

FY 2016 RESULTS

12 MONTHS ENDED 30 JUNE 2016

17 AUGUST 2016



OVERVIEW

Knox Private Hospital, Melbourne, Victoria

FINANCIAL HIGHLIGHTS

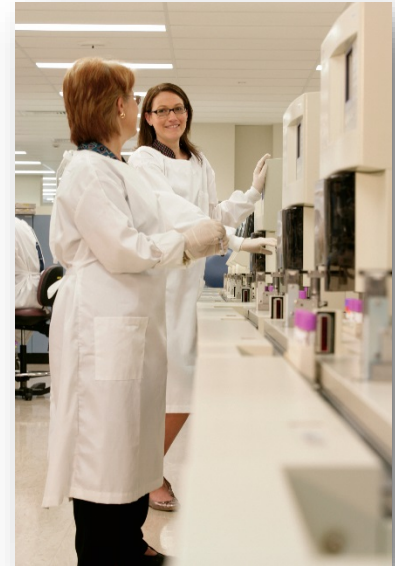
Group	Underlying		Reported	
\$ million	FY16	FY15	FY16	FY15
Revenue	1,651.0	1,599.3	1,714.6	1,617.9
EBIT	206.6	225.8	164.9	86.5
NPAT	104.0	111.5	74.7	127.5

	FY16	FY15
Net debt \$'m	816	1,155
Gearing %	25.2%	32.4%
Dividend cps	12.0	20.0

- Underlying results in line with forecast after balance sheet review and early Medical Director sale, in challenging market conditions
- Reported results reflect significant business changes including a balance sheet review partially offset by profit on sales
- Successful capital recycling program and reduced capex = greater free cash flow and deleveraged balance sheet
- Final dividend of 6.4 cps, franked at 100%. Total dividends 12.0 cps, 60% UNPAT payout ratio

STRATEGIC TRANSFORMATION

- **Building a sustainable future**
 - o Delivery of good health outcomes to patients
 - o Sustainable growth for shareholders
- **FY 2016 achievements**
 - o Introduction of new HCP recruitment packages
 - o Successful capital recycling program
- **Refocused on 3 core activities**
 - o **Medical Centres:** HCP recruitment and retention crucial for revenue growth, diversifying with private billing
 - o **Pathology:** Continue cost efficiency as reinvest for growth, diversifying into specialisms and Asia
 - o **Imaging:** Realignment to hospitals, high-value imaging centres and medical centres
- Use strength of the balance sheet to invest in people, systems and opportunities
- Capital management = balance of investment for growth v on-going deleverage



QML Pathology, Murarrie, QLD



Laverty Pathology, North Ryde, NSW

FINANCIAL RESULTS

UNDERLYING PERFORMANCE

	Underlying		
	FY 2016 \$m	FY 2015 \$m	Movement %
Revenue	1,651.0	1,599.3	3.2
EBITDA	364.2	379.4	(4.0)
Depreciation and amortisation	(157.6)	(153.6)	(2.6)
EBIT	206.6	225.8	(8.5)
Finance costs	(58.0)	(66.5)	12.8
PBT	148.6	159.3	(6.7)
Income tax at 30%	(44.6)	(47.8)	6.7
NPAT	104.0	111.5	(6.7)

- Underlying profit principles applied consistently to each period. Income tax at 30%
- Trading in line with expectations in difficult market conditions, after balance sheet review and early Medical Director sale
- Refer next slide for divisional narrative
- 13% savings in finance costs from capital recycling and reduced cost of debt

DIVISIONAL PERFORMANCE

Underlying	Medical Centres ¹		Pathology ¹		Imaging ¹		Corporate ¹	
	\$m	%	\$m	%	\$m	%	\$m	%
Revenue ²	323.7	0.0	994.4	6.4	326.9	(1.2)	1.6	n/a
EBITDA	166.8	(3.5)	161.5	6.5	62.2	(14.1)	(41.2)	(9.3)
Depreciation and amortisation	(80.9)	(5.9)	(26.6)	(9.5)	(37.0)	2.9	(8.5)	0.0
EBIT	85.9	(10.9)	134.9	5.9	25.2	(26.5)	(49.7)	(7.6)

- Medical Centres retention up 35% and HCP capital costs reduced 43%. However revenue flat, with recruitment targets not met in 2H16. Initiatives are underway to improve
- Pathology increased volumes in difficult market conditions. Cost savings program drove margin expansion
- Imaging delivered a stronger 2H16 in a low-growth market, up 43% on 1H16. Site and labour rationalisation reset the cost base moving into FY17
- Corporate costs increased with investment in capabilities, providing a sustainable platform for the future

¹ Refer slides 23 to 28 for detailed divisional analysis ² \$33.1m inter-company revenue has been eliminated at the group level

REPORTED PERFORMANCE

	Reported			Continuing operations ¹
	FY 2016 \$m	FY 2015 \$m	Movement %	FY 2016 \$m
Revenue	1,714.6	1,617.9	6.0	1,636.9
EBITDA	326.2	251.6	29.7	271.1
Depreciation and amortisation	(161.3)	(165.1)	2.3	(156.7)
EBIT	164.9	86.5	90.6	114.4
Finance costs	(58.0)	(66.5)	12.8	(58.0)
PBT	106.9	20.0	n/a	56.4
Income tax	(32.2)	107.5	n/a	(18.2)
NPAT	74.7	127.5	n/a	38.2

