

1H 2023 Results

27 February 2023

New Omni PET/CT machine installed at St Vincent's Private Hospital Northside



Acknowledgement of country

We acknowledge the Gadigal People of the Eora Nation as the traditional custodians of the land on which we gather today, and pay our respects to their Elders – past, present and emerging

Today's message

Last 3 years

It has been an extraordinary 3-year period of volatility – demonstrating the operating leverage of our pathology network and HLS' ability to scale-up and scale-down capacity.

Last 6 months

The focus of the last 6 months has been resetting the fixed cost base (mostly labour via SIP), reshaping the portfolio for diagnostics, progressing the digital agenda, and making senior leadership appointments.

Looking ahead

HLS is now positioned to capture the BAU volume recovery (which will significantly and sustainably expand EBIT margins).

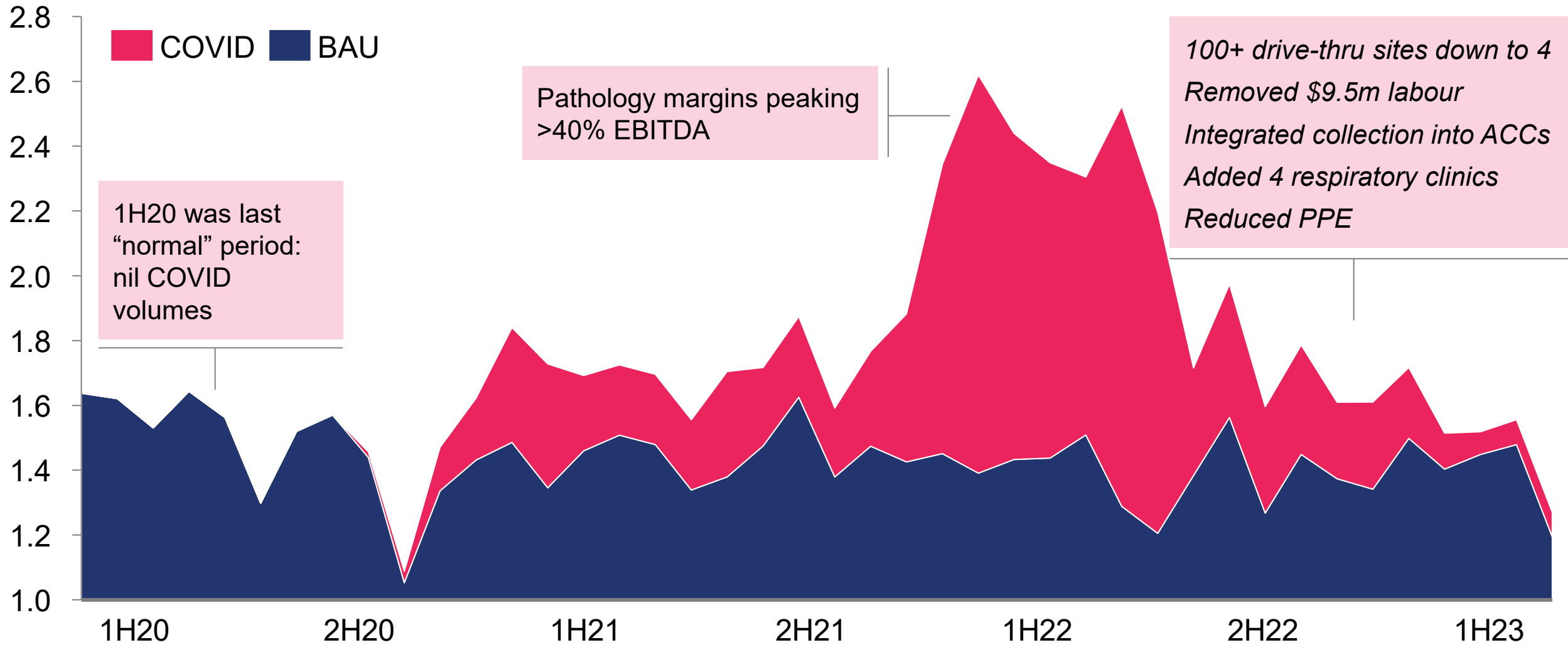
HLS is pursuing a strategy of *Operating Leverage, Service, Insights and People*.

Capital management will continue to be disciplined and focused on this organic growth.

Context: An extraordinary last 3 years

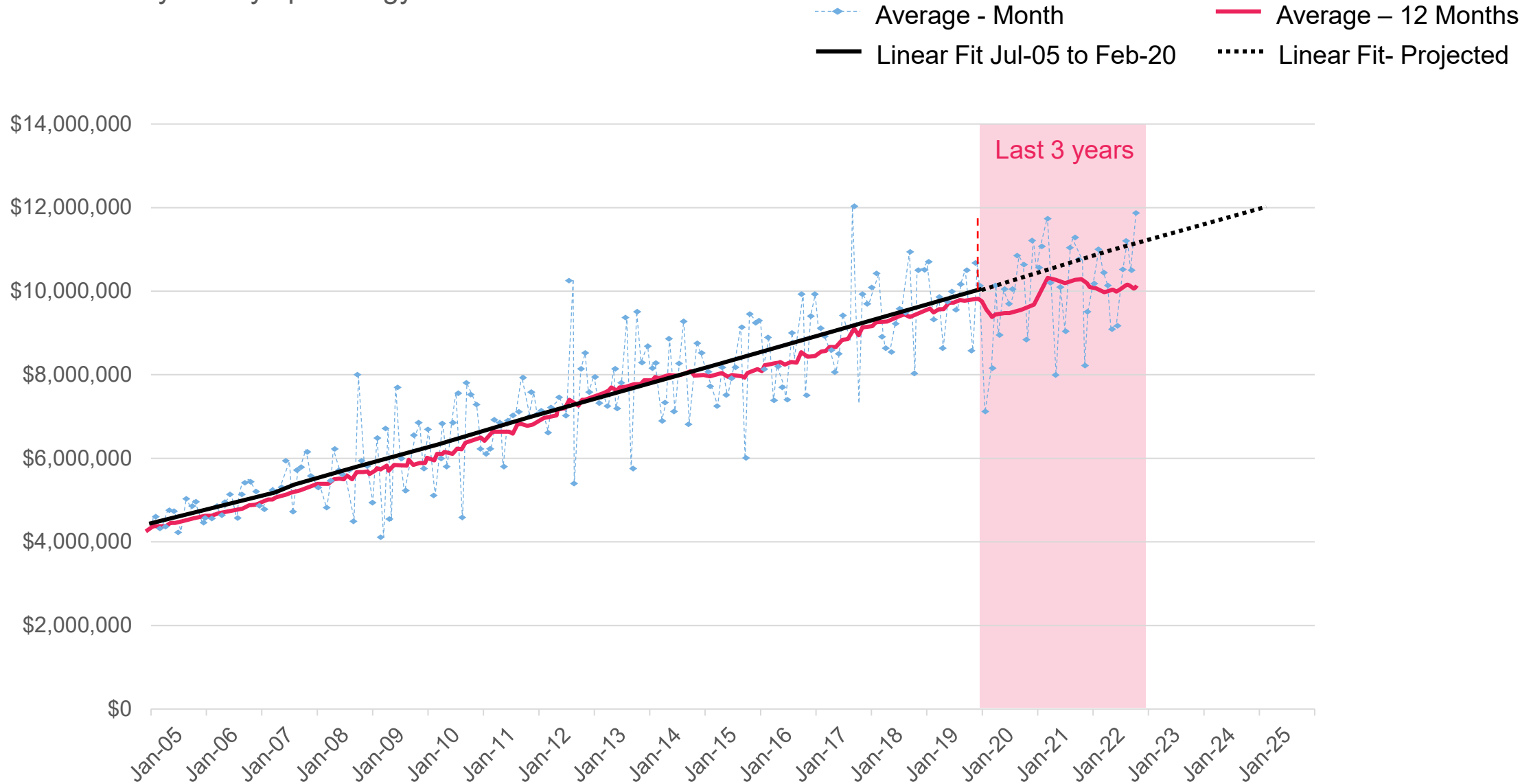
*COVID volumes demonstrated the operating leverage of the network – Pathology EBITDA margins peaking >40%.
Responded to COVID volumes receding in previous six months by pulling out the COVID costs*

