

HEALIUS LIMITED (ASX: HLS)

ANNUAL GENERAL MEETING 2021

CEO's SPEECH

Thank you, Rob.

I also add my welcome to everyone that has joined us online today.

Following a year of significant change along with a few outstanding achievements, it is an honour to be speaking to you today as CEO of your company.

Firstly, I would like to echo Rob's sentiments about how impressive our people have been throughout the COVID pandemic.

I am honoured and fortunate to lead a group of people who have gone above and beyond in service to their communities.

The team at Healius have rolled up their sleeves and done whatever was asked of them - and more – to help Australia get through this health crisis.

- We've reconfigured our laboratories and invested in new equipment
- We've set up 89 dedicated and drive-through COVID collection centres for safe and easy public access, supporting both our metro and regional communities
- Our people have been working around the clock, often 24 hours a day / 7 days a week in all sorts of weather
- We have maintained capacity to manage huge surges in testing
- We have introduced technology innovations to improve the service, and
- We have successfully leveraged our national laboratory network to cope with surge demand in an individual state.

All of this is in addition to providing our essential healthcare services.

Little of this would have been possible had it not been for the support the Federal Government has provided for the indispensable part private pathology has played in the nation's response to the pandemic.

Turning to the executive team, they and their teams have produced outstanding results in what was another challenging year.

They are online and more than happy to answer questions when we get to that part of the meeting.

In NSW we have:

- **Maxine Jaquet**, our CFO and COO
- **Dean Lewsam** our CEO of Imaging

- **Peter Wilson**, our Group Executive People and Shared Services and
- **Mark Neeham**, our Group Executive Government Affairs.

In Western Australia we have:

- **John McKechnie** who is CEO of the Pathology division, and

Janet Payne, our Group Executive Corporate Affairs and **Ben Korst**, CEO of our Montserrat Day Hospitals division are unable to join us today.

On the subject of the executive team, there will be a change of leadership in our Day Hospitals business. After eleven years as CEO of Montserrat, Ben Korst will be stepping into a new role developing greenfield short stay facilities for Montserrat. I would like to thank Ben for his contribution as CEO, he has long been a champion of the Day Hospitals model and his energy and vision for the business have been instrumental to its success.

Henry Barclay will succeed Ben as CEO of Montserrat, commencing 1 November. Henry has extensive knowledge of the Australian Day Hospital sector and healthcare industry, having previously worked in executive and director roles with the Cura Day Hospitals Group for over 10 years, and has over 20 years' experience in strategic, financial, commercial and operational leadership. Henry is the right person to lead Montserrat to even greater heights.

Let's now turn to how we have been trading in the first quarter. In terms of revenue and EBIT, it has been an extraordinary start to the year.

Looking at our continuing operations:

- Unaudited Group revenue was up 44% to \$690 million, compared to \$480 million in the prior comparable period.
- Unaudited Group underlying EBIT was \$202 million, an increase of 159% on the same period in FY21.

In terms of our trading trends:

- **Pathology** revenues have been strong in the first quarter of the year and continue to be so in October:
 - Non-COVID revenues are ahead of the prior comparable period despite the lockdowns in NSW, Victoria and ACT. What's more, we are seeing further recovery in NSW as restrictions ease.
 - COVID PCR test volumes have averaged above 40,000 per working day and that has continued into October, while
 - commercial COVID testing continues to perform well, with testing being performed for government, sporting codes, film production and mining companies.
- **Imaging** revenues have fluctuated due to the lockdowns in NSW and Victoria and outbreaks in other states:
 - Revenues are slightly down vs the prior comparable period, with NSW and Victoria being two of our Imaging business' largest markets,
 - Medical centre imaging and NSW Metro have been the hardest hit due to a mix of the effect of telehealth on medical centre traffic and lockdowns more generally.
 - Pleasingly, from late September and into October we have seen a progressive recovery in NSW Metro revenue.

- Our **Day Hospitals** division was also impacted in the first quarter, with revenue down on the prior comparable period. Pleasingly, Westside Private Hospital and Montserrat's oncology hospitals have tracked ahead of 1QFY21.

We are encouraged by the recovery we are seeing in NSW in October to date as vaccination rates increase and restrictions ease.

