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Janet Payne: Morning, ladies and gentlemen. Welcome to the Healius briefing on our capital management program and our margin improvement or SIP program. I have with me today Malcolm Parmenter, our MD and CEO, Maxine Jaquet, our CFO, as well as our Deputy CFO and Treasurer.

As per our usual format, we'll run through the presentation which was lodged with the ASX today and will be up on the web as we go. We will then open both the lines and the web to any questions. Of course, you're welcome to call at any time if you can't stay on the line for the duration of this presentation or if you have any further questions. Thank you. So, without further ado, I will pass you over to Malcolm.

Malcolm Parmenter: Good morning, everybody. Welcome to this presentation. We've got a few things for you this morning, just a high-level update as far as trading for the last couple of months. Then I'm going to hand over to Maxine to take you through Cap management, our sustainable improvement program and the commercials around our investment in our laboratory information system.

So, look, at a Group level, the strong performance that we saw earlier in the financial year has largely continued into October and November across each of our businesses. In Pathology, we've continued to have strong year-on-year growth in revenues in October and November, driven principally by COVID testing, but also by recovery in non-COVID testing, particularly as Victoria recovered from lockdown restrictions. Non-COVID revenues have trended up to be flat, year on year.

COVID testing volumes continued around 7000 to 10,000 per working day. Non-Medicare COVID testing continues to grow as well. So, look at this stage, we expect COVID testing at some levels to continue for quite some time, perhaps for years, as we learn to live with this virus. It's unlikely that vaccines will eliminate it entirely. We also expect the COVID test fee to continue for the foreseeable future as it supports the novel and flexible approaches to collection and the capacity that we can provide in that space.

Our Imaging business has seen sustained and reasonably strong growth in revenues in October and November in all states, other than Victoria and South Australia. In Victoria, activity has rapidly returned with the easing of restrictions following the lockdown there. Revenue in Victoria was above prior year in November. The short and sudden lockdown in South Australia temporarily impacted revenues in South Australia, although year-to-date South Australia remains ahead on a revenue basis, compared to prior periods. Although South Australia is quite a small business for us in the imaging space.

In our Day Hospitals and IVF business, the strong revenue growth that we noted at the last update has continued, with revenue materially ahead of prior comparative period in October and November. The Montserrat business continues to generate good returns, with the flagship Westside Private Hospital continuing to run at record levels. Adora Fertility business is also performing very well, with record cycle numbers in November. Look, that's a brief update. I'll now hand over to Maxine to take you through the other components.

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Maxine Jaquet: Thanks Malcolm and good morning, everyone. Thank you for your time today. I'll be taking you through our capital management strategy, including our investment in Pathology and IT program upgrade and the margin improvement program.

First, I'd like to recap on the Medical Centres sale. As you all know, we received $483 million in cash, including all of the deferred considerations for the Dental business. From a commercial perspective, our service levels are the key determinate for maintaining our referral income, not our ownership of the Medical Centres. We have entered into long-term leases with the majority having significant option periods. As part of portfolio reshaping, we are confident we will achieve $15 million of cost savings to right-size the support cost base, as previously announced.

Medical Centres sale leaves significant capital headroom to recycle capital into growing our position in business lines with more attractive returns from scale and better cashflow generation. We see two major value growth opportunities for investment in our portfolio. Firstly, our primary focus of investment will be ensuring we deliver margin expansions in our core business. This will require a certain level of infrastructure investment to unlock. We also believe there are value accretive opportunities to enhance our domestic market positions inorganically.

The Day Hospitals, this will be expansion through our unique Montserrat model, through acquisition and/or rolling, new large multidisciplinary sites, akin to Westside Private. Opportunities in Diagnostic Imaging and Pathology will be considered on a selective basis as they fit our portfolio, either adding scale or quality assets complementary to the network.

Our capital management strategy objectives are underpinned by the investment plans and a couple of core principles. Maintaining our capital investment and liquidity needs, optimising our cost of funding and delivering meaningful returns to shareholders. To that end, we are pleased to announce an on-market buy-back of up to 10% of our share capital in the next 12 months, with the aim to return up to $200 million to shareholders.

In addition, the share buy-back, we are revising dividend payout policy. Going forward, we will set this at a payout ratio of 50% to 70% of reported NPAT. We do have sufficient franking credits to sustain fully-franked dividends at these levels. The level of buy-back and dividend we are announcing today takes into account not only the anticipated capital investments, but also our view of the optimal gearing level for our business in the near term.

