

1H 2016 RESULTS

6 MONTHS ENDED 31 DECEMBER 2015

17 FEBRUARY 2016

OVERVIEW

1H 2016

- Underlying result in line with expectations
- Reported results strong supported by one-offs
- Strengthened balance sheet
- Dividend of 5.6 cps, 60% UNPAT payout, DRP/BSP suspended
- Platform for improvement in place

2H 2016

- On track for FY 2016 UNPAT guidance and further reduction in leverage
- Initiatives underway to drive margin expansion
- Green shoots in first two months of 2H 2016

Strategic initiatives

- Step change in Medical Centres recruitment and retention with flexible models, pipeline of centres
- Diversification of revenue, piloting selective private billings/out-of-pockets across all divisions
- Aggressive cost reduction initiatives especially in Pathology and Imaging including ACCs
- Increasing flexibility in cost base, balance sheet strengthening, capital recycling

\$ million	1H16 Reported	1H15 Reported
Revenue	835.0	798.6
EBITDA	204.0	196.1
NPAT	68.6	53.4
	Underlying	Underlying
Revenue	815.2	785.7
EBITDA	181.9	188.0
NPAT	50.1	55.6



1H 2016 RESULTS

Bridge Road Imaging Centre, Richmond, Victoria, opened in FY 2015 and expanded in FY 2016

1H 2016 GROUP REPORTED PERFORMANCE

Reported \$ million	1H 2016	1H 2015	Movement \$
Revenue	835.0	798.6	36.4
EBITDA	204.0	196.1	7.9
Depreciation and amortisation	(80.7)	(83.9)	3.2
EBIT	123.3	112.2	11.1
Finance costs	(30.5)	(33.3)	2.8
PBT	92.8	78.9	13.9
Income tax	(24.2)	(25.5)	1.3
NPAT	68.6	53.4	15.2

- Growth in all key profit lines
- Underpinned by:
 - Profit on VEI sale
 - ATO settlement of Healthcare Practitioner (“HCP”) liabilities
- Savings in finance costs with refinance / Retail Bond redemption
- Lower effective tax rate driven by non-recurring items

1H 2016 GROUP UNDERLYING PERFORMANCE

Underlying ¹ \$ million	1H 2016	1H 2015	Movement \$
Revenue	815.2	785.7	29.5
EBITDA	181.9	188.0	(6.1)
Depreciation and amortisation	(79.8)	(75.3)	(4.5)
EBIT	102.1	112.7	(10.6)
Finance costs	(30.5)	(33.3)	2.8
PBT	71.6	79.4	(7.8)
Income tax	(21.5)	(23.8)	(2.3)
NPAT	50.1	55.6	(5.5)

- Underlying profit principles applied consistently to both periods including tax @ 30%
- Underlying results in line with expectations
- Tough operating conditions compared with long term trends
- Expect stronger 2H 2016 with margin expansion initiatives across all divisions (refer slide 20)
- Savings in finance costs

1. Underlying 1H 2015 results adjust for 1-off items (refer slides 22-23)

1H 2016 DIVISIONAL PERFORMANCE

	1H 2016 (underlying)							
	Medical Centres		Pathology		Imaging		Medical Director	
	\$M	%	\$M	%	\$M	%	\$M	%
Revenue	165.3	3.0	482.3	5.7	162.1	(2.1)	21.0	12.3
EBITDA	87.7	1.2	73.4	5.2	30.5	(20.6)	9.4	(4.1)
Depreciation & Amortisation	(39.4)	(5.3)	(13.4)	(10.7)	(20.0)	(9.9)	(2.6)	35.0
EBIT	48.3	(2.2)	60.0	4.0	10.5	(48.0)	6.8	15.3

- Medical Centres started with lower than budgeted HCPs but recruitment and retention ahead of expectations/ net cost per HCP reduced. Amortisation increased with more acquisitions now intangibles rather than goodwill
- Pathology revenue growth ahead of Medicare. Given soft operating environment and funding cuts to Vit D, Folate & B12, cost savings program implemented with aggressive focus on ACCs in 2H16
- Imaging revenue impacted by change in mix and loss of private hospital contracts. Margin compression with cost increases. Cost base reset to support current operating environment
- Customer retention and transactional revenue growth delivered EBIT growth in Medical Director

