

PRIMARY HEALTH CARE LIMITED
ANNUAL GENERAL MEETING 2018
22 NOVEMBER 2018
CHAIRMAN'S ADDRESS

Good morning ladies and gentlemen.

Welcome to the 2018 Annual General Meeting of Primary Health Care Limited.

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

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

[SLIDE: BOARD OF DIRECTORS]

Here with me today, from your left to right, are:

- Dr Errol Katz, Non-executive Director
- Sally Evans, Non-executive Director
- Gordon Davis, Non-executive Director
- Dr Malcolm Parmenter, our Managing Director and CEO
- [lectern]
- Charles Tilley, Company Secretary
- Arlene Tansey, Non-executive Director
- Dr Paul Jones, Non-executive Director

Well it gives me great pleasure to address you for the first time as chair, having served as a Non-Executive Director and Chair of the Audit Committee for just under four years.

It's been an extremely busy time in those four years as we reset the Company's foundation, identify pathways for growth and prepare the business to meet the changing healthcare needs of Australians wherever, however and whenever they want it.

This is an evolving process and, while there's more to do to get us onto a stronger platform, your Board and Management team have a clear vision and strategy of where we are heading.

Furthermore, we have taken some significant steps in recent months, including a \$250 million capital raising, which was essential to accelerate our growth agenda, and acquisition of a day hospital business called Montserrat. Your CEO, Dr Malcolm Parmenter, will talk more about these steps shortly.

What I'd like to do now is to give you a quick run through of the results, cover off some of the legacy matters, and take a look at the Board changes. Then I'll invite Malcolm to talk about the strategy.

[SLIDE: FY18 RESULTS]

Overall in financial year 2018, revenue was up nearly 5 percent and our underlying Net Profit after Tax was broadly in line with the previous year at \$92.3 million.

Indeed we were on track to achieve growth over the previous year before a drop in referral activity in May and June slowed our momentum.

After the results were announced in August, we had to put through an adjustment for the decision by the Fair Work Commission at Dorevitch in Victoria. This reduced our profits by \$4.8 million and

hence the difference between the results in August and those in the Annual Report which are on the screen behind me.

Overall, our free cash flow improved by around 4 percent. We invested just over half of this in growth initiatives, including our Perth IVF facility, Brisbane Private Imaging, Imaging at the Northern Beaches Hospital, and four new Medical Centres which have been on the drawing board for several years. Debt levels were broadly flat.

Your Directors approved a final, fully franked dividend of 5.5 cents per share, which was paid in August. The total dividend for the year was 10.6 cents per share. This equated to a payout ratio of 60% of underlying net profit after tax, a ratio that has been set to reflect your Company's growth strategy.

[SLIDE: DIVISIONAL HIGHLIGHTS]

At a divisional level, **Pathology** grew its revenue and its contribution in the year, before the subsequent events adjustment I've just mentioned.

An important cost control lever for us is the management of our approved collection centre rentals and I am very pleased to report that we reduced these costs as a percentage of revenue for the first time in several years.

In **Medical Centres**, the process of transitioning our GPs onto more flexible capital-light contracts is nearing completion, with only about one-quarter of the cohort remaining on the traditional Primary five-year contract model.

This process negatively impacts the profit contribution but the other side of this coin is the reduction of upfront payments to GPs, which has more than halved from \$64 million in 2015 to \$25 million in 2018, delivering an improvement in the timing of our cash flow.

In terms of our GP numbers, we recruited a record 159 new GPs in the year and laid the foundations for successful recruitment in the future, such as:

- GPs' contracts have been shortened and simplified.
- We have regional recruiters focussed on placing the right GP into the right centre.
- Appointments are being rolled into our centres allowing GPs to offer on-going care to individual patients.
- We have extended our training for registrars and GPs through our thriving Clinical Institute.
- We are creating a truly clinically-enabling environment.

Our dental business is going from strength to strength and IVF opened its fourth clinic in WA in July this year. We are now the fourth largest provider of dental services and the largest provider of bulk-billed IVF services in Australia.

The **Health & Co** network, with eleven stand-alone clinics and 100 contracted doctors, achieved a break-even run rate as it exited financial year 2018.

The **Imaging division** reported another good result, with its contribution up nearly 17%, reflecting the turnaround strategy over last 2 years and the focus on Hospital and Medical Centres segments.

At **Corporate** we continued to enhance our group Finance, Property and HR services while, perhaps most importantly, progressing the development of a strong, central IT platform for the group. These programs should help to deliver efficiencies, mitigate risks and improve our data security, a topical matter in the current climate.

