Results for announcement to the market

Healius Limited

ACN 064 530 516

Appendix 4E – Preliminary Final Report (Unaudited)

For the year ended 30 June 2019

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Healius Limited

Appendix 4E – Preliminary Final Report (Unaudited)

Results for announcement to the market
For the year ended 30 June 2019

$m	% change 2019 vs 2018	2019 Total	Restated 2018 Total
Revenue	+5.9%	1,804.5	1,704.6
Profit for the year after tax	+1,263%	55.9	4.1
Underlying profit for the year after tax [1]	+6.5%	93.2	87.5

CENTS PER SHARE	2019 Total	Restated 2018 Total
Basic and diluted earnings per share	9.2	0.8
Underlying basic earnings per share	15.4	16.8
Underlying diluted earnings per share	15.3	16.8
Final dividend [2, 3]	3.4	5.5
Interim dividend [4]	3.8	5.1
	7.2	10.6

[1] Underlying profit excludes the impact of restructuring/strategic initiatives and other non-recurring items. A full reconciliation between statutory profit and underlying profit is contained in the review of operations on page 5 of this preliminary final report for the year ended 30 June 2019.
[2] The 2019 final dividend will be 100% franked at the corporate income tax rate (2018: 100% franked).
[3] The record date for determining entitlement to the final dividend is 30 August 2019 and is payable on 27 September 2019.
[4] The 2019 interim dividend was 100% franked (2018: 100%).

KEY ACHIEVEMENTS WITH A STRONG RUN-RATE INTO FY 2020

GROUP	PATHOLOGY	MEDICAL CENTRES	EMERGING BUSINESSES	IMAGING
✓ Increasingly positive momentum throughout the year	✓ Improved 2H returns (up 46% on 1H)	✓ Two consecutive halves of improved returns, record number of GP recruits, gross billings per hour up	✓ Montserrat Day Hospitals to deliver a diversified growth platform	✓ Three successive years of double-digit EBIT growth
✓ Rolled out 'Healius' brand – supporting record GP recruitment	✓ FY19 productivity program targets delivered	✓ Over 95% of centres on the same PMS with appointments	✓ Rebrand IVF as Adora Fertility ✓ Fastest growing provider of IVF services in Australia	✓ Market share increasing
✓ Organisational re-design commenced 2H	✓ Progress on laboratory platforms	✓ 15 sites upgraded as planned	✓ SwiftQ Dental launch to address the need for affordable and transparent treatment	✓ Imaging Core Application Refresh (iCAR) roll-out continues with 70 live sites
		✓ Expanded consumer offerings with Skin², SwiftQ, Logic Health		✓ Contract wins and delivery: ◦ Northern Beaches Hospital ◦ Australian Defence Force Health Services

GROUP PERFORMANCE

	30 JUNE 2019 $M UNDERLYING [1]	30 JUNE 2018 $M	30 JUNE 2019 $M REPORTED	30 JUNE 2018 $M
Revenue	1,804.5	1,704.6	1,810.3	1,704.6
EBIT	167.3	160.1	117.4	64.6
NPAT	93.2	87.5	55.9	4.1

UNDERLYING RESULTS

In the year ended 30 June 2019, Healius expanded its returns, delivering underlying NPAT growth of 6.5% on revenue growth of 5.9%.

Underlying EBIT of $167.3 million was recorded, with all three divisions seeing increasingly positive momentum throughout the year. Pathology in particular was up 46% in 2H 2019 compared to 1H 2019. Medical Centres delivered two halves of improved returns from its lows in 2H 2018. Imaging has seen three years of double-digit growth.

The strong result in 2H 2019 was due, in part, to the successful execution of productivity initiatives in response to 1H 2019 market conditions. As an extension to these initiatives, the company is currently undertaking an organisational re-design which aims to simplify the management structures, improve divisional agility and autonomy, and drive a more efficient Group function. It will improve the performance of the Group from FY 2020 onwards.

The underlying EBIT performance in FY 2019 included additional costs of $12.5 million for investment in greenfield sites opened in the last three years including five Medical Centres, five day hospitals and expansion of the IVF services into Queensland and Western Australia. The ramp-up of new Medical Centres is being accelerated through the roll-in of nearby clinics which bring both GPs and patients into these centres, including three at Greensborough in Victoria. A strong increase in performance will occur as Healius stops carrying these start-up costs. Underlying EBIT was $179.8 million and underlying NPAT $102.0 million in FY 2019 normalised for this investment.

[1] Underlying results for the year ended 30 June 2019 exclude the impact of non-underlying items relating to restructuring and strategic initiatives.

REPORTED RESULTS

At a reported level Healius recorded an EBIT of $117.4 million, up from $64.6 million in FY 2018. Known legacy issues have been substantially addressed. This review of operations focuses on the underlying results of Healius which adjust for several items not considered to be part of core trading performance. The adjustments between reported and underlying EBIT are as follows:

	30 JUNE 2019 $M	30 JUNE 2018 $M
Reported EBIT	117.4	64.6
Restructuring/strategic initiatives and other	49.9	46.0
Impairment	-	49.5
Underlying EBIT	167.3	160.1

There are four key strategic projects which are undeniably transformational in nature and unlikely to be undertaken again at such a collective magnitude. These are the Leapfrog project in Medical Centres, the technology platform upgrades in Pathology and in Imaging, and the corporate renewal program. They are reported separately both internally and to the market in order to neither distract or distort the underlying performance. Adjustments in FY 2019 were as follows:

- Leapfrog ($13.1 million)
- Platforms in Pathology ($10.3 million) and Imaging ($3.1 million)
- Corporate renewal program ($9.2 million)

The balance of the adjustments relates to business set-up costs for the Montserrat acquisition and Health & Co deferred payments ($5.1 million), restructuring and redundancies ($3.1 million), and other costs including rebranding and corporate defence costs ($6.0 million).

The adjustments to reported results will continue until these strategic programs are completed. The non-underlying costs relating to the Imaging platform are expected to cease and the Leapfrog program to substantially reduce after FY 2020 while the Laboratory Information System implementation in Pathology is a five-year project. The corporate renewal program is likely to increase under the organisational re-design program with acceleration of the digitisation and automation in financial shared services to bring forward potential efficiency gains. The organisational re-design also involves a redundancy program consistent with the planned simplification of the management structure and the Group function.

TAX EXPENSE

The Group reported an income tax expense for FY 2019 of $27.3 million, which equated to an effective tax rate of 32.8%, $2.3 million above the prima facie tax expense of 30%. This was primarily due to the $4.9 million permanent difference associated with amortisation of healthcare practice acquisitions prior to 30 June 2015. The additional accounting tax expense for these acquisitions will cease in FY 2020. From FY 2021 onwards, Healius expects the Group's effective tax rate to revert to 30%, assuming the current structure and nature of the business. An effective tax rate of 30% has been adopted for underlying NPAT.

CASH FLOW AND NET DEBT

Group cash flow for FY 2019 is set out below in comparison to FY 2018:

	30 JUNE 2019 $M	30 JUNE 2018 $M
Operating cash flows	127.6	202.2
Maintenance capex	(51.6)	(56.8)
Free cash flow	76.0	145.4
Growth capex	(176.4)	(76.6)
Cash flow after growth capex	(100.4)	68.8
Capital recycling	10.5	1.2
Dividends	(52.3)	(56.9)
Debt reduction/finance costs	(66.0)	(24.6)
Proceeds from issuing shares	244.0	-
Net increase in cash held	35.8	(11.5)
Opening cash	84.0	95.5
F/X	(0.1)	-
Closing cash	119.7	84.0

Operating cash flow in FY 2019 was lower than FY 2018. This included outflows for:

- $22 million back payments for the Healius Medical Centres modern awards adjustment and Dorevitch pay determination, and
- $16 million of additional tax payments including a $10 million refund in FY 2018.

Operating cash flow was used, in part, to fund maintenance capital expenditure of $51.6 million, just below FY 2018 levels, and growth capital expenditure of $176.4 million including:

- $68 million Montserrat Day Hospitals acquisition
- $36 million for the aforementioned strategic projects (Leapfrog ($26.9 million), and platforms in Pathology ($4.2 million) and Imaging ($5.0 million)

Group net debt at 30 June 2019 was $678.2 million compared to $776.8 million 30 June 2018, analysed as follows:

REPORTED $M	30 JUNE 2019 $M	30 JUNE 2018 $M
Bank and finance debt	797.9	860.8
Cash	(119.7)	(84.0)
Net debt	678.2	776.8
Bank gearing ratio (covenant <3.5x)[1]	2.4x	2.7x
Bank interest ratio (covenant >3.0x)	9.5x	9.0x
Gearing (net debt: net debt + equity)	24.8%	29.9%

The first tranche of Healius' syndicated bank debt facility, totalling $500 million, is due to mature in January 2021 and the second of $625 million in January 2023.

