Integral Diagnostics

Providing Excellence in Diagnostic Imaging in Australia and New Zealand

FY19 Half Year Results

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

21 February 2019

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"Good Medicine is Good Business"

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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1H19 Highlights

- Delivered solid growth vs 1H18
  - ➢ 34.4% growth in operating NPAT
  - ➢ 40.5% growth in operating EBITDA
  - ➢ 25.6% growth in operating EPS
  - ➢ 23.2% growth in operating revenue
  - ➢ 28.9% growth in Statutory NPAT
- Successful integration of significant acquisitions across New Zealand and Geelong completed with both acquisitions performing slightly ahead of expectations

- Improved EBITDA operating margin to 23.4% (1H18: 20.3%)
  - ➢ Industry leading margins across Australia and New Zealand
  - ➢ Cost efficiency program largely completed – savings achieved across all cost categories
  - ➢ Successfully leveraged the platform to drive cost efficiencies and revenue synergies

- Declared a fully franked half year dividend of 5.0cps (1H18: 4.0cps) – increase of 25%
- On-market share buy-back announced

- Restructured debt facilities with a consortium of major banks
  - ➢ Cash advance facility of $240m, asset financing $65m
  - ➢ Improved terms providing greater flexibility and lower cost of capital
  - ➢ Weighted average cost of capital continues to lower

LEVERAGING THE PLATFORM TO DELIVER STRONG SUSTAINABLE GROWTH

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1H19 Highlights continued

- Expanded operations
  - Completed development at SJOG Hospital in Geelong
  - Opened Miami Beach clinic on the Gold Coast
  - Commenced building the Prostate Imaging Centre of Excellence at the Australian Prostate Centre in North Melbourne
  - Assessing selected acquisitions that are a clinical fit, strategically aligned and earnings accretive

- Continued to restructure radiologist remuneration and escrow arrangements, diversifying the radiologist shareholder base
  - Revised and implemented Radiologists loan funded equity scheme which will broaden and diversify the radiologist shareholder base
    - FY19 scheme implemented February 2019, over subscribed with $4.5m worth of shares to be issued ($1.5m contributed from 15 Radiologists supported with $3m IDX loan)
  - Developed a new incentive scheme
  - For the employed radiologists subject to the October 2015 IPO Restriction Deed, escrow release to occur in stages through to September 2020 (bringing this in line with the 5 year escrow period of our recent major acquisitions).

- Continued to leverage technology to improve clinical outcomes and the patient experience
  - First to market in Australia for testing and review of FDA approved and operational in the USA, proven AI software to improve clinical workflows ensuring better patient outcomes
  - One integrated platform for Radiologist reporting is under development across the IDX group

LEVERAGING THE PLATFORM TO DELIVER STRONG SUSTAINABLE GROWTH

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1. 1H19 Financial performance

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Delivered growth across all key financial metrics

Operating 1H19 results delivered strong organic performance and successfully integrated acquisitions

$ millions	1H19	1H18	Change ($)	Change (%)
Operating revenue[1]	114.3	92.8	21.5	23.2%
Operating EBITDA [2]	26.7	19.0	7.7	40.5%
EBITDA from operations %	23.4%	20.3%	3.1%	15.3%
Operating EBITA	21.3	14.4	6.9	47.9%
Operating NPAT	12.9	9.6	3.3	34.4%
Operating EPS (cents)	8.3	6.6	1.7	25.6%
Statutory NPAT	10.7	8.3	2.4	28.9%
Free cash flow	23.9	17.7	6.2	35.0%
Free cash flow conversion, net of replacement capex	105.6%	105.3%	0.3	0.3%
Dividends declared per share	5.0	4.0	1.0	25%
As at:	31-Dec-18	31-Dec-17		
Net debt	116.8	42.3	74.5	176%
Net debt / LTM EBITDA[3]	2.2x	1.4x		
Equity	123.7	92.8	30.9	33.3%

(1) Represents operating revenue and excludes other revenue in 1H19 of $1.0m (1H18 $0.8m).
(2) One off transactions not included in Operating metrics include costs, net of tax of $2.2m (1H18 $1.3m) – see next slide.
(3) Based on net debt at 31 Dec 2018 of $116.8m and LTM organic EBITDA (plus trailing acquisitions EBITDA) of $53.8m. 1H18 based on net debt at 31 Dec 2017 of $42.3m and LTM EBITDA prior to one off transactions of $35.6m.