[SLIDE: UNPAT RECONCILIATION]

We get a few comments from the market, and there may be questions today, on the size of our adjustments between statutory and underlying profits and I'd like to say a few words on this matter.

In terms of the strategic initiatives, we have several major projects underway. While these span more than one year, they are transformational in nature and are unlikely to ever be undertaken again at such a collective magnitude.

By this I'm referring to our core IT platform refresh in Pathology and Imaging, the repositioning of our Medical Centres, and the modernisation of our corporate functions.

Primary has a collection of highly valuable businesses, albeit demanding refresh and new investment. It is therefore imperative that the underlying trading performance of the businesses grows organically and is neither distracted nor distorted by the performance in these major projects.

However, delivery of the projects within scope and on budget is also important. Hence we have the projects separately identified, budgeted and reported on. This is the way we manage our results and hold the executive team to account and this is the way we report them to the market.

[SLIDE: ROB HUBBARD]

I would also like to make another key observation.

The Board, Management and yourselves, as shareholders, have been tackling and absorbing a number of legacy matters over the last few years, including the ATO ruling on upfront payments to GPs in 2015 and the write-off of goodwill from the old Symbion acquisition in 2017.

Most recently we have seen the Fair Work Commission in Victoria bring down an unexpected ruling regarding our pay levels for pathology collectors and couriers at Dorevitch.

We acknowledge the adverse remarks about our past approach to bargaining at Dorevitch and have already responded with a number of senior management and cultural changes. In terms of the financial impact we are introducing a range of initiatives to offset the cost increase.

We also announced an issue in our Medical Centres division where we had been inadvertently underpaying a number of staff under the Modern Awards. There had been no complaints, this was an error identified by ourselves.

Importantly, we are committed to contacting everyone who has been impacted, regardless of the size of the amounts owing, and to remediate the issue as transparently and as quickly as possible.

Whilst, we are intent on a profitable future, it has to be socially-responsible one and never out of the pockets of our own people.

We believe these are the last of the legacy issues.

We are now looking forward, not looking back. What we are looking at is a future with a detailed and fully-funded strategy for the evolution of our businesses.

In fact, we are building on the foundational strengths from our past, and positioning our company to be the standard-setter in the provision of quality, affordable and accessible healthcare services.

[SLIDE: BOARD CHANGES]

Turning to the Board, we have seen the retirement of our long-standing chair, Rob Ferguson, due to family circumstances. We are indebted to Rob for his counsel and leadership. He guided Primary through a period of significant growth and change, including the opening of 23 medical centres, the commencement of Primary's IVF business and the creation of the Primary Health Care Training Institute.

We have welcomed a new director, Sally Evans, to the Board. Sally has already brought a fresh perspective to our discussions and you will have a chance to hear from her later in the meeting and vote on her appointment.

Gordon Davis is now chair of the Audit Committee and Arlene Tansey has assumed Chair of Remuneration and Nomination Committee. These directors will chair the relevant motions later on and are also standing for re-election.

[SLIDE: ROB HUBBARD]

Turning briefly to remuneration, at this AGM we are, of course, seeking approval for our current Remuneration Report.

We have three clear goals:

1. Align the interests of our key employees with shareholders
2. Motivate our key employees to achieve the business plan
3. Retain key employees

In the Remuneration Report we advised that we were considering alternatives to our existing STI and LTI plans, which we think may no longer be fit for purpose. This work is ongoing and, whilst not yet complete, will reflect certain additional principles:

- Predominantly equity-based to increase alignment and ensure management benefit from the rewards of the growing share price that should follow from achieving our business plan
- Take into account the term of our business plan being 5 years, again providing greater alignment

We will endeavour to avoid the remuneration trap of complexity and hence opacity. However in my experience simplicity often takes longer to design. We will also reflect on the messages from the current AGM season and the Royal Commissions and then road-test any potential plan with key investors and other stakeholders, before seeking approval for a change.

To conclude, we believe frontline care, supported by leading diagnostic and pathology services, is not only the most effective means of delivering healthcare, it is in the best interests of patients and of managing the ever-increasing burden of future health costs.

We further believe Primary is well positioned to be Australia's leading provider of frontline care. This can all be achieved through creating an attractive working environment for our employees and healthcare professionals and a valuable patient experience, and from these returns to our shareholders should grow.

On behalf of the Board of Directors I would like to thank all the healthcare professionals, employees and the management team for their hard work and commitment over the last twelve months.

I would also like to thank you, as shareholders, for your continued support.

Enough of the past, I now welcome Malcolm to share with you his vision and strategy for Primary.

Thank you.