Healius has delivered a significant improvement in its leverage over the last four years from an extensive capital recycling program, free cash flow generation and the $250 million capital raise in FY 2019. In FY 2019, cash usage was high with investment in strategic initiatives and the acquisition of Montserrat. These are expected to deliver substantial operating cash flow in the future.

[1] The bank gearing ratio is calculated based on underlying EBITDA before the impact of AASB 15.

DIVIDENDS

In order to ensure a balance between optimal gearing, investment in strategic initiatives and payment of dividends to shareholders, the Board has decided to temporarily reduce the dividend. The Board has declared a final dividend of 3.4 cents per share fully franked, which equates to a payout ratio of 60% of Reported Net Profit after Tax. This brings the total for the year to 7.2 cents per share fully franked (FY 2018: 10.6 cents per share). It is expected that the payout ratio will return to previous levels on completion of the current investment phase in the business.

DIVISIONAL RESULTS

The underlying EBIT performance of each operating division is set out below. An analysis of the performance and the strategies which underpin each business is contained in the divisional sections.

FY 2019 $M	PATHOLOGY	MEDICAL CENTRES[1]	IMAGING	CORPORATE	GROUP [2, 3]
Revenue [3]	1,128.3	327.4	391.3	0.3	**1,804.5**
EBITDA [3]	136.2	61.4	54.1	(15.7)	**236.0**
Depreciation	(19.8)	(20.4)	(13.4)	(3.1)	**(56.7)**
Amortisation	(5.3)	(3.4)	(2.0)	(1.3)	**(12.0)**
EBIT	111.1	37.6	38.7	(20.1)	**167.3**

FY 2018 $M	PATHOLOGY	MEDICAL CENTRES[1]	IMAGING	CORPORATE	GROUP [2, 3]
Revenue [3]	1,090.6	289.7	362.6	–	1,704.6
EBITDA [3]	138.7	53.7	51.2	(15.6)	228.0
Depreciation	(19.0)	(18.0)	(14.0)	(2.5)	(53.5)
Amortisation	(5.6)	(4.1)	(3.4)	(1.3)	(14.4)
EBIT	114.1	31.6	33.8	(19.4)	160.1

[1] Medical Centres includes Healius Medical Centres, Health & Co and Montserrat

[2] $42.8 million of inter-company revenue/expenses have been eliminated at the Group level (FY 2018: $38.3 million)

[3] Healius adopted AASB 15 from 1 July 2018 which adjusts for upfront payments. This led to a $39.5 million reduction in revenue and EBITDA, but a nil effect on EBIT in the year. FY 2020 will see a material improvement in EBITDA and EBIT following the adoption of AASB 16 on leasing.

BUSINESS REVIEW PATHOLOGY

UNDERLYING PERFORMANCE

	30 JUNE 2019 $M	30 JUNE 2018 $M	BETTER/(WORSE) %
Revenue	1,128.3	1,090.6	3.5
EBITDA	136.2	138.7	(1.8)
Depreciation	(19.8)	(19.0)	(4.2)
Amortisation	(5.3)	(5.6)	5.4
EBIT	111.1	114.1	(2.6)
Total capital expenditure	35.1	21.1	(66.4)

In FY 2019, Pathology grew its revenues by 3.5% and increased its market share, when normalised for the loss of the bowel screening contract in FY 2018. Market softness in 1H 2019 impacted Healius' annual growth in revenue but pleasingly 2H 2019 was much stronger, with June and July volumes returning to long term averages.

Pathology recorded good average fee per episode growth in FY 2019 which included increases in specialty revenue, for example a 13% increase in genetics.

Strong cost control in 2H 2019 saw the division's EBIT result improve 46% compared to 1H 2019 with the productivity programs delivering their projected savings. When normalised for the loss of the bowel screen contract in FY 2018 and Dorevitch labour cost increases in the year, annual EBIT grew greater than revenue.

STRATEGY

Cost control

During the period, the division focussed on the consolidation of esoteric testing and optimisation of its regional laboratory network as well as focusing on return metrics within its footprint of collection centres. The current organisational re-design initiatives will identify further efficiencies and the overhead allocation from head office is expected to reduce.

Investment for growth

The division has continued to invest in the development of a modern infrastructure platform that will provide significant clinical, operational and financial benefits to support future growth. This includes:

- Upgrade to the main laboratory testing equipment the Serum Work Area, or SWA, which covers around 60% of all pathology tests. This is nearing completion in Laverty, with other states to follow. It will increase automation and improve clinical methodologies while being at a lower cost per reportable.
- The Laboratory Information System, or LIS, project where SCC has been selected as the system provider and Healius is now standardising processes and conventions across existing systems to ensure a smooth implementation, expected to commence later this calendar year.

  Overall, the LIS program will revolutionise processes, reporting and service delivery. It will enable Healius to lead the way in consumer-centred pathology, increasing functionality and digital results for referrers and consumers, and putting Healius at the forefront of innovation, genetics and big data analytics. It will also enable standardisation and automation in the pre-analytical processes, including in collection, courier, data entry, and specimen reception areas.

  LIS is expected to cost in the order of $100 million and to deliver net savings of approximately $20 million per year once embedded in the business. Furthermore, an improved ability to meet referrers' needs will enable Healius to increase its market share in higher-margin and fast growth complex tests.

The division is also continuing to invest in niche specialists in particular Genomic Diagnostics. Non-invasive Prenatal Testing continued its strong growth during the period with EBIT up 33%. Breast cancer screening testing had its first full year in operation while pharmacogenomics was introduced in mid-May with promising early results.

BUSINESS REVIEW MEDICAL CENTRES

UNDERLYING PERFORMANCE

The Medical Centres division has 95 sites nation-wide including the Healius Medical Centres, Health & Co clinics and Montserrat Day Hospitals. Within some of its Medical Centres, Healius also offers dental facilities, day hospitals and IVF clinics.

The performance of the division was as follows:

	30 JUNE 2019 $M	30 JUNE 2018 $M	BETTER/(WORSE) %
Revenue[1]	327.4	289.7	13.0
EBITDA[1]	61.4	53.7	14.3
Depreciation	(20.4)	(18.0)	(13.3)
Amortisation	(3.4)	(4.1)	17.1
EBIT	37.6	31.6	19.0
HCP capital expenditure	28.9	26.8	(7.8)
Total capital expenditure[2]	96.6	67.4	(43.3)

Importantly, the division's EBIT improved 19.0% in FY 2019 on revenue growth of 13.0%, with two consecutive halves of growth from its lows in 2H 2018. This positive result was underpinned by the turnaround in the Healius Medical Centres and in Health & Co. While the Day Hospitals and IVF businesses have contributed to the top-line growth, they are not yet contributing strongly to EBIT with significant greenfield investment in both businesses.

Overall, Healius has made a substantial investment in greenfield sites in the Medical Centres. EBIT for FY 2019 would have been $48 million if not for the losses on greenfield sites. The roll-in of smaller acquired clinics, which bring both GPs and patients, has been accelerated to reduce the short-term drag on returns. A positive swing in performance will occur as the division stops carrying these start-up costs.

Healius Medical Centres: GPs

Pleasingly, Healius recruited a record 259 GPs in the year, 211 through the usual channels, nine through conversion of registrars and 39 joining through the Leapfrog M&A program. Total GP recruitment represented a 63% growth on FY 2018.The average age of the recruits was 47 years bringing the cohort average down to 54 years.

Departures of GPs normalised from quarter two onwards delivering a strong increase in net GPs each month. At the end of the period, there was a total of 1,164 GPs, or 992 FTEs, at Healius Medical Centres.

Approximately 10% of GPs are left on the old five-year contracts. Flexible contracts are appealing to a wider cohort of GPs and delivering a more capital efficient process requiring under half the upfront costs. To balance the value proposition, the revenue sharing arrangements have increased in favour of the GP, with Healius' average share currently at 32.2%[1].

In FY 2019 $28.9 million was spent on GP upfronts, with 19% of new GPs and around 25% of re-signing GPs electing to receive upfront contracts. The reduction in capital expenditure is freeing up cash for investment elsewhere.

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[1] Healius adopted AASB 15 from 1 July 2018 which adjusts for upfront payments. This led to a $35.4 million reduction in revenue and EBITDA, but a nil effect on EBIT in the year.

[2] Excludes $68.3 million Montserrat acquisition and $3.8 million new Montserrat clinics.

Health & Co

The Health & Co network comprises 13 clinics, with practices in NSW, VIC, QLD, and SA. It recorded its first positive EBIT, of $1.9 million in FY 2019 on $19.7 million of revenue.

With 67 GPs recruited to the network (52 through acquisitions and 15 new recruits), there were 132 GPs or 98 FTEs in the Health & Co network at the end of FY 2019. GP retention was at 93%.

STRATEGY

Management is undertaking a comprehensive renewal of the business under Project Leapfrog.