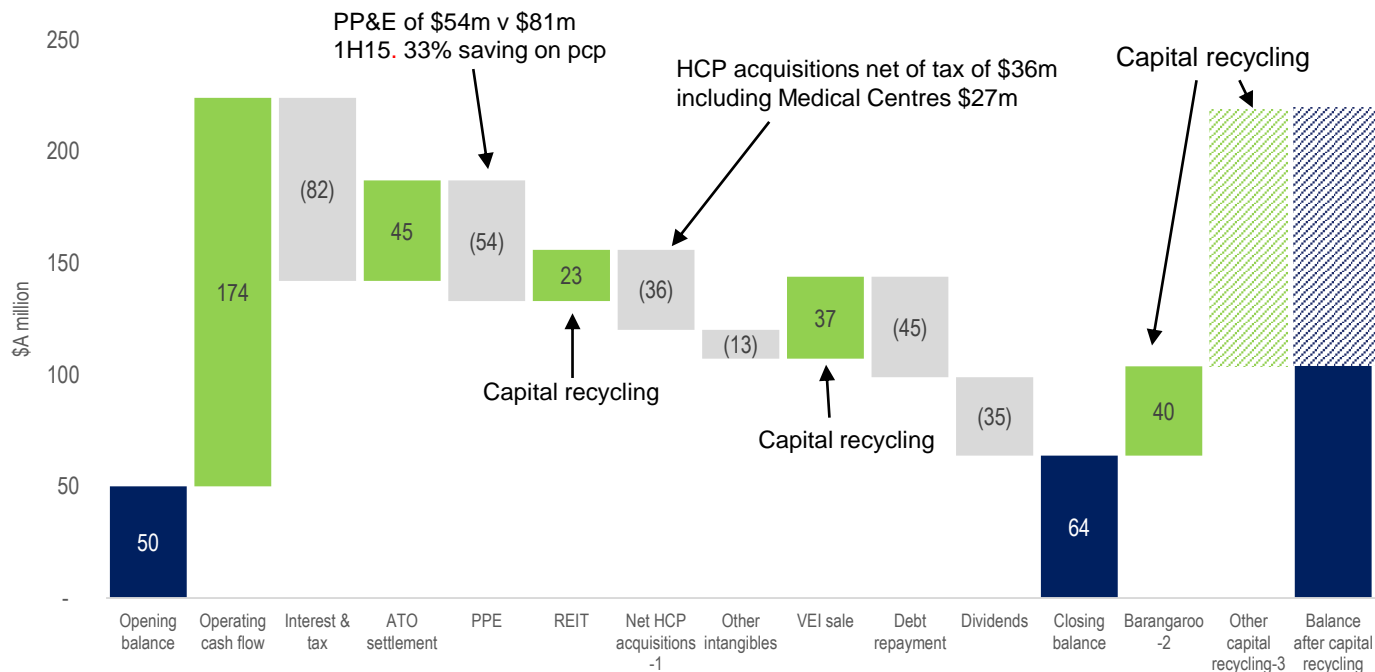
Refer slides 24 to 27 for detailed analysis of divisional performance

1H 2016 NET DEBT AND GEARING

Reported \$ million	As at 31 Dec 15	As at 30 June 15	Movement \$
Bank and finance debt	1,162.6	1,053.2	(109.4)
Cash	(64.2)	(50.0)	14.2
Retail Bonds	-	152.3	152.3
Net debt	1,098.4	1,155.5	57.1
Gearing (net debt: net debt + equity)	30.7%	32.1%	
Gearing ratio (covenant <3.5x)	2.9x	3.0x	
Interest ratio (covenant >3.0x)	6.2x	6.3x	

- Targeting net debt below \$1b / gearing below 30% / gearing ratio below 2.5x
- 20%+ headroom in FY16 UEBITDA before covenants reached
- Improvements in leverage in 2H 2016:
 - Capital recycling initiatives, including Barangaroo, MD, ATO refund
 - New remuneration models for HCPs
 - New funding models for imaging equipment
 - Improved cash flow conversion and reduced dividend

1H 2016 WATERFALL CASH FLOW



1. HCP acquisitions includes \$6.5m healthcare practices acquired and \$41.5m contractual agreements and extensions, less \$12.2m associated tax deduction = \$35.8m. In the Cash Flow Statement Appendix 4D-Half Year Report, tax deduction is included in 'Net income tax paid'.
2. Barangaroo due to settle in March 2016
3. Other planned capital recycling in 2H16

1H 2016 DIVIDEND

	As at 31 Dec 15	As at 31 Dec 14
Dividend cps	5.6	9.0
Dividend payout ratio % (UNPAT)	60%	86%
EPS cps (underlying)	9.65	10.48

- Dividend payout reflective of the company's growth strategy
- Dividend yield of ~ 6.0%¹ v 5-year average yield of 4.2%
- Dividend franked at 50% with franking constrained by ATO refund / potential further refund for FY 2003-07