Our target bank gearing will be 1.7 to 2.2 times, which we foresee coming into effect in the FY22/23 period. However, in the immediate term, the proceeds from the sale of the Medical Centres will see our gearing levels well below this level. Once we have a track record of strong cash generation from current operation and investment, we will review our target gearing in the context of the interest rate and market environment at that time.

Our expected improvement in free cashflow generation enables us to reduce our borrowing requirements. As a result, we will be reducing our debt facilities by $295 million to $800 million. This will yield annual interest savings circa $3 million per annum. We will also be taking the opportunity to close our ineffective hedges. We estimate that these actions will reduce our average cost of debt to 3.2%. That's comprised of unutilised fees, variable interest rate on the facility, costs associated with the interest rate swap and amortisation of up-front borrowing costs.

Turning to our capital investment plan. The sale of Medical Centres, BAU maintenance and growth CapEx will reduce substantially to circa $55 million to $75 million on an on-going basis. In addition to BAU CapEx, we expect investment will be needed to participate in domestic consolidation opportunities through M&A.

The Day Hospitals, this will be selective M&A to leverage our Day Hospitals' model. Investment is expected to be in the order of $50 million to $100 million over three years, depending on the size of the opportunities and the funding models we adopt. We are planning to come back to the market with a more detailed briefing on the Day Hospitals' market and the future of the Day Hospitals' growth in the near term.

For Diagnostics, we are focusing on our acquisitions in geographic areas where we can capture greater network synergy. These opportunities could be in the order of $30 million over three years. Technology and infrastructure investments will be needed to enable the margin expansion program, which I will go into more detail as we go through the margin improvement program and the associated investments.

Moving on to SIP and the margin improvement program. To date we have delivered $58 million in annualised program benefits in our continuing operation. For clarity, at June 2020 we announced annualised savings of $54 million, $10 million of which were in discontinued operations, being the Medical Centres. This means since June we have delivered in continuing operations a further $14 million in annualised benefits in the program.

On top of what's been delivered to date, we believe there are substantial further scope for business improvement and margin uplift in the business. We expect at least 300 basis points of margin improvement in Imaging and Pathology are possible through four key areas, digitisation, workforce management, network optimisation and sourcing.

To deliver this step-change in margin will require more extensive structure changes in the business, as well as investment in our people and infrastructure. Practical examples of the work underway include, digitising the end-to-end patient and referrer journey in the Imaging. Some of the functionality being implemented here include, providing digital straight-through processing options and automating highly-manual and routine customer transactions. Bookings and check-ins are examples.

Currently we estimate up to 80% of our clerical staff time are occupied with routine and automatable transactional activities, so the savings opportunities are substantial. Digitising orders and forms to reduce double-handling of information, manual data entry and paper waste. This also reduces potential for administrative errors. Providing a portal for patients to access their scan information, preparation instructions, reports and images. This improves the service experience and convenience to our patients. Tracking of the patient journey with us, end to end, so that we can ensure their continuity of care.

Under workforce management, we are using data to bring more transparency on individual and site level performance. These feed into Dashboard to help our staff review and improve their team and own performances and also realigning incentives to reward better performances and customer outcome.

We are also getting better at measuring and predicting demand and using these to optimise our staffing levels. We are replacing outdated phone systems in our clinics, with new phones capable of queue management, automatic caller ID and tracking call demand and wait time. This allows us to optimise staffing and demand, based on our service level targets.

There are many more programs of work underway or within our plans. As mentioned, with these programs of work, we anticipate improving our margins in Pathology and Imaging by at least 300 basis points. Through a combination of this program and BAU growth, we are targeting EBIT margins of 14%, for both Pathology and Imaging, as an FY23 exit run rate.

To deliver these changes will require investments of around $12 million per year from FY21 to FY23. This covers program resourcing, change management and training, technology and systems infrastructure, facilities and property costs and operating models and process redesign.

Importantly, each initiative will be stage-gated and release of each stage of funding, subject to proof of concept and meeting delivery milestones. Translated into dollar terms, the program is targeted to deliver $80 million of run-rate EBIT uplift by the end of FY23. This is a substantial increment on our current earnings. Based on this, we've provided

illustrative scenarios on page 15 that show the potential outcome of successful delivery of this program. This naturally is not a forecast.

