PRIMARY
HEALTH CARE LIMITED

Interim FY 2015 results
6 months ended 31 December 2014

18 February 2015

Highlights

Solid trading result for 1H FY2015; change in accounting policy for acquisition of healthcare practices

First half result highlights

- EBITDA up 2.1% on prior corresponding period
- EPS[1] up 5.0% to 10.5 cents per share
- Interim dividend of 9.0 cents per share
- Change in accounting policy for acquisition of healthcare practices

Reconfirm FY2015 earnings guidance

- EBITDA expected to be in the range of $410 million to $425 million
- EPS growth of 5%-12% (FY 2014 restated EPS 22.7 cent per share)
- FY 2015 EBITDA expected to demonstrate usual second-half weighting

Pipeline of future growth opportunities

- Continue to identify and invest in high-return growth initiatives across the platform
- Strongly leveraged to ageing demographic
- Scale to capture growth opportunities and navigate any funding pressures should they arise
- Platform for steady EPS and DPS growth over the medium/long-term

1. Includes $8.6 million of non-recurring Depreciation and Amortisation expense from an accelerated asset-write down in the period

Change in accounting policy for healthcare practice acquisitions

Background

- Change in accounting policy for acquisition of healthcare practices
- Impacts accounting for doctors' acquisitions in Medical Centres (GP, specialist and allied health) and Imaging
- No impact on Pathology

New accounting policy

- Practices acquired from within a specified distance around a Primary Medical Centre or Imaging site:
  - 30% of acquisition price allocated to the contractual relationship and amortised over the life of the contract
  - 70% of acquisition price booked to Goodwill
- Practices acquired from outside a specified distance around a Primary Medical Centre or Imaging site:
  - 100% of acquisition price allocated to the contract relationship and amortised over the life of the contract
- Specified distance is usually 10 km but can vary in some circumstances
- Usual contract life is 5 years but can vary in some circumstances

Summary

- Typically ~80% of annual practice acquisition costs will be amortised over the life of the contract and ~20% booked to Goodwill based on recent trends and experience

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Change in accounting policy for healthcare practice acquisitions (cont'd)

Financial implications

- No change to EBITDA
- No change to cash spend
- No change to dividends per share
- No impact on debt covenants
- No negative tax implications
- Incremental amortisation expense $26.0 million in 1H FY2015 ($26.3 million in 1H FY2014 restated)
- Impact on Balance Sheet as at 30 June 2014 as follows:

$ million	30 June 2014 (restated)	Restatement	30 June 2014 (reported)
Goodwill	2884.3	(426.2)	3310.5
Other Intangibles	272.4	139.9	132.4
Deferred Tax	7.4	(4.1)	11.5
Retained Earnings	2457.2	(290.4)	2747.6

- See Appendix for further details of impact on the Income Statement, Balance Sheet, Cash Flow Statement and Earnings Per Share

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Change in accounting policy for healthcare practice acquisitions (cont'd)

Example

- Doctor acquisition cost = $400,000
- Contract period = 5 years

Scenario	Accounting Item	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
<10 km[1]	Goodwill	280,000	280,000	280,000	280,000	280,000	280,000
	Intangibles	120,000	96,000	72,000	48,000	24,000	0
>10km[1]	Goodwill	0	0	0	0	0	0
	Intangibles	400,000	320,000	240,000	160,000	80,000	0

1. Specified distance is usually 10 km but can vary in some circumstances.

Change in accounting policy for healthcare practice acquisitions (cont'd)

- **Dividends**

cents per share	6 months ended 31 December 2014	6 months ended 31 December 2013 (restated)
Dividends Per Share	9.0	9.0
Earnings Per Share	10.5	10.0
Payout ratio	86%	90%

- 1H FY2015 dividend of 9.0 cents per share in-line with 1H FY2014 dividend of 9.0 cents per share
- Fully franked
- Payable 7 April 2015
- Payout ratio increases with accounting policy change, previously approximately 60%

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Summary income statement

$ million	6 months to 31 December 2014	6 months to 31 December 2013 (restated)	% change
Revenue	**798.6**	751.0	6.3%
EBITDA	**196.1**	192.1	2.1%
EBITDA margin	***24.6%***	*25.6%*	
Depreciation	**(33.2)**	(31.4)	
Amortisation[1,2]	**(42.1)**	(41.5)	
Depreciation & Amortisation Accelerated Write-Down[3]	**(8.6)**	-	
EBIT	**112.2**	119.2	(5.8%)
Finance costs	**(33.3)**	(38.7)	
Income tax[4]	**(25.5)**	(30.2)	
Net profit after tax	**53.4**	50.3	6.1%
Earnings per share (cents per share)	**10.5**	10.0	5.0%

