PRIMARY

HEALTH CARE LIMITED

Results for year ended 30 June 2014

13 August 2014

Highlights

FY2014 result demonstrates the strength and resilience of the Primary model

FY2014 result highlights

- EBITDA up 4.7% to $399.1m
- 80 bps EBITDA margin expansion in Medical Centres
- 8.3% 2HFY2014 EBITDA growth in Medical Centres over pcp
- Revenue growth of 6.1% in Pathology and 7.7% in Imaging division
- EPS up 7.7% to 32.2 cents per share (up 9.7% excluding $3.0m refinancing charge)
- Final dividend of 11.0 cents per share (full year dividend of 20.0 cents per share, up 14.3% from FY2013)

Positioned for future growth

- 8 new medical centre sites identified for rollout in FY2016 and beyond
- Successful tender for immigration visa medicals highlights potential for outsourcing opportunities
- Utilise scale and footprint, e.g. Primary IVF business launched in July 2014
- Continue Medical Centres "backfill" strategy and expand bolt-on specialist practices
- Successful upgrade of 30-year-old Warringah medical centre highlights long-term growth potential

Proposed Federal Government co-payment initiatives

- Considerable uncertainty on the nature and extent of these changes (if any) that will be legislated
- In the event some form of legislation is passed, the earliest it will come into force will be July 2015
- Specific details about how any changes will be implemented has not yet been provided
- Primary’s potential response to be determined if / when details are confirmed
- Regardless of whether some form of co-payments is ultimately introduced, Primary’s scale and broad range of capabilities ensure that it is well-positioned to continue to deliver sustainable earnings growth

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Summary income statement

$m	Year ended 30 June 2014	Year ended 30 June 2013[1]
Revenue	**1,524.1**	1,440.0
EBITDA	**399.1**	381.2
EBITDA margin	***26.2%***	*26.5%*
Depreciation and amortisation	**(94.0)**	(89.3)
EBIT	**305.1**	291.9
Finance costs[2]	**(71.7)**	(76.6)
Income tax	**(70.8)**	(65.3)
Minorities	**(0.1)**	0.1
Net profit after tax	**162.5**	150.1
Earnings per share (cps)	**32.2**	29.9
Final dividend per share - fully franked (cps)	**11.0**	11.0

Notes

1 Comparatives adjusted for adoption of AASB11 Joint Arrangements as at 1 July 2013

2 FY2014 includes a $4.2m pre-tax charge ($3.0m post-tax) of unexpired fees relating to the November 2013 bank facility refinancing

Cash flow

Sustained operating cash flow generation

$m	Year ended 30 June 2014	Year ended 30 June 2013
Cash flow from operating activities	**269.0**	264.4
Add back:		
- Net interest and finance costs paid	**60.7**	71.4
- Net income tax paid	**57.6**	45.8
- Other	**-**	0.3
Gross operating cash flow	**387.3**	381.9
Gross operating cash flow as a % of EBITDA	***97%***	*100%*