HLS pathology episodes (millions), ex PEI/P10



Context: Pathology sector revenue – Analysis prepared by Australian Pathology

Covid, Nucleic Acid and Gynae Cytopathology items excluded



Source: Australian Pathology

Our strategic priorities

Recent focus has been increasing operating leverage through fixed cost reduction in Pathology.

Looking forward, we are investing in profitable growth of the core diagnostic businesses along 4 strategic pillars



Operating leverage

- Grow the network
- Pursue pricing and product opportunities
- Increase higher-end Imaging modalities & sub-specialties
- Focus on B2B contract wins
- Continue to automate operating processes



Service

- Roll-out new digital results portal
- Connect digital & physical patient experiences
- Maintain a single brand standard
- Digitise the collection experience and workflow
- Expand into digital health services



Insights

- Commercialise new diagnostic technologies
- Grow new clinical domains
- Accelerate Australian genomic testing
- Build on position as preferred Phase 1 clinical trials bioanalysis provider



People

- Deepen sub-specialty expert capacity along clinical growth areas
- Attract and retain frontline talent
- Set the new operating model
- Increase pathologist and radiologist clinical outreach

Our capital management framework

HLS' medium-term strategy to maximise shareholder return is to invest in organic growth

Capital management levers

HLS current strategy

Annual operating cashflow	Dividends & buybacks		50-70% dividend payout ratio No interim dividend – focus on debt reduction	Shareholder value creation Dividend yield EPS growth Debt reduction / returns
	Maintenance capex		\$40-50m p.a. for long-term sustainability	
	Growth capex	Organic growth	ACC network expansion Higher-end imaging modality capacity expansion (machines, hours, partnerships) New clinical / diagnostic domains (incl. AI) Pricing and yield improvement initiatives	
		Business improvement	Digital health products Process automation (labs and operations)	
	Remaining free cashflow	Inorganic	Bolt-ons to grow diagnostic networks	
		Cash / returns	Debt reduced via disciplined cash management	

Sustainability progress on roadmaps

HLS reduced its Scope 1 and 2 emissions in 1H23; adopted Australian Cyber Security Standards and fast-tracked a suite of cyber risk mitigations

Our Shareholders



- Adopted the United Nations Sustainable Development Goals framework for FY 2022
- Working on data requirements for further frameworks

Our Planet



- **Scope 1 and 2 emissions of 14,500 CO2-e in 1H23, vs 15,800 in 1H22**
- Transitioned ~4% of fleet to hybrid cars. Pipeline for H2 plus LED upgrades
- **In discussions with QIC on consortium green power purchasing from CY24**
- Developing baseline data for Scope 3 and waste management



Our People



- Driving gender diversity in leadership with first female CEO and Chairperson
- Committed to HESTA 40:40 for Leadership Team by FY 2030

Our Customers



- Digital initiatives underpin customer progress
- **Adopted Australian Cyber Security Centre standards, fast-tracked suite of risk mitigations**

Our Communities



- National partnership with CCI
- Ongoing community support
- Responsible procurement approach, supplier codes of conduct

Group results

Group, \$m	1H 2023	
	Underlying ¹	Reported ²
BAU revenue	799.7	799.7
COVID-19 revenue	64.4	64.4
EBITDA	176.8	123.6
EBIT	40 .0	(13.2)
NPAT (Reported inc. discontinued operations)	8.1	(28.7)

¹ All comments relate to underlying results

² Reconciliation see Appendix

³ All revenue comparisons in this presentation are working day adjusted

⁴ Conversion of reported and underlying EBITDA to gross operating cash flow.

1H23 focus for HLS has been cost reduction to respond to the market conditions in Pathology. Promising recovery in Imaging