Moving on to the technology upgrade and the LIS system within Pathology. Pathology has traditionally invested in physical technology for its labs, but underinvested in digital technology. Underinvestment has resulted in significant inefficiencies in the business, due to the accumulated tech debt meaning the the majority of our IT spend to date is on maintenance rather than growth.

We are aiming to get the balance back across the whole pathology process, from the digital interface at the site of collection, to improve digital workflows within the lab, as well as the critical reporting and billing functionalities that are important to our primary customers.

The shift we are aiming for in the next three years is to turn digital technology into a driver of growth rather than just a cost centre. We have developed five principles that underpin this digital strategy. Firstly, while the laboratory information system is one of the key digital enablers of the business, the aim is to improve our digital capability across the board using the appropriate solutions and vendors for each component while ensuring seamless integration and minimising complexity. That is at the core of our first principle which is ensuring and retaining modularity in our digital capabilities, both for the LIS as well as our other tools.

For example, we are investing in a project that will establish a new integration layer that allows our LIS to connect easily with third party applications as opposed to the current direct point to point integration that is both risky and expensive. It is important to emphasise that the technological environment of pathology today is quite complex and will only increase in complexity going forward. We are now looking at how artificial intelligence can play an increasing role in our business or how we can use digital pathology to change the way we operate. These solutions will unlikely come from a single vendor so we will need to ensure modularity in our tech stack to benefit from these innovations.

Secondly, we want to make sure we invest for future growth. This means our digital capabilities need to be able to scale easily with the strategic direction of the business. Whether that is in terms of future acquisition or in terms of significant in data storage due to new business models.

Thirdly, we are also excited about the prospect of standardising our LIS from four different instances today to one single instance in the future. It is a highly complex process as the businesses have customised their offerings and the internal workloads over many years. But the benefits of harmonising operating models are significant. For example we can process particular esoteric tests just in one lab rather than spread out over four different labs.

Finally, we are working on implementing specific functionality enhancements like an eOrdering solution that will allow us to create a fully digital referral process which has become particularly important due to an increased usage of telehealth.

All these examples are all progressing and are agnostic of the more operational back-end modernisation of our LIS. For that project we are in advanced stages of negotiations with potential LIS vendors. While we want to move forward fast we do not want to rush this decision as we expect the LIS vendor to be a long term strategic partner. This is at the core of our fifth principle, that being we need to have absolute confidence in their product roadmap, overall sustainability of the business we partner with.

It also means that in the meantime we are developing solutions to extend the lifespan of our current LIS to give us the appropriate time to manage the implementation and optionality. These are solutions like archiving parts of our database to create an ongoing space as well as the new integration layer. In aggregate, pathology IT strategy is expected to cost an incremental $85 million to $90 million. This includes both costs by external vendors as well as internal program support costs. In addition to maintain and continuously improve our new digital capability we expect a net increase in our IT operating costs after the implementation of a more modern LIS.

However this will be completely offset by direct savings coming from other parts of the business. We expect an additional $25 million to $30 million run rate benefits to come from a more modern digital technology environment. This is in addition to the SIP savings that you have seen on that previous chart. Examples include the benefits of inter-lab optimisation which will reduce FTEs in our labs, near elimination of data entry staff as well as productivity.

Thank you very much. Now I will hand back to Janet.

Janet Payne: Thank you Malcolm and thank you Max. That concludes the presentation that we lodged at the ASX today. We now have questions coming through on the phone and on the web so let's start off with questions from the phone line please. Thank you.

Operator: Thank you. For the phone parties to register a question please press star one on your phone. The first phone question comes from Peiting Liang from JP Morgan. Please go ahead.

David Low: (JP Morgan, Analyst) Hi, it's David Low. Sorry, it's David Low here. Can you hear me?

Operator: Thanks David. Your line is open if you'd like to ask your question.

David Low: (JP Morgan, Analyst) Sorry, the line is breaking up all through it but I'll continue on. Just if we could start with the corporate cost. I was a bit unclear what we should expect going forward. I mean I understand that you need to offset the medical centre cost allocation but if we look at the FY19 corporate costs that were reported a bit over $20 million what should we expect going forward please?

Maxine Jaquet: Look I think David I expect it to be around that level, maybe a fraction higher than that given the increases - the continued increases we see in - particularly in the insurances area. Most of the savings that we're expecting are going to be coming through into divisions as well.

