

**PRIMARY HEALTH CARE LIMITED**  
**ANNUAL GENERAL MEETING 2017**  
**MD & CEO'S ADDRESS**

Thank you Chairman, ladies and gentlemen. It gives me pleasure to address you as Primary's Managing Director and CEO.

**AV – SLIDE 10 (CEO ADDRESS)**

I am fortunate to have inherited stewardship of a company delivering quality medical care through a national footprint of medical clinics, pathology laboratories and imaging facilities.

We provide eight million patient consultations, one in three of the country's pathology tests and over three million radiology examinations every year in our centres.

Our businesses are underpinned by strong demand for healthcare in Australia, with a growing and ageing population and increasing numbers of people with chronic and complex conditions.

This company has a solid foundation thanks to the legacy of its two past leaders:

- Dr Edmund Bateman, and
- Peter Gregg.

We are now on a journey to a new place.

We are currently reviewing our purpose, mission, vision, and values, as part of a broader review of strategy. This is likely to include a look at our branding, as we have been much more than a primary care business for a number of years.

Since commencing in September, I have had the privilege of visiting more than 20 medical centres, 35 imaging sites and 3 of our large pathology laboratories, as well as some of our IVF centres and day surgeries.

I have been very positively impressed by the energetic and enthusiastic people that work at Primary.

Our GPs and frontline staff tell me the culture has greatly improved over the last three years and it is these people who are the best advocates for our company in the future.

We are certainly focussed on driving a more engaged and collaborative environment at Primary and nurturing a culture of alignment between our people, our values and our strategy. This will help us to focus on a pathway of continuous improvement and growth.

**AV – SLIDE 11 (EXECUTIVE TEAM)**

Now before talking about the individual divisions, I'd like to introduce our senior executive team to you. I hope you get a chance to talk to them later.

In the front row we have:

- Wes Lawrence, who joined Primary almost 30 years ago as a laboratory scientist. He has worked in many roles in our Queensland and New South Wales pathology businesses. Wes became CEO of Pathology last December.

- Dr Tim Haggett, who is our new CEO of Medical Centres. Tim is a proficient GP and businessman, having successfully founded and built two clinical networks in Gemini Medical Services and Apollo Health. Both of these companies pioneered models of medical care and patient-centric service delivery.
- Dean Lewsam who has over 20 years' executive experience in the private health sector. Dean joined Primary in 2009 as state manager for Victoria and South Australia. He has been the CEO of our Imaging Division for the past two years, overseeing a strong growth in profitability.
- Maxine Jaquet, who is running our newest division Health & Co. Maxine has an extensive background in delivering business growth in service industries, having worked at Qantas for several years. She has been with Primary since July 2015.
- Malcolm Ashcroft, our CFO. Malcolm has been with Primary for over two years running finance and more recently, property, risk and strategy. He ably took the reins of the company as acting CEO before I joined. Of course, Malcolm comes from a strong financial background.
- We also have four functional group executives in:
  - o Yvette Cachia, People and Legal who has been with Primary for nearly 10 years and has extensive experience in legal and human resources
  - o Janet Payne, Corporate Affairs. Janet has a background in finance and has had more than 20 years dealing with equity markets.
  - o Scott Beattie, Commercial Solutions. Scott has joined us from Sonic just this week with a background in strategy, innovation, and integration of healthcare services.
  - o Ryan Fahy our Chief Information Officer, who started at Primary this year and has significant experience in technology from his days at Woolworths and CBA. Ryan cannot be with us today.

Ryan rounds out an executive team which I believe is ideal to lead this company forward.

## AV – SLIDE 12 (CEO ADDRESS)

### **PATHOLOGY**

Turning to our largest division, Pathology, we have an impressive footprint of efficient state-based businesses which are delivering over a third of all pathology tests in Australia under Wes' leadership.

This division has seen strong growth, achieving over \$1 billion in revenue for the first time last year.

Pathology is a mature market in Australia, where successive governments have looked for savings and fees per test in real terms are less than they were 20 years ago. It is a tribute to the efficiency of our operations that we have been able to remain profitable over a long period of time.

In terms of growing our profitability in pathology, an immediate opportunity for us is the reduction of rental costs from our approved collection centre portfolio that can be delivered by disciplined rental negotiations.

In the first quarter of this financial year, our revenue growth was higher than our rental cost growth. This delivered a small but important reduction in rental cost as a percentage of revenue.

The industry has reached the limit of consolidation in this country. Further growth for us will be organic, through increasing our medical centre footprint and through partnering with specialists who drive a high volume of pathology testing.