Period of substantial change

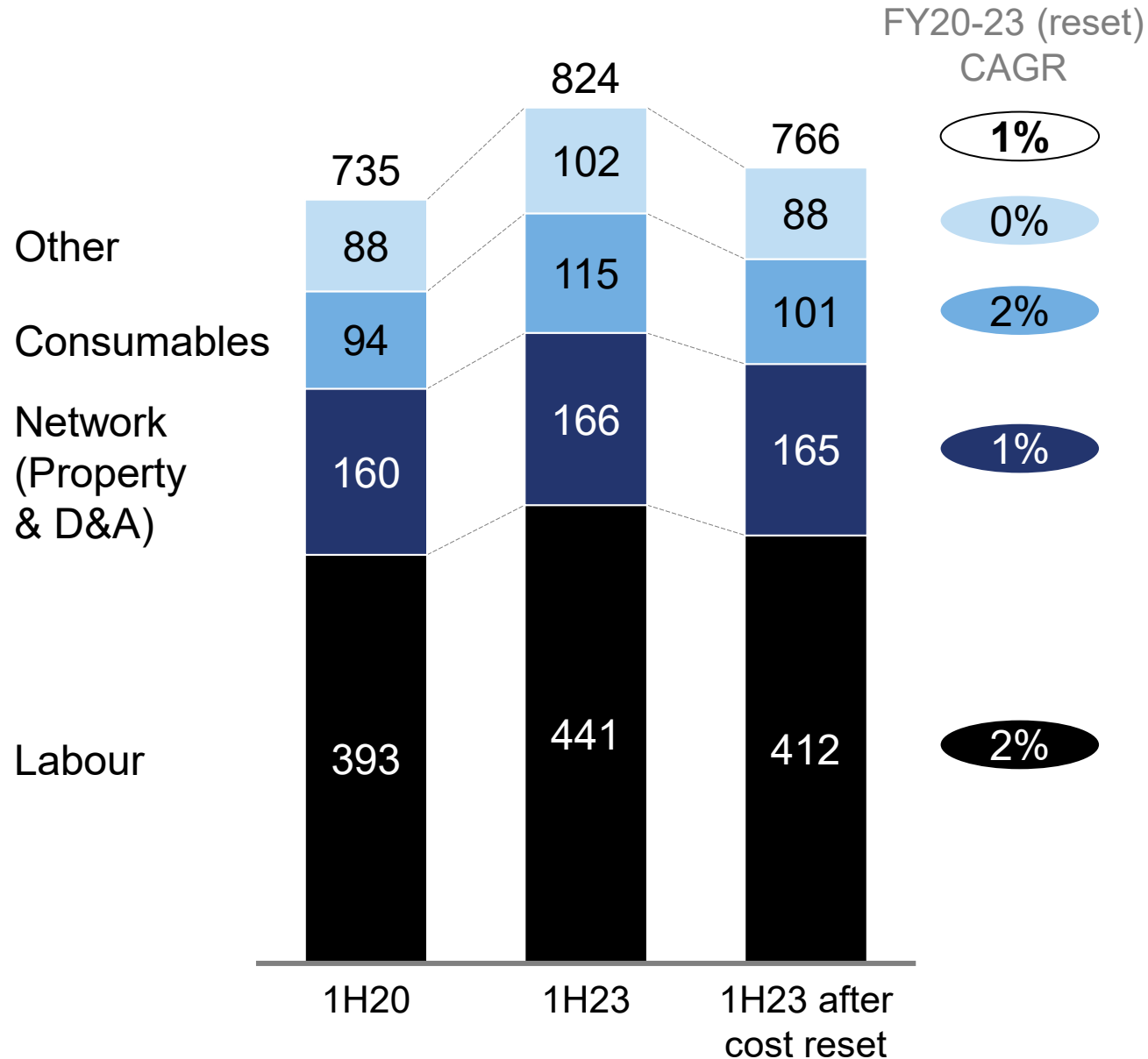
- **88% drop in COVID PCR** testing from historic highs in 1H22 – reason for lower result v pcp
- Base diagnostic revenue growing. **Revenue³ per ACC up 8% v 1H20.** ACC optimisation and strong growth in commercial revenue
- **Imaging stronger. Revenue up 10% v 1H22** (ex MC) outperforming market. Growth in hospital / community. Investment in equipment and digital

Responded to market conditions to lower cost curve: COVID costs out, pathology laboratory labour reset and reduced group-wide support costs

Revenue aligned to cash flow with conversion >100%⁴

Group cost reset

\$m (underlying)



1H23 focus has been resetting the cost base to the last pre-COVID period (1H20)

Margins dependent on expected volume recovery

SIP Phase 2 (\$67m annualised) completed, primarily cost reduction

- Significant cost out in laboratory labour resets
- Corporate costs already reduced to <\$20m pa
- Consumables and other procurement initiatives
- Margin improvement expected as volumes increase

Additional cost resets (incremental to SIP Phase 2 target)

- Removed Covid direct costs other than equipment
- Operating model review with focus on group-wide support cost reduction

Pathology

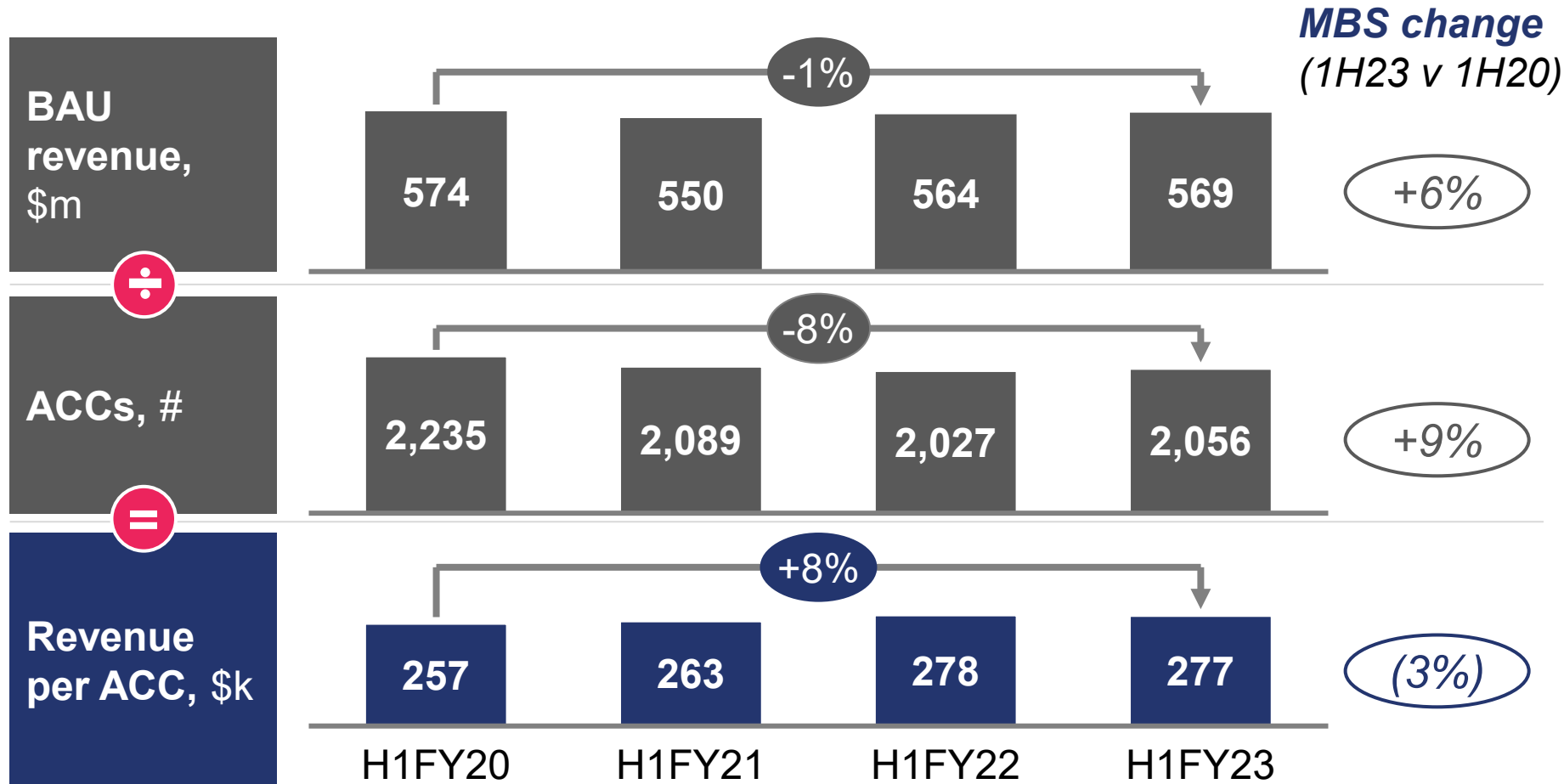
Underlying	1H 2023, \$m
BAU revenue	585.1
COVID – 19 revenue	64.4
EBITDA	136.5
EBIT	32.0