David Low: (JP Morgan, Analyst) Okay great. That's fairly clear. Just on timing, I know the chart that you've shown there shows a significant improvement in both imaging and pathology. Could you give us any sense as to whether that's going to be front-end, back-end, weighted, evenly split? How should we think about that in both divisions please?

Maxine Jaquet: Look, it's quite similar in both divisions other than the benefits from the - that have been specifically called out on the LIS. If you thought about the next six to nine months is very much focused around building our labour management tools and also embedding some of the digital interfaces which are going to have an impact on labour cost as well. We will start to see benefits starting to flow through - if you thought about the back end of the calendar year next year. It certainly - we'll start to see FY22 is where you will start to see meaningful benefits in those numbers and not really before.

I expect some additional benefits coming through in the second half on SIP but they won't be material to these numbers.

David Low: (JP Morgan, Analyst) Okay. Just one more from me please. The $12 million per annum is going to be a mixture of OpEx and CapEx. The LIS - we think about circa almost $100 million more as well. Just would like to understand how these costs will be reported. Are we going to continue on with the style of reporting which is showing as an underlying number and a reported number with the difference being these ongoing costs of implementation?

Maxine Jaquet: Look, they will be one-off costs. They are a mixture of technology and people costs. The exact split on the $12 million we don't have at this point in time. We do have for some of the larger projects like an upgrade that we're doing to our workforce management tool. But we will - as we progress through the program we will actually report on the

major delivery items in each of the programs and what has been spent. We've said that the LIS program and that will stay as the only non-underlying item. We're committed to continuing with that.

David Low: (JP Morgan, Analyst) Okay, so the $12 million, the OpEx portion of that, would be shown in the divisional results and corporate cost results and wouldn't be broken out as a non-core item?

Maxine Jaquet: We will call it out because it think it's important as we show benefits we show what investment that we're putting against each of the programs so that they will go into the normal results.

David Low: (JP Morgan, Analyst) Okay, great. Thanks very much.

Operator: Thank you. The next phone question comes from Gretel Janu from Credit Suisse. Please go ahead.

Gretel Janu: (Credit Suisse, Analyst) Thanks, good morning all. Firstly just on the LIS system, does the $15 million to $20 million benefit factor revenue benefits into this, you know, for improved accuracy, advanced testing. I guess what I'm trying to understand is what potential share gains do you think you could have in complex testing post implementation of the system?

Maxine Jaquet: Good question. Look, the lion's share of the benefits is cost related. But there are benefits in some of the more specialty areas such as genomics and what we feel the revenue growth is in some of those specialised areas. So it has been - it's not an overall revenue benefit. We've gone each area of pathology and taken a view around what we think is that additional revenue opportunity. But the lion's share is cost benefits.

Gretel Janu: (Credit Suisse, Analyst) Okay, yes makes sense. Then just in terms of collection centre rationalisation can you confirm the number of collection centres you've closed this financial year to date? Have you seen any revenue leakage as a result in what you've done so far?

Maxine Jaquet: Look, it still sits at a net 100 in terms of closures. So there were 128 closures but we've added 28. It's been minor, the revenue leakage. It's well above our expectation in terms that we were hoping for 60% leakage - sorry 60% retention and 40% leakage. It's been more like 20% which has been better than what we expected.

Gretel Janu: (Credit Suisse, Analyst) Going forward do you continue to have that 40% leakage target or has that changed?

Maxine Jaquet: Look, it will evolve. It is area by area as we go through this process. I think I've said before we're building up more of a yield management approach to this so it's actually - it's partly about cost but we're keenly watching what the impact on revenue is and how we can cluster our sites to retain revenue. So it's - actually our primary focus is about retention of revenue.

Gretel Janu: (Credit Suisse, Analyst) Yes. Then just to relate that back to your trading update. You have confirmed that from the base business you're still flat year on year despite the revenue leakage that you've seen here. Is that correct?

Maxine Jaquet: Yes. Look, comparing the areas and where we've closed collection centres we can't correlate between closures and what we're seeing in terms of the flat revenue environment which is universal across the pathology network.

Gretel Janu: (Credit Suisse, Analyst) Excellent, understood. Thanks very much.

Operator: Thank you. The next question comes from Chris Cooper from Goldman Sachs. Please go ahead.

