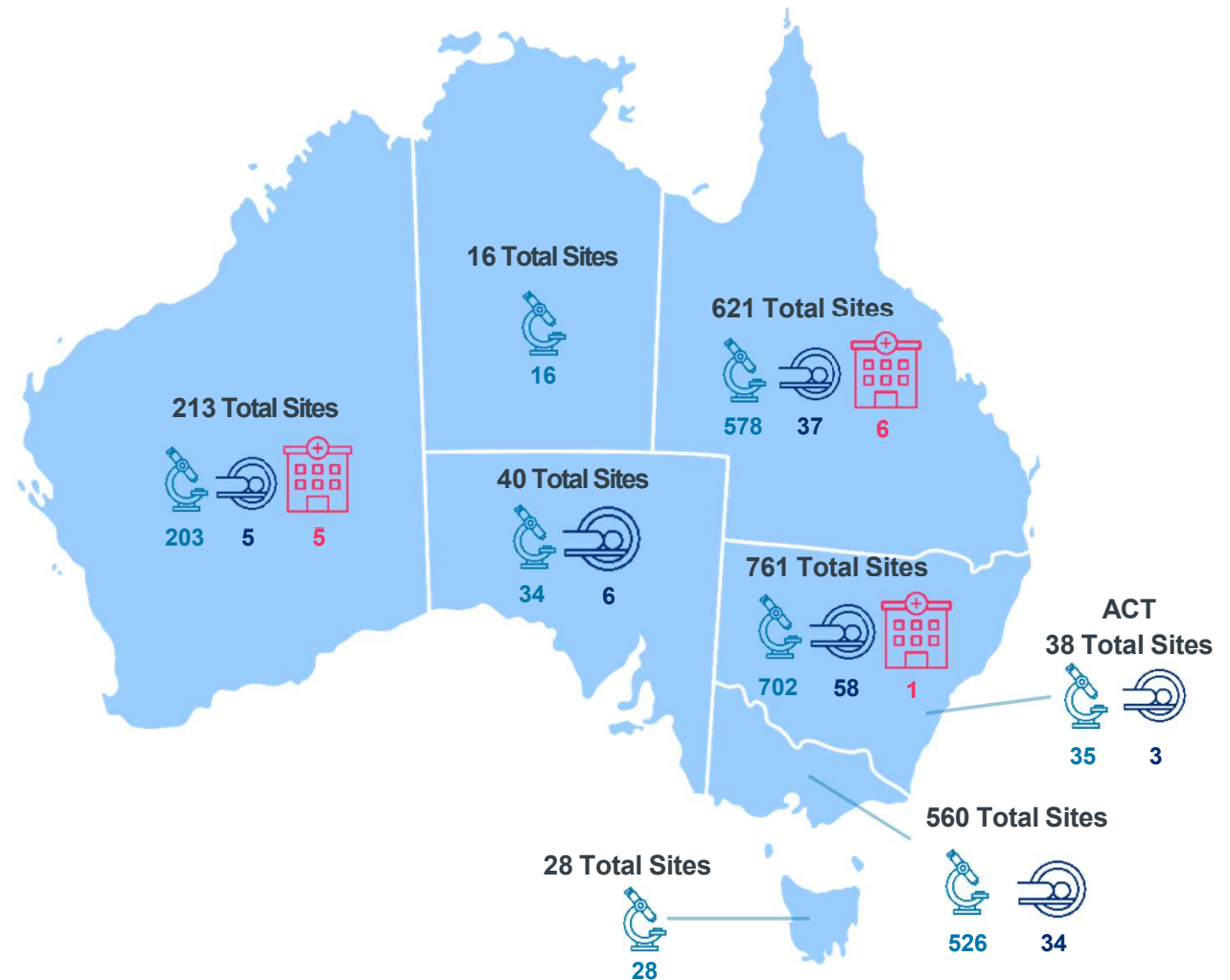
12
Day Hospitals

11 Montserrat
1 Brookvale Day Hospital



143
Imaging

31 Hospitals
62 Community Centres
50 Medical Centres



as at December 2021



Appendices

Divisional reconciliation

1H 2022 \$m	Pathology	Imaging	Day Hospitals	Corporate	Group ¹
Revenue	1,112.3	199.6	24.6	3.4	1,339.0
EBITDA	471.1	42.5	6.8	(9.6)	510.8
Depreciation and amortisation	(95.3)	(30.6)	(3.8)	(5.0)	(134.7)
EBIT	375.8	11.9	3.0	(14.6)	376.1

1H 2021 \$m	Pathology	Imaging	Day Hospitals	Corporate	Group ¹
Revenue	711.4	200.4	24.7	2.3	936.4
EBITDA	209.2	38.8	8.4	(4.8)	251.6
Depreciation and amortisation	(82.3)	(24.6)	(3.3)	(5.4)	(115.6)
EBIT	126.9	14.2	5.1	(10.2)	136.0

1H 2021 Day Hospitals reconciliation

1H 2021 \$m	Montserrat	Brookvale	Day Hospitals (restated)	Adora/HLS DHs (discontinued operations)	Day Hospitals (1H21 disclosures)
Revenue	22.7	2.0	24.7	17.1	41.8
EBITDA	8.1	0.3	8.4	2.0	10.4
Depreciation and amortisation	(3.3)	-	(3.3)	(1.4)	(4.7)
EBIT	4.8	0.3	5.1	0.6	5.7