1. Dividend yield of 6.0% based on 60% payout, middle of forecast UNPAT range, and \$2.19 share price (15/2/16 close)



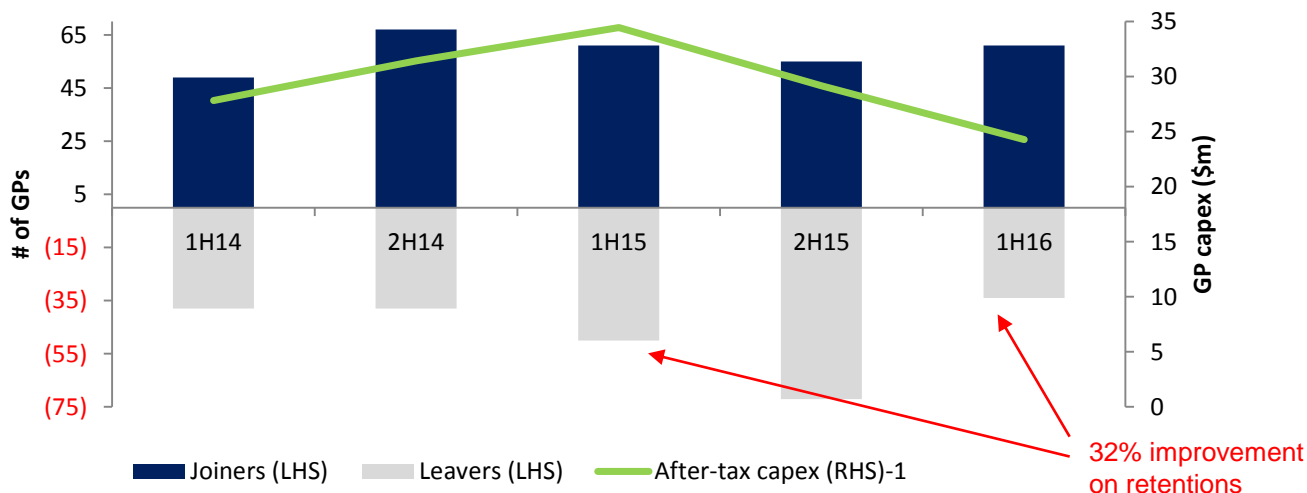
STRATEGIC INITIATIVES

Baulkham Hills Medical Centre, New South Wales opened August 2015

MEDICAL CENTRES

Recruitment and retention ahead of expectations in 1H 2016

- ATO settlement resolved uncertainty
- Recruitment and retention ahead of 1H 2015
- Net cost per GP reducing as benefit from tax deduction/transition to new models
- Improving trend expected to continue



1. \$24m of \$27m HCP acquisitions capex in Medical Centres relates to GPs, \$3m to dentists, allied health and specialists

MEDICAL CENTRES

Step change in recruitment and retention

- Flexible models rolled out 2Q16 with range of offerings
- Initial reaction positive, especially re-signs
- Meet financial, personal and professional needs
- Improving GP engagement with clinical management, lead doctors, training institute

	Bookends	
	No upfront	Full upfront
Upfront cost	No upfront	Maximum of annual billings
Minimum term	1 year	5 years
Share of revenue	Meeting market	50%
Hours worked	Variable	50 hours pw

	No upfront
Impact	Matches revenue and costs, delivers stronger ROIC and cash flow, EBIT neutral
Additional features	Recognises GP productivity / additional after-hours



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MEDICAL CENTRES – PATHWAY TO GROWTH

Central to business model – 8m consultations p.a.

- GP acquisition strategy driven by engagement model including flexible remuneration
- Expecting stronger 2H 2016 to position for growth in FY 2017, returning us to l/t industry rates

Pipeline of centres to roll-out in FY17

- Four large scale centres inc. Corrimal in NSW and 1 super centre funded by REIT

Diversification in revenue

- Rebate freeze headwind
- MBS review outcomes unknown but directionally favourable to GPs - outcome-based, managed care
- Flexibility with different centre structures, new billing models, industrial medicine
- Patient-centric care, supported by IT developments

IVF development

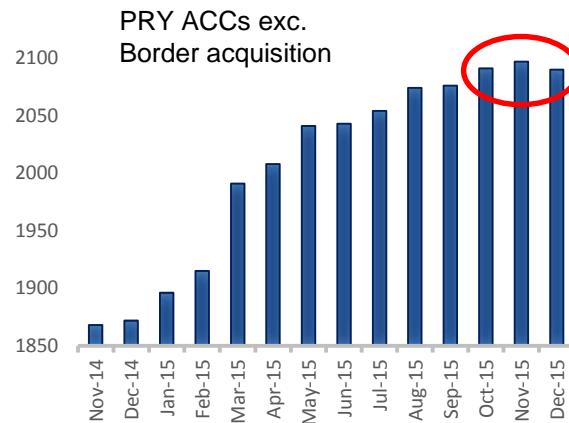
- IVF facility in Melbourne opened November. WA facility due 2H 2016
- 30% of all couples went on to have successful births¹, ahead of industry averages

1. Data reflects couples who started their IVF journey with Primary with births arising from fresh and frozen embryos during the reporting period

PATHOLOGY

Aggressive cost out in ACCs

- ACC deregulation added significant costs to industry
- Unsustainable growth in ACC rents and labour with ~12% CAGR since deregulation
- 2Q 2016 stabilisation in ACC numbers
- Closed/exited 100 sites in 1H 2016
- Further underperforming sites to be managed/closed
- Rent reductions with hurdle rates tightened for new and re-signs
- Strong platform to reset the ACC cost base with 60% of leases able to be renegotiated in next 18 months
- Expect downward trend in costs in 2H 2016



PATHOLOGY

Mature business – 15m patient cases p.a.