Chris Cooper: (Goldman Sachs, Analyst) Hi, thank you. Can I just start with a clarification question on slide 15, so the targets you have for both pathology and imaging for fiscal 2023? The way we're speaking - [to] follow-up from a previous question - the way we're speaking some of this I think is we - it's your comment on corporate costs, there's a number perhaps a touch above $20 million that we need to factor in on top of those two segmental numbers. There will be some contribution from day hospitals and IVF but otherwise those numbers include these implementation costs that you're talking about, or the OpEx component of that, also any sort of OpEx component of the LIS number. The only other number which we need to factor here is the adjustments you're going to make for the LIS which will kind of be reported sort of as a non-underlying number. Is that correct? Is that the right way to think about these new targets today?

Maxine Jaquet: Let me clarify that, all LIS costs so the $85 million to $90 million that we talked about will be reported separately as a non-underlying item so in that there is no LIS costs associated with what you're seeing in that pathology margin improvement number. I think then your first question was, just clarifying yes, so beyond that we obviously have corporate costs. 20 I would – to be conservative I think I would take an adjustment upwards of that because we are seeing quite significant inflation in some areas, which are not easy control such as insurances. And then yes, there is a contribution from the day hospital as well.

Chris Cooper: (Goldman Sachs, Analyst) Okay, that's very clear. Thank you. Perhaps follow up to a comment Malcolm made earlier suggesting that COVID testing may be something that last for years. Can I just confirm whether there is any assumption around COVID testing either sort of [PTRS] in those FY23 numbers?

Maxine Jaquet: Not at all, so – and you can see look we've taken a fairly – what we've done here is we've taken what we believe is a fairly conservative view around BAU, looking at a historical norm without any COVID assumptions and then really gone through both commercially and operationally what are the core activities that are going to deliver that margin improvement. So it doesn't include any expectation around continuing COVID.

Janet Payne: We have used FY19 as you can see there for that very reason. We wanted to use our last normal year and then just put in normal BAU assumptions Maxine said without any of the pluses or minuses of COVID community testing.

Chris Cooper: (Goldman Sachs, Analyst) No that's helpful. That's helpful, thank you. Last question, slide 13, if I compare this to the last update you gave along a similar line back in the August result, the consumables saving in pathology are $5 million appear to be new. Can I just confirm what that is? And sort of how we should think about that over the next couple of years?

Maxine Jaquet: Well look I think, how we're thinking about it – we're taking a pretty different view around all our sourcing and whilst we have in the past thought rate reduction from vendors, we have taken a bit of a different view around a lot of our sourcing particularly in the corporate areas and support areas and in consumables by looking at direct sourcing, a range of different vendors. So we are expecting some reasonably material benefits, not only in pathology but also across all our operations and corporate services in the next couple of years. A key part of that $15 million cost out is relating to reduction in our Telco and property contract costs, which we are very confident we've achieving.

Operator: Thank you. The next question comes from David Bailey from Macquarie. Please go ahead.

David Bailey: (Macquarie, Analyst) Yes good morning, just two quick ones on imaging to start with. Just in terms of that recovery Victoria, just wondering if you could talk to the drivers there, is that a presumption of surgical procedures? Any sort of detail you can provide there would be helpful. Then if you go back to slide 15, your high cases got 4% revenue growth with indexation coming through 1.5%, you know, from volume growth plus mix, I mean does that seem a bit light on? Just wondering if that top-line assumption is a bit conservative relative to what you might achieve over that time horizon?

Maxine Jaquet: Look I might answer the second part of your question first if that's okay. Yes, you look at it, it is conservative. But I think the way we have planned this out is to take what we would call bankable and then be very specific about contracts that we're chasing or what our assumptions are around particular areas of – either modality growth or in terms of or cost out initiative. So, I think the way to view the BAU as best we can, understand the environment in which we are operating BAU is definitely a conservative view of a historical past.

Malcolm Parmenter: Hey David, it's Malcolm here. Just on the imaging recovery in Victoria. Our Victoria imaging business has about 60% of its revenue from hospital contracts. I mean clearly elective surgery has a big impact on that, quite a significant part of imaging is around pre- and post-operative scanning. The loosening up of restrictions around elective surgery is a significant part of it.

The other bit of it is around the medical centre business in Victoria, lockdowns also have a big impact on patients attending medical centres and so Telehealth doesn't tend to generate the same amount of imaging off the back of it. As that loosens up the revenue tends to come back and it's come back pretty quickly really.

David Bailey: (Macquarie, Analyst) Yes okay, and just quick one on gearing, are they pre-AASB16 numbers those targets?

