integral DIAGNOSTICS


# FY17 results

**Ian Kadish (MD & CEO)**

**Anne Lockwood (Interim-CFO)**

24 August 2017

# Profit & loss

| $ millions, June | FY17 | FY16 | Change ($m) | Change (%) |
|---|---|---|---|---|
| **Total revenue** | **179.7** | **167.8** | **11.9** | **7.1%** |
| **NPAT** | **15.5** | **11.4** | **4.1** | **35.9%** |
| Add back: Amortisation | 0.4 | 0.4 | 0.0 | 0.0% |
| **NPATA** | **15.9** | **11.8** | **4.1** | **34.7%** |
| *One off transactions net of tax* | | | | |
| Transaction costs | | (5.2) | | |
| Impairment of asset and restructuring provision | (0.8) | | | |
| Fair Value gain on acquisition of SWMRI Joint venture | 1.2 | | | |
| **EBIT prior to one off transactions** | **23.7** | **26.2** | **(2.5)** | **(9.5%)** |
| **EBITDA prior to one off transactions** | **33.5** | **34.9** | **(1.4)** | **(4.0%)** |
| **NPAT prior to one off transactions** | **15.1** | **16.6** | **(1.5)** | **(9.3%)** |
| **NPATA prior to one off transactions** | **15.5** | **17.0** | **(1.5)** | **(8.8%)** |

- Revenue up 7.1% to $179.7m:
  - Recovery in referral patterns but impacted by competition
  - Additional revenue from capacity expansion (but capacity utilisation lags)
  - Full year contribution from South West MRI/Western District Radiology acquisition
- Expense growth consumed revenue growth driving NPAT decline of $1.5m
  - Investing in staff and equipment to support capacity expansion
    - Additional $10.1m in employee benefit expense and $3.4m in depreciation, occupancy and equipment costs
  - On going investment in staff and systems $1.2m
  - Reduced net finance costs $0.6m and taxation $0.6m
- Impairment and restructuring costs associated with set up and removal of the Port Hedland infrastructure for the mobile MRI (0.8m net of tax)
- **FY17 dividend of 4.0cps fully franked, bringing the total FY17 dividend to 7.0cps fully franked**

# Cashflow

| $ millions, June year end | FY17 | FY16 |
|---|---|---|
| Operating cashflows | 22.7 | 24.1 |
| Investing cashflows | (14.7) | (16.7) |
| Financing cashflows | (7.4) | 6.6 |

- FY17 investing cashflows include SWMRI/WDR acquisition
- FY17 financing cashflows include $10.2m of dividend payments
- FY16 financing cashflows include IPO proceeds

| | Underlying | |
|---|---|---|
| **$ millions, June year end** | **FY17** | **FY16** |
| **EBITDA** | **33.5** | **34.9** |
| Non-cash items in EBITDA | - | 0.1 |
| Changes in working capital | 1.6 | (0.5) |
| Maintenance and replacement capex | (11.1) | (9.4) |
| **Free cash flow** | **24.0** | **25.1** |
| Growth capital expenditure | (2.3) | (7.8) |
| **Net cash flow before financing, acquisitions and taxation** | **21.7** | **17.3** |
| Free cash flow / EBITDA | 71.6% | 71.9% |

- Growth capex lower in FY17 v FY16 as 2 significant projects were deferred until FY18
- Normalised free cash flow conversion of 71.6%