We have made some statements in the past about the opportunity for us to expand into Asia. Let me say that we are still in discussions with all potential partners in Asia, contrary to what you may have read in the media.

With Australia as our main focus, we haven't yet made any decisions. However, I will be in Asia in December to review the options, evaluate their feasibility and where they sit in our priorities.

We have been working with the other major providers to establish an industry body to negotiate with one voice with the Government. This is a change from the past and should put us on a stronger footing.

I would say, however, that we have had good dialogue with the current health minister, Mr Greg Hunt, and appreciate his open approach to all matters in this sector.

Finally, you may have seen some media coverage around industrial action in our Victorian business, Dorevitch. We are in arbitration with the relevant union, scheduled for March next year. We have recently appointed a new CEO and are working to promote a more positive workplace culture there.

## **MEDICAL CENTRES**

Turning to our Medical Centres division, I believe that we have a unique portfolio of large scale clinics of remarkable size, location, accessibility and range of services.

The planning and foresight that went into building these centres was truly innovative and owes much to Dr Bateman. The high level of patient demand you can see there shows just how good they are.

However, we can't assume that the model that worked in the 1990s and 2000s will continue to work into 2020 and beyond.

Our centres need to evolve new ways to deliver care how, when and where patients want it. This must be supported by technology that makes accessing care simple and easy.

Health care homes for the chronically ill, urgent care in the primary care setting, and online and remote access are just a few of the changes I believe are an important part of our future.

As you may be aware, we are about 2½ years through a 5 year process to transition GPs onto different contract models. Under these models, Primary is reducing upfront costs and improving free cash flow.

To balance the value proposition, the revenue sharing arrangements have increased in favour of the GP. These changes are also resulting in reduced working hours for the average GP in our clinics.

We are experiencing a margin decline as we move through the accounting and commercial impacts of this transition. And it is obvious we need more GPs if we are to turn this decline around.

Much has already been done to improve our engagement with GPs and our high retention of existing GPs is a strong indicator of success to-date.

However recruitment of new GPs continues to be problematic, especially Australian-trained and registered doctors. After a strong performance in quarter four of 2017, recruitment has been softer than we budgeted so far this year, although ahead of last year.

While it is true that our reputation within the medical community has been an issue in the past, there are other barriers which we are rapidly seeking to address.

The structure of our recruitment team is not yet appropriate for Primary's size and needs better local engagement. To assist with this, we have appointed a new head of recruitment who comes with broad healthcare recruitment experience.

Secondly, our contracts need to be simple, plain English documents with greatly reduced or no restraints in the case of doctors who are signing on to flexible arrangements.

Thirdly, the work environment we are offering GPs must evolve. Many GPs want to provide continuity of care for their patients. They also want to be able to grow their practices to a point where they can have some private billing.

For this to happen, the ability to take appointments is essential. Providing appointments is not only good business as it will attract more GPs, it is also good healthcare.

At Primary, we have a thriving Clinical Institute which hosts GP registrars for their training. We have over 50 registrars signed up for the first intake in 2018. This is an invaluable pipeline of young GPs and they particularly want a career where they can offer appointments and privately bill.

My experience at IPN and Sonic Clinical Services, where we grew the GP group from 600 to 2,200, suggests that it will take between 12 and 18 months to have our recruitment initiatives really firing.

Primary is, of course, in a better situation than IPN was when I joined, with lots of spare capacity in our centres and lots of patient demand. I think the margin expansion we can achieve when we successfully grow our numbers is a great opportunity for us.

The growth story for our Medical Centres will come first and foremost from having more doctors in the existing medical centres as this delivers the best returns.

It will also come from greenfields sites, including four new centres due to roll out this financial year. These centres are expected to make good returns once they have ramped up. Will there be any more? Definitely, but we need to have confidence in our recruitment ability first.

Primary already contracts with a significant number of specialists in our centres and I believe there is an opportunity to grow our presence in specialist medicine.

The same applies to our dental business which is one of the top five dental operations in the country and in our IVF business where we are opening our fourth clinic in Perth this year.

## **HEALTH & CO**

If we turn to our other Medical Centres business, Health & Co, this is successfully developing a network of established clinics, through the roll up of quality general practices.

Under its CEO, Maxine Jaquet, it is an exciting opportunity for us and we have committed to a much more ambitious program. Again, the near-term investment will drive profitability as Health & Co becomes a meaningful contributor to the Group.