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Reconciliation of operating to statutory profit

$ millions	1H19	1H18	Change ($)	Change (%)
Operating NPAT	**12.9**	**9.6**	**3.3**	**34.4%**
One off transactions and other costs net of tax				
Transaction and other costs	(0.7)	(0.9)		
Customer contract amortisation	(1.5)	(0.4)		
Statutory NPAT	**10.7**	**8.3**	**2.4**	**28.9%**

- Other costs include write off of debt establishment costs, LTI and other one off business development costs (1H18 includes takeover response costs)
- Customer contract amortisation of $1.5m relates to contract values of $3.6m recognised on the NZ acquisition, in accordance with Australian Accounting Standard requirements this is being amortised over 12-18 months life remaining on the current contracts. It is management's expectation that these contracts will continue to roll in perpetuity in line with historical experience (1H18 relates to the GDA customer contracts)
- Statutory NPAT - Improvement of 28.9%

1H19 final dividend of 5.0cps fully franked has been declared and will be paid on 2nd April 2019 (1H18 4.0cps).

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1H19 Revenue

Solid 1H19 growth driven by leveraging IDX's platform, integrating acquisitions and 1H19 one-offs

Operating revenue up 23.2% to $114.3m

- Organic revenue growth of 8.0% and volume growth of 7.0% [(1)], growth delivered across all business units
- New Zealand contributed 13.1% of revenue growth at $AUD12.2m of revenue – slightly better than expectations
- Stronger organic revenue growth was delivered in the first half due to:
  - Continued move to high end modalities (CT, MRI, Nuclear Medicine & PET)
  - Introduction of a Medicare rebate for MRI of the prostate was available for full 6 months (whilst the November 2018 removal of a Medicare rebate for knee MRI for patients >50yo has not yet impacted)
  - New PET service at SJOG Geelong
  - Opening of a clinic in Miami Beach on the Gold Coast
  - 1 extra trading day in 1HFY19 adds 0.7%
- Average fee per exam (excluding reporting contracts) increased by 1.1% in 1H19

(1) Revenue is higher than volume growth as reporting contracts are comparable year on year, growth has been stronger in the higher end modalities of MRI, CT, Nuc Med and interventionalist work in line with IDX business model. Excluding reporting contracts, average fee per exam continues to increase in FY19.

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1H19 Operating Expenditure

Leveraging the expanded platform and successfully integrating acquisitions

Industry leading margins across Australia and New Zealand

Expenses declined as a % of revenue across all categories

- Cost efficiency program largely completed
- Cost management will continue to be a focus
- Investment in leading DI technology for future growth will be higher in the 2H19
- Investment in radiologist recruitment for business sustainability may add additional cost in 2H19

Capital Management

Strong balance sheet with increasing net assets to support growth and acquisitions

- 1H19 net debt of $116.8m (1H18: $42.3m)
  - 2.2x trailing EBITDA prior to one off transactions as at 31 December 2018 (FY18 1.2x)
- Finance facilities renewed in December 2018 for 3 years, providing access to increased funding facilities across multiple banks
  - Average cost of cash advance facility approx 3.7%
- Intangible assets of $203.3m includes Goodwill and brands ($97.1m recognised on 1 July 2018 acquisitions), which are tested at least annually for impairment and customer contracts of $3.6m recognised on the NZ acquisition
- Net assets increased $30.4m (34.5%)

$ millions	31 Dec 18	30 Jun 18	31 Dec 17
Cash and cash equivalents	24.2	20.8	25.4
Trade and other receivables	8.4	5.6	4.9
Other current assets	4.9	3.9	4.6
Total current assets	**37.5**	**30.3**	**34.9**
Property, plant and equipment	61.6	54.1	49.6
Intangible assets	203.3	103.6	103.6
Deferred tax asset	7.5	2.8	3.3
Total non-current assets	**272.4**	**160.5**	**156.5**
Total assets	**309.9**	**190.8**	**191.4**
Trade and other payables	14.4	12.1	11.6
Current tax liabilities	0.7	0.3	1.0
Borrowings	12.1	12.8	11.1
Provisions	11.4	10.6	9.8
Other current liabilities	-	-	-
Total current liabilities	**38.6**	**35.9**	**33.5**
Borrowings	129.0	52.5	56.6
Provisions	8.9	8.9	8.5
Deferred tax liability	8.5	-	-
Other non-current liabilities	1.1	0.1	-
Total non-current liabilities	**147.5**	**61.5**	**65.1**
Total liabilities	**186.1**	**97.4**	**98.6**
Net assets	**123.8**	**93.4**	**92.8**