- Competitive cost base but revenue pressure and limited to domestic organic growth

Continue to attack cost base

- Strong focus to reduce ACC costs
- Review of regional laboratories and centralisation of certain tests
- Improved procurement and productivity initiatives underway

Expand options in revenue

- MBS review and MYEFO headwinds
- Piloting private /out-of-pocket billings in selective geographies and tests

Diversification of activities

- Expansion of service offerings in specialist areas e.g. histopathology
- Focus on State Government outsourcing opportunities
- Progressing on Asian opportunities

IMAGING

Asset intensive business – 3m examinations p.a.

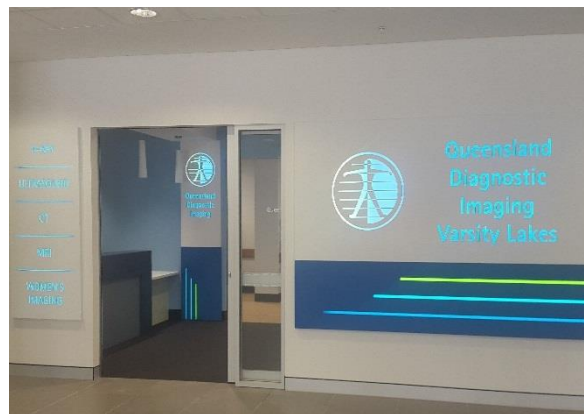
- Emphasis on returns by improving revenue mix and cost-out program in existing asset base
- Transition mix from small community sites to multi-disciplinary medical clinics, specialised, high-yield centres and hospital contracts, resulting in continual review of underperforming sites and further closures targeted
- Site optimisation with increased radiologist attendance

Execute on division-wide cost savings program

- Full review of cost base undertaken
- Labour reductions underway
- Make variable the cost base including equipment funding and remuneration models

Expand options in revenue

- MBS review and MYEFO headwinds
- Progressive implementation of selective private /out-of-pocket billings



Varsity Lakes Diagnostic Imaging, Queensland

CAPITAL MANAGEMENT

Capital recycling progress

- \$40m Barangaroo sale unconditional and will complete in March 2016
- Further capital recycling
- Seeking ATO refund for FY 2003-07

Property trust established

- Established with Australian Unity
- \$22m seeded from Bridge Road and Corrimal sites
- Additional \$30m committed for existing pipeline

Capital expenditure control and focus

- Continuing decrease in amounts paid for HCPs as benefit from tax deduction/transition to new models
- Property trust to fund centre expansion
- New funding models for imaging equipment
- Enhanced focus on returns criteria
- Enhanced cash flow management

RESPONSE TO GOVERNMENT REVIEWS

The facts

- Bulk-billing has been an underlying philosophy for Primary and has served us well
- Funding now under constant pressure – rebate freeze, MBS review MYEFO
- Market growth well below long term trends, the likely consequence of regulatory uncertainty and referral pattern impacts (see slides 28-29)
- Inevitability of changes to funding by Government regardless of whether MYEFO passes

Our response

- Diversifying revenue stream towards higher margin revenue including private billing in all divisions
- New centre structures and billing models, patient-centric care supported by IT developments
- Make cost base more variable and adaptable to prevailing conditions
- Aggressive cost savings through resetting cost base in Imaging and lowering ACC rents in Pathology
- MYEFO impact without mitigation ~\$50m EBIT in FY 2017. Able to mitigate with initiatives, subject to normal risks around competitive response

OUTLOOK

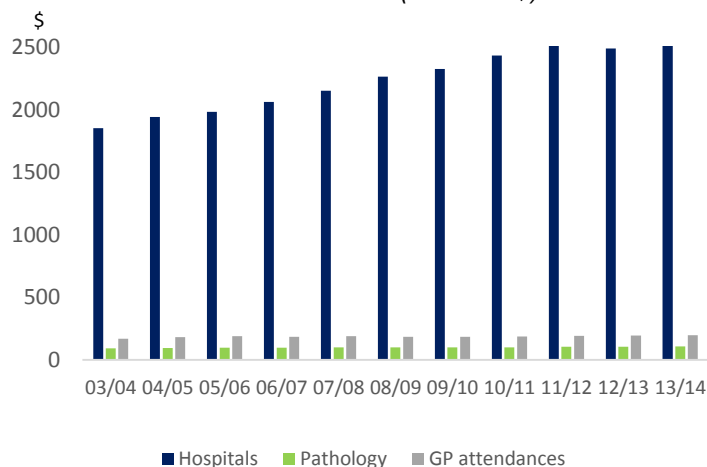
Underlying drivers

- Strong underlying demand with ageing and growing population
- Hospital and chronic care costs unsustainable
- Frontline, preventative care is the most effective form of healthcare
- Large-scale multi-disciplinary medical centres are efficient
- Reduced Government spend ultimately supports corporatised model as lowest cost provider