1. Incremental amortisation expense from accounting policy change is $26.0 million for 1H FY2015 and $26.3 million for 1H FY2014 – Appendix 4D, Notes 2 and 10
2. Incremental amortisation expense from accounting policy change reduces EPS by 5.1 cents per share in 1H FY2015 and 5.2 cents per share in 1H FY2014
3. $6.0m after tax. Impact on EPS is a 1.2 cents per share.
4. Tax rate is 32.3% for 1H FY2015 compared to 37.5% for 1H FY2014

Medical Centres

Strong revenue and earnings growth (despite an uncertain funding environment)

$ million	6 months ended 31 December 2014	6 months ended 31 December 2013 (restated)	% change
Revenue	**161.5**	151.7	6.4%
EBITDA	**90.0**	84.7	6.3%
EBITDA margin (%)	***55.8%***	*55.8%*	
EBIT[1]	**51.7**	49.2	5.0%
EBIT margin (%)	***32.0%***	*32.4%*	

- 6.4% revenue growth and 6.3% EBITDA growth over 1H FY2014
  - Medicare fee increase from July 2014, increased GP volumes and growth in other services
  - Division has returned to strong revenue growth over the past 12 months
  - Underlying EBITDA margin increased ~20 bps, offset by Primary IVF start-up costs and a reduction in grants
- GP acquisition price trending down over time
- Primary IVF continues to perform above expectations and will be cash flow positive in 2H FY2015

1. This includes $1.1 million of the non-recurring Depreciation & Amortisation expense in 1H FY2015

Pathology

Good revenue growth and performing well given external pressures

$ million	6 months ended 31 December 2014	6 months ended 31 December 2013 (restated)	% change
Revenue	**459.5**	436.2	5.4%
EBITDA	**73.0**	74.8	(2.4%)
EBITDA margin (%)	***15.9%***	*17.2%*	
EBIT[1]	**60.8**	63.8	(4.7%)
EBIT margin (%)	***13.2%***	*14.6%*	

- Revenue growth of 5.4% over 1H FY2014
  - Good revenue growth
  - Disappointing volumes in July and August; September to December consistent with expectations
- Margin weakness expected and impacted by escalating ACC costs and lower volumes in July and August
  - November 2014 Medicare cuts to Vitamin D and B12 / Folate testing
  - Disciplined approach to ACC rollout – rental expense is being actively managed

1. This includes $0.2 million of the non-recurring Depreciation & Amortisation expense in 1H FY2015

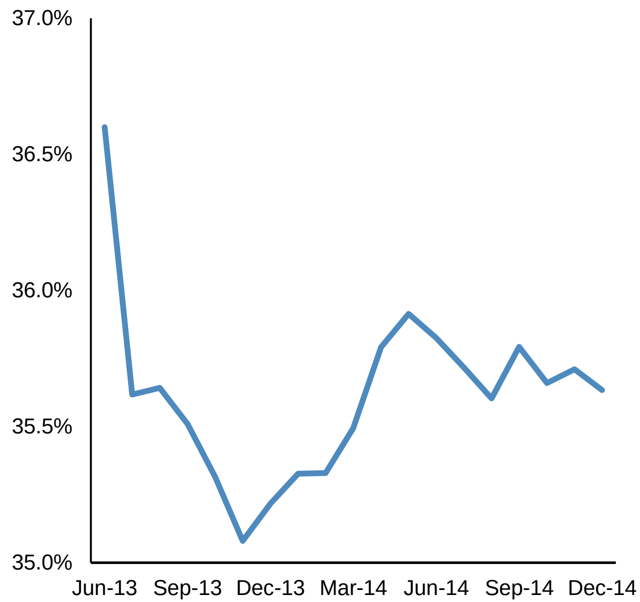
Pathology: Collection centres and deregulation

Primary is moderating its Collection Centre (“ACC”) activities

Commentary

- We are moderating our ACC activities
- Our current national market share of collection centres is in line with pre-deregulation levels
- One competitor – aggressive rent escalation
- However, Primary ACC rental expense in FY2015 YTD is consistent with expectations
- Deregulation has continued to spur innovation