- Changing shape of business makes year-on-year comparison difficult
- FY16 \$92m pre-tax balance sheet review, partially offset by profit on sales including Medical Director
- FY15 \$110m settlement of potential HCP tax liabilities with \$155m tax refund
- FY16 continuing operations include \$92m balance sheet review but exclude Medical Director's \$10m pre-tax operating result and \$40m pre-tax profit on sale

¹ Refer slide 33 for bridge

BRIDGE OF REPORTED TO UNDERLYING

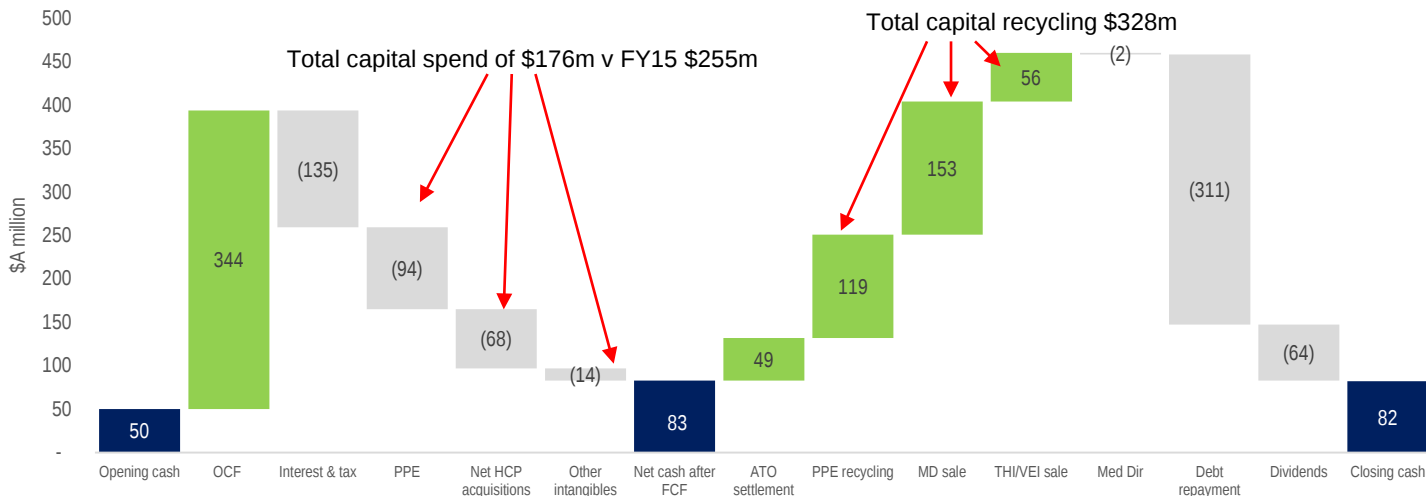
FY16	\$m	Reported	Gains on sale	ATO settlement	Restructure & strategic initiatives	Balance sheet review	Underlying
EBIT		164.9	(63.6)	(13.5)	32.9	85.9	206.6
Finance costs		(58.0)					(58.0)
PBT		106.9					148.6
Income tax		(32.2)					(44.6)
NPAT		74.7					104.0

FY15	\$m	Reported	FY15 adjs	ATO settlement	Restructure & strategic initiatives	Balance sheet review	Underlying
EBIT		86.5	40.3	110.5	(20.1)	8.6	225.8
Finance costs		(66.5)					(66.5)
PBT		20.0					159.3
Income tax		107.5					(47.8)
NPAT		127.5					111.5

- Major movements highlighted
- \$85.9m of balance sheet review is non-underlying

¹ Refer slides 29-30 for detailed reconciliation

CASH FLOW



- Total capital expenditure down to \$176m v \$255m
- Net HCP capital costs down to \$68m v \$84m, of which MCs down to \$46m v \$80m
- Positive FCF after capex
- Asset sales used to pay down debt

Reconciliation to Cash Flow Statement - Appendix 4E

¹ Medical Director cash flow of \$10m and other intangibles capex of \$(12)m are shown here as a separate item. FY15 capex of \$(13)m is also excluded from FY15 total capital spend of \$255m

² HCP acquisitions capex of \$68.2m is shown here net of the associated tax deduction of \$16.7m

³ Tax refund received from the ATO settlement of \$49m is shown here as a separate item

⁴ PP&E recycling: Barangaroo, REIT, imaging equipment sale and leaseback

NET DEBT AND DIVIDEND

	Group reported as at	
	30 June 16 \$m	30 June 15 \$m
Total debt (inc. retail bonds in FY15)	898.3	1,205.5
Cash	(82.3)	(50.0)
Net debt	816.0	1,155.5
Gearing (net debt: net debt + equity)	25.2%	32.4%
Bank gearing ratio ¹ (covenant <3.5x)	2.3x	3.0x
Bank interest ratio ¹ (covenant >3.0x)	6.0x	5.9x
Dividend cps	12.0	20.0

- Significant improvements in leverage in FY16 as seen on cash flow slide
- Substantial cover on bank ratios
- More sustainable dividend payout at 60% of UNPAT
- Final dividend of 6.4 cps, 100% franked (1H 16: 5.6cps 50% franked)