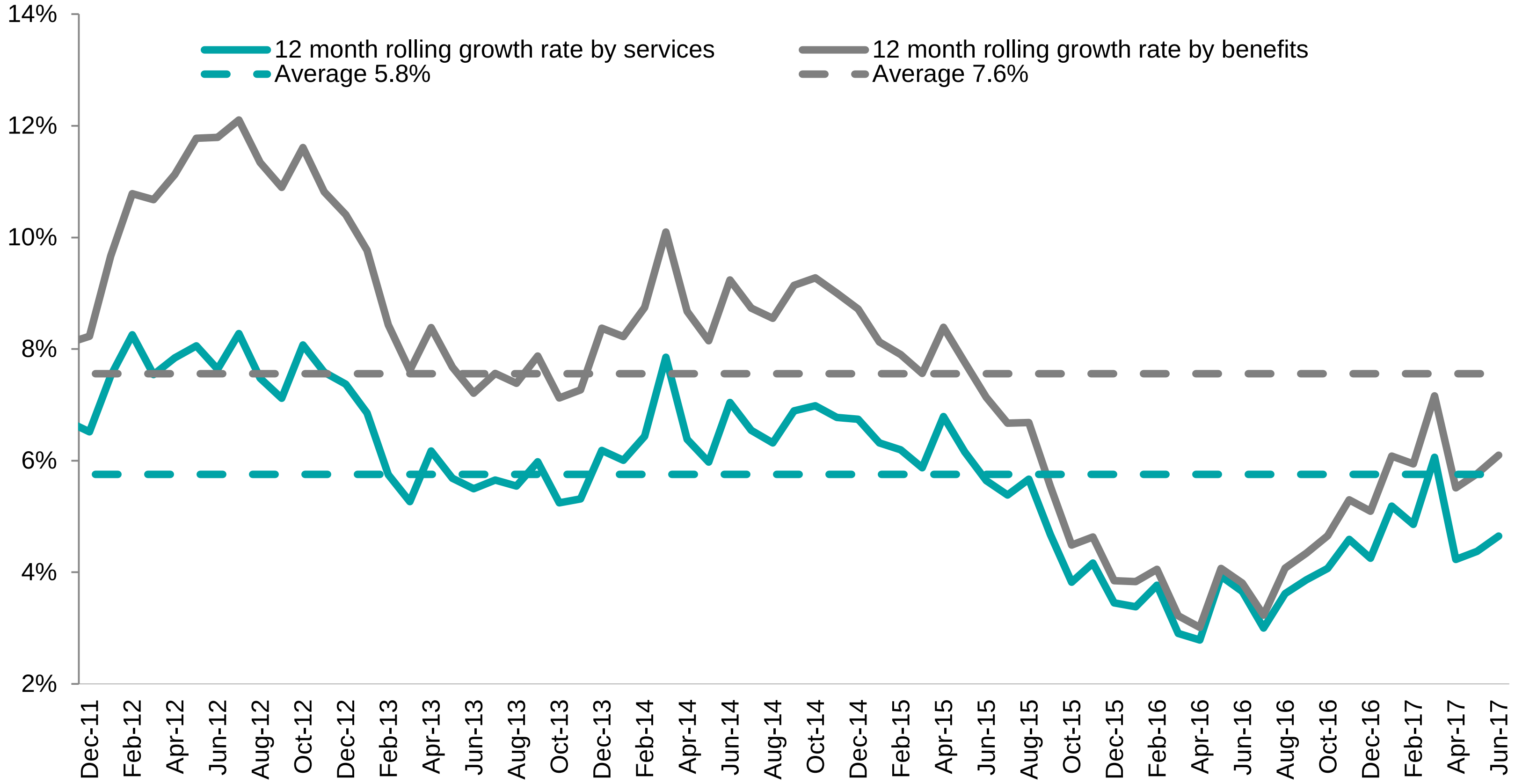
# Balance sheet

## Conservative gearing

- Property, plant and equipment increased by $3.9m due to acquisition of SWMRI/WDR, ongoing investment in state-of-the-art equipment and growth capex offset by depreciation charges
- Intangible assets of $104.0m includes Goodwill and brands, which are tested at least annually for impairment and customer contracts which will be fully amortised in FY18
- Net debt 1.4x pro forma EBITDA as at 30 June 2017

| $ millions | Actual 30-Jun-17 | Actual 30-Jun-16 |
|---|---|---|
| Cash and cash equivalents | 24.2 | 23.6 |
| Trade and other receivables | 5.1 | 5.5 |
| Other current assets | 3.9 | 2.9 |
| **Total current assets** | **33.2** | **32.0** |
| Property, plant and equipment | 50.5 | 46.6 |
| Intangible assets | 104.0 | 99.8 |
| Deferred tax asset | 2.7 | 2.7 |
| **Total non-current assets** | **157.2** | **149.1** |
| **Total assets** | **190.4** | **181.1** |
| Trade and other payables | 8.3 | 10.4 |
| Current tax liabilities | (0.0) | 1.1 |
| Borrowings | 11.5 | 6.7 |
| Provisions | 10.6 | 9.5 |
| **Total current liabilities** | **30.5** | **27.7** |
| Borrowings | 61.4 | 61.8 |
| Provisions | 8.1 | 7.2 |
| Other non-current liabilities | 0.0 | 0.4 |
| **Total non-current liabilities** | **69.5** | **69.4** |
| **Total liabilities** | **100.0** | **97.1** |
| **Net assets** | **90.4** | **84.0** |

# Industry volume growth is still in recovery




Source: Market Eye; Medicare Australia Statistics Medicare by Broad Type of Service (BTOS) for the States IDX operates in

- Industry growth rates still below historical average, but recovering
- IDX examination volume growth (Medicare funded, patient funded and reporting contracts) up 4.6%
  - Compares to 5.1% growth based on Medicare data (for the States in which IDX operates)
- Increased competition at select sites in Victoria and Queensland