Primary’s “Like with Like” ACC market share



Note

1 Source: Medicare. Normalised for acquisitions.

Imaging

Strong result as performance continues to improve

$ million	6 months ended 31 December 2014	6 months ended 31 December 2013 (restated)	% change
Revenue	**173.7**	156.3	11.2%
EBITDA	**39.3**	35.5	10.6%
EBITDA margin (%)	***22.6%***	*22.7%*	
EBIT[1]	**20.2**	16.4	23.4%
EBIT margin (%)	***11.6%***	*10.5%*	

- 10.6% increase in EBITDA over 1H FY2014
- 11.2% revenue growth over 1H FY2014:
  - Immigration visa medicals outsourcing contract commenced in August 2014 (first full quarter 2Q FY2015)
  - Good revenue growth across key modalities
- EBITDA margin broadly steady reflecting continuous operational improvement and productivity gains
- Disciplined approach to equipment expenditure reflected in EBIT margin expansion

1. This includes $0.5 million of the non-recurring Depreciation & Amortisation expense in 1H FY2015

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Health Technology

Positive renewal trend however revenue and earnings remain broadly flat

$ million	6 months ended 31 December 2014	6 months ended 31 December 2013 (restated)	% change
Revenue	**18.7**	18.3	2.3%
EBITDA	**9.8**	9.8	0.4%
EBITDA margin (%)	***52.5%***	*53.5%*	
EBIT[1]	**1.8**	5.4	
EBIT margin (%)	***9.4%***	*29.7%*	

- Broadly flat revenue and earnings compared to 1H FY2014. Increasing marketing to drive revenue growth
- Positive subscriber renewal trends for core MedicalDirector Clinical product
- Monetisation of the user base is beginning to gain traction – growth in transaction income during period
- Hospital applications business revenue decline has been turned around
- HCN products rebranded as MedicalDirector in November 2014

1. This includes $4.1 million of the non-recurring Depreciation & Amortisation expense in 1H FY2015

Cash flow

Strong growth in net operating cash flow

$ million	6 months ended 31 December 2014	6 months ended 31 December 2013 (restated)	% change
Receipts from customers	**811.4**	770.4	
Payments to suppliers and employees	**(617.8)**	(596.3)	
Gross Operating Cash Flow	**193.6**	174.1	11.2%
Interest and other cost of finance paid	**(32.4)**	(36.4)	
Net income tax paid	**(36.0)**	(29.7)	
Interest received	**0.2**	0.2	
Net Operating Cash Flow	**125.4**	108.1	16.0%
"Cash" Profit[1]	**128.7**	123.2	

- EBITDA conversion to Gross Operating Cash Flow high at ~99% (~91% in 1H FY2014)
- Net Operating Cash Flow ~96% of "Cash" Profit[1] (NPAT + depreciation + intangibles amortisation)

1. Excludes $8.6 million non-recurring Depreciation & Amortisation expense from an accelerated asset-write down in the period

Capital investment

Capital investment to drive future growth			
$ million	**6 months ended 31 December 2014**	**6 months ended 31 December 2013 (restated)**	**% change**
Property, plant and equipment	**38.0**	28.6	
Acquisitions, extensions and software[1]	**56.2**	54.1	3.9%
Sub-total	**94.2**	82.7	
Brookvale medical centre	**2.8**	14.1	
Barangaroo office site	**39.8**	Na	
Acquisition of Transport Health[2]	**17.8**	Na	
Net proceeds from investments	**5.3**	(2.3)	
Total	**159.9**	94.4	

- Investment in Barangaroo office site to consolidate 4 separate locations

1. For 1H FY2015: software = $10.4 million and extensions = $3.4 million; For 1H FY2014: software = $15.5 million and extensions = $3.7 million.
2 . Gross amount ($8.0 million net of cash acquired)

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Debt position

Head room available to pursue growth initiatives

$ million	31 December 2014	30 June 2014
Bank and finance debt	**1,015.3**	945.3
Cash	**(34.5)**	(27.5)
Retail Bonds	**152.3**	152.3
Net debt	**1,133.1**	1,070.2

- Increase in net debt primarily due to purchase of Barangaroo office site and Transport Health acquisition
- Retail Bonds mature September 2015 – redemption to be funded from existing facilities
- Primary is considering a range of alternatives as part of its overall debt management program:
  - Alternatives include a potential fully-hedged US private placement which will further diversify Primary's funding mix, extend term and reduce interest expense
  - Comprehensive solution to funding new medical centre sites
- As at 31 December 2014, gearing ratio was 2.4 and interest cover is 7.1 (bank covenants are below 3.25x and above 3.0x, respectively). Bank covenants not impacted by accounting policy change.