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Medical Centres

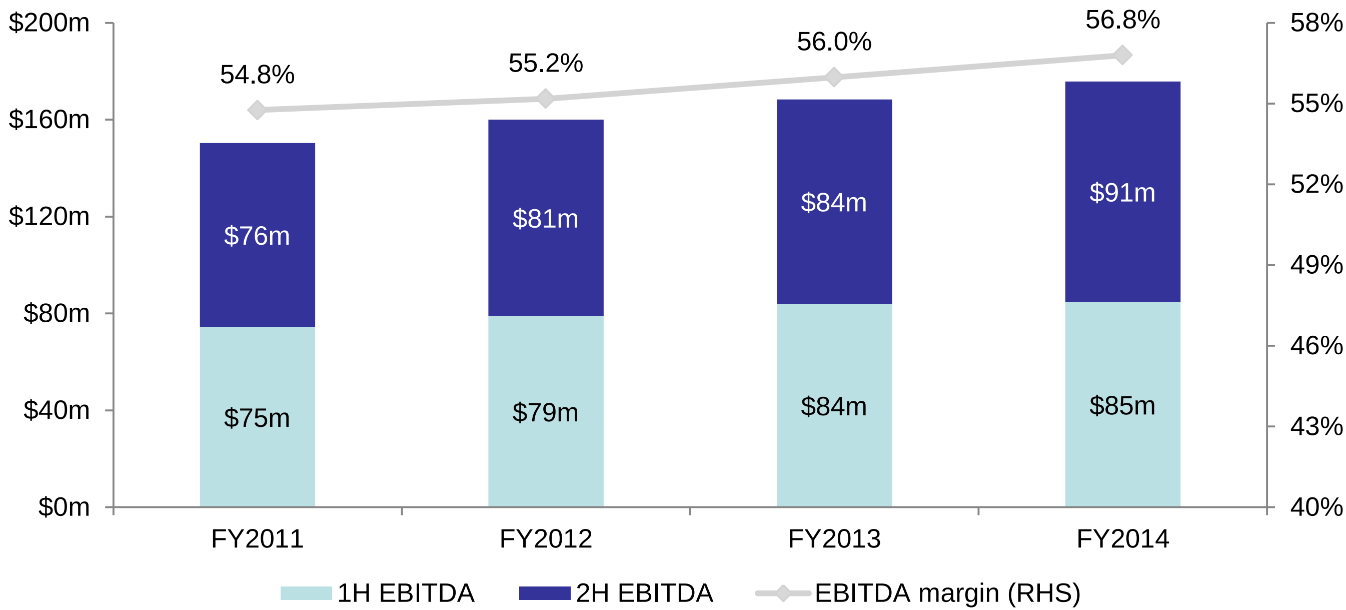
Margin expansion and EBITDA growth validates large scale model

$m	Year ended 30 June 2014	Year ended 30 June 2013
Revenue	**309.6**	300.8
EBITDA	**175.8**	168.4
EBITDA margin (%)	***56.8%***	*56.0%*

- Revenue growth of 2.9% impacted by:
  - Dental revenues decreased $6.8m 1H2014 vs. 1H2013, now growing
  - No Medicare fee increase during FY2014 (delayed until 1 July 2014)
- Margin improvement of 80 bps
- Strong 2H2014 performance – EBITDA up 8.3% on pcp and 7.6% on 1H14
- GP acquisition price has experienced a 10% downward trend during year
- GP retention levels in line with expected / historic levels

Medical Centres – Historic EBITDA performance

Strong 2H2014 EBITDA performance



- 8.3% increase in 2H2014 over pcp despite no increase to Medicare funding in FY2014
- Strong margin improvement in extended period of negligible fee increases
- Headwind of smaller “Symbion” centres now complete

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Medical Centres – Growth

1 Backfill existing centres

- Newest 22 centres are currently under 7 years old
- Operational leverage as health professionals are added to a centre's fixed cost base

2 Addition of new specialists to enhance offering at Primary's medical centres

- Primary IVF launched July 2014
- Acquisition of additional specialist practices

3 Roll-out of new / upgraded centres

- Successful opening of upgraded Warringah centre during FY2014
- Strong pipeline of new centres to be progressively rolled out from FY2016 onwards

4 Ongoing investment in professionals for quality and productivity purposes

- Regular clinical education meetings with over 1,000 hours delivered by lead doctors
- 15 registrars now working in network and 74 accredited supervisors

Medical Centres – Warringah

- Relocation and upgrade of the original Primary centre opened 30 year ago
- Opened November 2013
- Services offered at Warringah centre by approximately 100 professionals include:
  - General practice
  - Pathology collection
  - Radiology (including MRI)
  - Expanded day surgery
  - Dental
  - Physio and sports clinic
  - Eye centre
  - Specialists and skin clinic
- Highlights growth potential of older sites - not limited by age of centre
- GP attendances, day surgery revenues and other services all improving in line with expectations

Medical Centres – Primary IVF

- Primary IVF launched July 2014
  - IVF Medicare services will be bulk-billed (i.e. no co-payment)
- Consistent with Primary's core objective to provide high quality, affordable, accessible health care
- First site is co-located at Primary's George Street medical centre in Sydney
- Agreements have been signed with leading fertility specialists
- Primary IVF will utilise existing infrastructure and capabilities and deliver incremental revenue to other divisions of Primary (e.g. pathology)
- Initial focus will be on optimising the model and modest growth is expected