Our initiatives

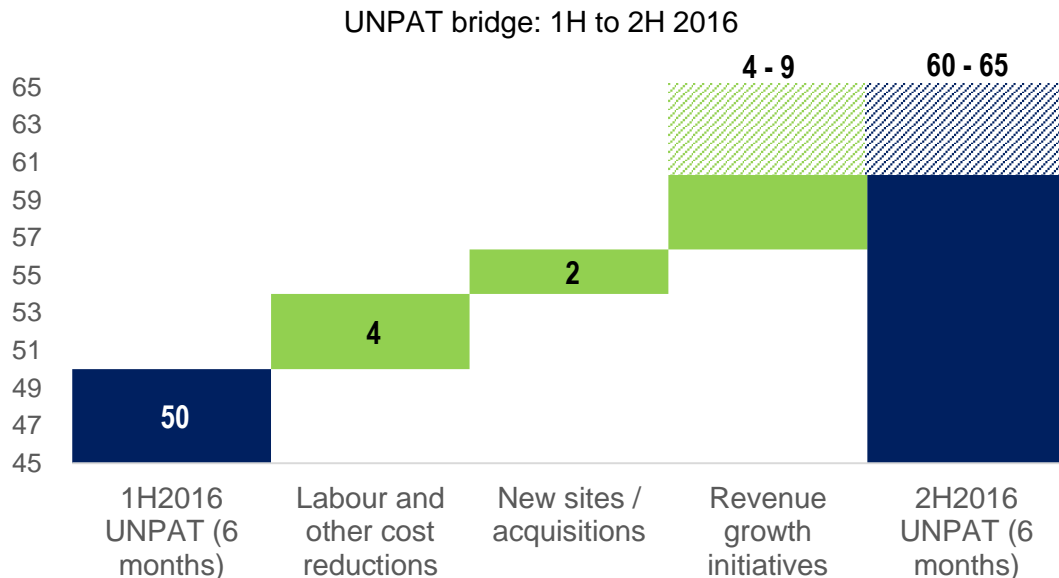
- Grow the size of network and cement position as leading frontline care provider
- Become a partner of choice for HCPs, supported by flexible recruitment models
- Combine with diversified revenue streams, more flexible cost base, lower leverage and focus on returns on investment
- Pathway to growth

Health spending per person,
2003-04 to 2013-14 (constant \$)



2H 2016 & FORECAST

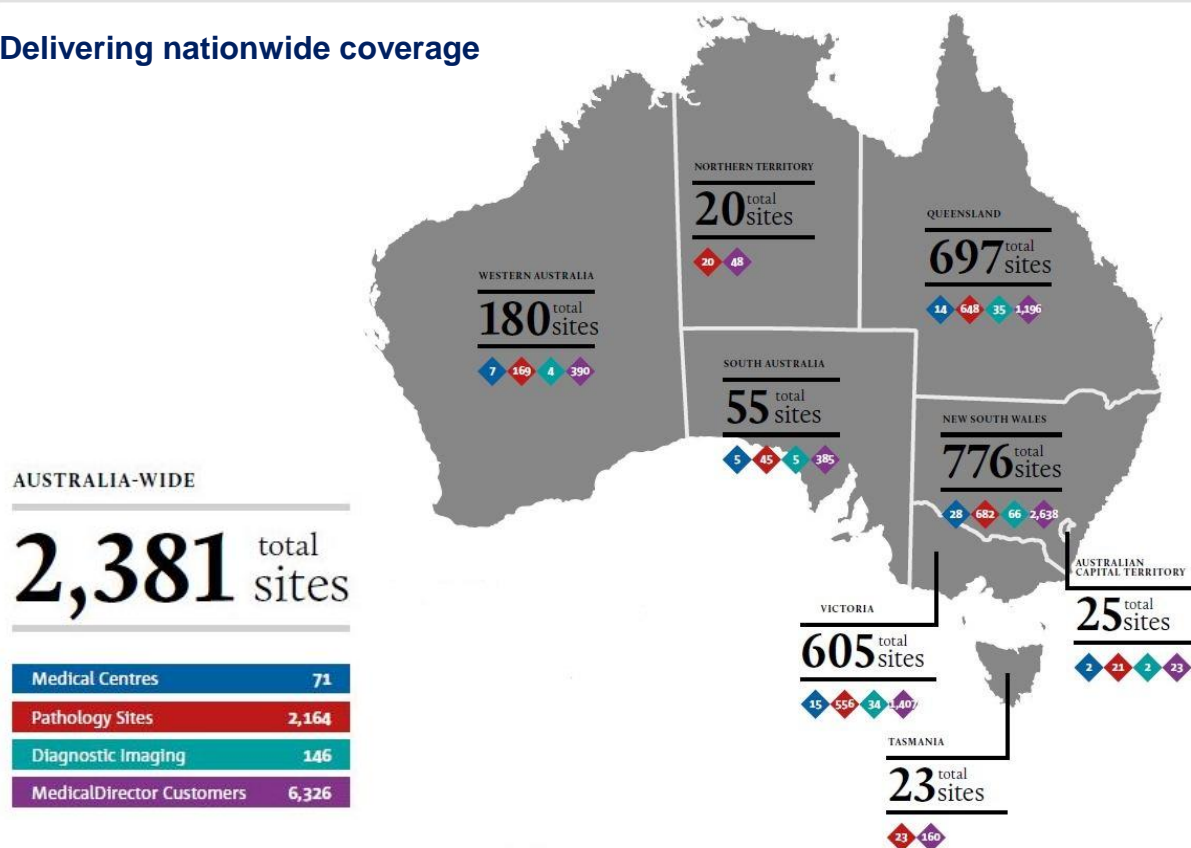
- Expect stronger 2H 2016 underpinned by profit improvement initiatives underway



