

Healius Limited 2020 AGM

Chair's Address

Good morning ladies and gentlemen.

Welcome to the 2020 Annual General Meeting of Healius Limited.

My name is Rob Hubbard and I am your Company's Chairman.

I am speaking to you from Brisbane from our QML Pathology Head Office.

Thank you for joining our first completely virtual AGM. We have chosen to do this to ensure the safety of our stakeholders.

I trust you'll allow us some latitude if things don't go as smoothly as possible today!

I would like to begin by acknowledging the Traditional Owners of the lands on which we meet today, in particular the Traditional Owners of the Jagera and Cammeraygal nations, and pay my respects to Elders past, present and emerging.

Let me cover some procedural matters:

- Shareholders can either participate and vote through the Lumi AGM platform or participate and ask questions through the phone.
- A guide on what to do is on the Healius website.
- Should you require assistance during the meeting, the phone number is in that guide and on the slide on the screen now as well.
- A recording of the meeting will be available on the Healius website afterwards, if anything happens.
- I will ask Charles Tilley, our Company Secretary, to say more about how to ask questions and vote when we move to the formal part of the meeting.

It is past 11.00 am, Sydney time, and, as a quorum is present, I declare the meeting open.

For those who feel comfortable with the technology, the polls in relation to all items of business are now open. This means you can now vote if you wish. You will still have an opportunity to vote later in the meeting.

Online with me today we have in Sydney:

- Arlene Tansey, Non-executive Director
- Sally Evans, Non-executive Director,
- Dr Malcolm Parmenter, our Managing Director and CEO, and

- Charles Tilley, Company Secretary.

In Port Macquarie:

- Dr Paul Jones, Non-executive Director

And in Glenburn Victoria:

- Gordon Davis, Non-executive Director,

For those of you who are regular AGM attendees the agenda today is relatively routine, however we encourage questions on any item of business.

I am retiring by rotation and standing for re-election as a Non-executive Director. I hope you will support me by voting in the affirmative when the resolution is put to the meeting.

In terms of remuneration after approving a new long-term incentive framework for our KMP last year, today we seek only to renew the approval granted in 2017 for securities issued under the Short-Term Incentive Plan (or STIP) and the issue of shares to Malcolm.

We are also seeking amendments to the Constitution to enable us to hold virtual or hybrid meetings in the future, after the Federal Government's interim relief measures relating to COVID-19 expire.

Let me cover off on the last financial year, FY 2020, while leaving Malcolm to update you on current trading and our strategy.

Your Company has undergone quite a year, as I'm sure we all have, due to the impacts of COVID-19.

The pandemic has exemplified what Healius really is, namely a purpose-led organisation caring for the health and wellbeing of Australians at every stage of life.

We made the decision early on that maintaining our healthcare capacity and providing a safe environment for our people and patients should be our overriding aim and in the best interests of all our stakeholders.

We responded quickly, setting up pathology drive-through testing centres, reworking our laboratories to expand COVID-19 testing capabilities, and creating GP isolation rooms and telehealth services.

Our people have been on the front-line day-in and day-out. They have kept the health of their patients as their priority and shown immeasurable empathy and care. These things aren't reported in our financial results but are the foundations upon which Healius is based.

As well as making a huge effort to service the community, our people and their trade unions also actively participated in various labour management initiatives to keep our costs contained, when revenue fell rapidly in the early months of the pandemic. For this I thank them all.

With a company of our size, I'm unable to recognise every individual. But I do want to share with you some examples of the amazing work our people have been doing.

We are fortunate to have leading specialists in Healius. Within our Diagnostic Imaging National Quality team is Lori McLeod-Mills, an infection control specialist. She has played a key role in making sure our business adapted to the new COVID-19 guidelines, protocols and procedures.

Lori's expertise has been recognised by the World Health Organisation who invited her to become a member of the Infection Control Network, providing support to countries in the Western Pacific Region to manage COVID-19.

Our frontline heroes, including our nurses, healthcare professionals, and our support staff, have all risen to the challenges of combatting COVID-19 in our Imaging facilities, Medical Centres, Day Hospitals, and IVF clinics.

I also want to call out our pathology collectors and couriers who have been at the vanguard of this crisis, working long days, especially at our drive-through COVID-19 collection sites.

Our pathology labs too, and with them all our laboratory staff, have been operating up to 24 hours-a-day to ensure a quick and accurate turnaround of people's all-important COVID results. We are grateful for their tireless efforts and dedication.

I would also like to make a special mention of all our people in Victoria. I want to thank everyone for the professionalism and good grace that you have exhibited during the second wave, especially with all the challenges associated with such a prolonged lockdown.

Our pathology CEO in Victoria, Ian McPhan, exemplified this spirit, leading his team from Melbourne while separated from his own family in WA for six months.

We are also grateful for the support of our landlords and the Federal and state governments.

The Federal Government provided financial support to our pathology operations when our revenue was at its lowest ebb. This enabled us to keep our remote and rural services open and maintain our permanent staffing levels.

The Government also provided testing equipment and reagents, imaginatively sourced by the Minderoo Foundation, increasing our testing capacity from April onwards. It's equipment we have put to great use over the last few months.

I will now turn to what we have been doing at Healius over the 2020 financial year, in addition to navigating the COVID-19 pandemic.

In February we assessed and rejected a highly conditional acquisition proposal by respected private equity firm Partners Group.

In the Board's view, this proposal at \$3:40 a share did not adequately value our businesses and where our share price is trading today is encouraging support for this decision.