# FY17 operations

- Acquired and integrated SWMRI/WDR
- Expanded capacity in Toowoomba, Sunbury and Geelong supporting full year growth
- Signed five, 5 year contracts with the West Australian Country Health Service relating to the provision of reporting contracts in remote regions, two of which were new to the group.
- Refurbished IDX's facilities at Pindara private hospital
- Purchased Mobile MRI which, although not successful in its initial location of Port Hedland, will be relocated to alternative location where volumes are expected to deliver the utilisation levels and returns required
- Installed new MRI machines and facilities at Robina and John Flynn hospital
- Invested in IT platforms to support improved medical imaging and digital reporting
- Undertook negotiations which have led to securing new lease extensions at the three Victorian SJOG hospital sites (executed July 2017)

# Capex

| ($M) | FY16 | FY17 | FY18 |
|---|---|---|---|
| Maintenance | 9.5 | 11.1 | 11.0 |
| Growth | 7.9 | 2.3 | 8.0 |
| Depreciation | 8.7 | 9.8 | 11.0 |

- $13.4m capex (net of acquisitions) (FY16: $17.5m)
  - Maintenance capex of $11.1m as planned
    - Medical equipment and fit out of hospitals/practices
    - IT systems
  - Growth capex of $2.3m
    - Mobile MRI
    - Port Hedland infrastructure (impaired)
    - Deferred investment in 2 projects to FY18 ($3.5m)
- FY18 expected capex of $19m
  - Maintenance capex of $11m
  - Growth capex of $8m
    - Dedicated sub-specialty centres
    - Upgrades to facilities at SJOG hospital in Geelong with 10 year lease extensions secured at 3 hospital sites

# Focused strategy, disciplined execution into FY18

| | | | | | |
|---|---|---|---|---|---|
| Strategy | **1 Grow existing business and contain costs** | | | | **2 Strategic acquisitions** |
| Drivers of strategy | Develop dedicated sub-speciality centres | Flex staff to demand | Increase capacity utilisation | Select Bolt-on Acquisitions | Disciplined execution |
| Geographic focus | Existing territory | | | | New territory |
| Description | • Disciplined capital spend<br>• Disciplined cost management to improve spend<br>• Workplace of choice for radiologists and staff<br>• Market leader in territories where IDX operates | | | | • Continue to expand platform that benefits from IDX's scale and scope advantages |

integral DIAGNOSTICS

# Outlook

**FY18 focus**

1. Improve utilisation of existing capacity and infrastructure
2. Contain costs so revenue growth delivers improved returns
3. Develop dedicated sub-speciality centres such as the recently opened Spine Clinic
4. Execute value-accretive acquisitions

**Improved Regulatory Environment**

- Government proposed reductions in bulk billing incentive for diagnostic imaging scrapped
- Reintroduction of MBS rebate indexation for targeted diagnostic imaging services from July 2020
- MBS review is ongoing and direct changes made so far have had a negligible impact on revenue

**FY18 guidance**

- $19m capex = $11m maintenance + $8m growth ($3.5m deferred from FY17)
- FY18 NPAT to be moderately higher than FY17 after absorbing $11m of depreciation reflecting past and planned capital investment

# Questions

# Disclaimer

Some of the information contained in this presentation contains “forward-looking statements” which may not directly or exclusively relate to historical facts. These forward-looking statements reflect Integral Diagnostics Limited (IDX) current intentions, plans, expectations, assumptions and beliefs about future events and are subject to risks, uncertainties and other factors, many of which are outside the control of IDX.

Important factors that could cause actual results to differ materially from the expectations expressed or implied in the forward-looking statements include known and unknown risks. Because actual results could differ materially from IDX current intentions, plans, expectations, assumptions and beliefs about the future, you are urged to view all forward-looking statements contained herein with caution.

To the maximum extent permitted by law, none of IDX, or its respective affiliates or related bodies corporate or any of their respective officers, directors, employees and agents (Related Parties), nor any other person, accepts any responsibility or liability for, and makes no recommendation, representation or warranty concerning, the content of this presentation, IDX, the Group or IDX securities including, without limitation, any liability arising from fault or negligence, for any loss arising from the use of or reliance on any of the information contained in this presentation or otherwise arising in connection with it.

Reliance should not be placed on the information or opinions contained in this presentation. This presentation is for informational purposes only and is not a financial product or investment advice or recommendation to acquire IDX securities and does not take into consideration the investment objectives, financial situation or particular needs of any particular investor. You should make your own assessment of an investment in IDX and should not rely on this presentation. In all cases, you should conduct your own research of IDX and the Group and analysis of the financial condition, assets and liabilities, financial position and performance, profits and losses, prospects and business affairs of IDX, the Group and its business, and the contents of this presentation. You should seek legal, financial, tax and other advice appropriate to your jurisdiction.

Contact us

**Investors & Media**
Dr Ian Kadish, CEO
P: +61 3 5339 0704
E: kadishi@integraldiagnostics.com.au