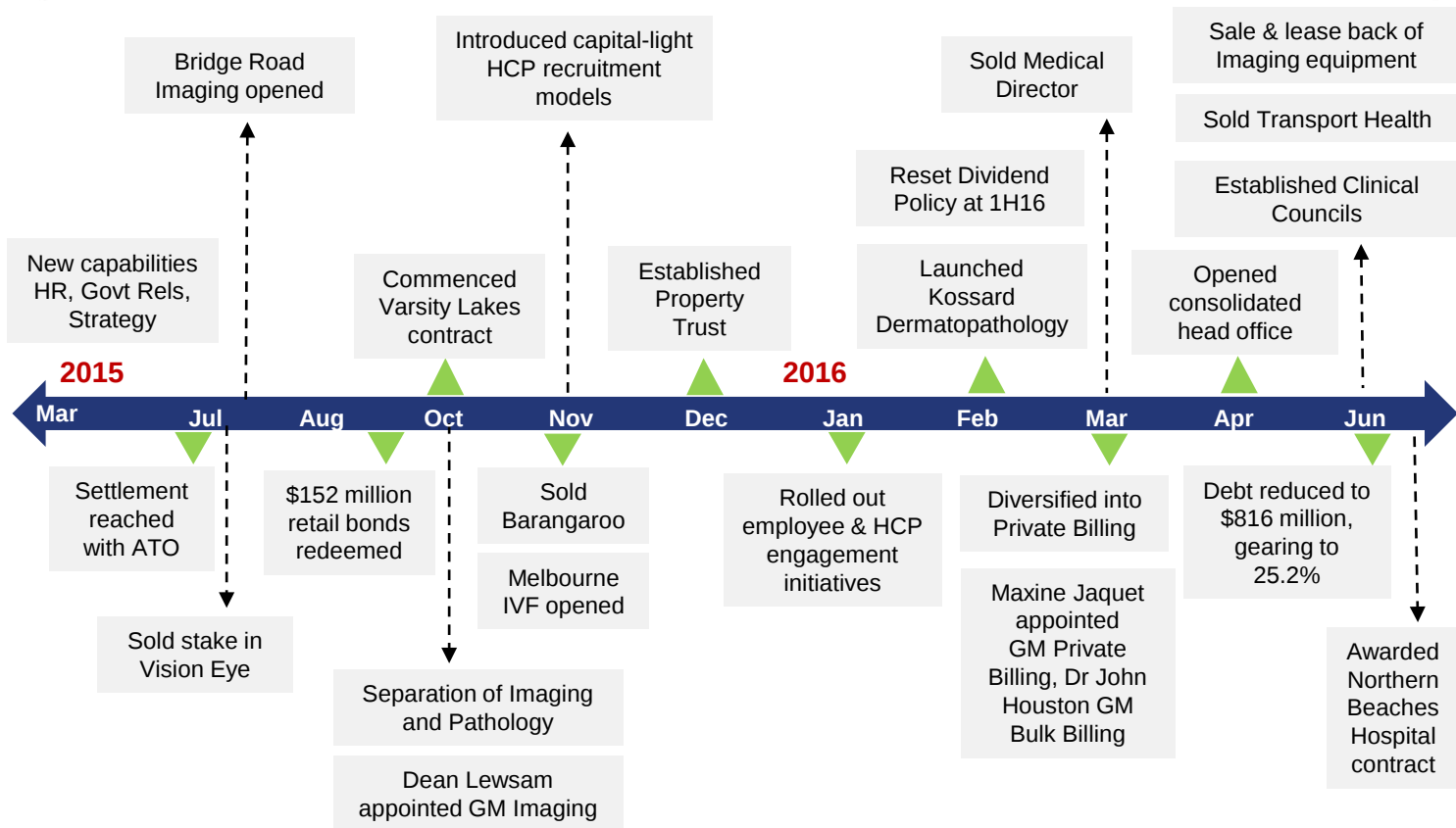
¹ FY16 subject to finalisation



Preston IVF, Melbourne, Victoria

STRATEGIC INITIATIVES

TRANSFORMATION JOURNEY



MEDICAL CENTRES

Establish Primary as a preferred brand

- HCPs and staff to work
- Patients to trust

Respond to changing needs of patients

- E-health
- Ownership of records
- Demands as consumers

FY17 focus

- Recruitment and retention of HCPs
- Growth of new Bulk Billing centres
- Enhanced Medical Home model
- Diversifying with Private Billing
- Investment in IT systems