With communities now learning to live with COVID and adjusting for the new normal, we expect COVID PCR testing to continue to be pivotal to Australia's COVID response and the gold standard for testing. As the economy reopens, despite high vaccinations levels, it is expected that the Delta strain will continue to circulate in our communities as evidenced in other international settings.

In the UK, with all COVID restrictions removed for several months now and where rapid antigen tests are free and widely available, COVID PCR testing volumes continue to run at between 500,000 and 600,000 tests per day. Allowing for the relative difference in population size, this represents a similar testing rate to that seen in Australia over the last few months.

New treatments for COVID, including the recently announced oral medication from MSD, will mean anybody with cold and flu symptoms will need a COVID PCR test. This new oral treatment needs to be started early in the course of COVID illness and a rapid antigen test will not suffice.

With international borders reopening soon, Healius Pathology is well placed to assist travellers with mandatory PCR testing. We have also developed innovative digital solutions for travel documentation. At Healius we believe COVID PCR testing will be part of the health landscape for years. To that end, Healius has invested in additional testing equipment including rapid PCR machines to meet demand for testing, to ensure turnaround times are as short as possible and to keep our communities safe.

Having said that, there still remains a level of uncertainty in relation to the impact of economies and borders reopening. Both our non-COVID and COVID revenues may be affected, positively and negatively, by:

- Further outbreaks of COVID and the emergence of new strains,
- Federal and state government responses to outbreaks including further lockdowns, restrictions on clinical activity, and funding mechanisms for community COVID testing

Given this high level of uncertainty, we will continue to provide periodic trading updates rather than providing profit guidance for FY22.

I would also like to provide you with a quick update on the Adora sale. In August, we announced the sale of Adora IVF and three co-located day hospitals to Virtus Health for \$45 million. Last week the ACCC obtained an interim injunction preventing the sale of Adora and the matter is before the court again this week. While we expect the transaction to complete, we will of course update the market once a decision has been reached.

Turning to our strategy. Healius strives to deliver long-term sustainable growth through the improvement of existing businesses and development of new opportunities.

The Sustainable Improvement Program (SIP) Phase 1 was introduced in FY19 to reduce costs and improve efficiencies across the Group. It is now complete and delivered net annual cost savings in our continuing operations of \$58 million. This was achieved through over 200 initiatives and delivered ahead of schedule. In FY21, we also achieved the targeted \$15 million per annum in support services cost savings in the areas of telecommunications, facilities management and utilities, and outsourcing of the Global Business Services.

SIP Phase 1 has laid a great foundation for our businesses and we are well placed to deliver on the next phase of growth.

As we have previously announced, SIP has now been extended to Phase 2. We are making great headway in the delivery of the second phase, where we've expanded the focus to broader structural productivity and revenue driver improvements.

The target outcome is for 300 basis points of EBIT margin growth in Pathology and Imaging by the end of FY23 – compared to FY19 EBIT margins. We are also building longer-term capabilities in spend and capital management, data-led operations, customer centricity, product and innovation and network optimisation.

To achieve these outcomes, we are investing in our people and capabilities required for long-term sustainable growth.

We have brought in people with specific expertise in digital, logistics, sourcing, and commercial, to work alongside the operations team to manage the business improvement program.

Despite COVID-related operational challenges in FY21, here are some of the SIP Phase 2 highlights:

Under **digital and automation**, we improved fuel efficiency in our collection fleet, reducing our CO₂ footprint, through the installation of vehicle monitoring devices.

We've implemented pilots of Digital Pathology in our Veterinary segment. This is an exciting and developing area that we will talk more about as we expand our capabilities in this space.

We completed our first large scale deployment of AI in our Imaging business. This supports our work with BUPA and the Department of Immigration where we do a high volume of chest X-ray health screenings for conditions such as tuberculosis. AI in radiology is a support tool to assist our radiologists in their decision-making thus improving efficiency, accuracy and turnaround times. We are looking to further deploy across other imaging modalities where we have other pilot programs.

In terms of **network optimisation**, in FY21 we closed approximately 175 low margin pathology Approved Collection Centres. In Imaging, we rationalised some underperforming community and medical centre sites and opened two new comprehensive multi-modality clinics during the year.

We have made some progress in **workforce management** embedding richer data reporting for management and front-line staff, with work underway in rostering systems, productivity tools and lean optimisation of laboratory operations.

And in **sourcing** we have benefitted from retendering in areas including consumables, after hours reporting and maintenance.