## **DIAGNOSTIC IMAGING**

Diagnostic imaging has been a good story for Primary over the last 18 months under the leadership of Dean Lewsam. As the chairman mentioned, its contribution was up 30% in the 2017 financial year.

This year Imaging will continue to focus on high-end, multi-disciplinary centres. It will also invest in the expansion of its hospital channel through tenders and through acquiring practices located in hospitals.

The win of the large Northern Beaches Hospital contract in New South Wales was a milestone for us.

There are opportunities from better marketing and branding in the community imaging space where we need to have a stronger retail presence.

## **GROUP-WIDE**

Turning back to look at the Group as a whole, we have a large number of projects on-the-go. We are assessing our priorities to efficiently deliver on those initiatives that will bring the greatest benefits to shareholders, patients and staff.

Better integration of our services in the three core businesses is a big opportunity for us. We can utilise systems, processes and technology to improve access to and between our offerings, including websites, online appointment systems, and data management.

## **INFORMATION TECHNOLOGY**

Our IT infrastructure in the three divisions requires investment in the core systems. Upgrades are already underway in Medical Centres and Imaging.

New systems will give us the ability to develop an offering for healthcare practitioners and patients that is efficient and interactive and will enable us to reduce our costs and internal processes.

Our new practice management system, Helix, will reduce the time GPs need to spend at their computers for each consultation. It will also be able to deliver on-line appointments, remote and in clinic check-in, and in-app messaging. This will allow us to develop additional services like appointments and private billing while minimising implementation costs.

We are looking at an upgrade to our core laboratory systems in Pathology although we are just at the seed funding stage at present.

## **FUNDING**

I have been asked by shareholders about funding our expansion aspirations. We can fund initiatives with operational cash flow and existing facilities. The main focus is to ensure we get the right balance between acquisitions, greenfield expansions, and investing in essential infrastructure.

## **MACRO ENVIRONMENT**

Turning to the macro environment, while the Government is keen to keep healthcare off the front pages of the papers, there are unlikely to be any free kicks for the industry.

Private sector providers must be agile enough to adapt to whatever funding environment the Government develops. We will continue to drive greater revenue diversification, targeting private billing and more contracts with Government and major partners.

## **HEALTH CARE HOMES**

11 of our centres are taking part in the Government's Healthcare Home trials. Naturally we would like more funding for these trials, but we will certainly take part. Globally, team-based care has been shown to provide better outcomes for people with chronic and complex health needs.

I am a strong advocate for frontline healthcare as a whole and see the delivery of health services in the community as an essential element of any sustainable and superior healthcare system.

The services Primary supports and delivers are becoming increasingly important in this context. They are efficient, effective and comparatively inexpensive.

## **PERFORMANCE THIS FINANCIAL YEAR**

Turning to this financial year, our results to-date have been mixed. As mentioned, GP recruitment has been softer than we had expected. Pathology has been solid and Imaging is now performing above last year.

Our focus is on GP recruitment, reduction in the growth of ACC rents in Pathology and growth in revenue in Imaging.

We have four Medical Centres and one Imaging site opening this year. While we expect them to make good returns once they are ramped-up, they will impact our short-term performance.

We also have additional costs from the roll-out of our technology programs and investment in Health & Co, IVF and other growth areas which are expected to deliver substantial benefits in future years.

There has been some publicity around the loss of the national bowel screening contract in Pathology. While this is not material for this financial year, it will be a headwind in the latter part of the year.

Overall we expect our underlying net profit after tax for the year to be in the range of \$92 to 97 million, with the second half's trading likely to be stronger than the first half.

Looking further ahead, we are entering a period of significant change in the way health services will be delivered in this country. Increasingly, the drivers of cost, convenience and technology will see a shift of services from hospital to the community. People will demand different and better ways of accessing healthcare.

At Primary I believe we have the scale, the people and the drive to lead the way. We will develop a wide range of healthcare pathways and services in our clinics to attract more GPs and to deliver innovative patient-focussed healthcare in the community.

Combining this with cost control and return on capital hurdles, we will have a solid foundation for our future and sustainable growth for our shareholders.

As I mentioned at the start, we are on a journey to a new place. It is an exciting journey, one that will take time to come to fruition but my experience suggests it will deliver substantial benefits.

I would like to close by thanking all the staff and management for their efforts and our shareholders for your support.

I am privileged to be part of this journey and I look forward to updating you all as Primary progresses towards its goals.

Thank you. I will now hand you back to your Chairman, Mr Rob Ferguson.