- Remain on track for current FY 2016 UNPAT guidance of \$110m-\$115m, subject to trading conditions and Government reviews

APPENDICES

Delivering nationwide coverage



As at 30 June 2015

RECONCILIATION OF REPORTED TO UNDERLYING

1H 2016	\$million	Revenue	EBITDA	EBIT
Reported		835.0	204.0	123.3
Gain on sale/dissolution including VEI		(19.8)	(19.8)	(19.8)
ATO settlement		-	(13.5)	(13.5)
Other		-	11.2	12.1
Underlying		815.2	181.9	102.1

- Gain on disposal of Vision Eye Institute shareholding, and other non cash gains on dissolution of a Joint Venture
- Finalisation of ATO Settlement relating to potential Healthcare Practitioners tax liabilities
- Other non cash fair value adjustments and one off items associated with implementation of the various restructuring and strategic initiatives set out in Primary's strategic update released in August and November 2015

RECONCILIATION OF REPORTED TO UNDERLYING

1H 2015	\$million	Revenue	EBITDA	EBIT
Reported		798.6	196.1	112.2
Gain on sale		(1.0)	(1.0)	(1.0)
Accelerated D&A		-	-	8.6
Other		(11.9)	(7.1)	(7.1)
Underlying		785.7	188.0	112.7

- Underlying profit was not reported for 1H 2015. In order to provide comparatives on a consistent basis, non-underlying adjustments have been recognised.
- Gain on sale of shares in Vision Eye
- Non-recurring depreciation of \$8.6m from accelerated asset write downs
- Other non-underlying one-off gains and costs

1H 2016 MEDICAL CENTRES

Underlying \$ million	1H 2016	1H 2015	Movement \$	Movement %
Revenue	165.3	160.5	4.8	3.0
EBITDA	87.7	86.7	1.0	1.2
Depreciation	(9.1)	(10.2)	1.1	10.8
Amortisation	(30.3)	(27.2)	(3.1)	(11.4)
EBIT	48.3	49.4	(1.1)	(2.2)

- Other revenue growth including dental and IVF, offsetting decline in GP revenue. Latter impacted by starting the year with lower than expected GPs
- On-going investment in clinical engagement teams and Primary Health Care Institute contributed to margin compression but investment in future. IVF and THI operated for full 6 months.
- Amortisation increased with more HCP acquisitions classified as intangibles. (100% of acquisition costs capitalised as intangibles and amortised, rather than goodwill - previously 80:20 split)
- Recruitment and retention improved in 1H 2016. Net cost per GP reduced as benefit from tax deduction. Targeting step change improvements as transition to new models

1H 2016 PATHOLOGY

Underlying \$ million	1H 2016	1H 2015	Movement \$	Movement %
Revenue	482.3	456.2	26.1	5.7
EBITDA	73.4	69.8	3.6	5.2
Depreciation	(9.6)	(8.4)	(1.2)	(14.3)
Amortisation	(3.8)	(3.7)	(0.1)	(2.7)
EBIT	60.0	57.7	2.3	4.0

- Increase in volumes drove revenue growth with slight reduction in average fee per episode
- Volumes ahead of market in a soft operating environment (refer slide 28)
- Vitamin D, B12 and Folate cuts impacted revenue and margins. Impact annualised in November
- Aggressive cost savings program implemented, especially in ACCs, given operating environment