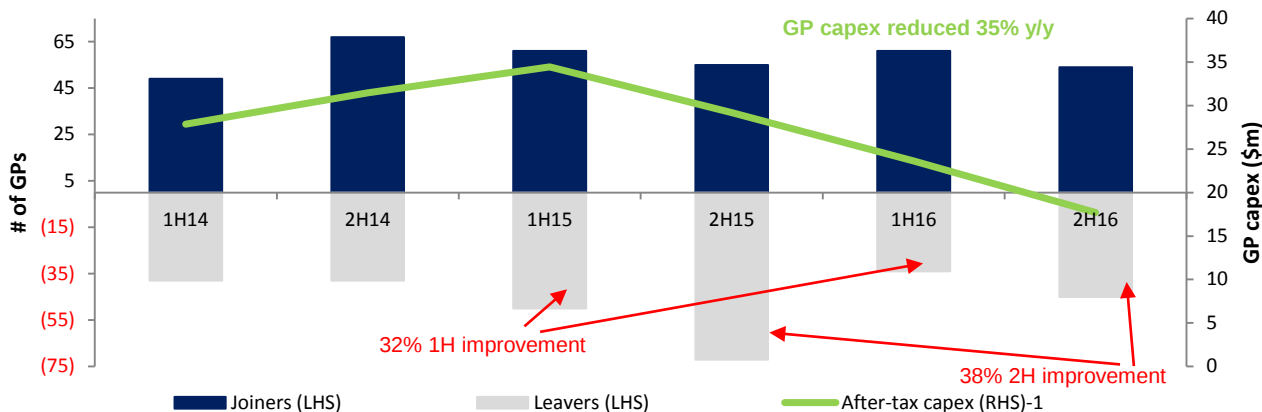


Port Macquarie Medical & Dental Centre, NSW

BULK BILLING

GP recruitment

- New recruitment models introduced - over 50% 2H joiners on no-upfronts, retention up 35%
- GP capital costs reduced 35% with new models/benefit of tax deduction
- Overall numbers up on FY15 but need to recruit more GPs
- Brand improvement longer-term - engagement, lead doctor program, clinical councils, training institute



¹ GP after-tax capex of \$41m. Total MC HCP after-tax capex of \$46m

BULK BILLING

Optimise footprint

- 4 large scale /1 super centre, funded predominantly by REIT

Enhanced Medical Home

- Increase non-MBS revenue e.g. Dental, Chronic Care
- Preston IVF site opened in FY16, 2 new sites in FY17

IT investment

- Next generation systems via Medical Director

Improve staff engagement

- Initiatives around communication, leadership and culture



PRIVATE BILLING



Market opportunity

- Market consolidating driven by government policy pressures
- Opportunity to lead consolidation with premium brand
- Diversification of revenue stream reduces reliance on MBS



Primary's competitive advantage

- Scale in support and back-office services
- Collaboration with property trust to allow rapid footprint roll-out
- Track record in greenfield practice development



Private Billing Model

- Retaining clinician values of a traditional practice
- Integrated technology solution to improve patient services and increase efficiency
- Make achieving better health simple for patients, understanding their unique needs



Progressive roll-out

- Announced in March 16
- Roll-out through mix of acquisitions, existing assets and greenfields
- Expect number on board by December 2016

PATHOLOGY

Continue savings in cost efficient business

- Optimisation of laboratory infrastructure, improved procurement and productivity initiatives

Clarification required for ACC strategy

- Underperforming sites closed/exited
- Coalition's May announcement of possible moratorium on licences = new signings
- Flexibility to reset strategy once government policy clarified

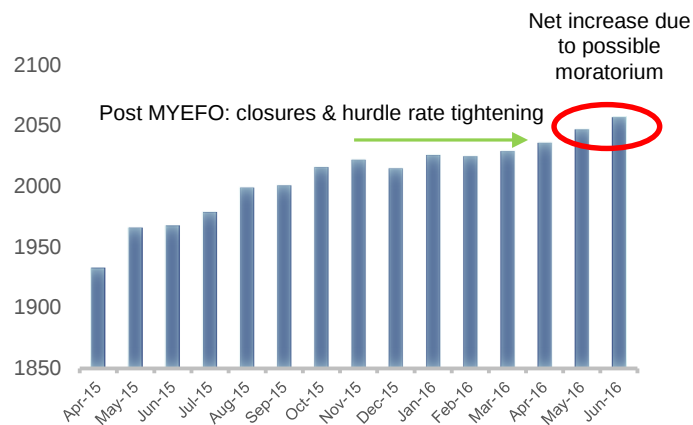
IT investment

- New lab information systems to drive efficiencies

Diversification

- Niche services expanded with Kossard Dermatopathology
- Private billing trials with selected specialists
- Progressing opportunities into SE Asia

ACCs exc: HSO and Border acquisitions



IMAGING

Optimal portfolio realignment

- Hospitals - National Capital / Knox Private
- High-value, large scale imaging centres - Bridge Road / Varsity Lakes
- Pipeline of sites for FY17 onwards

Reset cost base

- Closed 8 sub-scale loss-making community sites
- Reduced staffing levels
- Exploration of funding models for new equipment
- New remuneration models for radiologists in April

IT investment

- New IT systems to improve service delivery

Improve HCP / staff engagement

- Initiatives to enhance engagement and improve culture
- Clinical Council

Diversification

- Selective private billings



Artist's impression of the Northern Beaches Hospital, NSW

GOVERNMENT POSITION

The facts

- Bulk-billing environment has served us well
- Extended election campaign created uncertainty and drop in growth rates
- Hiatus remains while awaiting clarification on:
 - o MBS freeze
 - o Pathology: regulation of ACC rents and BBI cuts
 - o Imaging: BBI cuts and review into 'commercial pressures'
 - o MBS review
- Long-term revenue pressures as Government tries to bend cost curve = opportunity for efficient providers