People: Recruitment of significantly larger numbers of GPs through a multi-channel approach is a key part of Project Leapfrog.

As aforementioned, FY 2019 was a record recruitment year and the pipeline for FY 2020 is strong with around 70 FTE GPs with contracts already signed or terms agreed. The M&A stream also has a good pipeline of local clinics interested in moving into the existing large-scale centres.

While not yet at the target in the capital raise, Healius had a very strong result in the second half of FY 2019 with a net increase of over 60 FTE GPs. It aims to build on this success in FY 2020 and 2021.

Processes: Through significantly increasing operational efficiency, Project Leapfrog is transforming the way things are done in the medical centres. Digitisation and re-engineering of workflows are underpinning these improvements. The introduction of online appointments is enabling GPs to deliver continuity of care, improve clinical outcomes and create a more consistent patient flow throughout the day.

The Medical Director 3 (MD3) practice management system has been rolled out to the majority of sites with the remaining sites to be converted by the end of September 2019. Once complete all centres across the network will have appointment capability.

Importantly, Medical Centres which have introduced appointments and other process improvements have demonstrated increased gross billings per hour. Average gross billings per hour for all centres was at $239 in June 2019.

Expansion to the consumer offering has been progressing in line with the refurbishments of the medical centres, including SwiftQ Immediate Care, the brand under which the new urgent care service is operating, Skin^2 skin cancer clinics, and the occupational medicine business, now operating under the brand Logic Health.

An enhanced consumer experience through digital enablement aims to attract and retain patients. Pilot sites are trialling e-recalls, self-check in kiosks and the new "join-the-queue remotely" facility with good acceptance rates continuing.

Property: Project Leapfrog aims to substantially improve both the utilisation and the experience within Healius' footprint through space optimisation, facilities improvements, and the introduction of expanded and new services where the local demand is evident and with little or no incremental rental costs. The improvements are also expected to capture an increased proportion of pathology, imaging and dental flows.

To-date 15 centres have undergone a modernisation and expansion of services and a further six dental and six skin-enabled rooms have been uplifted in separate centres through the year. There are further centres planned for transformation in FY 2020 under a stage-gate process once the completed sites demonstrate improved returns.

Overall the Leapfrog targets set out in the capital raise documents are expected to be delivered. However it is likely that the $1 million EBIT per centre target will be achieved one year later than originally planned in FY 2022.

EMERGING BUSINESSES

Dental

The Dental business is one of the top four dental operations in the country, with 164 dentists or 133 FTEs working at 61 dental locations. The division performed strongly in the period with a revenue increase of 4.8% to $35.2 million and an EBIT of $5.7 million.

Healius Dental is trialling a new service in SwiftQ Dental which offers five dental treatments for $99 each, to address a need within the community for affordable and transparent dental services. It may prove as successful as the IVF offering.

IVF-Adora Fertility

The IVF business model has disrupted the sector and opened up the opportunity for more Australians to have a family. Achievements in the period included a rebrand of the business to Adora Fertility, the licensing and opening of the Craigie clinic in Perth, WA, and the introduction of new satellite clinics in QLD and WA. In Melbourne and Sydney, a move of IVF operations to the new Greensborough day hospital and the recently opened Surry Hills facility lifted the cap on patient numbers.

Overall the latest Medicare statistics show Adora is the fastest growing IVF provider in the country. Cycles and revenue increased around 30% each in FY 2019, while the division recorded a small loss of $0.5 million due to the investment in the new clinics. Importantly, on a whole-of-business view and normalised for start-up costs, IVF contributed approximately $2.3 million in EBIT to the Group.

Montserrat Day Hospitals

Healius acquired Montserrat, an operator of day hospitals and haematology/oncology clinics, in October 2018. Three new hospitals were opened during the year, including the flagship Westside Private in Brisbane.

Montserrat operates in a sector where improving technology and on-going cost pressures are moving patients away from high-cost overnight hospitals into day hospitals. In the USA, Ambulatory Surgical Centers which perform same-day outpatient surgical care have grown to well over 5,000 in number and have become an integral part of that country's healthcare system. Cancer treatments, cardiology, and orthopaedic procedures are now projected to grow strongly in the outpatient setting.

Montserrat's Westside Private Hospital has equivalent high-level facilities to the Ambulatory Surgical Centres in the US. With similar cost drivers and procedural innovation in Australia, this country is likely to follow its overseas counterparts and seek to reduce hospital costs and improve clinical outcomes in a day hospital setting. The interest from private health insurers in potential new models of care remains strong.

Montserrat provides Healius with a substantial platform to grow and diversify revenue. It also provides synergies with IVF and Pathology. This year, Montserrat delivered $19.5 million of revenue. However with the ramp-up in its new hospitals, its contribution in the period was $0.6 million. This is expected to grow strongly in FY 2020.

Healius Day Hospitals

The five Day Hospitals facilities within the Healius Medical Centres delivered $13.4 million of revenue in FY 2019 with IVF volumes continuing to support them. With the established Day Hospitals profitable, the business overall operated at a $2.1 million EBIT loss due to the investment in new facilities.

The first phase of the integrated Day Hospitals division will see Healius facilities branded "Montserrat" and the adoption of Montserrat quality and billing systems. Monserrat has a proven approach to business development, health fund negotiations, list scheduling and labour management.

BUSINESS REVIEW IMAGING

UNDERLYING PERFORMANCE

	30 JUNE 2019 $M	30 JUNE 2018 $M	BETTER/(WORSE) %
Revenue[1]	**391.3**	362.6	7.9
EBITDA[1]	**54.1**	51.2	5.7
Depreciation	**(13.4)**	(14.0)	4.3
Amortisation	**(2.0)**	(3.4)	41.2
EBIT	**38.7**	33.8	14.5
HCP capital expenditure	**0.9**	2.8	67.9
Total capital expenditure	**22.3**	36.9	39.6

In FY 2019, Imaging grew revenue by 7.9% notwithstanding softer market conditions. Importantly, Imaging increased its market share in the year supported by existing and new site growth.

EBIT was up by 14.5%, a third successive year of double-digit increases underpinned by productivity programs delivering targeted improvements.

While unadjusted EBITDA growth was 5.7%, normalised for the impact of new and replacement equipment operating leases and AASB 15 adoption, it grew by approximately 12% on FY 2018.

Imaging contributed strongly to the Group's cash position but also invested in new sites and technology during the year.

STRATEGY

Growing market share: The division delivered a growth in market share following the expansion of existing sites and opening of new high-end sites. It opened Highfields in Port Macquarie, NSW and redeveloped the St Vincent's Private Hospital Northside, in Queensland. Both of these offer fully-licenced MRI facilities and PET/CT services. Imaging was granted three other full MRI licences in the year from the Federal Government.

Imaging was also successful in contract wins and deployment. Northern Beaches Hospital imaging services commenced in the year. In June 2019 it delivered its first positive contribution and is expected to ramp-up in FY 2020. The Australian Defence Force Health Services contract in partnership with BUPA was awarded early in calendar 2019 and successfully commenced in July 2019.

Efficient, modern infrastructure: iCAR is bringing a new radiology information system (RIS) and a new picture archiving and communication solution (PACS) to the division. Over 70 sites are now live with around 60% of radiologists trained to use the system and its voice recognition technology. Conversion is ramping up to around two to three sites per week. Together, these platforms will deliver substantial efficiencies and drive revenue uplift by enhancing the way the division interacts with referrers and their patients. Net annual benefits are estimated at $9 million.

Cost control: Further opportunities to improve returns in this division will be delivered through the current organisational re-design program and a reduction in Group overhead charges.

[1] Healius adopted AASB 15 from 1 July 2018 which adjusts for upfront payments. This led to a $4.1 million reduction in revenue and EBITDA, but a nil effect on EBIT in the year.