Pathology

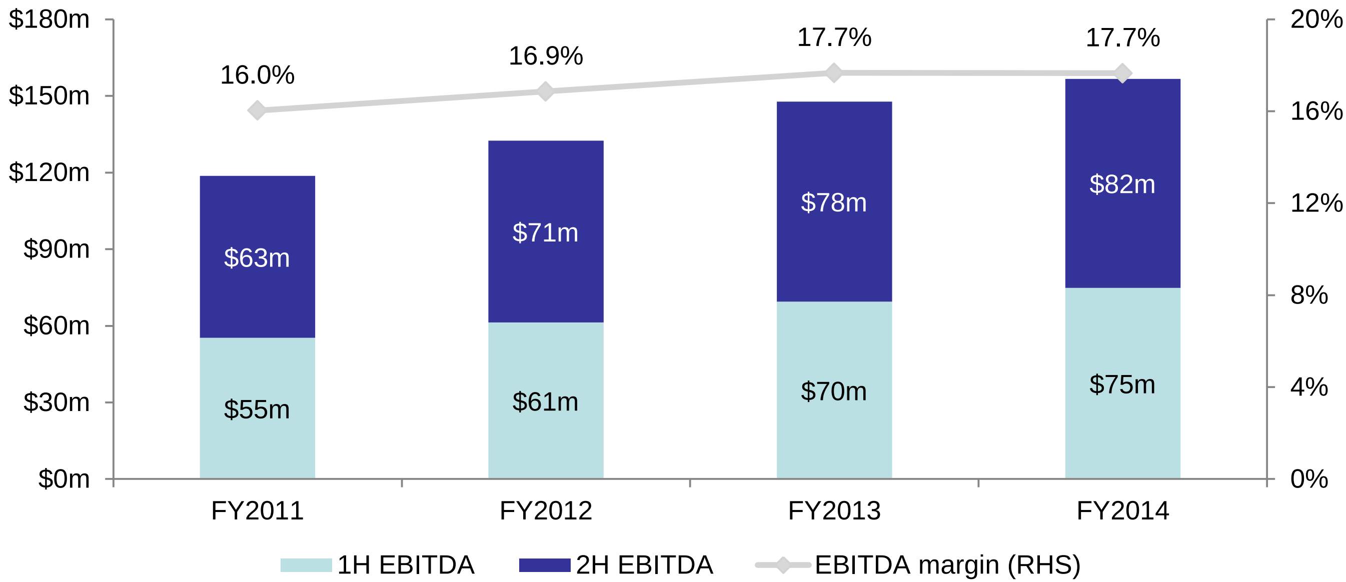
Continued growth in revenue and EBITDA

$m	Year ended 30 June 2014	Year ended 30 June 2013
Revenue	**887.4**	836.3
EBITDA	**156.7**	147.8
EBITDA margin (%)	***17.7%***	*17.7%*

- Annual revenue growth of 6.1%
- No fee increase / decrease during FY2014
- PRY market share stable
- Volume growth over recent months has been subdued
- Entered Tasmanian market with organic start-up in 2HFY2014

Pathology – Historic EBITDA performance

Consistent growth in EBITDA despite weak funding environment



- EBITDA growth supported by 6.2% revenue CAGR
- Achieved in an environment of net fee decreases
- Some rent escalation due to "land-grab" for ACCs
- Tasmanian operations will not contribute in short-run

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Pathology – Growth

1 Ongoing investment in infrastructure and automation

- Maintain and extend quality, cost and efficiency leadership

2 “Bolt-on” acquisitions plus organic growth

- Early stage commencement of pathology services into Tasmania
- Acquisitions used to enhance capabilities, expand footprint and increase volumes
- 3 small acquisitions successfully completed in FY2014

3 Continued focus on Government outsourcing opportunities

- Pressure on government spending is likely to continue
- Currently estimated 1/3 of pathology volume nationally is not contested
- PRY has strong track record (e.g. visa medical screening, state public sector)

4 Collection centres regulatory environment

- Deregulation has afforded opportunities (e.g. entry into Tasmanian market, new testing innovations)
- Consideration of potential re-regulation of ACCs:
  - Driving further “land-grab” by some industry participants
  - Driving further rent escalation

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Imaging

Imaging division continues to grow

$m	Year ended 30 June 2014	Year ended 30 June 2013[1]
Revenue	**316.1**	293.4
EBITDA	**73.0**	68.1
EBITDA margin (%)	***23.1%***	*23.2%*

- 7.7% revenue growth
- Strong growth in MRI revenue since Medicare funding changes in November 2013
- Successful tender for immigration visa medicals outsourcing contract – commenced August 2014
- Wage / productivity gains are slow and long-term
- Industrial action in Victoria during 2HFY2014 had negative impact on results, but now resolved
- 18.9% EBITDA CAGR and 800 bps EBITDA margin expansion since FY2011