1H23 focus for HLS has been cost reduction (COVID and BAU-related) to respond to the market conditions while continuing the digital investment

- **BAU revenue/ACC up 8% v 1H20**
- **January BAU up 20% v soft pcp**, up 10% v 1H20 revenue/ACC
- With drop on PCR testing, COVID revenue down \$476m v 1H22 at peak demand (6,500 COVID tests pwd v 46,500 COVID tests pwd)
- EBITDA/EBIT margins reflect impact of drop in COVID testing
- Responded to market conditions to lower cost curve:
 - COVID costs except for equipment out of business
 - Labour cost resets undertaken with benefits to flow from 2H23. Pathology **FTE after resets @ ~6,000 v 6,500 1H20**
 - Procurement savings following strong contract negotiations
- Roll-out of customer-facing digital tools continued
- Agilex (see separate slide):
 - \$16m Revenue **up 29% on pcp** (when in different ownership),
 - \$2m EBITDA
 - <\$1m EBIT

HLS Pathology – Revenue and network

The strategy until FY22 has been to consolidate the ACC network to release unprofitable / unproductive revenue share. Now expanding the network to drive growth.



- FY20-22 ACC consolidation to increase yield. 1H23 selective expansion of doctor and independent ACCs. Overall net decrease of 8% on 1H20
- HLS BAU revenue per ACC up 8% - 11pts higher than market (1H23 v 1H20)
- BAU revenue broadly flat 1H20 v 1H23 on lower network base

All revenue comparisons are working day adjusted

Growing Pathology

Focused on sustainable organic growth in the medium-term

Network expansion

Expanding ACC network following a period of rationalisation; revenue per ACC +8% vs 1H20

58 new sites in 1H23; strong pipeline of new sites to be opened in 2H23

Maintaining leading presence at public and private hospital sites; negotiating med centre group deals

Yield

Pipeline of commercial initiatives to extract maximum value from network (e.g. Surgical Skin, National Cervical Audit Programs)

Specialist referral mix and sustainability / growth in commercial contracts

Customer experience

Robust digital product pipeline of Results Portal, Collections Hub and Referral Hub that digitise and engage clinicians and patients – products launched and continuously improved

QR-code feedback mechanism being rolled out to 2000+ ACCs. High NPS emerging; outperform in established channel (lowest share of complaints to State Health Commissions)

Clinical domains

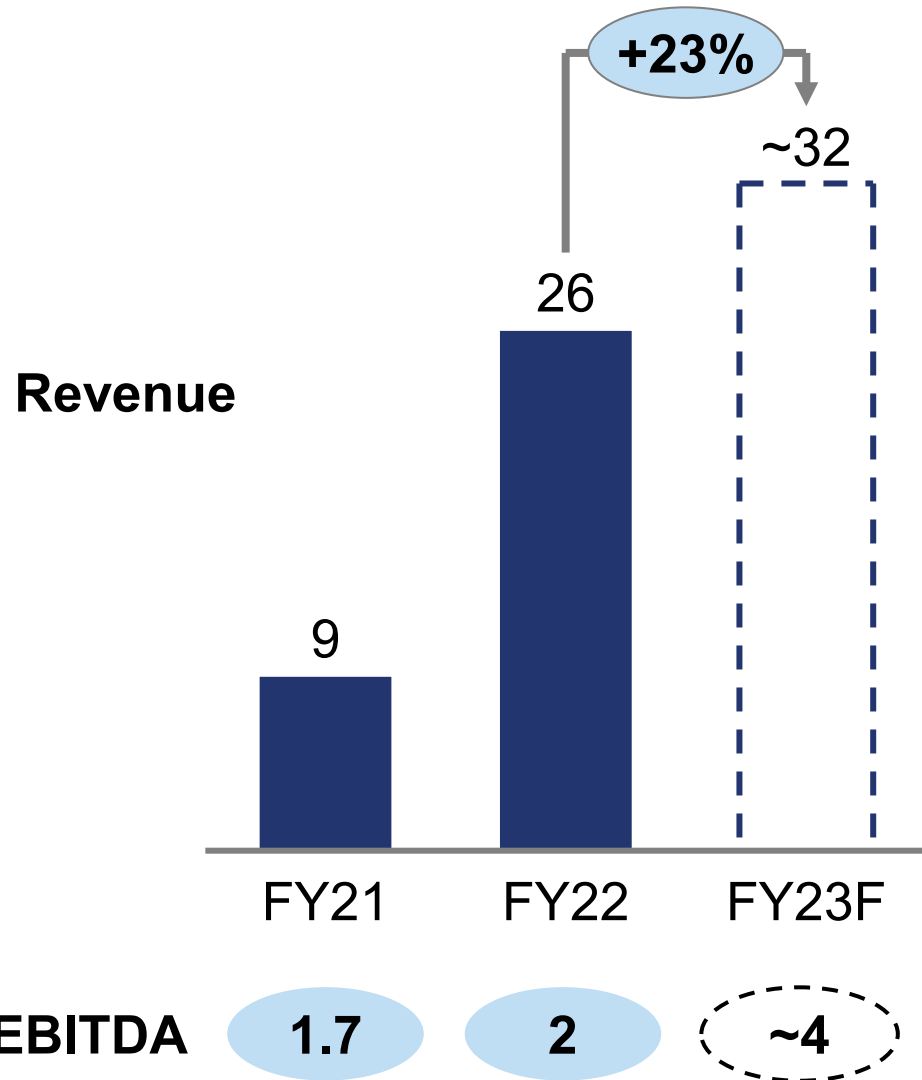
Diagnostic insights for high-burden disease (e.g. cancer, CVD, MSK, mental, metabolic, etc) with an innovation pipeline focused on genomics, point-of-care and AI

Developing several areas, eg genome analysis

Partnerships & contracts

Pursuing distribution and other partnership for high-burden diseases; specialist centres, B2B drug screening, vaccine opportunities; preferred pathology provider for several telehealth operators

C2N exclusive partnership for Alzheimer's disease; emerging proteomics / microbiomics JVs



Scale-up is taking more time than anticipated. HLS has appointed a new CEO with Clinical Trials Experience.

We remain confident in the market fundamentals, strategic rationale for the acquisition, and Agilex's competitive position.

- Translation of revenue growth to EBITDA is behind plan
- Phase 1 clinical trials remains an uncapped global market – above-market returns available to HLS
- Australia is a highly attractive destination for Phase 1 clinical trials
- HLS active management to improve performance:
 - People – management and scientific personnel review (new CEO appointed). Agilex leveraging group support functions & oversight
 - Investment – second laboratory in Adelaide for large molecule and pharmacodynamic work. New toxicology facility in Brisbane
 - Partnerships –exploring commercial relationships with overseas labs to enable a global proposition from Phase 1 - 3

Lumus Imaging

Underlying	1H 2023, \$m
Revenue	212.8
EBITDA	46.9
EBIT	16.5

1H23 focus has been investing in growth (especially radiologist recruitment). Promising volume recovery.