Turning to our effort in the digital space in more detail. Last year I spoke about our aim to drive a best in class customer experience across all our healthcare services. We have been working towards this, introducing a number of digital innovations in FY21.

- We launched an e-commerce platform in our Pathology business that is suitable for existing and future COVID and non-COVID products, broadening our reach and improving access to services for our customers,
- We deployed a QR-code based digital order automation for COVID testing, increasing efficiency, and

- We are well advanced on the digitisation of our imaging clinics, as we uplift our services, aiming to deliver a more customer-centric, modern service. These improvements will enhance the way the business interacts with both patients and referrers.

Our current Pathology Laboratory Information System, despite its age, has been performing well, supporting the record COVID test volumes we have been seeing in recent months, in addition to our non-COVID pathology volumes. As we have previously announced, an upgrade is underway to deliver an end-to-end customer centric platform.

- Digital enhancements will increase data flow and dramatically improve access for our referrers and patients.
- All of our laboratories Australia wide will be migrated onto a single platform, greatly improving efficiency.
- To reduce the risk of such a large technology upgrade, we have chosen a modular approach with a blend of in-house solutions and proven off the shelf products.
- Patient and referrer touchpoints are being prioritised, some of which can also be leveraged across imaging.

To manage this modernisation, we are expanding our internal capability in technology domains such as architecture, data engineering, cloud infrastructure, and cybersecurity amongst others, which are all core competencies for the future. We are partnering with high calibre technology service providers to augment our internal capacity.

The program is still expected to cost within the \$85-90 million envelope previously announced and to take another two to three years to complete, sequenced to deliver tangible benefits along the way in operating cost efficiencies as well as increased referral revenue.

Turning to our growth strategy.

Healius continues to build the foundations for a more growth-oriented and sustainable business. With the sale of Healius Primary Care and Adora, we have realigned our portfolio and strengthened our balance sheet.

We acquired the Axis Imaging Group, a group of four practices in Queensland.

To further our Imaging growth strategy, we have rebranded the business to Lumus Imaging, unifying it under one national brand. As part of the rebranding, the business is focusing on improvements to its online presence and delivery of a more modern service, with customer centricity at its core.

In addition to our SIP Phase 2 and digitisation priorities that I have outlined, Healius is focused on exploring acquisitive growth, core and adjacent to existing competencies. We are exploring opportunities both within Australia and globally, including in specialty areas of pathology.

At our last AGM, I advised you that we aim to build Day Hospitals into a substantial third business. Today, I am pleased to announce the development of a new Monserrat day hospital and cancer centre, Murdoch Private Hospital, in Perth, our twelfth short stay hospital in Australia. Following the ongoing growth and success of Montserrat's Westside Private Hospital in Brisbane, Murdoch Private Hospital will be Montserrat's most innovative to date.

Healius is strongly positioned for growth and we intend to use our strong balance sheet and cash flow wisely. We are determined that we will apply our capital carefully and strategically, to ensure that any future acquisitions deliver sustainable growth for our shareholders.

In closing, as Rob has mentioned, with a stronger balance sheet, improved cash flow and a streamlined portfolio, our business is on a positive trajectory.

We are in the process of building a sustainable business, sustainable for our people, our shareholders, our customers and our communities.

For the Australian community at large, over and above the COVID-19 imperative, we're continuing to deliver our essential frontline healthcare services safely, efficiently and effectively, throughout the many state-based lockdowns.

We are focused on furthering Healius' sustainability agenda, building a pathway to carbon neutrality.

For our people, our greatest asset, we continue to strive to be a workplace of choice for all healthcare professionals, to live our 'WE CARE' values, to reward our teams for their efforts and to deliver on diversity, inclusion and equality.

Innovation in COVID-19 has improved consumer interaction and this is here to stay. It includes texting results and working with the travel sector on testing certificates to facilitate the safe opening of our international borders.

But there is a lot more we are working on. With our strong cash flow, we are taking the opportunity to invest in leading-edge applications to permanently change for the better how consumers access diagnostic healthcare in Australia. More than ever, Healius is committed to delivering excellence in healthcare and leading Australia to a healthier future.

Finally, I would like to extend my thanks to our shareholders for your continued support and I look forward to another year of growth.

I will now return you to your Chairman, Rob Hubbard.

ENDS