Primary Health Care today

Medical Centres

- #1 national provider of large-scale medical centres (58)
- Continue to increase the number of GPs, specialists and other allied health providers
- Significant growth opportunities – backfill existing centres, new centre rollout
- Improving margins demonstrate robustness and leverage of Primary model

Pathology

- #2 national pathology provider; market leader in Queensland, Victoria and WA
- Large footprint of collection centres and laboratories
- Highly efficient provider due to investment in infrastructure and technology
- Scope for organic and inorganic growth

Imaging

- #2 national imaging provider
- Operates in over 150 community, hospital and medical centre sites
- Strong underlying industry volume growth

Health technology

- #1 national provider of GP software
- Core 'MedicalDirector Clinical' products used by more than 17,000 clinicians each day
- Uniquely positioned to benefit from sector growth dynamics

Health industry

Strong fundamentals underpin the growth of the Australian healthcare industry

Positive demographic trends

- Australia's population forecast to grow at 1.9% p.a. from 2012 to 2024[1]
- Number of Australians aged over 65 years expected to increase by 3.4% pa over this period[1]
- Highest healthcare spending growth is for those aged over 55[2]

Favourable sector dynamics

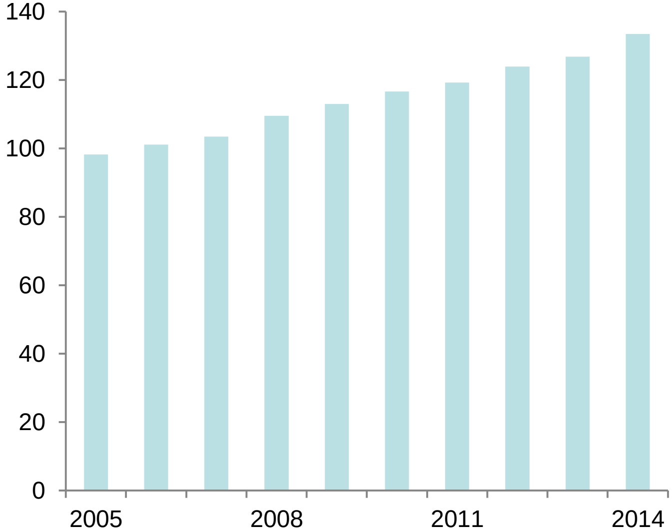
- Government and healthcare leaders recognise that improved primary care is fundamental to achieving better health outcomes
- Growing recognition that a robust "out of hospital" system helps contain healthcare costs

1. Source: ABS
2. Source: Australian Government Intergenerational Report 2014

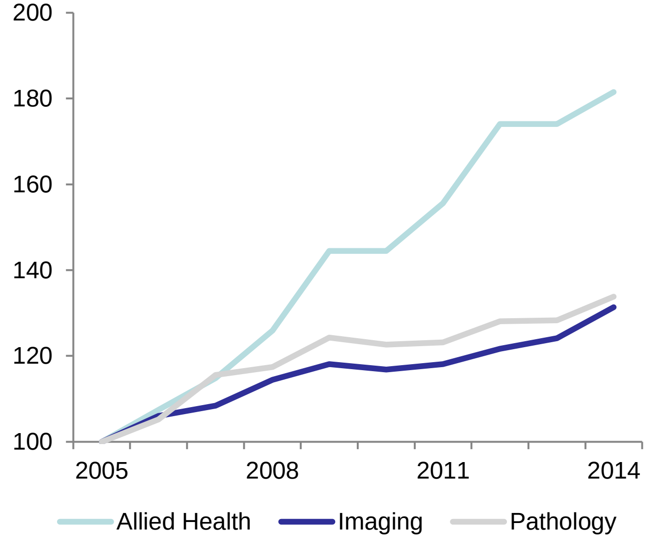
Health industry (cont'd

Demand for healthcare services reflects strong industry fundamentals

Number of GP services (millions)[1,2]



Referral rate per GP encounter (2005 = 100)[1,2]



