

## ASX Announcement (ASX: PRY)

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### PRIMARY ANNOUNCES GROWTH IN PROFIT AND FREE CASH FLOW, INCREASES DIVIDEND

Primary Health Care Limited (“Primary”) today announced underlying NPAT of \$44.0 million, an increase of 5.0%, and free cash flow of \$45.7 million, an increase of 91.2%, for the half-year ended 31 December 2017 (“1H 2018”). Reported NPAT was \$22.1 million, an increase of 4.7%.

At a divisional level, another strong performance in Imaging, a good result in Pathology and a reduction in corporate costs combined to offset a reduced contribution from Medical Centres, where the operating model is substantially evolving.

Performance Half-Year ended \$M	Underlying <sup>1</sup>		Reported	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Revenue	856.5	808.7	856.5	808.7
EBIT	81.3	81.9	61.6	61.1
NPAT	44.0	41.9	22.1	21.1
Dividend (cps)			5.1	4.8
Free cash flow <sup>2</sup>			45.7	23.9

“It is pleasing to announce that our revenue was up nearly 6% and underlying NPAT was up 5% in the first half of the year,” said Primary’s Managing Director and Chief Executive Officer, Dr Malcolm Parmenter. “This NPAT increase follows three years of contraction.

“We continue to enjoy strong cash generation with free cash flow nearly twice that of the previous corresponding half. We used this cash to fund the dividend and to further reduce net debt.

“Fully-franked dividends were up from 4.8 cents per share to 5.1 cents per share in the half, representing a payout ratio of 60% of Underlying NPAT.

“Turning to the operations, Pathology recorded revenue growth of 5.8% and EBIT growth of 3.1%, with disciplined rental negotiations reducing Approved Collection Centre (ACC) cost growth. Imaging reported another strong result, with revenue up 10.1% and EBIT up 14.7%, delivering on its strategic focus on the hospital sector, Primary medical centres and high-end specialised imaging sites. Financial results for Medical Centres continued to reflect the ongoing transition of GPs and other Healthcare Practitioners (HCPs) onto different contract models.

<sup>1</sup> Underlying performance reflects Primary’s core trading performance. In 1H 2018 it excludes the costs associated with business restructuring and strategic initiatives, and non-recurring items.

<sup>2</sup> Free Cash Flow is defined as operating less investing cash flow before capital recycling inflows.

“We have developed shortened and simplified HCP contracts with far fewer legal restraints. We have a new head of the Medical Centres recruitment team and a greater number of internal recruiters who understand the skills-set they are looking for in each centre.

“We have instigated a major strategic initiative, *Project Leapfrog*, to better leverage our unique portfolio of large-scale medical centres and strong patient demand. *Leapfrog* will introduce appointments and other work practices that benefit consumers and GPs, develop a diverse range of services, and drive efficiencies through modernisation and digitisation. *Leapfrog* has commenced under the direction of Medical Centres CEO, Dr Tim Haggett, who has extensive experience in developing and implementing a consumer-centric service delivery model.

“We will open four new medical centres, an IVF clinic, day surgery, and a high-end Imaging site this financial year, as well as ramping-up our investment in Health & Co,” Dr Parmenter concluded.

## **DIVISIONAL RESULTS AND STRATEGIES**

### **Pathology**

Pathology is the Group’s largest business providing over a third of all private pathology tests in the country. It delivered revenue of \$534.0 million, up 5.8%, with increases in both volumes and average fee per episode and a strong performance in the niche specialities, particularly genetics which grew by 24.4%.

The division’s EBIT contribution was up 3.1% to \$52.9 million. Significantly, disciplined rental negotiations delivered a reduction in ACC rental cost as a percentage of revenue in 1H 2018 without impacting revenue growth.

Revenue diversification and growth, a continuing optimisation of the ACC portfolio, and the delivery of modern, flexible infrastructure to underpin on-going operational efficiencies remain core initiatives in the division.

### **Medical Centres**

Medical Centres are central to Primary’s integrated health services strategy and drive value to the rest of the Group. The division is broadly half-way through transitioning GPs onto more flexible contracts.

The division’s revenue grew from \$157.0 million to \$159.3 million with improvements in dental and IVF more than offsetting a decline in GP revenue. EBIT was down \$4.9 million, or \$2.6 million after adjusting for new centres coming online, with on-going investment in GP recruitment and support, and in consumer service offerings.

GP recruitment remained ahead of 1H 2017 and retention rates are now on a par with industry norms. Strategic initiatives to improve GP numbers and productivity and, importantly, to place the right GPs in the right clinics are in train.

*Project Leapfrog* is designed to provide GPs with the ability to build their practice through an appointment system and pave the way for selected private billing. An enhanced consumer experience will look to attract and retain patients with increased service offerings, better online access, and comfortable, modern facilities. Finally, online technology will reduce in-clinic processes while a re-engineering of the practice workflows will considerably improve efficiencies.

### **Health & Co**

Health & Co offers a tailored support service to established GP clinics. It recorded revenue of \$2.7 million and an EBIT loss of \$2.5 million as it continued to ramp up its capabilities. A more ambitious M&A program is planned to establish a meaningful footprint of clinics.

## Imaging

Primary's Imaging division partners with 112 independent radiologists to undertake a full range of medical imaging services from a network of 142 sites, delivering around 3 million radiography examinations each year.

In 1H 2018, Imaging revenue rose 10.1%, driven by the hospital segment which was up 14.0%. Imaging reported strong EBIT growth of 14.7%, and 16.8% when adjusting for the new sites coming online. It continued to invest in new sites and technology, including the recent acquisition of Brisbane Private Imaging.

## OUTLOOK

Underlying NPAT guidance of \$92 million to \$97 million for FY 2018 provided at the AGM is re-confirmed.

"We are pursuing strategic initiatives in all divisions to deliver profitable growth. Investment in capabilities, core IT platforms and growth strategies, improvements in employee engagement, and better integration of services to optimise synergies remain priorities across the divisions." Dr Parmenter said.

"In Medical Centres, the program to transition away from upfront GP contracts is roughly half complete and is now being augmented by *Project Leapfrog*, an initiative that will shift our value proposition. Our objective is to be a Workplace of Choice, attract a broader demographic of GP, and provide consumers with an enhanced range of services.

"Australia is at an important juncture in the delivery of healthcare services. Increasingly, the drivers of cost, convenience and technology will see a shift in consumer demand for better ways to access care. Primary intends to contribute to the policy debate and drive improvements in the delivery of healthcare services in this country," Dr Parmenter concluded

## ENDS

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*For over 30 years Primary Health Care has been one of Australia's leading listed healthcare companies with a commitment to supporting quality, affordable and accessible healthcare for all Australians. Through an expansive network of multi-disciplinary medical centres, pathology laboratories and diagnostic imaging centres, Primary provides world class facilities and support services to independent GPs, radiologists, specialists and other healthcare practitioners, enabling them to deliver quality care to patients in partnership with Primary's pathologists, nurses and other employees. Primary's 'medical home' model makes healthcare services easily accessible and cost efficient, while enabling the coordination and continuity of patient care.*