1H18 results

Dr. Ian Kadish (MD & CEO)
Anne Lockwood (CFO)

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Today's presenters

Dr. Ian Kadish

Managing Director and Chief Executive Officer

- Joined Integral Diagnostics in May 2017
- Has held roles including CSC Healthcare, McKinsey and Company, and Netcare, a major hospital group in South Africa and the United Kingdom where Ian was Executive Director from 1997 to 2005
- Since migrating to Australia in 2006, Ian's roles have included CEO and MD of Healthcare Australia, CEO and MD of Pulse Health Group (ASX-listed hospital group) and CEO of Laverty Pathology
- Medical Doctor with an MBA from the Wharton School of Finance at the University of Pennsylvania where he was on the Dean's List

Anne Lockwood

Chief Financial Officer

- Joined Integral Diagnostics in 2016 and appointed as Chief Financial Officer in September 2017
- Chartered Accountant by training and a former Partner of a major accounting firm
- Extensive experience across audit (including as National Head of Audit), technical accounting and mergers and acquisitions within the listed company environment
- Anne has a Degree in Commerce with majors in Accounting and Law
- She is also a Fellow of the Institute of Chartered Accountants

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Summary

- Strong financial performance driven by solid growth and realisation of significant cost efficiencies
- Conservative gearing, with net debt / LTM EBITDA of 1.2x and flexibility for
  - Further investment in organic growth (e.g. PET scans, cardiac CT, centres of excellence)
  - Earnings accretive acquisitions
- Cash flow growth reflects strong business performance and strong cash conversion
- The Company expects full year normalised NPAT growth of around 20% before takeover response costs and transaction costs
- Take no action on Capitol Health Takeover Offer

1. 1H18 financial performance

Key highlights

Underlying 1H18 results are a material improvement in operating margin and all financial performance metrics

$ millions	1H18	1H17	Change ($)	Change (%)
Operating revenue(1)	92.8	87.7	5.1	5.8%
Underlying EBITDA(2)(3)	19.0	16.9	2.1	12.4%
Underlying EBIT(4)	14.0	11.9	2.1	17.6%
Underlying NPAT	9.2	7.5	1.7	22.7%
Statutory NPAT(5)	8.3	8.7	(0.4)	(4.6%)
Free cash flow	17.7	10.4	7.3	70.2%
Free cash flow / EBITDA	93%	62%		
As at:	31-Dec-17	31-Dec-16		
Net debt	42.3	50.6	(8.3)	(16.4%)
Net debt / LTM EBITDA(6)	1.2x	1.5x		
Equity	92.8	88.1	4.7	5.3%

(1) Represents services revenue and excludes other revenue in 1H18 of $0.8m (1H17 $0.9m).
(2) One off transactions include takeover response costs and transaction costs of $1.3m pre-tax ($0.9m post-tax) in 1H18 and the fair value gain on acquisition of SWMRI Joint Venture of $1.2m pre-tax ($1.2m post-tax) in 1H17.
(3) 1H18 EBITDA including takeover response costs and transaction costs is $17.7m. 1H17 EBITDA including one off transactions is $16.9m.
(4) 1H18 EBIT including takeover response costs and transaction costs is $12.7m. 1H17 EBIT including one off transactions is $13.1m.
(5) Decrease in Statutory NPAT due to takeover response costs and transaction costs of $0.9m post-tax.
(6) Based on net debt at 31 December 2017 of $42.3m and LTM EBITDA prior to one off transactions of $35.6m. 1H17 based on net debt at 31 December 2016 of $50.6m and LTM EBITDA prior to one off transactions of $34.8m.

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Profit & loss

Strong financial performance driven by solid underlying growth and realisation of significant cost efficiencies

$ millions	1H18	1H17	Change ($)	Change (%)
Operating revenue	**92.8**	**87.7**	**5.1**	**5.8%**
Underlying EBITDA	**19.0**	**16.9**	**2.1**	**12.4%**
Underlying EBIT	**14.0**	**11.9**	**2.1**	**17.6%**
Net finance costs	(1.1)	(1.3)	0.2	(15.4%)
Tax expense	(3.7)	(3.2)	(0.5)	15.6%
Underlying NPAT	**9.2**	**7.5**	**1.7**	**22.7%**
Underlying NPATA	**9.4**	**7.7**	**1.7**	**22.1%**
Statutory NPAT	**8.3**	**8.7**	**(0.4)**	**(4.6%)**