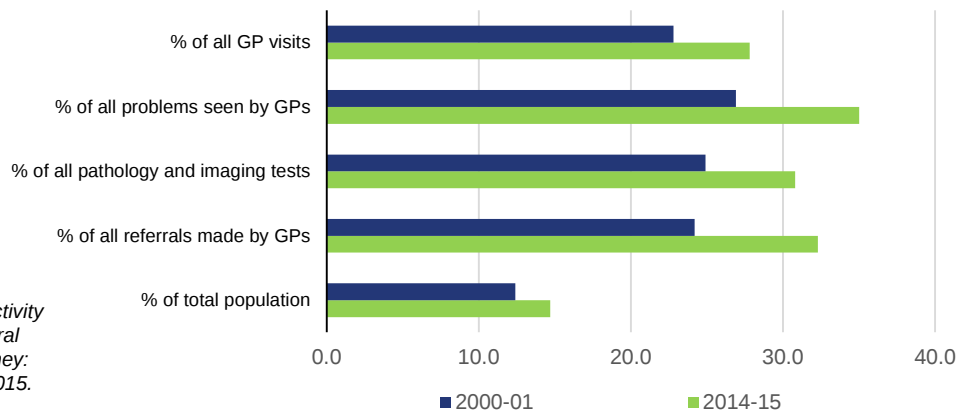
Our response

- Flexibility to respond in complex and dynamic funding environment
- Good health outcomes via patient-centric care and Medical Home model, supported by IT investment
- Diversifying revenue stream including private billing medical clinics and offshore expansion
- Improve cash flow generation and reduction in leverage

OUTLOOK

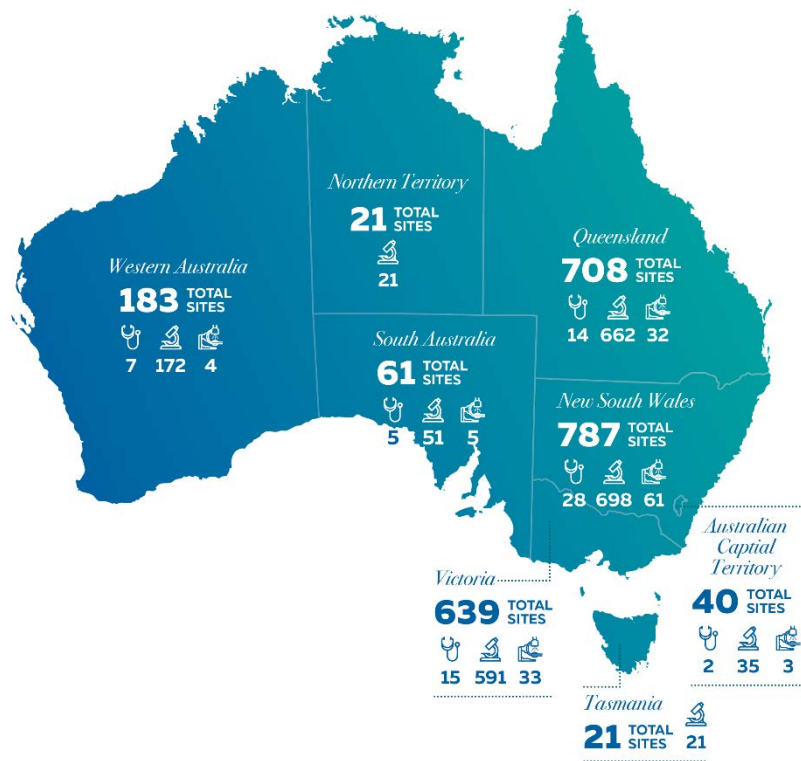
- Long-term demand drivers remains positive
- Underpinned by population growth, ageing population and growing health expectations
- Outsourcing of public hospital work gaining traction e.g. Northern Beaches Hospital in NSW
- Hospital and chronic care costs increasing
- Frontline, preventative care is the most effective form of healthcare
- Large-scale multi-disciplinary medical centres are efficient deliverers of frontline care
- Primary aims to cement position as a leading healthcare provider
- Expect improvement in FY17 performance

Frontline care use for 65+ (%)



Source: General practice activity in Australia 2014–15. General practice series no. 38. Sydney: Sydney University Press, 2015.

APPENDICES



As at 30 June 2016

MEDICAL CENTRES

Underlying	FY 2016 \$m	FY 2015 \$m	Movement \$m	Movement %
Revenue	323.7	323.8	(0.1)	0.0
EBITDA	166.8	172.8	(6.0)	(3.5)
Depreciation	(20.0)	(20.6)	0.6	2.9
Amortisation	(60.9)	(55.8)	(5.1)	(9.1)
EBIT	85.9	96.4	(10.5)	(10.9)