Notes

1 Comparatives adjusted for adoption of AASB11 Joint Arrangements as at 1 July 2013

Imaging – Growth

1 Optimisation of radiologist model

- Continued move to fee for service model
- Reduce reliance on locums

2 Improved utilisation of MRI equipment

- November 2013 changes broadened the range of GP referrals covered by Medicare
- Strong increase in MRI revenue, however funded MRIs remain underutilised
- Ongoing GP education program to increase awareness of MRI capability

3 Continued focus on Government and hospital outsourcing opportunities

- Current examples include immigration visa medicals and several hospitals

Health Technology

Positive renewal trend in core Medical Director product

$m	Year ended 30 June 2014	Year ended 30 June 2013
Revenue	**37.2**	37.0
EBITDA	**20.2**	20.2
EBITDA margin (%)	***54.3%***	*54.6%*

- Positive renewal trend in core Medical Director product and other GP software products
- Hospital applications business continues to decline
- Investment in product starting to deliver significant product enhancements
  - New web-based medicine information resource (AusDI) for PC, tablet and mobile
  - Medical Director / Pracsoft release 3.15 with performance improvements
  - Medical Director sidebar launched

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Corporate

Net corporate EBITDA in line with expectations

$m	Year ended 30 June 2014	Year ended 30 June 2013
Revenue	**4.0**	1.6
Expenses	**(30.6)**	(24.9)
EBITDA	**(26.6)**	(23.3)

- FY2014 revenue includes $3m profit on sale of Vision shares
- Expenses include $2m non-recurring settlement of legal matters
- Other expense increases primarily salary-related

Capital investment

Disciplined approach to capital expenditure

$m	Year ended 30 June 2014	Year ended 30 June 2013
Property, plant and equipment	**72.4**	66.6
Business acquisitions	**70.6**	69.8
Intangibles	**42.3**	36.6
Sub-total ex-Warringah medical centre	**185.3**	173.0
Warringah medical centre	**17.6**	4.9
Total	**202.9**	177.9

- Business acquisitions include GPs, radiologists, specialists and pathology businesses
- Average cost of GP practices experienced a 10% downward trend during FY2014
- Spend on intangibles
  - Continued increased spend on pathology software and system upgrades and integration
  - $9.0m spend on extension of GP contracts post 5 years in FY2013 reduced to $5.5m FY2014

Debt position

Refinance of bank debt extends maturity profile and reduces the cost of debt

$m	Year ended 30 June 2014	Year ended 30 June 2013
Bank and finance debt	**952.7**	930.3
Cash	**(27.5)**	(34.7)
Retail Bonds	**152.3**	152.3
Net debt per balance sheet	**1,077.5**	1,047.9

- $1.25bn bank debt facility out to January 2017 ($625m) and November 2018 ($625m) with improved margins
- $4.2m pre-tax charge on amortisation of unexpired borrowing costs on previous facility
- $29.6m increase in net debt a result of spend on new Warringah centre and $7m refinance costs
- Two bank facility covenants
  - Gearing Ratio = Net Finance Debt (excluding Retail Bonds) / EBITDA
    - 2.32x at 30 June 2014 (bank covenant < 3.25x)
  - Interest Cover = EBITDA / Net Interest Expense
    - 6.45x at 30 June 2014 (bank covenant > 3.0x)

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Summary and outlook

FY2014 result

- EBITDA up 4.7% to $399.1m
- EPS up 7.7% to 32.2 cents (up 9.7% excluding $3.0m refinancing charge)
- Full year dividend of 20.0 cents per share is 14.3% higher than FY2013

FY2015 earnings guidance

- EBITDA $410m-$425m
- EPS growth of 5%-12%
- Earnings guidance includes any short-term impacts to patient volumes caused by regulatory uncertainty

Positioned for future growth

- 8 new medical centre sites identified for roll-out in FY2016 and beyond
- Successful tender for immigration visa medical screening contract highlights outsourcing potential
- Utilise scale and footprint e.g. Primary IVF business launched in July 2014
- Continue Medical Centres “backfill” strategy and expand bolt-on specialist practices
- Successful upgrade of original Warringah Mall medical centre highlights long-term growth

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