Janet Payne: Yes

David Bailey: (Macquarie, Analyst) Hello?

Operator: Any more questions on the line?

David Bailey: (Macquarie, Analyst) Hello?

Operator: Yes, David Bailey had a follow up question.

David Bailey: (Macquarie, Analyst) Sorry just double checking those gearing targets, are they pre-AASB16?

Maxine Jaquet: Yes

David Bailey: (Macquarie, Analyst) I just had one last follow-up actually. You sort of talked to in that slide 11, portfolio development and value creation, do you see any opportunities within pathology from acquisition perspective?

Malcolm Parmenter: Look, yes, there are, but not any that we're willing to talk about.

Malcolm Parmenter: Yes, I think that's right.

Operator: Thank you. The next question comes from Andrew Goodsall from MST Marquee. Please go ahead.

Andrew Goodsall: (MST Marquee, Analyst) Thanks very much for taking my questions. I did submit a couple online, so this might be a bit duplicative. But just the first one was just the metrics that you saw at the first-quarter trading update, have you seen those metrics continue into second quarter, particularly around margins that you've seen for each of the segments, and do you expect they'll sustain through into I guess a full half-year number?

Maxine Jaquet: Look, we have. But, look, just in the BAU we've seen pretty good containment of cost just generally, and so comfortable that we're holding in the BAU. When it comes to COVID, it's a similar level of margin. Obviously, as volume tapers down, that will change.

Andrew Goodsall: (MST Marquee, Analyst) Actually, that is my second question. Obviously, in the Australian data that we look at we've seen a bit of a fade in December, I guess as Victoria comes out. Your numbers have followed that fade, and just what your daily test rate might look like now against the number that you provided?

Malcom Parmenter: Yes, look, the 7000 to 10,000 still holds on a working-day basis in December. Look, it can vary up and down quite suddenly. It only takes a few cases of an outbreak somewhere to set off quite a lot of testing. Look, it will swing around a little bit, but it's been holding at about that sort of number.

Andrew Goodsall: (MST Marquee, Analyst) Great. Just my final one. In terms of M&A, I know you've highlighted that that's a possibility. But just in terms of restructuring the portfolio, is that also part of your overall thinking, in terms of moving forward with an optimised organisation?

Maxine Jaquet: What, you mean further divestment?

Andrew Goodsall: (MST Marquee, Analyst) Yes.

Maxine Jaquet: No, not at this point in time. I mean we think there is good value to be realised in those existing portfolio assets before we make any further divestments.

Andrew Goodsall: (MST Marquee, Analyst) I think you faded. I'm still here, but that was my last question, thank you.

Operator: Thank you. The next question comes from David Stanton from Jefferies. Please go ahead.

David Stanton: (Jefferies, Analyst) Apologies upfront. I'm having real troubles hearing most of this stuff, so I apologise if these questions have already been asked and answered. But, look, I just wanted to go back to what I suspect is to beat a dead horse, slide 15, where you've talked, in the upper case, of about $250 million in EBIT from both pathology and imaging. Now, I note that's pre-AASB 16. Unfortunately, we have to start modelling post-AASB 16. Am I right in assuming that the post-AASB 16 negative impact is around $40 million?

Maxine Jaquet: No, it won't be that high. Yes, $10 million to $12 million is what we said for NPAT.

David Stanton: (Jefferies, Analyst) Okay. So just again to beat a dead horse here, by F23, if I was to look at it in F23 post-AASB 16, the case would come down by about $10 million to $15 million of that earnings number, the $80 million earnings number, is that correct?

Maxine Jaquet: [Inaudible].

David Stanton: (Jefferies, Analyst) Sorry, can you speak?

Janet Payne: and at the EBIT line have a positive AASB 16 impact and negative at the NPAT line.

David Stanton: (Jefferies, Analyst) Okay, all right. So sorry again, I can't quite hear you, but what will be the impact?

Maxine Jaquet: No, don’t have at this point in time, an FY23 AASB 16 forecast.

Janet Payne: So we sent you the forecast for the year, for this year, FY21, which is positive at EBIT and negative at the NPAT. I think the best option - and this is just a scenario, it's not a forecast - the best option is just to roll that forward.

David Stanton: (Jefferies, Analyst) Okay, maybe we should take this offline. Again, so that, call it, $250 million does not include the LIS cost for the new pathology system? That's my final question, thank you.