- **Operating revenue up 5.8% to $92.8m:**
  - Volume growth of 8.5%[(1)]
  - Management initiatives delivered strong growth in November and December and is expected to continue
- **Expense growth declined as a % of revenue**
  - Labour costs declined as a % of revenue, including ~$0.6m of provision for incentives not included in prior year numbers. Decline in labour costs reflects management's approach to flexing labour to demand
  - Consumables costs down 8% or $0.4m from prior year despite volumes up by 8.5%. Driven by the vendor supply audit and efficiency initiative. Savings are expected to continue
  - Occupancy and service costs declined as a % of revenue driven by cost efficiency initiatives. Further improvements are expected
- **EBITDA margin improvement**
  - Increase of $2.1m for the half, operating margin increase of 1.3% to 20.3% (1H17: 19.0%)
- **1H18 dividend of 4.0cps fully franked has been declared and will be paid on 5th March 2018**

(1) Revenue is lower than volume growth due to increased proportion of reporting contracts. Excluding reporting contracts, average fee per exam has increased.

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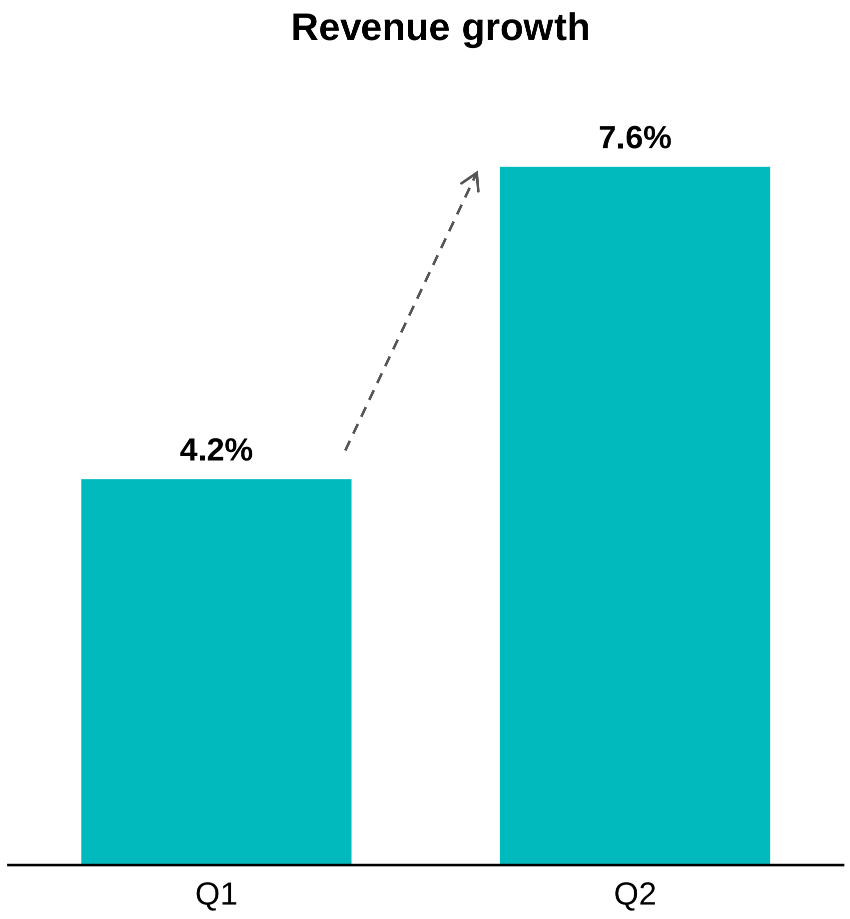
Integral revenue growth improved materially in the second quarter

Improvement in Q2 driven by management initiatives implemented July to October:

- Restructured call centres in QLD and WA
  - Improving service levels
  - Facilitating patient triage
  - Increasing capacity utilisation
- Focused marketing initiatives utilising national best practice
  - All three businesses performed materially better in Q2
- Growth expected to be sustained but impacted in 2H by:
  - Commonwealth Games in QLD
  - Planned downtime for equipment replacements
  - St John of God hospital in Geelong refurbishment disruptions



Balance sheet

Conservative gearing, with net debt / LTM EBITDA of 1.2x and flexibility to fund accretive growth