Statement of profit or loss for the year ended 30 June 2019

	NOTE	2019 $M	RESTATED 2018[1] $M
Revenue	3	**1,804.5**	1,704.6
Other income		**5.8**	–
Employee benefits expense	4	**903.2**	849.7
Property expenses	4	**289.2**	266.2
Consumables		**206.5**	200.0
Repairs and maintenance		**45.0**	41.4
IT expenses		**29.2**	24.9
Impairment and other related items	4	**–**	49.5
Other expenses		**151.1**	140.4
Depreciation	9	**56.7**	53.5
Amortisation of intangibles	10	**12.0**	14.4
Earnings before interest and tax		**117.4**	64.6
Finance costs	4	**34.2**	35.1
Profit before tax		**83.2**	29.5
Income tax expense	5	**27.3**	25.4
Profit for the year		**55.9**	4.1

	NOTE	2019 CENTS PER SHARE	2018 CENTS PER SHARE
Basic and diluted earnings per share	6	**9.2**	0.8

1 Refer to Significant accounting policies on page 19 for further details of the restated amounts.

Statement of other comprehensive income for the year ended 30 June 2019

	2019 $M	2018 $M
Profit for the year	**55.9**	4.1
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Fair value loss on cash flow hedges	**(20.8)**	(4.5)
Reclassification adjustments relating to cash flow hedges for amounts recognised in profit or loss	**1.7**	2.3
Fair value loss on financial assets fair value reserve	**–**	(1.5)
Exchange differences arising on translation of foreign operations	**0.4**	0.1
Income tax relating to items that may be reclassified subsequently to profit or loss	**5.8**	1.1
Items that will not be reclassified subsequently to profit or loss		
Net gain on equity instruments designated at fair value through other comprehensive income	**0.2**	–
Other comprehensive (loss)/income for the year, net of income tax	**(12.7)**	(2.5)
Total comprehensive income for the year	**43.2**	1.6

Statement of financial position as at 30 June 2019

	NOTE	30 JUNE 2019 $M	RESTATED 30 JUNE 2018[1] $M
Current assets			
Cash	16 (a)	**119.7**	84.0
Receivables	7 (a)	**169.0**	146.5
Consumables		**22.7**	22.2
Tax receivable		**3.6**	–
Contract assets		**31.5**	34.3
Total current assets		**346.5**	287.0
Non-current assets			
Receivables	7 (b)	**5.0**	3.9
Goodwill	8	**2,482.5**	2,348.7
Property, plant and equipment	9	**327.0**	297.5
Other intangible assets	10	**77.9**	63.0
Contract assets		**39.2**	51.1
Other financial assets		**0.6**	10.5
Deferred tax asset		**72.1**	64.6
Total non-current assets		**3,004.3**	2,839.3
Total assets		**3,350.8**	3,126.3
Current liabilities			
Payables	11 (a)	**251.6**	218.3
Tax liabilities		**1.9**	7.9
Provisions	12 (a)	**130.9**	147.4
Other financial liabilities		**6.9**	0.5
Interest bearing liabilities	13 (a)	**0.6**	0.8
Total current liabilities		**391.9**	374.9
Non-current liabilities			
Payables	11 (b)	**35.9**	14.1
Provisions	12 (b)	**55.1**	55.8
Other financial liabilities		**15.2**	2.6
Interest bearing liabilities	13 (b)	**797.3**	860.0
Total non-current liabilities		**903.5**	932.5
Total liabilities		**1,295.4**	1,307.4
Net assets		**2,055.4**	1,818.9
Equity			
Issued capital	14	**2,671.1**	2,424.2
Reserves		**(7.6)**	12.9
Accumulated losses		**(608.1)**	(618.2)
Total equity		**2,055.4**	1,818.9

1 Refer to Significant accounting policies on page 19 for further details of the restated amounts.

Statement of changes in equity for the year ended 30 June 2019

$M	ISSUED CAPITAL	FINANCIAL ASSETS FAIR VALUE RESERVE	CASH FLOW HEDGE RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	SHARE-BASED PAYMENTS RESERVE	OTHER RESERVES	ACCUMULATED LOSSES	TOTAL
Balance at 1 July 2018	2,424.2	6.4	(2.1)	(0.9)	8.3	1.2	(618.2)	1,818.9
Impact of AASB 9 adoption[1]	–	–	–	–	–	–	(2.2)	(2.2)
Balance at 1 July 2018 (restated)	2,424.2	6.4	(2.1)	(0.9)	8.3	1.2	(620.4)	1,816.7
Profit for the year	–	–	–	–	–	–	55.9	55.9
Exchange differences arising on translation of foreign operations	–	–	–	0.4	–	–	–	0.4
Fair value gain on investments	–	0.2	–	–	–	–	–	0.2
Fair value loss on cash flow hedges	–	–	(20.8)	–	–	–	–	(20.8)
Reclassification adjustments relating to cash flow hedges recognised in profit or loss	–	–	1.7	–	–	–	–	1.7
Income tax relating to components of other comprehensive income	–	–	5.7	–	–	–	0.1	5.8
Total comprehensive income	–	0.2	(13.4)	0.4	–	–	56.0	43.2
Entitlement offer	250.5	–	–	–	–	–	–	250.5
Entitlement offer – fees and transaction costs	(6.5)	–	–	–	–	–	–	(6.5)
Entitlement offer – equity tax	1.9	–	–	–	–	–	–	1.9
Payment of dividends	–	–	–	–	–	–	(52.3)	(52.3)
Share–based payment	–	–	–	–	1.9	–	–	1.9
Transfers	–	(6.6)	–	–	(2.2)	–	8.8	–
Shares issued via Short Term Incentive Plan	0.8	–	–	–	(0.8)	–	–	–
Shares issued via Sign On Arrangement	0.2	–	–	–	–	–	(0.2)	–
Balance at 30 June 2019	2,671.1	–	(15.5)	(0.5)	7.2	1.2	(608.1)	2,055.4

1 Refer to Significant accounting policies on page 19 for further details of the restated amounts.

Statement of changes in equity for the year ended 30 June 2019

$M	ISSUED CAPITAL	FINANCIAL ASSETS FAIR VALUE RESERVE	CASH FLOW HEDGE RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	SHARE-BASED PAYMENTS RESERVE	OTHER RESERVES	ACCUMULATED LOSSES	ATTRIBUTABLE TO OWNERS OF THE PARENT	NON-CONTROLLING INTEREST	TOTAL
Balance at 1 July 2017	2,422.8	7.5	(0.6)	(1.0)	4.6	–	(565.7)	1,867.6	1.5	1,869.1
Profit for the year	–	–	–	–	–	–	4.1	4.1	–	4.1
Exchange differences arising on translation of foreign operations	–	–	–	0.1	–	–	–	0.1	–	0.1
Fair value loss on available-for-sale financial assets	–	(1.5)	–	–	–	–	–	(1.5)	–	(1.5)
Fair value loss on cash flow hedges	–	–	(4.5)	–	–	–	–	(4.5)	–	(4.5)
Reclassification adjustments relating to cash flow hedges recognised in profit or loss	–	–	2.3	–	–	–	–	2.3	–	2.3
Income tax relating to components of other comprehensive income	–	0.4	0.7	–	–	–	–	1.1	–	1.1
Total comprehensive income	–	(1.1)	(1.5)	0.1	–	–	4.1	1.6	–	1.6
Payment of dividends	–	–	–	–	–	–	(56.9)	(56.9)	–	(56.9)
Share-based payment	–	–	–	–	5.4	–	–	5.4	–	5.4
Transfers	–	–	–	–	(0.3)	–	0.3	–	–	–
Acquisition of non-controlling interest	–	–	–	–	–	1.2	–	1.2	(1.5)	(0.3)
Shares issued via Short Term Incentive Plan	0.4	–	–	–	(0.4)	–	–	–	–	–
Shares issued via Retention Plan	1.0	–	–	–	(1.0)	–	–	–	–	–
Balance at 30 June 2018	2,424.2	6.4	(2.1)	(0.9)	8.3	1.2	(618.2)	1,818.9	–	1,818.9

Statement of cash flows for the year ended 30 June 2019

	NOTE	2019 $M	2018 $M
Cash flows from operating activities			
Receipts from customers		1,879.1	1,792.2
Payments to suppliers and employees		(1,684.1)	(1,535.1)
Gross cash flows from operating activities		195.0	256.1
Interest paid		(30.7)	(32.5)
Net income tax paid		(37.9)	(22.4)
Interest received		1.2	1.0
Net cash provided by operating activities	16 (b)	127.6	202.2
Cash flows from investing activities			
Payment for property plant and equipment		(79.6)	(57.0)
Payment for Day Hospital practices and subsidiaries	17 (a)	(68.3)	–
Payment for Medical Centres healthcare professionals		(28.9)	(26.8)
Payment for Medical Centres practices and subsidiaries	17 (b)	(29.4)	(13.3)
Payment for Imaging healthcare professionals		(0.9)	(2.8)
Payment for Imaging practices and subsidiaries	17 (b)	(0.5)	(16.6)
Payment for Pathology healthcare practices and subsidiaries		–	(0.6)
Payment for other intangibles		(20.4)	(16.3)
Proceeds from sale of investments		9.9	–
Proceeds from the sale of property plant and equipment and intangibles		0.6	1.2
Net cash used in investing activities		(217.5)	(132.2)
Cash flows from financing activities			
Proceeds from issuing shares, net of transaction costs		244.0	–
Proceeds from borrowings		130.0	–
Repayment of borrowings and finance leases		(196.0)	(20.6)
Dividends paid		(52.3)	(56.9)
Other finance costs		–	(4.0)
Net cash provided by/(used in) financing activities		125.7	(81.5)
Net cash from/(used in) during the year		35.8	(11.5)
Cash at the beginning of the year		84.0	95.5
Effect of exchange rate movements on cash held in foreign currencies		(0.1)	–
Cash at the end of the year	16 (a)	119.7	84.0

1. SIGNIFICANT ACCOUNTING POLICIES

Healius Limited (Healius), formerly known as Primary Health Care Limited, is a for-profit entity domiciled in Australia. These financial statements represent the consolidated financial statements of Healius for the financial year ended 30 June 2019 and comprise Healius and its subsidiaries (together referred to as "the consolidated entity" or "the Group").

Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

Basis of preparation

This financial report has been prepared on the basis of historical cost, except for the revaluation of certain financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars. The financial report has been prepared on a going concern basis. Where applicable, prior year comparatives have been restated in line with current year presentation.

The accounting policies and methods of computation adopted in the preparation of the preliminary financial report are consistent with those adopted and disclosed in the Group's annual report for the financial year ended 30 June 2018. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

New and Amended Standards Adopted

New and amended accounting standards relevant to the Group that are effective for the current year are as follows:

<u>AASB 15 Revenue from Contracts with Customers</u>

AASB 15 establishes a single comprehensive model for entities to use in accounting for revenue from contracts with customers and replaces previous revenue recognition guidelines.

The Group has adopted AASB 15 from 1 July 2018. Other than the treatment of up-front payments to healthcare professionals discussed below the adoption of this standard did not have a material impact on the financial statements.

Previously payments made by the Group to healthcare professionals on entering into contractual relationships were accounted for as intangible assets and amortised over the life of the relevant contract. Under AASB 15 consideration payable to a customer is accounted for as a reduction of the transaction price unless the payment is made in exchange for a distinct good or service that the customer transfers to the entity. As no distinct good or service is received by the Group from the healthcare professional in exchange for the payment made the adoption of AASB 15 has resulted in a classification adjustment on transition in regards to these payments.

Payments made by the Group to healthcare professionals are now recognised as a Contract Asset and are recognised as a reduction to the revenue recognised over the term of the relevant contract. The Group has elected to apply AASB 15 on a full retrospective basis and accordingly has restated the consolidated statement of profit or loss for the year ended 30 June 2018 and the consolidated statement of financial position as at 30 June 2018. As this change in accounting policy impacts the classification of certain items but not the timing of recognition in the income statement there is no adjustment to opening retained earnings for the Group on adoption of AASB 15.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impact on the Income Statement for the year ended 30 June 2018

	RESTATED 30 JUNE 2018 $M	RESTATEMENT INCREASE/ (DECREASE) $M	AS REPORTED 30 JUNE 2018 $M
Revenue	1,704.6	(47.3)	1,751.9
Amortisation	14.4	47.3	61.7
Earnings before interest and tax	**64.6**	–	64.6
Profit for the year	**4.1**	–	4.1

Impact on the Balance Sheet as at 30 June 2018

	RESTATED 30 JUNE 2018 $M	RESTATEMENT INCREASE/ (DECREASE) $M	AS REPORTED 30 JUNE 2018 $M
Contract assets – current	34.3	34.3	–
Total current assets	**287.0**	**34.3**	252.7
Other intangible assets	63.0	(85.4)	148.4
Contract assets	51.1	51.1	–
Total non-current assets	**2,839.3**	**(34.3)**	2,873.6
Total assets	**3,126.3**	–	3,126.3

Accounting Policies – Revenue

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer. The Group recognises revenue when it transfers control of a good or service to a customer.

The Group recognises revenue from the following major sources:

- Provision of facilities and services to healthcare professionals;
- Provision of pathology services; and
- Provision of imaging and scanning services.

(a) Provision of facilities and services to healthcare professionals

Revenue from the provision of facilities and services to healthcare professionals (HCPs) is recognised as the performance obligation is satisfied over time. Revenue is recognised based on the services provided as at the reporting date.

An up-front payment may be made to a HCP when a facilities and services agreements is entered into. The payment is not made in exchange for a distinct good or service and accordingly the up-front payment is initially recognised as a contract asset. The contract asset is recognised as a reduction to the revenue recognised on a straight-line basis over the term of the relevant contract.

(b) Provision of pathology services and provision of imaging services

Revenue from the provision of pathology services and the provision of imaging services is recognised at the point in time when the relevant test has been completed.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

AASB 9 Financial Instruments

AASB 9 introduces new guidance for the classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

The Group has adopted AASB 9 from 1 July 2018. In adopting this standard the following adjustments have been recognised:

- The measurement of the allowance for doubtful debts in relation to trade receivables has moved from an incurred credit loss approach to an expected credit loss approach under AASB 9. On adoption of the new standard the allowance for doubtful debts has increased by $1.7 million, deferred tax assets have increased by $0.5 million and the net adjustment of $1.2 million has been recognised as an increase in accumulated losses as at 1 July 2018. Comparative balances have not been restated.
- The refinancing of the second tranche of the Syndicated Facility Agreement in December 2017 did not represent a significant modification and accordingly no amount of gain or loss was recognised in the income statement at the time. On adoption of AASB 9 the carrying amount of the facility is required to be remeasured and any adjustment recognised to accumulated losses. As at 1 July 2018 non-current interest bearing liabilities have increased by $1.5 million, deferred tax assets have increased by $0.5 million and accumulated losses have increased by $1.0 million. This amount will be recognised as a reduction to finance costs over the remaining term of the facility. Comparative balances have not been restated.
- The Group's investment in equity instruments that were previously classified as available-for-sale financial assets and were measured at fair value at each reporting date have been designated as at fair value through other comprehensive income. The change in fair value on these equity instruments continues to be accumulated in reserves and will now not subsequently be reclassified to profit or loss on derecognition. No adjustment was required to be recognised on adoption of AASB 9 for these equity instruments.

Net current liability position

The Group has a net current asset deficiency of $45.4 million (30 June 2018: $87.9 million). The Group generates significant operating cash flows and as per note 13, had access to $325 million of unused financing facilities at the end of the reporting period.

Rounding of Amounts

Amounts in the preliminary financial report have been rounded to the nearest hundred thousand dollars (unless otherwise indicated).

Comparative information

Where necessary, comparative amounts have been reclassified and repositioned for consistency with current period disclosures. Further details on the nature and reason for amounts that have been reclassified and repositioned for consistency with current period disclosures, where considered material, are referred to separately in the preliminary financial report or notes thereto.

2. SEGMENT INFORMATION

Operating segments are identified based on the way that the Chief Executive Officer and Board of Directors (also known as the chief operating decision makers) regularly review the financial performance of the business to assess performance and determine the allocation of resources. For internal management reporting purposes, the Group is organised into the following three divisions or operating segments:

OPERATING SEGMENT	ACTIVITY
Pathology	This division provides pathology services.
Medical Centres	This division provides a range of services and facilities to general practitioners, specialists, dentists, IVF specialists and other healthcare professionals operating in the bulk billing and private billing sectors. This division is also an operator of day hospital and haematology/oncology clinics.
Imaging	This division provides imaging and scanning services from stand-alone imaging sites, hospitals and from within the consolidated entity's medical centres.

The other category comprises corporate functions.

The Group operates predominantly in Australia.

Intersegment

The Medical Centres division charges the Group's Imaging and Pathology divisions a fee for use of its facilities and services. These charges are eliminated on consolidation.

Presentation of segment revenue and results

Segment revenues and segment results are presented on an underlying basis.

Underlying results for the year ended 30 June 2019 exclude the impact of non-underlying items relating to:

- Restructuring and strategic initiatives and other non-recurring items.

Underlying results for the comparative period exclude the impact of non-underlying items relating to:

- Impairment of assets and other related items; and
- Restructuring and strategic initiatives and other non-recurring items.

2. SEGMENT INFORMATION (CONTINUED)

Underlying

2019	PATHOLOGY $M	MEDICAL CENTRES $M	IMAGING $M	OTHER $M	TOTAL $M
Segment Revenue	1,128.3	327.4	391.3	0.3	1,847.3
Intersegment sales					(42.8)
Total Revenue[1]					1,804.5
EBITDA[2]	136.2	61.4	54.1	(15.7)	236.0
Depreciation	19.8	20.4	13.4	3.1	56.7
Amortisation of intangibles	5.3	3.4	2.0	1.3	12.0
EBIT[3]	111.1	37.6	38.7	(20.1)	167.3
Finance costs					34.2
Profit before tax					133.1
Income tax expense[4]					39.9
Profit for the year					93.2

RESTATED 2018[1]	PATHOLOGY $M	MEDICAL CENTRES $M	IMAGING $M	OTHER $M	TOTAL $M
Segment Revenue	1,090.6	289.7	362.6	–	1,742.9
Intersegment sales					(38.3)
Total Revenue[1]					1,704.6
EBITDA[2]	138.7	53.7	51.2	(15.6)	228.0
Depreciation	19.0	18.0	14.0	2.5	53.5
Amortisation of intangibles	5.6	4.1	3.4	1.3	14.4
EBIT[3]	114.1	31.6	33.8	(19.4)	160.1
Finance costs					35.1
Profit before tax					125.0
Income tax expense[4]					37.5
Profit for the year					87.5

1 Refer to Significant accounting policies on pages 19 for further details of the restated amounts.
2 EBITDA is a non-statutory profit representing earnings before interest, tax, depreciation and amortisation.
3 EBIT is a non-statutory profit representing earnings before interest and tax.
4 Underlying income tax is calculated as 30% of underlying profit before tax.