1. Source: Bettering the Evaluation and Care of Health (BEACH)
2. June year-end with the exception of 2014 which is 12 months to April 2014

Divisional scale

Divisional scale is critical to the Primary model

- Scale in each of Primary's divisions delivers:
  - Benefits for patients, doctors and funders
  - Ability to better manage funding dynamics
  - Range of services to offer comprehensive healthcare outcomes
  - Capacity to make significant investment in infrastructure
  - Robust systems to meet regulatory and reporting requirements
- Each Primary division has a leading position in its respective geographies

Funding - observations

General practice is delivering some of the best value for money in the healthcare system

- Past 9 months several Govt proposals abandoned. New Health Minister. Consultations underway.
- GP expenditure by Medicare is not the problem:
  - Real growth in Medicare GP expenditure is less than national population growth in last decade
  - Pricing growth has been well below inflation (MBS item 23 up only ~1.8% p.a. in last 7 years)
- GPs are delivering some of the best value for money in the healthcare system:
  - Number of problems managed by GPs has increased ~4.5% p.a. over the past decade
  - Very high bulk-billing rates (83.6% in 2013/14; higher for concession cards)
  - High levels of patient satisfaction on GP/patient experience (~90%)
- Primary care is the most cost-effective way to provide population healthcare
- More investment in primary care, not less, would contain costs (ageing population, chronic disease)

Sources
1. Britt H, et al. A decade of Australian general practice activity 2004–05 to 2013–14. Sydney University Press, 2014;
2. ABS;
3. Medicare;
4. Productivity Commission Report on Government Services 2015.

Summary and outlook

First half result highlights

- EBITDA up 2.1%
- EPS[1] up 5.0%
- DPS maintained at 9.0 cps fully franked

Reconfirm FY 2015 earnings guidance

- EBITDA expected to be in the range of $410 million to $425 million
- EPS growth of 5-12% (FY 2014 restated EPS 22.7 cps)

Pipeline of future growth opportunities

- Continue to identify and invest in high-return growth initiatives across the platform
- Strongly leveraged to ageing demographic
- Scale to capture growth opportunities and navigate any funding pressures should they arise
- Platform for steady EPS and DPS growth over the medium/long-term.

Update on CEO succession

- Board has undertaken an extensive search involving internal and external candidates
- Process expected to complete very shortly

1. Includes $8.6 million of non-recurring Depreciation and Amortisation expense from an accelerated asset-write down in the period

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Appendix – Impact of changes in accounting policy (Appendix 4D, Note 2)

Impact on Income Statement for the half year ended 31 December 2013

$ million	Restated 31 December 2013	Restatement Increase/(decrease)	As reported 31 December 2013
EBITDA	192.1	-	192.1
Depreciation	31.4	-	31.4
Amortisation of Intangibles	41.5	26.3	15.2
EBIT	119.7	26.3	145.5
Interest expense	31.9	-	31.9
Profit before tax	80.5	(26.3)	106.8
Income tax expense	30.2	(1.0)	31.2
Profit for the period	50.3	(25.3)	75.6

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Appendix – Impact of changes in accounting policy (Appendix 4D, Note 2) – cont'd

Impact on the Balance Sheet as at 30 June 2014

$ million	Restated 30 June 2014	Restatement Increase/(decrease)	As reported 30 June 2014
Goodwill	2,884.3	(426.2)	3,310.5
Other intangible assets	272.4	139.9	132.4
Deferred tax asset	7.4	(4.1)	11.5
Net assets	2,457.2	(290.4)	2,747.6
Retained earnings	81.1	(290.4)	371.5
Total equity	2,457.2	(290.4)	2,747.6

Appendix – Impact of changes in accounting policy (Appendix 4D, Note 2) – cont'd

Impact on the Cash Flow Statement for the half-year ended 31 December 2013

$ million	Restated 31 December 2013	Restatement Increase/(decrease)	As reported 31 December 2013
Cash flows from investing			
Businesses purchased	(9.0)	(22.3)	(31.3)
Payment for other intangibles	(41.5)	22.3	(19.2)
Other	(43.9)	-	(43.9)
Net cash (used in) investing	(94.4)	-	(94.4)

Impact on the earnings per share for the half year ended 31 December 2013

cents per share	Restated 31 December 2013	Restatement Increase/(decrease)	As reported 31 December 2013
Basic and Diluted EPS	10.0	(5.0)	15.0

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