- **Lumus Imaging up 10%** excluding MCs (8% overall) v 1H22
- **January trading: Lumus Imaging up 11%** excluding MCs (9% overall) v pcp
- Well-placed for on-going growth in diagnosis and surgery, with strong hospital presence
- Reset of asset base with Medical Centres segment (unique to Lumus Imaging) \$39m impairment to match trading conditions
- Expanded margins with:
 - **FTEs @ 1,250 v 1,350 1H20**
 - **Exams per FTE 1,370 v 1,240 1H20**
- Advances in 1H23:
 - Appointment of a radiologist CEO, one of founding partners of PRP
 - Strong radiologist recruitment supported by new radiologist engagement model
 - Program to upgrade/refit community clinics, with 50% refurbishments completed
 - Development of a greenfield clinic pipeline, 1 in QLD committed and 3 further clinics across NSW and VIC with advanced business cases
- Roll-out of customer-facing digital tools continued

Growing Imaging

Focused on sustainable organic growth in the medium-term

Network expansion

Successful recent imaging sites (e.g. Highfields); focus on radiologist, sono and nuc med recruitment
Investment in greenfields and higher margin modalities in FY 2023 under national Lumus Imaging brand – 8 PET/MRI and 9 CT/US machines currently on order for hospital, brownfield and greenfield sites

Yield

Network-wide price increment applied in line with inflationary environment; off-cycle strategic review of pricing opportunities being undertaken
Joint imaging/pathology offerings (eg fertility and obstetrics/gynaecology); combined CRM capability

Customer experience

Radiologist reporting workflow project to optimise capacity and increase subspecialist reporting capability
Implementing and promoting a range of tools to promote referrer loyalty, including eReferral and feature-rich reports

Clinical domains

Radiologist expertise & capacity increasing with additional FTEs onboarded during Q2-Q4 FY2023
Commercialising several areas, eg CTCA and lung cancer screening; positioning for growth in emerging technologies (eg FFR-CT; mental health imaging)

Partnerships & contracts

Several AI partnerships established or in train (e.g. Qure.ai chest x-ray)
GE Omni Legend PET/CT machine first of its kind in Southern Hemisphere
Pursuing distribution and other partnership for high disease-burden need

Cashflow

Cash flow aligned to revenue recognition; targeted capex for sustainable growth

\$m, reported (31-Dec-22)

Gross cash flows from operating activities

Net income tax paid

Net cash flows from operating activities

Maintenance capex

Free cash flow

Growth capex

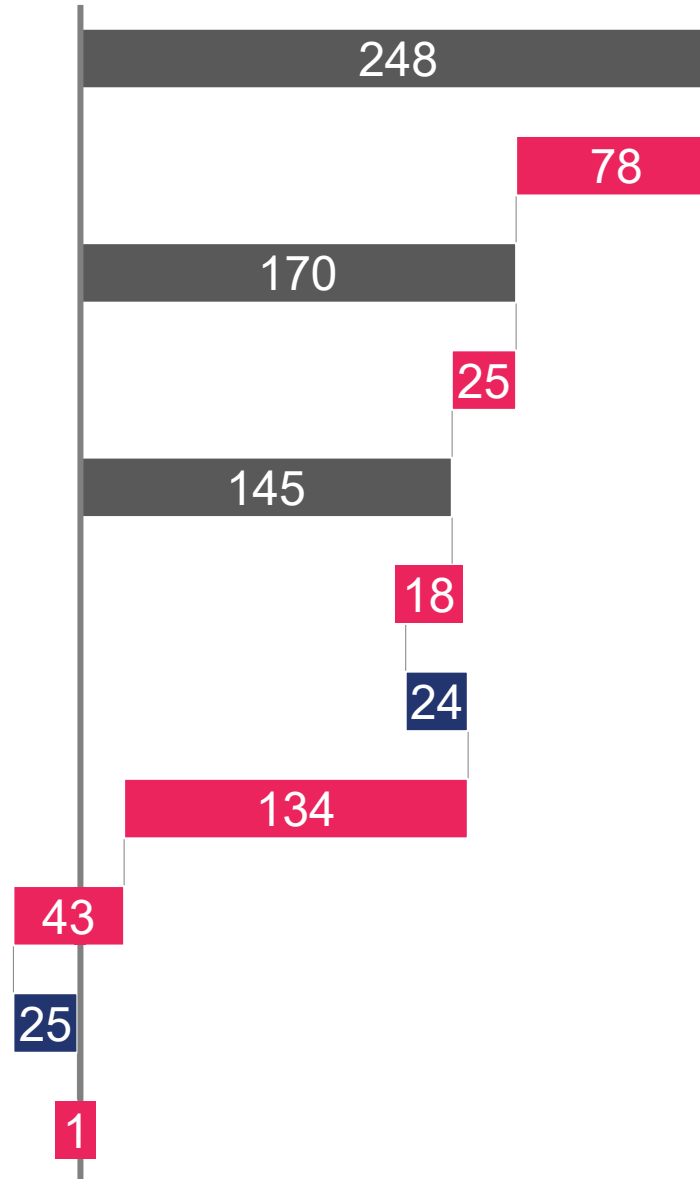
Capital recycling; deferred consideration

Interest, finance costs, lease liabilities

Dividends, buybacks, shares for LTIP

Net debt funding /(repayment)

Net increase/(decrease) in cash held



>100% conversion of EBITDA to gross operating cash flow with alignment of cash flow to operating revenue earned in period