2. SEGMENT INFORMATION (CONTINUED)

Reconciliation of underlying segment result to profit before tax:

	SEGMENT RESULT 2019 $M	2018 $M
Total segment result from continuing operations before tax	133.1	125.0
Impairment and related provisions (refer Note 4)	–	(49.5)
Restructuring and strategic initiatives and other non-recurring items	(49.9)	(46.0)
Total profit before tax	83.2	29.5

Strategic initiatives include laboratory platforms ($10.3 million), Leapfrog ($13.1 million), Imaging IT ($3.1 million) and Corporate renewals ($9.2 million). These initiatives are transformational in nature and unlikely to be undertaken again at such a collective magnitude. Other non underlying items are:

- Business set-up costs including Montserrat and adjustments to Health & Co deferred consideration ($5.1m)
- Restructuring and redundancies ($3.1m)
- Other includes rebranding and corporate defence ($6.0m).

2019 $M	LABORATORY PLATFORMS	LEAPFROG[1]	ICAR	CORPORATE
Strategic projects				
Project management, design & planning	9.3	3.6	2.2	3.0
Project implementation & training[2]	1.0	9.5	0.9	6.2
	10.3	13.1	3.1	9.2

[1] Included in Leapfrog are project management costs, additional recruitment and M&A costs to support the Leapfrog ramp-up, and additional costs to support implementation and training

[2] All implementation costs are capitalised where they directly relate to PPE or an intangible asset otherwise implementation costs are expensed as non-underlying items

3. REVENUE

	2019 $M	RESTATED 2018 $M
Trading revenue	1,804.5	1,704.6

4. EXPENSES

Employee benefits expense

	2019 $M	RESTATED 2018 $M
Employee benefits	840.8	787.6
Defined contribution superannuation	60.5	56.7
Share-based payments	1.9	5.4
	903.2	849.7

4. EXPENSES (CONTINUED)

Property expenses

	2019 $M	2018 $M
Operating leases	234.4	219.0
Other property expenses	54.8	47.2
	289.2	266.2

Impairment and other related items

	2019 $M	2018 $M
Other asset impairments, provisions and related items	–	49.5

Finance costs

	2019 $M	2018 $M
Interest expense	29.6	30.8
Unwinding of discount on provisions	3.1	0.7
Amortisation of borrowing costs	1.5	3.6
	34.2	35.1

5. INCOME TAX EXPENSE

	2019 $M	2018 $M
The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:		
Profit before tax	83.2	29.5
Income tax calculated at 30% (2018: 30%)	25.0	8.8
Tax effect of amounts which are not deductible in calculating taxable income:		
Amortisation of pre FY15 contractual relationship intangibles	4.9	8.4
Hospital contract intangible assets	–	2.0
Other items	(2.1)	5.2
	2.8	15.6
(Over)/under provision in prior years	(0.5)	1.0
Income tax expense	27.3	25.4
Comprising:		
Current tax	26.7	39.3
Deferred tax	1.1	(14.3)
(Over)/under provision in prior years	(0.5)	0.4
	27.3	25.4

ATO objection decisions – years 2003-2007

The Commissioner of Taxation disallowed Healius' objections for the years ended 30 June 2003 to 2007 (Objections) in relation to medical practice acquisitions after Healius' received favourable decisions in both the Administrative Appeals Tribunal and Full Federal Court of Australia to treat the Objections as if they had been lodged within the required time period. Healius has filed an appeal to the Federal Court of Australia and the matter has been listed for hearing in October 2019. No amounts have been recognised in relation to this matter in either the current or comparative periods.

6. EARNINGS PER SHARE

Basic and diluted earnings per share

EARNINGS	2019 $M	2018 $M
The earnings used in the calculation of basic and diluted earnings per share are the same and can be reconciled to the consolidated statement of profit or loss as follows:		
Profit attributable to equity holders of Healius Limited	55.9	4.1

WEIGHTED AVERAGE NUMBER OF SHARES	2019 000'S	2018 000'S
The weighted average number of shares used in the calculation of basic earnings per share	606,907	521,631
Effects of dilution from service rights	495	342
The weighted average number of shares used in the calculation of diluted earnings per share	607,402	521,973

EARNINGS PER SHARE	2019 CENTS	2018 CENTS
Basic and diluted earnings per share	9.2	0.8

Any share options on issue are potential ordinary shares which are anti-dilutive and are therefore excluded from the weighted average number of ordinary shares for the purposes of diluted earnings per share.

Any performance rights on issue are contingently issuable shares for which the conditions have not been met as at 30 June 2019 and are therefore excluded from the weighted average number of shares for the purposes of diluted earnings per share.

7. RECEIVABLES

	2019 $M	2018 $M
Measured at amortised cost		
(a) Current		
Trade receivables	140.6	119.0
Allowance for expected credit losses	(17.0)	(13.5)
	123.6	105.5
Prepayments	17.8	14.9
Accrued revenue	20.1	20.4
Other receivables	7.5	5.7
	169.0	146.5
(b) Non-current		
Other receivables and prepayments	5.0	3.9
	5.0	3.9

8. GOODWILL

	2019 $M	2018 $M
Carrying value		
Opening balance	2,348.7	2,315.5
Acquisition of subsidiaries	100.8	–
Acquisition of businesses	33.0	33.2
Closing balance	2,482.5	2,348.7
Impairment tests		
Goodwill is allocated to the Group's cash-generating units (CGUs) as follows:		
Medical Centres	401.1	385.4
Health & Co	46.5	25.1
Pathology	1,581.7	1,581.7
Imaging	356.5	356.5
Montserrat	96.7	-
	2,482.5	2,348.7

The carrying amount of goodwill is tested for impairment annually at 30 June and whenever there is an indicator that the asset may be impaired. Where an asset is deemed to be impaired, it is written down to its recoverable amount.

Goodwill has been allocated to Montserrat on a provisional basis as the acquisition accounting has been performed on a provisional basis (refer to Note 17(a)).

In its impairment assessment, the Group determines the recoverable amount based on a fair value less costs of disposal calculation, under a five year discounted cash flow model cross checked to available market data. The five year discounted cash flow uses:

- year one cash flows derived from the FY 2020 Board approved budget; and
- for FY 2021 – FY 2024 growth rates have been determined with reference to historical company experience, industry data and a long term growth rate consistent with historic industry trend levels.

8. GOODWILL (CONTINUED)

The key assumptions in the Group's discounted cash flow model as at 30 June 2019 are as follows:

ASSUMPTION	HOW DETERMINED
Forecast revenue	Cumulative average revenue growth rates for FY 2020 – FY 2024 are as follows: • Medical Centres: 8.7% (30 June 2018: 6.6%) • Pathology: 5.2% (30 June 2018: 6.2%) • Imaging: 7.3% (30 June 2018: 7.4%) • Health & Co: 5.5% (30 June 2018: 4.7%) • Montserrat: 14.6% (30 June 2018: N/A) Forecast revenue in the current year and prior year has been determined with reference to historical company experience, industry data and scheduled centre openings.
Terminal value growth rates	The terminal value growth rates assumed are: • Medical Centres: 2.5% (30 June 2018: 2.5%) • Pathology: 3.0% (30 June 2018: 3.0%) • Imaging: 3.0% (30 June 2018: 3.0%) • Health & Co: 3.0% (30 June 2018: 3.0%) • Montserrat: 3.0% (30 June 2018: N/A) The terminal value growth rates have been determined with reference to historical company experience for the CGU and expectations of long-term operating conditions. The growth rates do not exceed long-term industry growth rates for the business in which the industry operates.
Discount rates	Post-tax discount rates for each CGU reflect the Group's estimate of the time value of money and risks specific to each CGU. In determining the appropriate discount rate for each CGU, consideration has been given to the estimated weighted average cost of capital (WACC) for the Group adjusted for business risks specific to that CGU. The post-tax discount rate for each CGU is: • Medical Centres: 8.5% (30 June 2018: 8.5%) • Pathology: 8.5% (30 June 2018: 8.5%) • Imaging: 8.5% (30 June 2018: 8.5%) • Health & Co: 8.5% (30 June 2018: 8.5%) • Montserrat: 10.0% (30 June 2018: N/A)

Sensitivity analysis

The Group has conducted sensitivity analysis on the key assumptions above to assess the effect on the recoverable amount of changes in the key assumptions.