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Cashflow and cash conversion

Strong business performance and cash conversion reflected in free cash flow growth

$ millions	1H19	1H18
Operating EBITDA	**26.7**	**19.0**
Non-cash items in EBITDA	0.1	0.2
Changes in working capital	1.4	1.2
Replacement capital expenditure	(4.3)	(2.3)
Free cash flow	**23.9**	**17.7**
Growth capital expenditure	(1.6)	(1.3)
Net cash flow before financing, acquisitions and taxation	**22.3**	**16.4**
Free cash flow / EBITDA	89.5%	93%

- Normalised free cash flow conversion of 89.5% (1H18 93%) – 105.6% net of replacement capex
- Replacement capex $2.0m was higher in 1H19 v 1H18
- Growth capex $0.3m was higher in 1H19 v 1H18
- Changes in working capital is net of accruals for non operating transaction costs

Statutory $ millions	1HFY19	1HFY18	Change ($)
Operating cashflows	15.3	15.7	(0.4)
Investing cashflows	(82.1)	(3.4)	(78.7)
Financing cashflows	69.9	(11.1)	(58.8)

- Statutory operating cash flows decline is being driven by working capital acquisition adjustments accounted for in investing cash flows
- 1H19 investing cash flows includes payment for the acquisitions
- 1H19 financing cash flows represents principal draw down for acquisitions

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Capital expenditure

Increase in capex commensurate with increased size of the business and investment for future growth

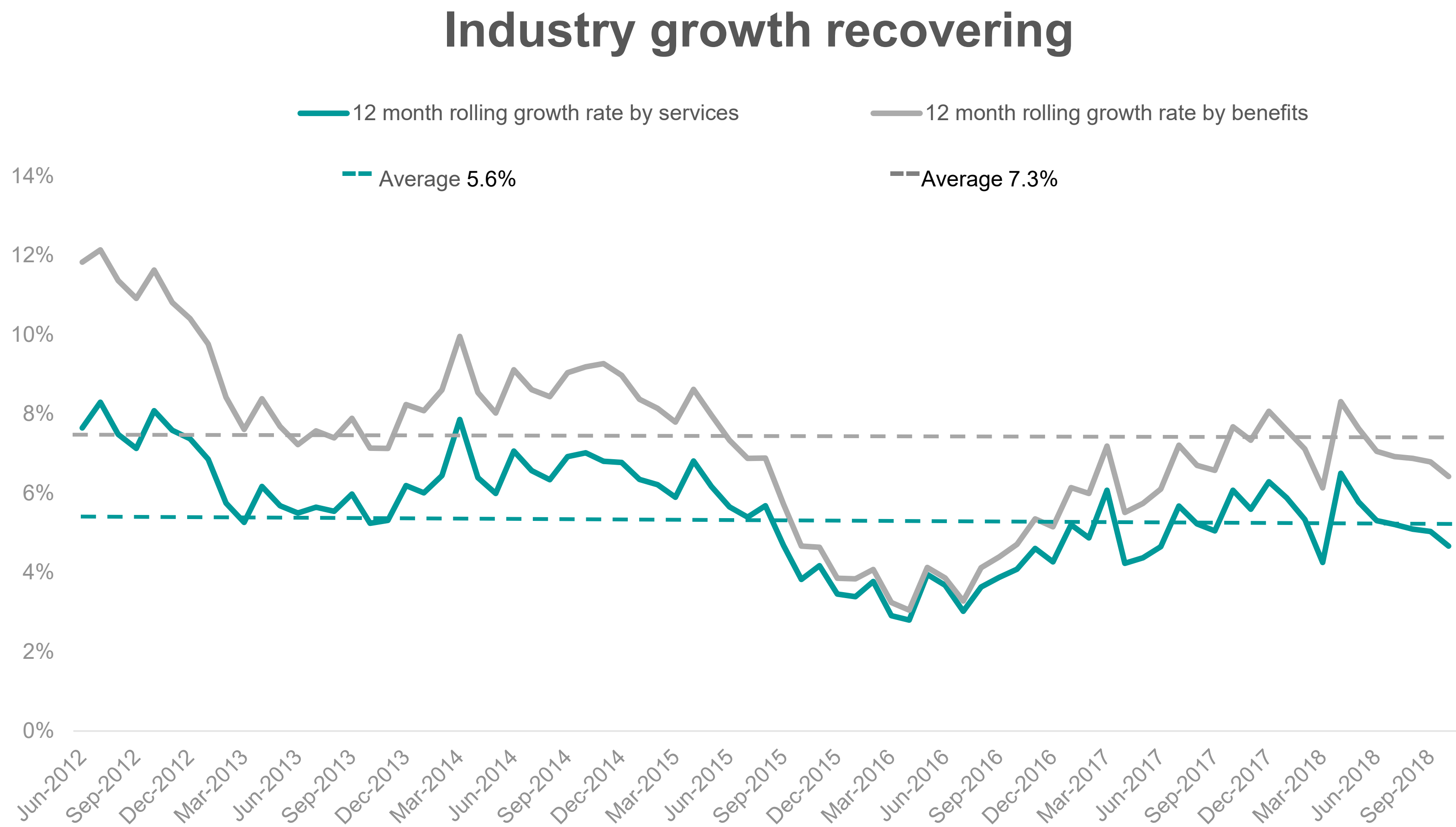
$ millions[1]	1H19	1H18	FY19 Est	FY18
Replacement	4.3	2.3	12.0	8.8
Growth	1.6	1.3	8.0	5.2
Total	5.9	3.6	20.0	14.0