Maxine Jaquet: No

Operator: The next question comes from Rod Sleath from Rimor Equity Research. Please go ahead.

Rod Sleath: (Rimor Equity Research, Analyst) Hi, guys, thanks very much for taking my questions. Like some other people have mentioned, I'm having a little bit of trouble with some dropouts on the call, so it's possible that I will ask things that have already been mentioned. I was just wondering if, firstly, I can just ask for a clarification on your current expectations for the LIS rollout costs. In that $90 million, are you able to give a breakdown of what you expect to be capital expenditure versus what will be operating expenditure.

Maxine Jaquet: Look, we're not, at this point in time, and there's a deliberate reason. Because as we go through vendor selection, we do have optionality around how we treat various items. So we will give greater clarity on that as we go through the program.

Rod Sleath: (Rimor Equity Research, Analyst) Okay, no problems. Likewise, the - sorry, I'm not sure which page number it was, but where you showed the drop in CapEx following the sale of the medical centres, that figure, which I think was $55 million plus potentially $20 million, is that – so that is presumably excluding any LIS CapEx costs?

Maxine Jaquet: Yes it is.

Rod Sleath: (Rimor Equity Research, Analyst) Excluding, okay, great, thank you. Just a question on the indexation which obviously is now in place on 80% of the imaging business, I'm presuming from reading the rationale that the reintroduction of indexation that there's a *quid pro quo* that there should be no or less increases in out-of-pocket expenses for patients. Is that a fair assumption? So although there would be a net benefit to individual item prices from indexation, it's not going to be as high as the actual indexation effect across the portfolio.

Malcolm Parmenter: I think indexation has been put in place without any requirement about out of pockets. I think the market will determine where the goes to, I should imagine, across all providers, depending on the sociodemographic and environment that each of those imaging businesses are in drive it as well. So I don't think there is any control over out of pockets.

Rod Sleath: (Rimor Equity Research, Analyst) Okay, sure, thank you. Given the completion or must be very close to being completed, if it's not completely completed, of the rollout of the new PACS and RIS systems in diagnostic imaging, are you able to give us some colour on how the new systems are performing and what the benefits are that you're seeing? I was also wondering if you're able to – like the numbers you've suggested for the LIS rollout, are you able to remind us of what the total cost of the PACS & RIS rollout was and what sort of ROI you are hoping to achieve from that as you get the full benefits presumably over the next few years?

Malcolm Parmenter: Yes, we can talk about what the benefits are first in terms of the PACS and RIS system that we've rolled out. I mean the obvious benefits are around the delivery of images to referrers in a format that they want and are used to, in fact, from our competitors. So to a large extent that's a catch-up in technology that our imaging business was well behind.

But the other parts around it are around in being able to do that, the significantly reduced necessity to print film around it, so the cost of that has decreased significantly. With the voice automatic dictation system that it has, the size of the typing pool has significantly reduced over time. So there have been a bunch of savings around that. Being able to provide images in the way that specialists are looking for certainly allows us to attract some work that we weren't getting

previously. So look, to a large extent doing this has caught us up to our competitors so far. We have aspirations to take it well beyond that with new technology that connects to this. But it's so far so good.

Maxine Jaquet: Yes, so the benefits to date just sit under $5 million and that's been things like reducing typists costs or to the operation piece. We'd like to get to a benefit profile of closer to $10 million, that's the program and that really will rely on the additional uptake of specialists and there is a program of activity around getting better utilisation across the specialist group of the system. So I'd say another five to go and largely focused on revenue.

Rod Sleath: (Rimor Equity Research, Analyst) Great and are you able to give us what the historic total cost ended up being?

Maxine Jaquet: $20 million.

Rod Sleath: (Rimor Equity Research, Analyst) $20 million, great, thank you very much.

Operator: Thank you. The next question comes from Sean Laaman from Morgan Stanley. Please go ahead. Sean, your line is live if you'd like to ask your question.

I'll move on to the next question. It comes from John Deakin-Bell from Citi. Please go ahead.

John Deakin-Bell: (Citi, Analyst) Thanks very much and apologies, it's been cutting in and out, so I'm not sure if this has been asked. But I just wanted to focus on the LIS program and I went back to your presentation from September 2018 when you raised the capital and originally started talking about this. I think you said then $100 million of cash costs and expected benefit $20 million and you spent, according to the accounts, I think $15.7 million in FY20, so you're kind of at the $100 million to $105 million if you add your $85 million to $90 million and now we're at $15 million to $20 million. I know you paused in January, I'm still just a bit confused, we kind of get to the similar numbers, but what exactly happened when you paused it and looked at it? How did we come back to the same type of numbers? Is it just a different approach you're talking now to the system?