The following table sets out the change in revenue growth rates and discount rates that would be required in order for the carrying value of the Medical Centres, Pathology and Imaging CGUs to equal the recoverable amount.

	INCREASE/(DECREASE) IN ASSUMPTIONS REQUIRED FOR RECOVERABLE AMOUNT TO EQUAL CARRYING AMOUNT		
CGU	REVENUE GROWTH PER ANNUM	TERMINAL GROWTH PER ANNUM	DISCOUNT RATE
Medical Centres	(0.9%)	(1.7%)	1.3%
Pathology	(0.3%)	(0.8%)	0.7%
Imaging	(1.6%)	(6.1%)	4.3%
Health & Co	(0.3%)	(0.5%)	0.5%
Montserrat	(0.4%)	(0.5%)	0.4%

9. PROPERTY, PLANT AND EQUIPMENT

2019 $M	PLANT AND EQUIPMENT	LEASEHOLD IMPROVEMENTS	ASSETS UNDER CONSTRUCTION	TOTAL
Net book value				
Opening balance	101.6	169.0	26.9	297.5
Additions	25.3	0.8	54.1	80.2
Business acquisitions	5.9	2.7	0.2	8.8
Capitalisation of assets under construction	10.6	41.7	(52.3)	–
Disposals	(0.2)	(0.3)	(2.3)	(2.8)
Depreciation expense	(27.2)	(29.5)	–	(56.7)
Closing balance	116.0	184.4	26.6	327.0
Cost	335.8	397.0	26.6	759.4
Accumulated depreciation and impairment	(219.8)	(212.6)	–	(432.4)
Closing balance	116.0	184.4	26.6	327.0

2018 $M	PLANT AND EQUIPMENT	LEASEHOLD IMPROVEMENTS	ASSETS UNDER CONSTRUCTION	TOTAL
Net book value				
Opening balance	96.2	172.3	30.5	299.0
Additions	34.5	6.6	16.6	57.7
Capitalisation of assets under construction	2.8	17.4	(20.2)	–
Disposals	(1.0)	(0.7)	–	(1.7)
Impairment	(3.3)	(0.7)	–	(4.0)
Depreciation expense	(27.6)	(25.9)	–	(53.5)
Closing balance	101.6	169.0	26.9	297.5
Cost	403.0	365.6	26.9	795.5
Accumulated depreciation and impairment	(301.4)	(196.6)	–	(498.0)
Closing balance	101.6	169.0	26.9	297.5

10. OTHER INTANGIBLE ASSETS

2019 $M	IT SOFTWARE	LICENCES	OTHER	INTANGIBLES UNDER CONSTRUCTION	TOTAL
Net book value					
Opening balance	33.0	11.4	2.9	15.7	63.0
Additions	1.4	–	3.2	22.3	26.9
Capitalisation of intangible assets under construction	19.0	–	(0.2)	(18.8)	–
Amortisation expense	(8.5)	(0.8)	(2.7)	–	(12.0)
Closing balance	44.9	10.6	3.2	19.2	77.9
Cost	115.5	40.3	6.3	19.2	181.3
Accumulated amortisation and impairment	(70.6)	(29.7)	(3.1)	–	(103.4)
Closing balance	44.9	10.6	3.2	19.2	77.9

2018 $M	IT SOFTWARE	LICENCES	OTHER	INTANGIBLES UNDER CONSTRUCTION	TOTAL
Net book value					
Opening balance	35.9	7.4	3.3	7.9	54.5
Additions	1.5	–	2.9	14.2	18.6
Business acquisition	–	4.7	–	–	4.7
Capitalisation of intangible assets under construction	6.4	–	–	(6.4)	–
Disposals	–	–	(0.4)	–	(0.4)
Amortisation expense	(10.8)	(0.7)	(2.9)	–	(14.4)
Closing balance	33.0	11.4	2.9	15.7	63.0
Cost	126.6	40.2	5.5	15.7	188.0
Accumulated amortisation and impairment	(93.6)	(28.8)	(2.6)	–	(125.0)
Closing balance	33.0	11.4	2.9	15.7	63.0

11. PAYABLES

	2019 $M	RESTATED 2018 $M
(a) Current		
Trade payables and accruals	**222.9**	209.2
Deferred consideration	**28.7**	9.1
	251.6	218.3
(b) Non-current		
Trade payables and accruals	**6.6**	3.2
Deferred consideration	**29.3**	10.9
	35.9	14.1

Where applicable prior year comparatives have been restated in line with current year presentation.

12. PROVISIONS

	2019 $M	RESTATED 2018 $M
(a) Current		
Provision for employee benefits	105.3	100.2
Self-insurance provision	3.3	3.2
Onerous contract provision	9.6	8.0
Make good provision	0.3	1.4
Other provisions	12.4	34.6
	130.9	147.4
(b) Non-current		
Provision for employee benefits	10.3	9.5
Self-insurance provision	3.2	3.0
Onerous contract provision	34.8	38.0
Make good provision	6.8	5.3
	55.1	55.8

Where applicable prior year comparatives have been restated in line with current year presentation.

13. INTEREST BEARING LIABILITIES

	2019 $M	2018 $M
Measured at amortised cost		
(a) Current		
Finance lease liabilities	0.6	0.8
	0.6	0.8
(b) Non-current		
Finance lease liabilities	0.2	0.9
Gross bank loans	800.0	865.0
Refinancing valuation adjustment	1.5	–
Unamortised borrowing costs	(4.4)	(5.9)
	797.3	860.0

The Group had access to the following financing facilities as at the end of the reporting period.

	2019 $M	2018 $M
Financing facilities		
Non-current		
Unsecured Syndicated Debt Facilities		
Amount used	800.0	865.0
Amount unused	325.0	260.0
Total financing facilities	1,125.0	1,125.0

Amounts unused on non-current facilities are able to be drawn during the course of the ordinary working capital cycle of the Group.

14. ISSUED CAPITAL

	2019 NO. OF SHARES 000'S	2018 NO. OF SHARES 000'S	2019 $M	2018 $M
Opening balance	521,853	521,433	2,424.2	2,422.8
Shares issued via Entitlement Offer, net of transaction costs	100,183	–	245.9	–
Shares issued via Short Term Incentive Plan	218	90	0.8	0.4
Shares issued via sign on arrangement	69	–	0.2	–
Shares issued via Retention Plan	–	330	–	1.0
Closing balance	622,323	521,853	2,671.1	2,424.2

Issued capital consists of fully paid ordinary shares carrying one vote per share and the right to dividends.

Transaction costs that are incurred directly in connection with the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate.

Share options on issue

As at 30 June 2019, the company has nil (2018: 597,500) share options on issue. The options on issue as at 30 June 2018 all expired during the current year.

Rights on issue

As at 30 June 2019, the company has 723,212 (2018: 419,506) service rights on issue, exercisable on a 1:1 basis for 723,212 (2018: 419,506) ordinary shares of Healius at an exercise price of $nil. The service rights will vest between July 2019 and July 2020 subject to the satisfaction of applicable service conditions and carry no rights to dividends and no voting rights.

As at 30 June 2019, the company has 13,084,714 (2018: 5,057,856) performance rights on issue, exercisable on a 1:1 basis for 13,084,714 (2018: 5,057,856) ordinary shares of Healius at an exercise price of $nil. The performance rights will vest between October 2019 and October 2021 subject to the satisfaction of applicable service and performance conditions and carry no rights to dividends and no voting rights.

15. DIVIDENDS ON EQUITY INSTRUMENTS

	2019 CENTS PER SHARE	2018 CENTS PER SHARE	2019 $M	2018 $M
Recognised amounts				
Final dividend – previous financial year	5.5	5.8	28.7	30.3
Interim dividend – this financial year	3.8	5.1	23.6	26.6
	9.3	10.9	52.3	56.9
Unrecognised amounts				
Final dividend – this financial year	3.4	5.5		

In respect of FY 2019:

- an interim dividend of 3.8cps (100% franked), was paid to the holders of fully paid ordinary shares on 26 March 2019; and
- the Directors have approved the payment of a final dividend of 3.4 cps (100% franked), to the holders of fully paid ordinary shares, the record date being 30 August 2019, payable on 27 September 2019.

The Dividend Reinvestment Plan and a Bonus Share Plan were suspended effective 16 February 2016 until further notice.

The final dividend and the interim dividend for the year ended 30 June 2018 was 100% franked.