1H 2016 IMAGING

Underlying \$ million	1H 2016	1H 2015	Movement \$	Movement %
Revenue	162.1	165.5	(3.4)	(2.1)
EBITDA	30.5	38.4	(7.9)	(20.6)
Depreciation	(13.8)	(13.8)	(0.0)	-
Amortisation	(6.2)	(4.4)	(1.8)	(40.9)
EBIT	10.5	20.2	(9.7)	(48.0)

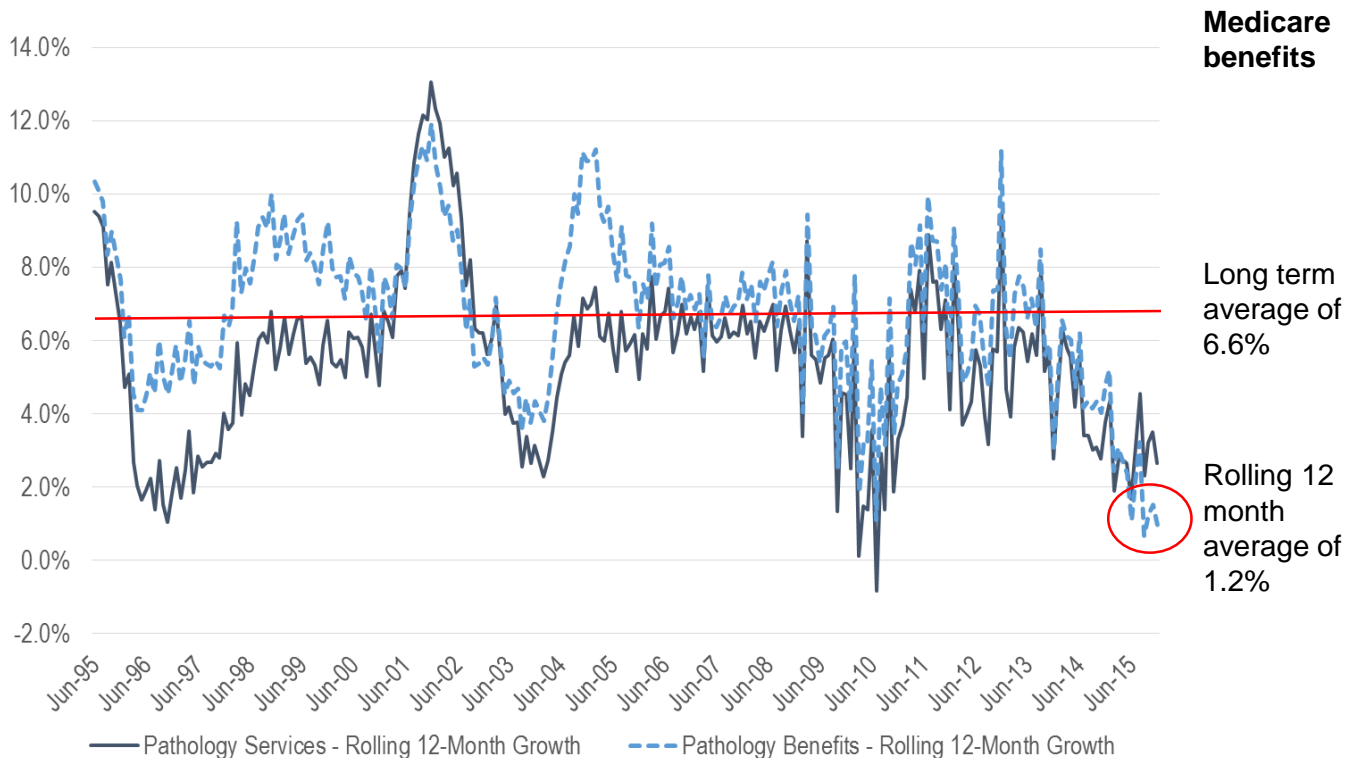
- Revenue drop with 4% reduction in average fee per exam with a change in mix of modalities (from CT and MRI to US and Mammography)
- Volumes above market in tough operating conditions compared to long term trends (rolling 12-month average at 3.3% and 6-month at 1.8% compared with long term 7.0% (refer slide 29))
- Loss of private hospital work impacted, partially offset by strong performance at Bridge Road and transfer of MRI license from Westmead to Liverpool
- Margin pressure from growth in key cost items including labour and property
- Increased amortisation from radiologist acquisition costs
- Cost base reset to support current operating environment