Maxine Jaquet: So look, I might kick off just in terms of clarifying some of the numbers and then maybe Malcolm can go back a little bit. So just in terms of what has been spent to date, of that it will actually be on the program serum work area and LIS is $20 million and a large part of that is the serum work area. That work that has been done is certainly not wasted. It's been focused on workflow mapping and detailed technical specifications around test types and panels.

Going forward, the $85 million to $95 million envelope includes additional items that were not included in the original scope, being things like e-orders and a couple of others of the digital technologies that weren't contemplated. It's not the lion's share of the program, but it is still a meaningful chunk of that. So might hand back to Malcolm, to go back.

Malcolm Parmenter: Yes, thanks for your question, John. Pausing the program related to some things that were happening within the business around some potential M&A that would have required a different approach to this. I don't really want to talk too much about what that is at this point in time, but at the time, that was the case and so it required taking a bit of a pause from where we were at. But we need to keep moving forward with this and so that's where we're at now.

John Deakin-Bell: (Citi, Analyst) Okay, thanks Malcolm. Perhaps I could just ask one other question, it's very difficult from the outside with all the noise in COVID testing, but in terms of underlying market shares in the pathology market in Australia, do you think they've changed much in the last year or two or do you feel it's kind of similar to what it has been?

Malcolm Parmenter: Look it's difficult to say through – I mean the noise of COVID and the impacts it has on BAU, the swinging around that occurs in various states with lockdowns and releases, look historically market share in pathology doesn't change much. The main changes in market share, I think, over the last three or four years have been the loss of the bowel screening contract, but the rest of pathology has stayed pretty static. You get tenths of a point of change that appear to happen from period to period, but referrers are pretty sticky and it doesn't change that much.

John Deakin-Bell: (Citi, Analyst) Okay, thanks for your clarification.

Operator: Thank you, the next question comes from Mike Younger from REST. Please go ahead.

Mike Younger: (REST, Analyst) Thank you. First question, I didn't quite catch the quantum of investment you were talking about around day hospitals and diagnostics. Would you be able to repeat those please?

Maxine Jaquet: Yes, certainly and look this is obviously not set in stone by any means, so look over the next few years in day hospitals, we see opportunity to consolidate and that could be both a combination of buying smaller sites to roll into larger Westside-like sites and the way we think about that is if a business was making, let's say, EBITDA of $2.5 million that we potentially could buy those around six, seven times.

The investment in terms of getting to building out more Westsides, which is our strategy, particularly as we see the results in the Westside, the success of the Westside business model, can be funded either through an opco/propco model, so it's a capital-light solution, but still we anticipate there would still need to be some seed capital for potential acquisitions of practices to commence that kind of operation. So we've earmarked up to $100 million over the next few years, but obviously that will depend on how that pipeline and the opportunities develop and what multiples are being paid and what's available and whether we think that makes sense or not.

In imaging, it's certainly quite a selective process of looking at pockets throughout the network where we think we could improve our utilisation of our existing network or where there are contracts, attractive contracts that we think we could secure. So we've said $30 million potentially in the next couple of years in imaging. But again, not set in stone, depends on the quality of the assets and as no doubt you're all seeing, the multiples that are being paid in imaging are pretty high at the moment.

Mike Younger: (REST, Analyst) Great, thank you. Then second question was just a clarification around the group support costs that you're looking to reduce by over $15 million in the next year or so. Is that part of the SIP or not?

Maxine Jaquet: It is. All growth initiative with spend associated with them, all cost-out reduction programs go into the SIP program so that we can properly track, provide seed funding and proof of concept. So it's a pretty deliberate program and architecture around that, so that we are making sure that we're actually getting the translation into margin rather than just a constant trying to keep pace with cost growth.

Mike Younger: (REST, Analyst) Great, thanks very much.

Malcolm Parmenter: Thank you. At this time we're showing no further questions via the phones.

Janet Payne: Thank you everyone. I think there's a couple of questions on the web, but in the interests of concluding in time, I will look at those and give the relevant people a call back. So will that, we will nicely finish on time and thank everybody for your attendance. Do feel free to give me a bell if you've got any other questions. Thank you.

End of Transcript