Underlying v reported reconciliation

	1H 2022	
Underlying EBIT	376.1	
Corporate transactions	(6.0)	Agilex acquisition, Adora disposal costs and other corporate transactions
Digital transformation	(5.8)	Pathology
Transactions with discontinued operations	<u>(2.6)</u>	Rental income in corporate from HLS Day Hospitals
Total non-underlying items	<u>(14.4)</u>	
Reported EBIT	361.7	

	1H 2022	
Underlying NPAT	245.6	
After-tax adjustments to underlying EBIT	(10.1)	
Tax differential for non-deductible items	(2.5)	Refer note 4 of Consolidated Financial Statements
Discontinued operations	<u>0.2</u>	
Reported NPAT	233.2	

AASB 16: Key impacts 1H 2022

P&L	1H 2022 \$m	1H 2022 \$m	
Property & other expenses	117.0		Operating lease expense reversed
EBITDA		117.0	
Depreciation	(105.9)		Depreciation of right of use asset recognised
EBIT		11.1	
Finance costs	(17.5)		Interest paid on lease liability recognised
Profit before tax		(6.4)	
Tax @ 30%	1.9		
NPAT		(4.5)	
Cash Flow	1H 2022 \$m	1H 2022 \$m	
Gross cash flows from operating activities	123.2		Operating lease payments reversed from gross operating cash flows
Net cash provided by operating activities		123.2	
Interest paid on lease liabilities	(17.3)		
Payments of lease liabilities	(105.9)		Principal payments on lease liability recognised in financing cash flow
Net cash used in financing activities		(123.2)	
Balance Sheet	1H 2022 \$m	1H 2022 \$m	
Right of use assets	1,051.3		Leases recognised as an asset and depreciated
Total assets		1,051.3	
Current interest bearing lease liabilities	205.0		Leases recognised as a liability representing
Non-current interest bearing lease liabilities	938.2		Future lease payments discounted at incremental borrowing rate
Total Liabilities		1,143.2	

Financial impacts of individual leases over time

Key P&L Impact Driver

Description

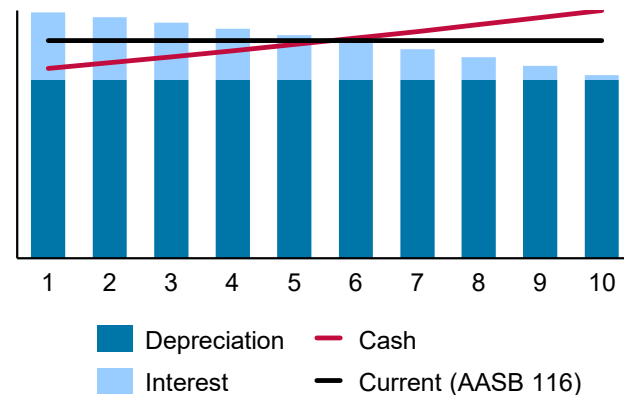
Illustration

P&L Impact

Forward Outlook

NEW LEASES
Diminishing Interest vs Straight Line Expense (permanent)

- Operating lease payments previously recognised as an expense on a straight-line basis over the lease term
- Under AASB 16 this becomes depreciation of RoU asset + interest on lease liability



- Interest reduces over time as lease liability reduces
- AASB 16 Less favourable to P&L in early lease years and more favourable in later lease years



P&L impact will reverse as the interest cost unwinds as the average lease age increases

EXISTING LEASES
Right of Use (permanent) & Modified Right-of-Use (temporary)

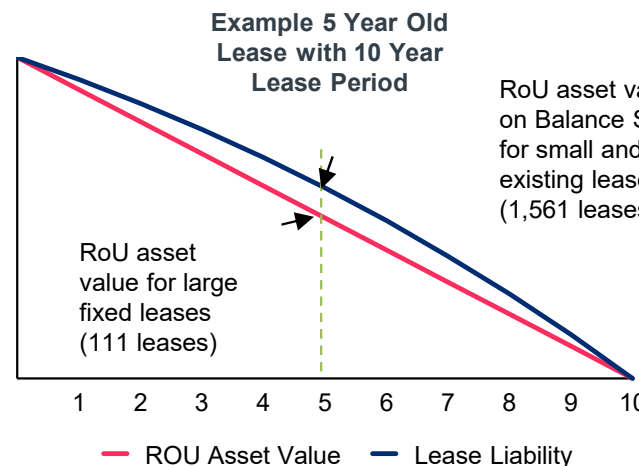
CPI Leases And Small fixed rent increases:

ROU Asset Value = Lease liability = PV of future lease payments

Large (>\$100,000 PA) with fixed rent increases

Modified ROU Asset Value = (notional WDV)

Lease liability = PV of future lease payments



- CPI Leases: Not all existing leases can be valued using modified retrospective approach resulting in higher asset values and higher depreciation
- Large Leases: Using the modified retrospective RoU approach results in a lower right-of-use asset on initial adoption and accordingly lower depreciation over the remaining lease term
- Timing difference reduces opening equity by \$29M which reverses over the term of the lease



This impact will unwind over time as leases expire and new RoU assets can be valued based on depreciated asset value

The logo consists of three vertical bars of equal height. The leftmost bar is dark blue, the middle bar is red, and the rightmost bar is dark blue. The bars are separated by small gaps.

healio