Targeted spend on network, equipment and branding

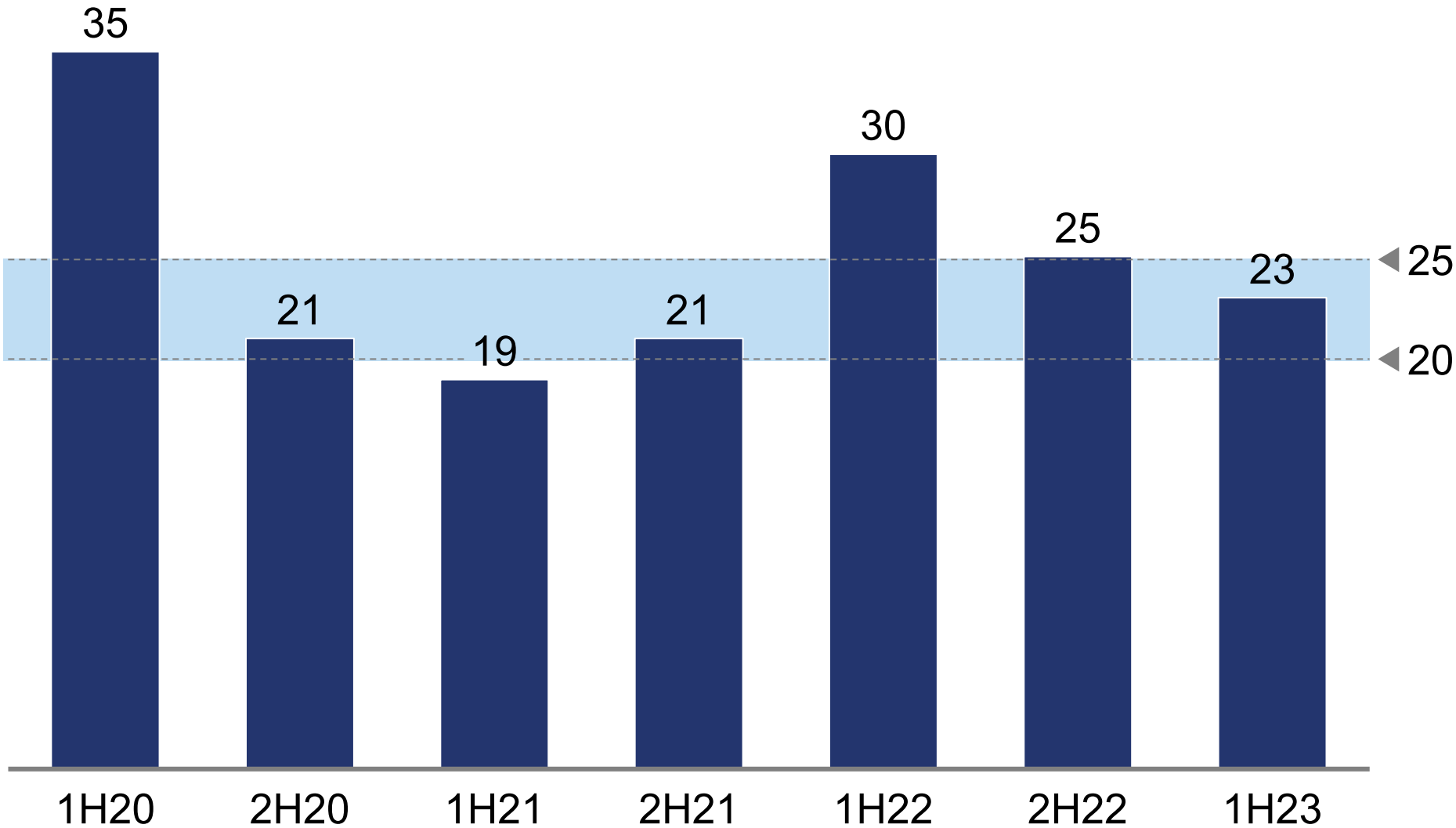
Maintenance capex \$25m (incl \$2m Disc Ops.)

Growth capex at \$18m including investment in technology, modalities & infrastructure

Maintenance capex

~\$20-25m of maintenance capex (per half) is the range for long-term sustainability

\$m



- Following the sale of Medical Centres, maintenance capex reduced
- 1H22 was unusually high due to buy versus lease decisions in Imaging
- ~\$20-25m is the range for **long-term sustainability**

Debt management

Disciplined cost control to minimise net debt while trading conditions improve

1H23

Net debt \$551m v \$525m at 30/06/22

Gearing¹ at 2.98x¹ - covenant of <3.5x

Interest cover at 10.5x - covenant of >3.0x

3.2% WACD² reflecting increase in BBSY since February 2022

~35% of debt hedged

2H23

Drawn debt will reduce with receipt of funds from sale of Day Hospitals

Expecting to be within both covenants at 30/06/23

WACD² to increase with BBSY increases

Hedging % to increase with debt reduction and further coverage

Facilities

\$1bn in two tranches of \$500m with maturity profiles of March 2025 and March 2027

Flexibility to introduce sustainability-linked facilities going forward

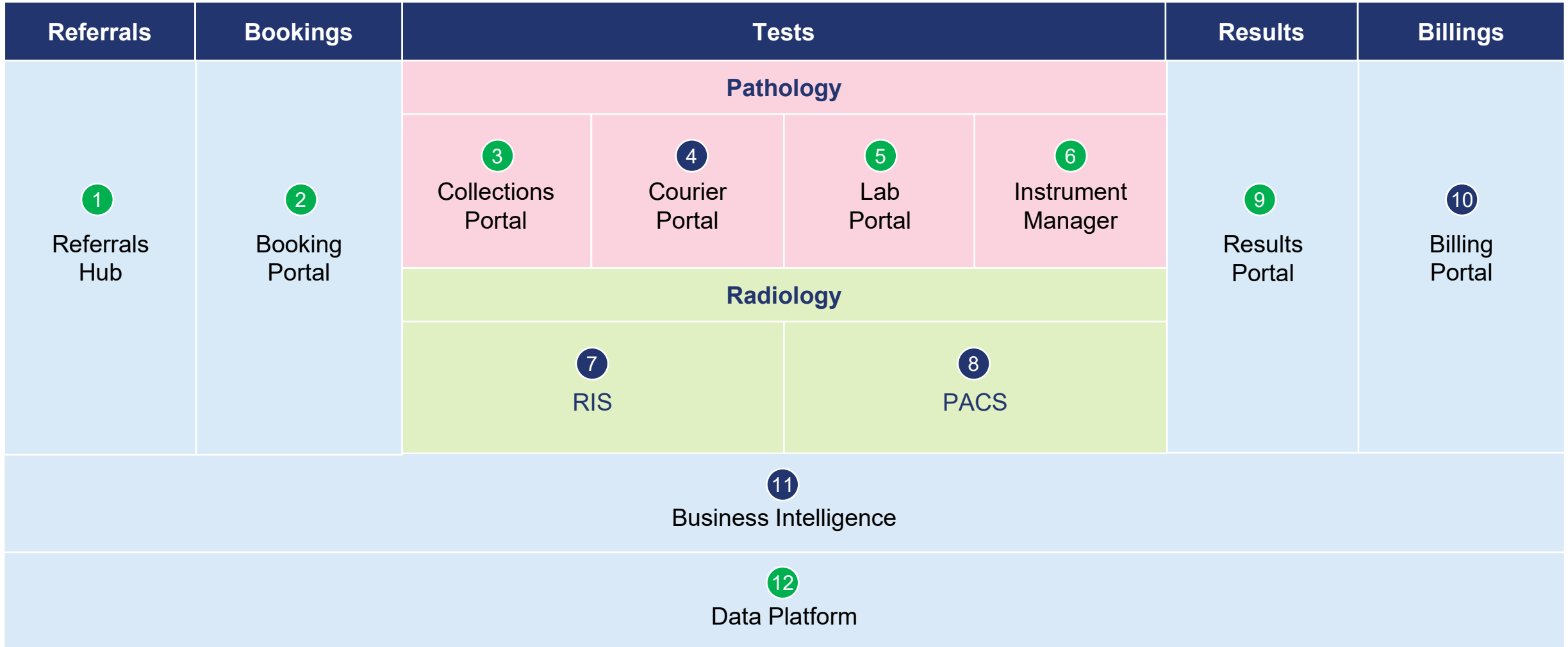
¹ Bank gearing ratio is calculated based on underlying EBITDA before the impact of AASB 15 and 16 and adjusted for share-based payments. Net debt includes unamortised borrowing costs and parent company guarantees

² Weighted Average Cost of Debt (WACD)

Digital – Holistic strategy across diagnostics

Platform for pathology and radiology. Funding envelope \$85-90M over 3 years. On track and on budget.

x 1H23 Focus



Digital – Core enabler for growth and efficiency

Building a competitive service model for customers and generating cost reductions through automation.