- Cash increased by $4m from 1H17
- 1H18 net debt of $42.3m (1H17: $50.6m)
  - 1.2x LTM EBITDA prior to one off transactions as at 31 December 2017 (1H17 1.5x)
- Finance facilities renewed in December 2017 for 3 years providing access to $130m of funding facilities
  - Average cost of debt at less than 3.7% (based on BBSW of 1.72% 4 January 2018)
- Intangible assets of $103.6m includes Goodwill and brands, which are tested at least annually for impairment and customer contracts which will be fully amortised in February 2018
- Current employee entitlements provisions of $9.8m declined in line with reducing employee costs
- Trade and other payables have increased due to accrual for takeover response costs and a progress payment due on capital works

$ millions	31 Dec 17	30 Jun 17	31 Dec 16
Cash and cash equivalents	25.4	24.2	21.4
Trade and other receivables	4.9	5.1	6.6
Other current assets	4.6	3.9	4.1
Total current assets	**34.9**	**33.2**	**32.2**
Property, plant and equipment	49.6	50.5	51.2
Intangible assets	103.6	104.0	102.1
Deferred tax asset	3.3	2.7	5.2
Total non-current assets	**156.5**	**157.2**	**158.4**
Total assets	**191.4**	**190.4**	**190.6**
Trade and other payables	11.6	8.3	13.0
Current tax liabilities	1.0	(0.0)	(0.3)
Borrowings	11.1	11.5	9.0
Provisions	9.8	10.6	9.8
Other current liabilities	-	0.1	-
Total current liabilities	**33.5**	**30.5**	**31.6**
Borrowings	56.6	61.4	63.0
Provisions	8.5	8.1	7.8
Other non-current liabilities	-	-	0.2
Total non-current liabilities	**65.1**	**69.5**	**71.0**
Total liabilities	**98.6**	**100.0**	**102.6**
Net assets	**92.8**	**90.4**	**88.1**

Cashflow and cash conversion

Cash flow growth reflects strong business performance and strong cash conversion

$ millions	1H18	1H17
Underlying EBITDA	**19.0**	**16.9**
Non-cash items in EBITDA	(0.2)	(0.1)
Changes in working capital	1.2	(0.4)
Replacement capital expenditure	(2.3)	(6.0)
Free cash flow	**17.7**	**10.4**
Growth capital expenditure	(1.3)	(1.0)
Net cash flow before financing, acquisitions and taxation	**16.4**	**9.4**
Free cash flow / EBITDA	93%	62%

- Normalised free cash flow conversion of 93% (1H17 62%) – 105% net of replacement capex
- Replacement capex $2.3m lower in 1H18 v 1H17 driven by economies of scale and focus on timing in equipment purchasing
- Growth capex $0.3m higher in 1H18 v 1H17
- Changes in working capital is net of accrual for takeover response costs

$ millions	1H18	1H17	Change ($)
Operating cashflows	15.7	11.5	4.2
Investing cashflows	(3.4)	(10.5)	7.1
Financing cashflows	(11.1)	(3.2)	(7.9)

- 1H FY17 investing cash flows include SWMRI/WDR acquisition $3.5m
- 1H FY18 financing cash flows represents principal debt repayment on asset finance facilities of $5.6m (FY17 $3.7m) and limited to $0.3m (FY17 $6.3m) drawdowns in line with the Treasury Policy of utilising excess cash
- 1H FY18 and 1H FY17 financing cashflows include $5.8m of final FY16/17 dividend payments

Capital expenditure

Management and Radiologists’ focus on “smart spending” has reduced capex outlay

$ millions[(1)]	FY18	FY17	FY16
Replacement	9.0	11.1	9.5
Growth	8.0	2.3	7.4
Depreciation	9.5	9.8	8.7

- FY18 expected capex of $17m
  - Replacement capex of $9m
    - Reduced from budgeted $11m due to leveraging economies of scale and strategic collaboration with radiologists to ensure fit for purpose selection of equipment and technology
  - Growth capex of $8m
    - Spine Centre of Excellence in Southport
    - New community clinics
      - Torquay Road
      - Miami Beach
    - New PET machine at St John of God Hospital in Geelong
    - Prostate Centre of Excellence in North Melbourne