In June, we announced the sale of Healius Primary Care, our medical centre and dental businesses. It was both a seminal and a sentimental moment in our history, as Dr Edmund Bateman started out with one medical centre in Brookvale New South Wales some 35 years ago.

However, it was done for good reasons as our portfolio, with three main business and three growing ones, was becoming too complex and too demanding of both capital and management resources. We also believed the value of the Medical Centres business was not truly reflected in our share price.

In terms of the results, these are set out in our Annual Report.

In summary, we saw good trading, above our prior period, up to February 2020, but all divisions suffered dramatic declines in revenues from mid-March through April with the national lockdown. We made extensive efforts to reduce our cost base while keeping all permanent staff employed and the majority of our services operational.

From May, we started to open up again and our revenues improved. Specifically, in Pathology, COVID testing accelerated and continues to underpin our strong trading in the first quarter of the 2021 financial year. Indeed, testing and contact tracing remain the key elements of the public health response to the virus.

Overall, in FY 2020, revenue was up 2% to \$1.6 billion and underlying Net Profit after Tax was down 21% to \$55 million.

Our reported result was a loss of \$70.5 million. This was due to a \$142.5 million write-off from the sale of Healius Primary Care, mainly caused by the impairment of goodwill.

We will receive in the order of \$470 million in proceeds from the sale, likely before Christmas, and this will deliver significant balance sheet flexibility to us for the future.

There will be plenty of opportunity to ask questions on the Financial Report.

Turning to the matter of dividends and capital, as you are no doubt aware, we delayed payment of the interim dividend due in March 2020 by six months and it was eventually paid last week.

In addition, we did not declare a final dividend in FY 2020 in recognition of the benefit of assistance and, in some cases, personal sacrifices, made during the worst of the COVID-related lockdown by various stakeholders including our people, the Government and our landlords.

However, we have traded strongly in the first quarter of FY 2021. In addition, when the proceeds are received from the Medical Centres sale, we will be in a stronger financial position with much lower leverage.

As a result, and with the tough year endured by shareholders weighing on the Board's collective mind, we will:

- Firstly, look to resume regular dividends in the first half of the 2021 financial year, and
- Secondly, consider what can be done in terms of capital management and returns to shareholders with the proceeds of the Medical Centres sale.

While we had hoped to provide an update at this AGM, it would not be expedient to do so until the sale process is completed. Once done, we will make an announcement to the market on this matter.

As some of you may be aware from our announcement to the Exchange, Arlene Tansey, who is retiring by rotation, is not standing for re-election today. We are all very grateful to Arlene for her time at Healius.

- She has served eight years as a Non-executive Director of your company, including as:
- chair of the People and Governance Committee,
- chair of the Audit Committee and
- a member of the Risk Management Committee.

Arlene has brought a depth and breadth of knowledge to the Board in capital management, finance and technology. Her insight and advice have been invaluable to me since I became Chairman and I will miss her contribution.

We have been undertaking a search for two new non-executive Directors and you may have noted from an announcement today that Jenny Macdonald has accepted our offer to serve as a Non-executive Director commencing in November.

I am very pleased to have Jenny joining the Board. I think she will be a great fit. In particular, her experience in customer-centric businesses and her financial and M&A capabilities will be invaluable in helping to deliver on the current growth strategies and steer the Company's direction.

We continue the search for a further board member, but we will always take our time to identify the right candidates for Board renewal.

One of the many factors being taken into consideration is the gender diversity target for Healius' Board which is set at 40% female, 40% male and 20% any gender by 31 December 2021.

I should also note that our new Non-executive Director share plan has seen good take-up, with over \$100,000 worth of fees to be sacrificed in FY 21. The purchase of shares in the Company by participating Directors will further align their interests with shareholders.

Before wrapping up, I would like to mention a matter which came up in 2018, around the unintended underpayment of Medical Centres staff under the Modern Awards.

You may recall we announced a self-identified error, set aside the appropriate amounts, and committed to contacting everyone impacted to remediate the issue as transparently and as quickly as possible.

Having contacted all those former employees we could, we have now come to an agreement with Fair Work Ombudsman which in essence means we will pass onto the Commonwealth Consolidated Revenue all remaining monies for employees that cannot be located and pay a contrition payment of \$400,00 in respect of this matter.

I mention this as the agreement will be public and I wanted to reassure you it is a legacy matter which we have resolved.

I would also like to reference an announcement we made a couple of weeks ago in regard to a taxation case which has been on foot for some years now.

This relates to the tax treatment of lump sum payments to healthcare professionals. If you recall, we were told in financial year 2015 that payments made for the 2012-2014 financial years were tax deductible for the company.

We subsequently lodged similar claims for financial years 2003 to 2007 (which were out of time). This culminated in what appeared as a very strong decision in favour of Healius in November 2019 in the Federal Court.

The Commissioner appealed that decision to the Full Court which, surprisingly to us, upheld the Commissioner's appeal. We are currently reviewing the Full Court's judgment and considering our options.

So far, in relation to this tax case we have recognised in our accounts:

- \$46.6m in tax receivable; and
- \$26.6m in interest receivable.

These were put through as non-underlying items last year and will be reviewed after we progress our thinking on the matter.

Well, FY 2020 was certainly one of the most challenging years on record but one where our team have risen to the challenge most wonderfully.

I would like to record my thanks to:

- the 12,500-plus team who make up the Healius Group,
- the executive team who have done such a fantastic job of leading our people during the COVID-19 pandemic
- our customers who use our services each and every day, and
- of course, you, our shareholders, for your ongoing commitment and encouragement.

I will now hand over to Malcolm.