Progress in H1 FY23



Referral Hub – Seamlessly getting electronic referrals from medical centres with direct digital patient engagement experience.



Collections Portal – Digitising workflow in ACCs across registering patients, protocoling tests, and collecting specimens.



Lab Portal – Modules for Histology and Cytology which are 2 out of 6 main clinical departments migrated out of Ultra with standardised workflows.



Results App – Providing doctors with a modern results experience with self-service to save time and make informed decisions (*March release*)



Data Platform – Cloud-based state-of-the-art database platform with 14 years of historical patient, referrer, and pathology test data successfully migrated.

FY23 H1 Spend: \$10M

Focus for H2 FY23



Booking Portal – Self-service online appointment booking for patients who need Radiology and Pathology exams.



Instrument Manager – Continuing roll-out of lab analysers across regional and core labs with standardised configuration.



Lab Portal – Modules for further clinical domains including Microbiology with potential for track-based automation being evaluated.



Collections Portal – Adding payments handling, collection training guides, and courier dispatch features.



Referral Hub – Expanding market coverage of electronic referrals across more medical centres and hospital settings.

FY23 Budget: ~\$20M

Digital – Building solutions that are future fit

Contemporary experience. Digitised workflows. Connected and accessible data sets. Agility to continuously improve.

Going from outdated legacy systems...

replace stored update lindak record 1 records found

Action [L] Notes PATIENT DEMOGRAPHICS-ENQUIRIES Request -
Bad Debt

Surname: TEST Given: LINDA SUE MS
Sex: Female DOB: 11/01/80 42 Years Sp: Br:

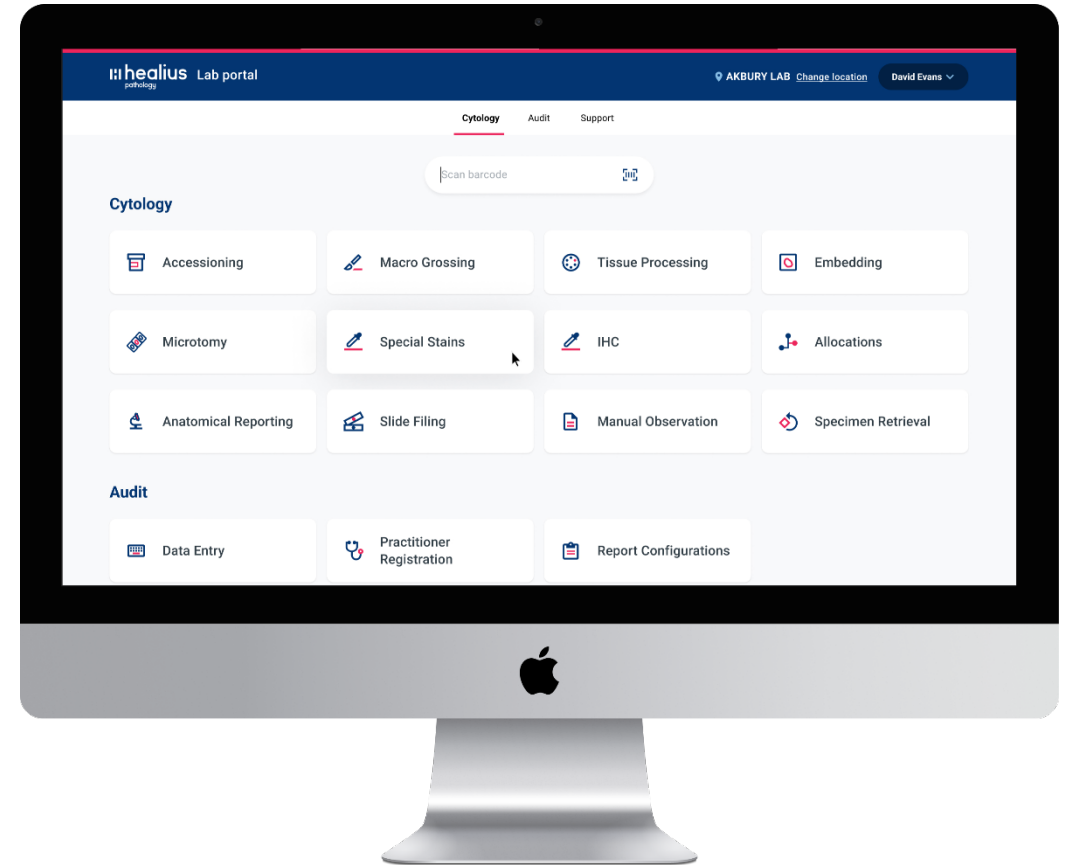
Action [C] REQUEST DETAIL - ENQUIRIES Entered: 08/03/22-09:31
Notes xxx lindak BRI

Request: 22 -98798798 Collection: 004 MORNINGSIDE PEI: C Run#:0
DOR: 08/03/22 DOC: 08/03/22 Time: 09:31 DOS: 08/03/22 Age: 42Y Ser:N
Doctor: TDLK - DR SUSAN TEST, QML MURRARIE LAB, MURARRIE x 1
Copy: Y Report: N Rule 3: Conf: Gestation:0 Doc Ref:
Bill: - PATIENT A/c:MI - OptOut:N Urg:

	Request Code	Collect:	Doctor	Panels	Panel Count:4
1	22 -98798798	08/03/22	TDLK	ESR, 25T, PB, G,	
2	21 -15465111	13/12/21	TDLK	SA-T,	
3	21 -91654651	10/12/21	TDLK	SA-T,	
4	21 -95465111	10/11/21	TDLK	SA,	
5	21 -96544111	10/11/21	TDLK		

[E]nquire by Code, [D]octors, [P]anels, [R]eport to, [T]racking..