(1) Represents cash + accruals

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2. Market update

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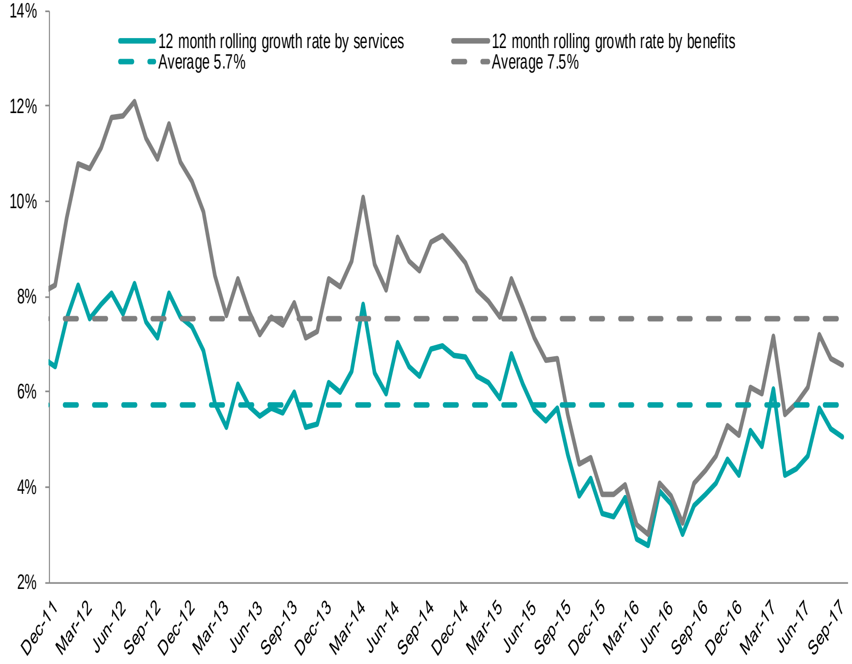
Industry continuing cycle towards higher growth

- Strong long-term drivers remain
- Industry growth rates recovering
  - Medicare disbursements growing very strongly in WA (double digit growth)
  - Solid growth on the east coast but behind WA

Industry growth recovering[1]



(1) Medicare Australia statistics by Broad Type of Service (BTOS) for the States IDX operates in

Regulatory environment more supportive

- Reintroduction of Medicare Benefits Schedule (MBS) indexation for selected Digital Imaging (DI) services from July 2020
- Government proposed reductions in bulk billing incentive for diagnostic imaging scrapped
- Recent MBS outcomes from 1 Nov 2017 are not material
  - Chiropractors limited to two region spinal X-rays, no longer reimbursed for three and four region spinals
  - Bone densitometry tests for osteoporosis in patients 70+ years restricted to initial screening and further intervals based on initial test results
- Public consultation currently open (also not expected to be material):
  - Restrict GP knee MRIs for patients ≥ 50 years of age or >3 knee MRI's per patient per year
  - Restrict ultrasound for acute DVT and chronic venous disease on same leg on same day
- Review of MRI prostate underway for inclusion on the MBS

3. Strategy

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Management's FY18 strategy – good medicine is good business

Strategy	**1 Grow existing business and contain costs**				**2 Strategic acquisitions**
Drivers of strategy	**Flex staff to demand**	**Increase capacity utilisation**	**Develop Centres of Excellence**	**Select bolt-on acquisitions**	**Disciplined execution**
Geographic focus	**Existing territory**				**New territory**

Description

Grow existing business and contain costs:

- Reducing labour costs by flexing staff closer to patient demand
- Disciplined cost and capital spend – including a vendor audit and cost control program
- Increasing capacity utilisation for MRI, PET and CT
- Workplace of choice for radiologists & staff
- Market leader in territories where IDX operates

Strategic acquisitions:

- Continue to expand platform that benefits from IDX's scale and scope advantages

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We are doing what we said we would do

	1H18 achievements
Medical leadership	• State and National clinical leadership committees involved in strategic and operational decision making • Initiated review of radiologist recruitment, retention, incentive and escrow structures
Flex staff to demand	• Schedule and roster management • Daily revenue and cost information reviewed and actioned
Increase capacity utilisation	• Upgraded phone systems, call centres and IT platforms - Improved service and utilisation levels - Improved capacity utilisation - Facilitated patient triage in Southwest WA and the Gold Coast • Upgraded clinical systems for improved medical imaging, productivity and referrer engagement • Expanded tele-radiology services using Australian accredited radiologists based overseas to assist in providing 24/7 coverage at 48 WA public hospitals • Began redevelopment of the St John of God Geelong hospital, including facilities for a PET scanner
New sites & services	• Opened a new community site on Torquay Road, Grovedale
Develop Centres of Excellence	• Opened a new practice, a Spine Centre of Excellence, on the Gold Coast
Select bolt-on acquisitions	• Successfully Integrated Western District Radiology and South West MRI in an earnings accretive manner
Efficiency	• **Opex:** Implemented a vendor audit and cost control program, demonstrating strong returns; and • **Capex:** Reduced spend through increased capacity utilisation, economies of scale and other purchasing efficiencies
New contracts	• Executed leases with three St John of God hospitals extending tenure for a further 10 years • Renewed Breast Screen Victoria accreditation for a further four years • Renewed and extended debt facilities for a further three years, maintaining average cost of debt at less than 3.7% (based on BBSW of 1.72% 4 January 2018)