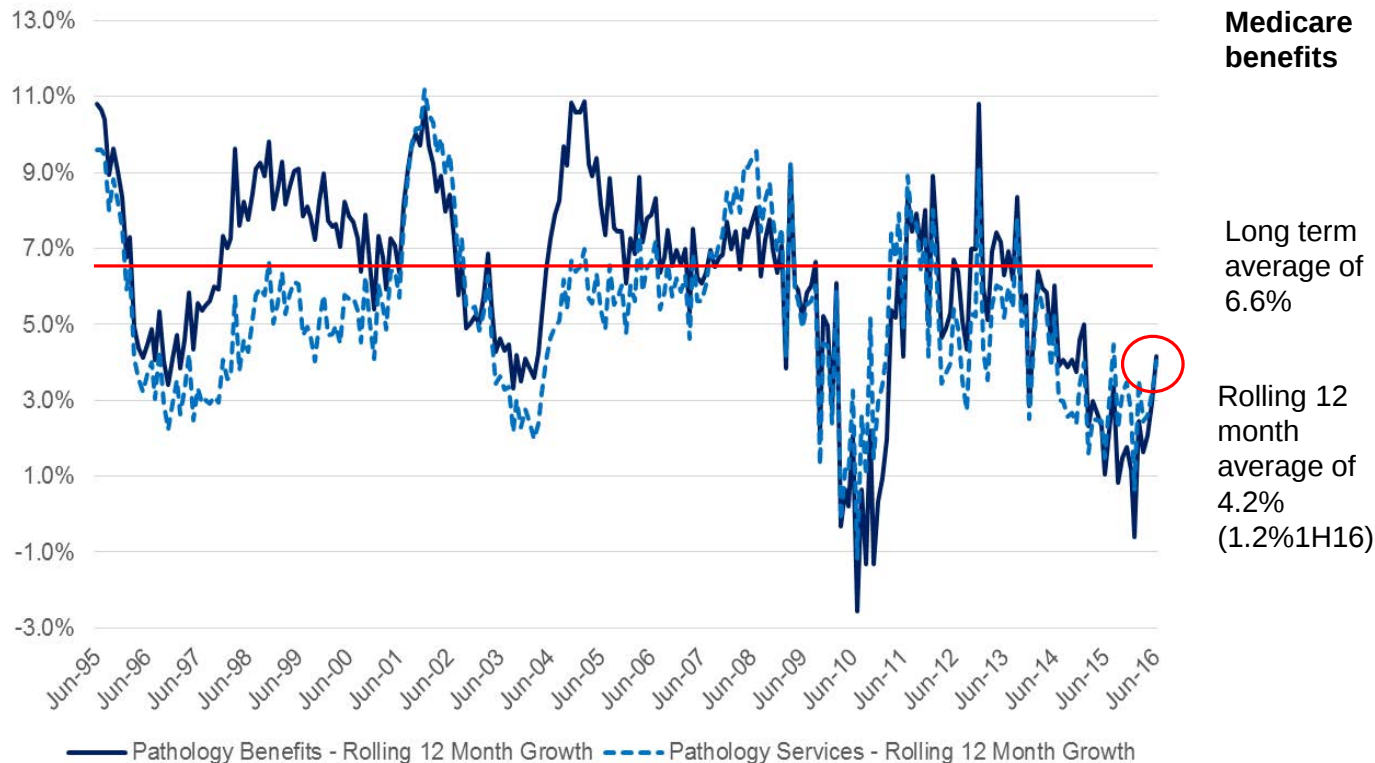
- Revenue broadly flat impacted by starting the year with fewer than expected GPs and not meeting recruitment targets in the second half of the year
- Costs impacted by increased marketing spend on recruitment and Victorian IVF, labour award increases, lower level of capitalised costs and important investments in training institute and lead doctor program
- Amortisation increase drove half of EBIT contraction. Now classification of 100% of HCP acquisitions as intangibles, previously 80%, with no impact on cash flow
- Importantly, retention of GPs up 35%
- HCP capex down 43% from \$80m to \$46m

PATHOLOGY

Underlying	FY 2016 \$m	FY 2015 \$m	Movement \$m	Movement %
Revenue	994.4	934.5	59.9	6.4
EBITDA	161.5	151.7	9.8	6.5
Depreciation	(19.1)	(17.1)	(2.0)	(11.7)
Amortisation	(7.5)	(7.2)	(0.3)	(4.2)
EBIT	134.9	127.4	7.5	5.9

- Increase in volumes drove above-market revenue growth, in a difficult operating environment compared to long term trends (refer slide 25)
- Average fee per episode broadly maintained assisted by niche specialist investment, which offset the impact of 12 months Vitamin D, B12 and Folate cuts compared with 8 months in FY15
- Cost savings program in ACCs, laboratory rationalisation, and procurement enabled margin expansion despite on-going tough conditions
- Management of underperforming ACCs