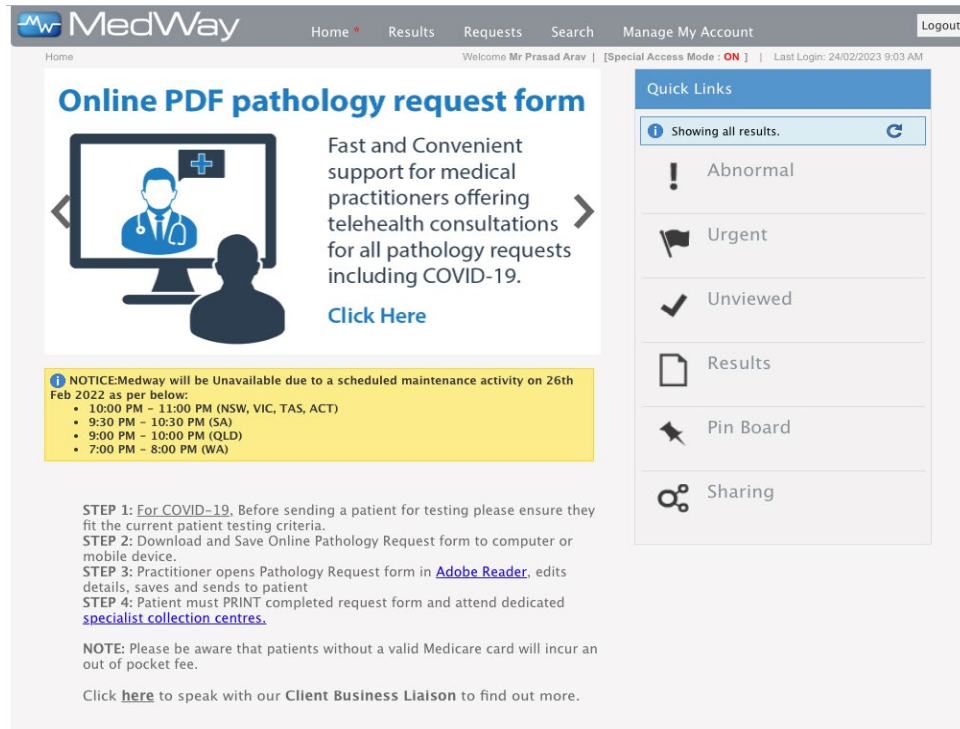
...to robust new clinical software



Digital – Building solutions that are future fit

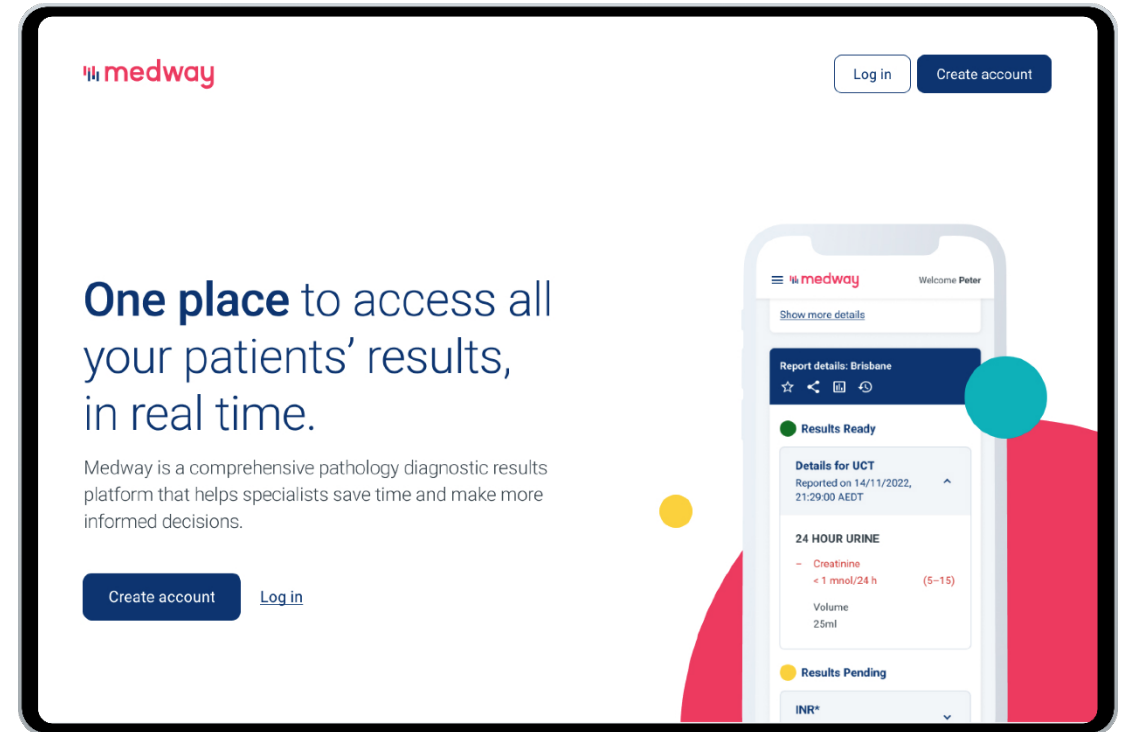
Contemporary experience. Digitised workflows. Connected and accessible data sets. Agility to continuously improve.

Going from poor doctor experiences...



The screenshot shows the MedWay website interface. At the top, there is a navigation bar with 'Home', 'Results', 'Requests', 'Search', and 'Manage My Account', along with a 'Logout' button. The main content area features a large banner for 'Online PDF pathology request form' with a sub-headline 'Fast and Convenient support for medical practitioners offering telehealth consultations for all pathology requests including COVID-19.' and a 'Click Here' button. Below this is a yellow maintenance notice for February 26th, 2022, listing downtime for various regions. At the bottom, there are four steps for using the service and a note about Medicare card requirements. On the right side, there is a 'Quick Links' sidebar with options: 'Showing all results.', 'Abnormal', 'Urgent', 'Unviewed', 'Results', 'Pin Board', and 'Sharing'.

...to market leading functionality



The screenshot shows the MedWay mobile app interface. At the top, there is a 'Log in' button and a 'Create account' button. The main content area features a large heading 'One place to access all your patients' results, in real time.' followed by a sub-headline 'Medway is a comprehensive pathology diagnostic results platform that helps specialists save time and make more informed decisions.' and a 'Create account' button and a 'Log in' link. On the right side, there is a smartphone mockup displaying the app's results page. The page shows 'Report details: Brisbane', 'Results Ready' status, and 'Details for UCT' with a value of '< 1 mmol/24 h' (5-15). Below this, there is a '24 HOUR URINE' section with 'Volume 25ml'. At the bottom, there is a 'Results Pending' section with 'INR*'.



Appendix

Underlying v reported reconciliation

	1H 2023
Underlying EBIT	40.0
Pathology digital transformation	(9.7)
Write-down (impairment of leased assets)	(39.1)
Restructuring and termination costs	(3.8)
Transactions with discontinued operations	(0.6)
Total	(53.2)
Reported EBIT	(13.2)

	1H 2023
Underlying NPAT	8.1
After-tax adjustments to underlying EBIT	(36.8)
Tax differential for non-deductible items	3.3
After tax transactions with discontinued operations	(0.4)
Total adjustments	(33.9)
Profit after tax from discontinued operations	(2.8)
Reported NPAT	(28.7)

Divisional reconciliation - underlying

		Pathology	Imaging	Corporate	Group ¹
1H 2023, \$M	Revenue	649.5	212.8	2.0	864.1
	EBITDA	136.5	46.9	(6.6)	176.8
	EBIT	32.0	16.5	(8.5)	40.0
1H 2022, \$M	Revenue	1,112.3	199.6	3.4	1,315.1
	EBITDA	473.1	43.5	(12.6)	504.0
	EBIT	375.8	11.9	(14.6)	373.1

¹ In 1H 2023 \$0.2 million (1H 2022 \$0.2 million) of intercompany revenue/expense was eliminated at a Group level

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

healio