1H 2016 MEDICAL DIRECTOR

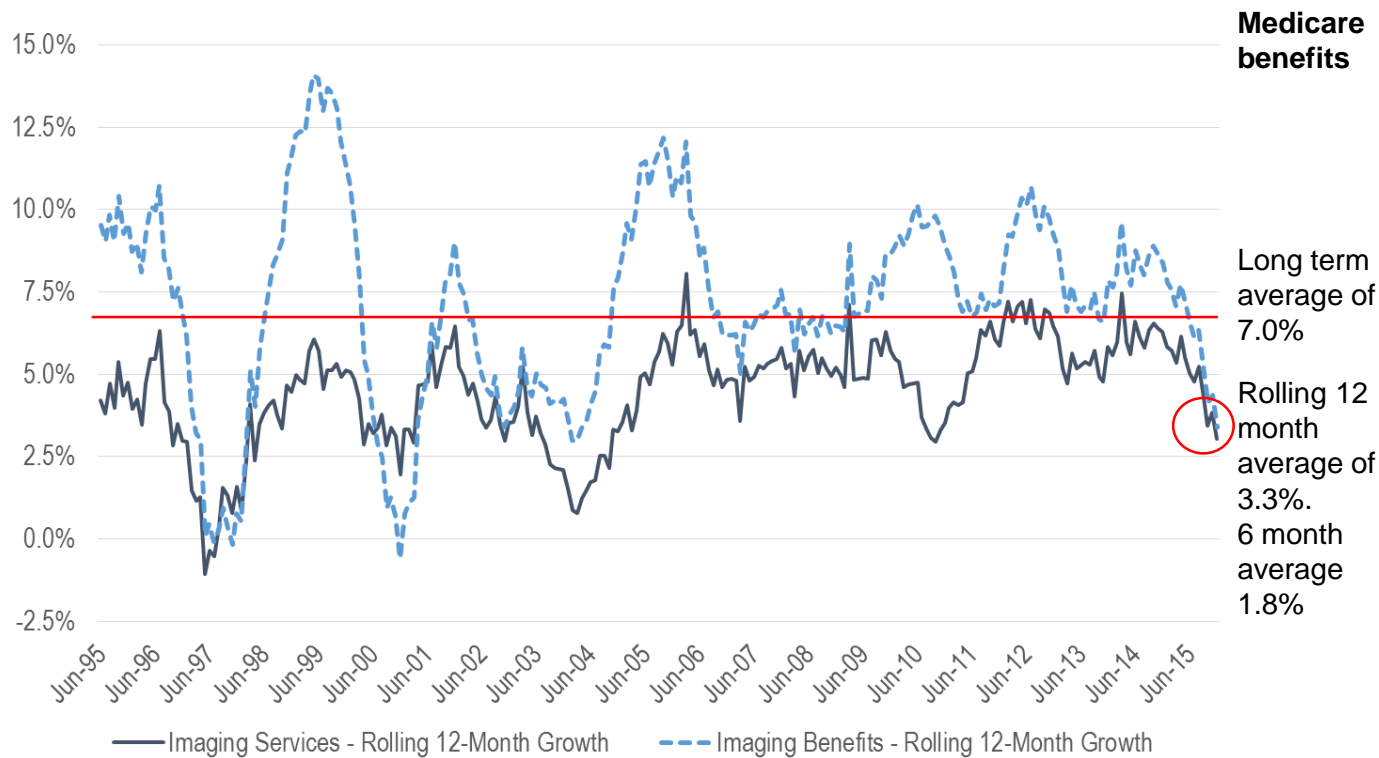
Underlying \$ million	1H 2016	1H 2015	Movement \$	Movement %
Revenue	21.0	18.7	2.3	12.3
EBITDA	9.4	9.8	(0.4)	(4.1)
Depreciation	(0.3)	(0.2)	0.1	(50.0)
Amortisation	(2.3)	(3.8)	1.5	39.5
EBIT	6.8	5.9	0.9	15.3

- Record levels of customer retention and transactional revenue from the software platforms increased gross margins by 6% v pcip
- Awarded Victorian health contract, commenced in September
- Increased operating expenses for software development, marketing and the costs of running the strategic partner process
- Amortisation of intangible asset arising on acquisition of Medical Director rolled off in 1H 2015 delivering 19% EBIT uplift

PATHOLOGY: MARKET SERVICES AND BENEFITS



IMAGING: MARKET SERVICES AND BENEFITS



TAX IMPLICATIONS OF HEALTHCARE PRACTITIONER ACQUISITIONS

- Healthcare Practitioners acquired on or after 1 July 2015:
 - Deferred tax liability (DTL) to be recognised at the time of the acquisition of healthcare practices and capitalisation of contractual relationship intangible assets.
 - Equal movement in DTL will ensure an effective tax rate of 30%.
- Healthcare Practitioners acquired prior to 30 June 2015:
 - No DTL has been recognised regarding the acquisition of healthcare practices and capitalisation of contractual relationship intangible assets to-date.
 - 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.
 - The additional accounting tax expense is as follows (updated from FY 2015):

\$ million	1H 2016	2016	2017	2018	2019	2020
Additional Accounting Tax Expense	7.5	13.6	11.0	8.3	5.3	1.7

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