PATHOLOGY: MARKET SERVICES AND BENEFITS

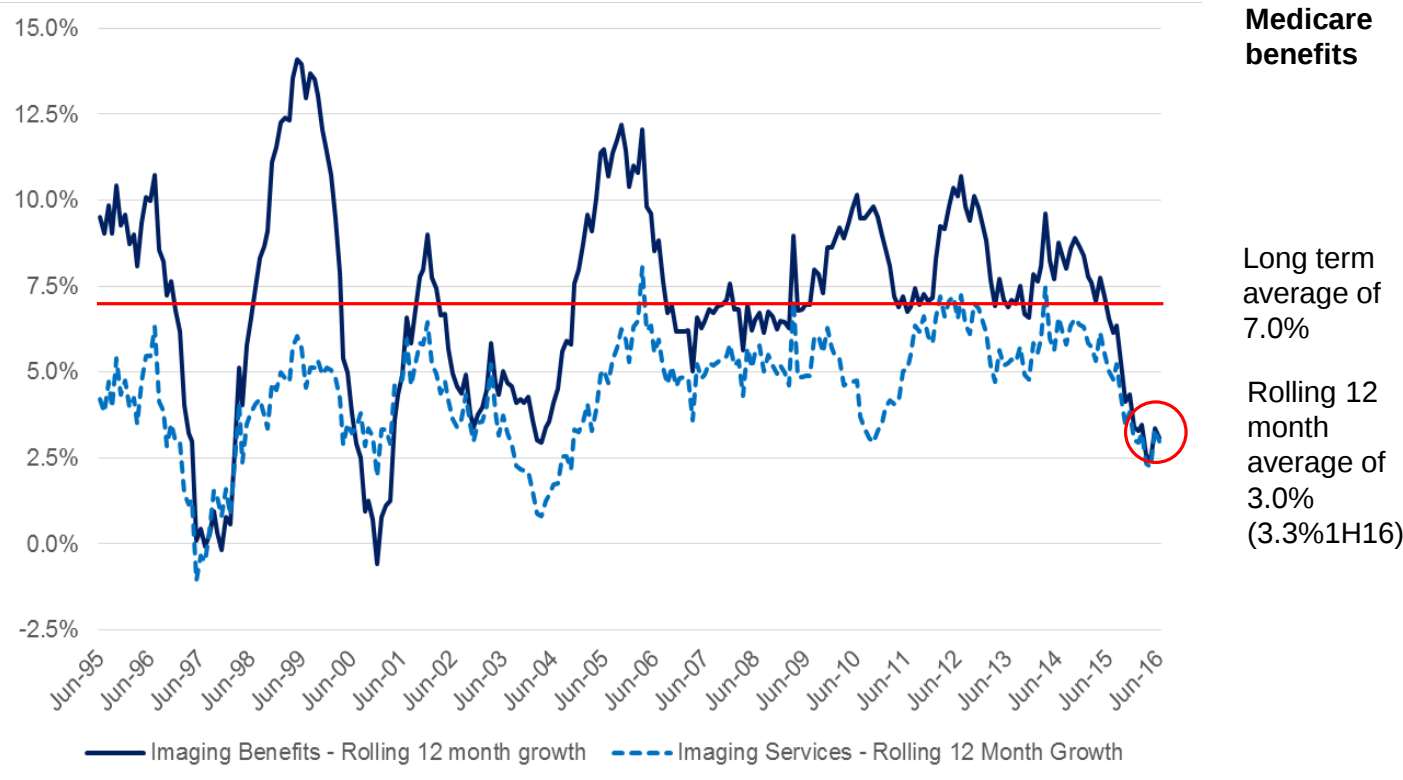


IMAGING

Underlying	FY 2016 \$m	FY 2015 \$m	Movement \$m	Movement %
Revenue	326.9	330.8	(3.9)	(1.2)
EBITDA	62.2	72.4	(10.2)	(14.1)
Depreciation	(25.6)	(26.2)	0.6	2.3
Amortisation	(11.4)	(11.9)	0.5	4.2
EBIT	25.2	34.3	(9.1)	(26.5)

- On annual basis revenue (adjusted for lost hospital contracts and new immigration visa medical contracts):
 - volumes grew at 3.3%, in line with market where conditions remain tough compared to long term (refer slide 27)
 - average fee increased by 0.7%, assisted by targeted co-payment launch
- Loss of private hospital work at Epworth, Westmead and Buderim impacted, partially offset by strong performance at Bridge Road and transfer of MRI licenses from Westmead to Liverpool and Buderim to Caloundra
- However commenced National Capital and expanded Knox Private hospitals, opened Bridge Road, Varsity Lakes and Dubbo in NSW (previously JV)
- Site and labour rationalisation delivered stronger 2H up 43%. Successfully reset cost base moving into FY17

IMAGING: MARKET SERVICES AND BENEFITS



CORPORATE

Underlying	FY 2016 \$m	FY 2015 \$m	Movement \$m	Movement %
Revenue	1.6	3.1	(1.5)	(48.4)
EBITDA	(41.2)	(37.7)	(3.5)	(9.3)
Depreciation	(1.6)	(0.8)	(0.8)	n/a
Amortisation	(6.9)	(7.7)	0.8	10.4
EBIT	(49.7)	(46.2)	(3.5)	(7.6)

- Increased investment in new capabilities: Group Strategy, Human Resources, Government Relations, Corporate Affairs, Internal Audit teams
- Project Management Office set up to drive the transformation program
- Investments necessary to provide scalable platform for the future

RECONCILIATION OF REPORTED TO UNDERLYING

FY16	\$m	Reported	Gain on sale	ATO settlement	Restructure & strategic initiatives	Balance sheet review	Underlying
Revenue		1,714.6	(63.6)	0.0	0.0	0.0	1,651.0
EBITDA		326.2	(63.6)	(13.5)	31.9	83.2	364.2
Depreciation and amortisation		(161.3)	0.0	0.0	1.0	2.7	(157.6)
EBIT		164.9	(63.6)	(13.5)	32.9	85.9	206.6
Finance costs		(58.0)	0.0	0.0	0.0	0.0	(58.0)
PBT		106.9	(63.6)	(13.5)	32.9	85.9	148.6
Income tax		(32.2)	-	-	-	-	(44.6)
NPAT		74.7	-	-	-	-	104.0