We will continue to do what we said we would do

	2H18 focus areas
Medical leadership	• Conclude and implement review of radiologist recruitment, retentions, incentives and escrow arrangements • Third annual national clinical conference to be held February 2018
Flex staff to demand	• Implement a rostering, time sheet and award interpreter to assist labour force management and secure further cost efficiencies
Increase capacity utilisation	• Install a new fully licenced wide bore MRI in Mackay • Complete pilots for new technology using patient kiosks, referrer Apps, online bookings and AI with our alliance partner Siemens Healthineers • Complete closure of the non performing Varsity Lakes site on the Gold Coast
New sites & services	• Open a new site at Miami Beach on the Gold Coast • Continue organic growth initiatives leveraging off developed hub and spoke model
Develop Centres of Excellence	• Develop a prostate imaging centre of excellence in partnership with the Australian Prostrate Cancer Research (APCR) in North Melbourne. The centre will also include state of the art cardiac imaging.
Select bolt-on acquisitions	• Focus on earnings accretive acquisitions at appropriate multiples
Efficiency	• Continue the vendor audit and cost control program with a focus on consumables and service costs to deliver further margin improvements

4. Outlook

Outlook

- As announced to the ASX on 12 January, the Company now expects achievement of full year normalised NPAT growth of around 20% (before takeover response costs and transaction costs)
- Capex is expected at $17m (growth $8m, replacement $9m)
- The material changes from previous guidance of high single digit growth and $18m capex has been driven by:
  - Strong revenue growth – higher than forecast in both November and December resulting from management growth initiatives which is expected to continue;
  - Delivery of, and increasing traction on, cost efficiency initiatives across all areas;
  - Favourable resolution of negotiations on surplus lease space in early December;
  - Reduction of effective tax rate from 30% to 28% due to adoption of capital valuations for tax depreciation purposes; and
  - Lower capital spending driven by economies of scale in equipment purchasing and strategic collaboration with radiologists to ensure fit for purpose selection of equipment and technology.

Update on Capitol Health Takeover Bid

TAKE NO ACTION

- Capitol Health announced an unsolicited hostile takeover bid for Integral Diagnostics on 29 November 2017. On 22 December 2017, Capitol Health released a copy of its proposed bidder's statement to the ASX.
- Integral Diagnostics has since written to Capitol Health about a number of issues in the bidder's statement and has requested amendments.
- Capitol Health has not yet finalised the content of its bidder's statement for dispatch to Integral Diagnostics shareholders.
- The Board reiterates that Integral Diagnostics shareholders should TAKE NO ACTION in relation to Capitol Health's unsolicited takeover bid until they have reviewed Integral Diagnostics' target's statement, which will be provided to shareholders no later than 15 days after Capitol Health has dispatched its bidder's statement.
- The target's statement will contain the Board's recommendation and its rationale, an outline of shareholder options and an opinion from an independent expert as to whether the offer is fair and reasonable to shareholders.

Questions?

Appendix

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Reconciliation of underlying to statutory profit

$ millions	1H FY18	1H FY17	Change ($)	Change (%)
Underlying NPAT	**9.2**	**7.5**	**1.7**	**22.7%**
One off transactions net of tax				
Transaction costs and takeover response costs	(0.9)	0.0	(0.9)	
Fair Value gain on acquisition of SWMRI Joint venture	0.0	1.2	(1.2)	
Statutory NPAT	**8.3**	**8.7**	**(0.4)**	**(4.6%)**

- **Transaction costs and takeover response costs**
  - Transaction costs and takeover response costs allocated as one off transactions relate to costs directly related to external advisors on due diligence for acquisitions as well as the takeover response. These one off costs do not include ANY internal costs that would have been otherwise incurred in operations.
- **Fair value gain on acquisition of SWMRI Joint Venture**
  - Fair Value Gain on acquisition of $1.2 million relates to the existing 50% interest in South West MRI

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