16. NOTES TO THE STATEMENT OF CASH FLOWS

	2019 $M	RESTATED 2018 $M
Reconciliation of cash		
For the purpose of the statement of cash flows, cash includes cash on hand and in banks. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:		
Cash	**119.7**	84.0
Reconciliation of profit/(loss) from ordinary activities after related income tax to net cash flows from operating activities		
Profit for the year	**55.9**	4.1
Depreciation of plant and equipment	**56.7**	53.5
Amortisation of HCP upfronts in revenue	**39.4**	47.3
Amortisation of intangibles	**12.0**	14.4
Amortisation of borrowing costs	**1.5**	3.6
Share-based payment expense	**1.9**	5.4
Impairment of other intangibles	**–**	2.5
Impairment of property, plant and equipment	**–**	4.0
Other non-cash items	**(1.7)**	3.4
Loss on sale of PP&E and intangibles	**2.5**	–
Net exchange differences	**(0.1)**	–
Increase/ (decrease) in:		
Trade payables and accruals	**9.3**	2.5
Provisions	**(17.8)**	71.8
Deferred revenue	**0.1**	(6.6)
Income tax and deferred taxes	**(13.7)**	3.8
Decrease/ (increase) in:		
Consumables	**0.2**	2.9
Receivables and prepayments	**(18.6)**	(10.4)
Net cash provided by operating activities	**127.6**	202.2

(a) Non-cash investing and financing

During the financial year, 217,811 (2018: 90,516) and 68,681 (2018: nil) shares were issued pursuant to the Short Term Incentive Plan and sign on Arrangement respectively for nil consideration. There have not been any shares issued pursuant to the Retention Plan during the year (2018: 329,510).

These transactions are not reflected in the cash flow statement.

(b) Financing facilities

Details of financing facilities available to the Group are provided at note 13.

17. BUSINESSES ACQUIRED

(a) Montserrat Day Hospitals

On 19 October 2018 the Group acquired 100% of the issued capital of MB Healthcare Pty Ltd, the parent entity of the Montserrat Day Hospital Group ('Montserrat'). As at acquisition, Montserrat operated seven specialist day hospitals and hematology / oncology clinics across Queensland, Western Australia and New South Wales. The acquisition will assist in the diversification of revenue for the Group by growing non-Medicare revenues and also complements the existing businesses of the Group.

The goodwill of $96.7 million is attributable to the expected benefits arising from the acquisition, the strong and experienced management team that has been retained and the potential for future growth.

The aggregate fair values of the identifiable assets and liabilities of Montserrat as at the date of acquisition were:

	NOTE	2019 $M
Current assets		8.9
Non-current assets		4.9
Current liabilities		(8.3)
Non-current liabilities		(16.6)
Total identifiable net assets at fair value		(11.1)
Goodwill arising on acquisition		96.7
Total consideration		85.6
Less: Deferred consideration		(31.6)
Cash paid to vendors on acquisition		54.0
Cash transferred to repay debt on acquisition		16.3
Total cash transferred on acquisition		70.3
Less: Cash acquired		(3.4)
Net cash transferred on acquisition	i	66.9

i. The payment for Day Hospital practices and subsidiaries of $68.3 million as disclosed in the Statement of cash flows includes $66.9 million for the acquisition of Montserrat and $1.4 million in respect to a payment of deferred consideration within the Montserrat group.

The deferred consideration recognised on acquisition consists of the following components:

- A deferred payment of up to $15 million which is payable no earlier than 1 July 2019 and is subject to the successful commissioning of three new facilities in South East Queensland and Western Australia and the completion of the purchase of a private hospital in Western Australia. As at 30 June 2019 the conditions have been met in relation to $11 million of this deferred payment which has been paid in July 2019. As these amounts have been or are expected to be paid within 12 months they have been recognised on an undiscounted basis.

  Subsequent to the acquisition of Montserrat the completion of the purchase of a private hospital in Western Australia did not proceed. The deferred consideration of $4 million that would have been payable on completion has been reversed and recognised in the Statement of profit and loss in the current period.

- Earn-out payments that may be payable at the end of FY 2020 and FY 2021, depending on Montserrat achieving certain agreed financial milestones. An amount of $16.6 million has been recognised for these earn-out payments. This component of the deferred consideration has been recognised on a discounted basis.

17. BUSINESSES ACQUIRED (CONTINUED)

From the date of acquisition Montserrat contributed $0.6 million to profit before interest and tax of the Group.

The initial accounting for Montserrat business combination has been performed on a provisional basis as the identification and fair value measurement of the assets and liabilities remains ongoing.

(b) Other business acquired

The information provided below is aggregated for business combinations that have occurred during the period that are individually immaterial.

The initial accounting for the other businesses acquired has been performed on a provisional basis. The identification and fair value measurement of the assets and liabilities acquired remains ongoing as does the assessment of the fair value of the deferred consideration payable.

	2019 $M
Current assets	1.9
Non-current assets	1.9
Current liabilities	(0.7)
Non-current liabilities	(0.9)
Total identifiable net assets at fair value	2.2
Goodwill arising on acquisition	37.1
Total consideration	39.3
Less: deferred consideration	(8.5)
Cash paid on acquisition	30.8
Less: cash acquired	(0.9)
Net cash paid on acquisition	29.9
Disclosed in the statement of cash flows:	
Payment for Medical Centres practices & subsidiaries	(29.4)
Payment for Imaging practices & subsidiaries	(0.5)
	(29.9)

18. ADOPTION OF NEW AND REVISED STANDARDS

Standards on issue not yet adopted

At the date of authorisation of the financial statements, a number of Standards and Interpretations were on issue but not yet effective for the Group. In the Directors' opinion, the following Standards on issue but not yet effective, are most likely to impact the amounts reported by the Group in future financial periods:

STANDARD	EFFECTIVE FOR ANNUAL REPORTING PERIODS BEGINNING ON OR AFTER	EXPECTED TO BE INITIALLY APPLIED IN THE FINANCIAL YEAR ENDING
AASB 16 Leases	1 January 2019	30 June 2020

AASB 16 will remove the distinction between operating and finance leases resulting in almost all leases being recognised by lessees as an asset and a liability on the statement of financial position except for short-term leases and leases of low value assets. The income statement impact for leases currently classified as operating leases will be both to the classification of the expense (interest and depreciation rather than property rental expense) and timing of recognition (the overall expense for an individual contract will be higher in the earlier periods when the interest expense which is calculated on the outstanding liability is higher).

The new Standard also provides enhanced guidance on identifying whether a contract contains a lease and includes enhanced disclosure requirements.

18. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

Transitions

The Group will initially apply the new standard using the modified retrospective approach, which requires no restatement of comparative information.

The lease liability on initial adoption will be measured as the future lease payments under the various lease agreements discounted at the relevant incremental borrowing rate at the date of transition, being 1 July 2019.

In relation to the opening balance of Right-of-Use Assets the Group will apply the following approach:

- For the largest property leases the Right-of-Use Asset will be calculated as the present value of lease payments since the commencement of the lease using the discount rate applicable as at the date of transition based on the remaining lease term less cumulative straight-line depreciation and adjusted for any lease incentives received or receivable.
- For all other leases the Right-of-Use Asset will be equivalent to the lease liability.

Adjustments are also made for any accrued or prepaid rent and straight-line lease balances as at the date of transition. The Right-of-Use Asset balance will be adjusted for any onerous lease provisions as at the date of transition.

Estimated Financial Impact on Adoption

The Group has carried out a preliminary assessment of the initial financial impact on the Balance Sheet of the Group as at 1 July 2019 on adoption of AASB 16. Based on the work performed, it is estimated that lease liabilities of approximately $1.2 billion and Right-of-Use Assets of approximately $1.1 billion will be recognised on initial adoption of AASB 16. The net impact to the Balance Sheet of thse items, adjusted for deferred tax, will be recognised as an adjustment to accumulated losses as at 1 July 2019.

The impact predominately relates to the Group's leasing of property and Imaging equipment.

19. SUBSEQUENT EVENTS

On 29 July 2019, the Group announced the departure of two senior executives, Malcolm Ashcroft (Chief Financial Officer) and Wesley Lawrence (CEO Pathology). From 19 August 2019, Maxine Jacquet (Chief Financial Officer) and John McKechnie (CEO Pathology) have been appointed as successors.

Other than these events there has not been any matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs on the Group in future financial years.

20. NET TANGIBLE ASSET BACKING

	2019 $	RESTATED 2018 $
Net tangible (liability)/asset backing per share	(0.95)	(1.26)

This report has been prepared in accordance with AASB Standards, other AASB authoritative pronouncements and Urgent Issues Group Consensus Views or other standards acceptable to ASX.

Identify other standards used	NIL

This report, and the +accounts upon which the report is based (if separate), use the same accounting policies.

This report does/~~does not~~* *(delete one)* give a true and fair view of the matters disclosed.

This report is based on +accounts to which one of the following applies.
(Tick one)

☐	The +accounts have been audited.	☐	The +accounts have been subject to review.
✓	The +accounts are in the process of being audited.	☐	The +accounts have *not* yet been audited or reviewed.

If the audit report or review by the auditor is not attached, details of any qualifications ~~are attached~~/will follow immediately they are available* *(delete one)*.
The entity has/~~does not have~~* *(delete one)* a formally constituted audit committee.

Sign here: Date: 16 August 2019

(Director)
Print name: Robert Hubbard