- Gain on sales including Medical Director, Transport Health, Vision Eye Institute shareholding
- Finalisation of ATO settlement relating to potential HCP tax liabilities
- One off items for business restructuring and strategic initiatives
- Balance sheet review non-underlying items (refer slide 31)

RECONCILIATION OF REPORTED TO UNDERLYING

FY15	\$m	Reported	FY15 adjustments	ATO settlement	Restructure & strategic initiatives	Balance sheet review	Underlying
Revenue		1,617.9	5.4	0.0	(24.6)	0.6	1,599.3
EBITDA		251.6	30.6	110.5	(21.7)	8.4	379.4
Depreciation and amortisation		(165.1)	9.7	0.0	1.6	0.2	(153.6)
EBIT		86.5	40.3	110.5	(20.1)	8.6	225.8
Finance costs		(66.5)	0.0	0.0	0.0	0.0	(66.5)
PBT		20.0	40.3	110.5	(20.1)	8.6	159.3
Income tax		107.5	-	-	-	-	(47.8)
NPAT		127.5	-	-	-	-	111.5

- Adjustments identified at time of FY 2015 results
 - Impairments/accelerated D&A/other
 - ATO settlement relating to potential HCP tax liabilities
- Additional adjustments and one off items consistently applied year-on-year
- Balance sheet review non-underlying items (refer slide 31)

BALANCE SHEET REVIEW

	PBT					NPAT
\$m	MC	Path	Imaging	Corporate	Group	Group
FY16	41.2	5.4	33.2	11.9	91.7	66.3
Underlying	2.5	2.5	0.6	0.2	5.8	
Non-underlying	38.7 ¹	2.9	32.6 ³	11.7 ⁴	85.9	
FY15	6.3	0.2	4.9	0.0	11.4 ⁵	9.0 ⁵
Underlying	2.8	0.0	0.0	0.0	2.8	
Non-underlying	3.5	0.2	4.9	0.0	8.6	
Pre-FY15	30.9 ²	1.4	0.6	0.0	32.9	23.0
Total	78.4	7.0	38.7	11.9	136.0	98.3

- \$98m in after-tax write offs after a detailed reconciliation and substantiation of the Balance Sheet, including asset carrying values and provisioning adequacy
- Major adjustments include:
 1. write-off of various assets including assets under construction, other fixed assets, HCP intangibles and inventory
 2. reduction in estimated useful life of leasehold improvements from 30 to 20 years
 3. write-off of capitalised costs on legacy IT systems, loss on equipment sale and leaseback
 4. write-off of capitalised costs on legacy IT systems from business transformation

5. Refer slide 32 for adjusted FY 15 results

FY15 RESTATEMENT

\$m	FY 15 as reported in FY15	BS review FY 15 adjustments	FY 15 as reported in FY16
Revenue	1,618.5	(0.6)	1,617.9
EBITDA	260.0	(8.4)	251.6
Depreciation and amortisation	(162.1)	(3.0)	(165.1)
EBIT	97.9	(11.4)	86.5
Finance costs	(66.5)	0.0	(66.5)
PBT	31.4	(11.4)	20.0
Income tax	105.1	2.4	107.5
NPAT	136.5	(9.0)	127.5

BRIDGE OF CONTINUING AND TOTAL

	FY16		
\$m	Continuing Operations	Medical Director	Total Group
Revenue	1,636.9	77.7	1,714.6
EBITDA	271.1	55.1	326.2
Depreciation and amortisation	(156.7)	(4.6)	(161.3)
EBIT	114.4	50.5	164.9
Finance costs	(58.0)	0.0	(58.0)
PBT	56.4	50.5	106.9
Income tax	(18.2)	(14.0)	(32.2)
NPAT	38.2	36.5	74.7

FY15		
Continuing Operations	Medical Director	Total Group
1,579.7	38.2	1,617.9
231.4	20.2	251.6
(158.8)	(6.3)	(165.1)
72.6	13.9	86.5
(66.5)	0.0	(66.5)
6.1	13.9	20.0
110.8	(3.3)	107.5
116.9	10.6	127.5

- FY16:
 - o Pre-tax gain on sale \$40.2m recorded in revenue
 - o Operating PBT \$10.3m
- FY15:
 - o Operating PBT \$13.9m

TAX IMPLICATIONS OF HCP ACQUISITIONS

- Healthcare Practitioners acquired on or after 1 July 2015:
 - o Deferred tax liability (DTL) to be recognised at the time of the acquisition of healthcare practices and capitalisation of contractual relationship intangible assets.
 - o Equal movement in DTL will ensure an effective tax rate of 30%.
- Healthcare Practitioners acquired prior to 30 June 2015:
 - o No DTL has been recognised regarding the acquisition of healthcare practices and capitalisation of contractual relationship intangible assets to-date.
 - o Therefore there is a non-deductible (permanent) difference which will increase the notional effective tax rate above 30%. This will progressively decrease as the associated amortisation expense is recognised and runs off.
 - o The additional accounting tax expense is as follows (updated from 1H 2016):

\$ million	2017	2018	2019	2020
Additional Accounting Tax Expense	11.2	8.8	5.9	2.5

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