- FY19 expected capex of around $20m
  - Replacement capex of around $12m
    - Replacement of leased ultrasound fleet - $2m
  - Growth capex of around $8m
    - Completion of SJOG Geelong Hospital - $1m
    - North Melbourne Prostate Centre of Excellence - $6m
    - Completion of Miami Beach Construction and Fit out

(1) Represents cash + accruals

2. Market update

Industry growth rates stabilised and strong long-term drivers remain



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

Regulatory environment active with forthcoming election

Australia:

July 1, 2018

- Introduction on the Medicare Benefits Schedule (MBS) of MRI Prostate items – strongly positive for patients and referrers and good contributor to IDX growth in 1H19 which we expect to continue
  - MRI prostate provides non invasive evaluation of the prostate for those at risk of the commonest cancer in Australian men. It allows earlier detection and enables earlier treatment both improving outcomes and reducing cost.

November 1, 2018

- Removal of GP referred MRI of the knee for patients >50 yrs old from the MBS from 1 November 2018 – negative for patients and GP's, is expected to impact IDX revenue in 2H19
  - Restricts the ability for GP's to accurately diagnose knee conditions
  - Will likely increase specialist referral costs

MRI Licences

- 10 Licenses already issued and operational (IDX received full licence upgraded from partial at Pindara Private Hospital – operational 1 Nov 2018 with positive impact on volumes and revenue across specialist item codes)
- 40 additional licences have been announced with the Government planning to stagger the announcement of successful tenderers throughout the pre-election campaign, with new licences starting to be operational from 1 March 2019 – licence allocation will alter the competitive landscape which could be beneficial and/or negative to IDX revenue
  - Licences provided to competitors in South Perth and Geelong both of which are expected to be operational 1 March 2019

Regulatory environment active with forthcoming election continued

Australia cont.:

Future Expected Changes

- Reintroduction of MBS indexation for selected Diagnostic Imaging (DI) services from July 2020 – estimated to add approx. $500-$800k of revenue to IDX in FY21
- Full MBS indexation for all DI services is a key focus of the Australian Diagnostic Industry Association (ADIA) forthcoming federal election campaign given the governments prior election promise to end the freeze on Medicare rebates for DI services has not been acted upon
- IDX continues to closely monitor and assess the regulatory landscape with an election looming through participation in ADIA

New Zealand:

- No material changes. Annual indexation is provided for in all contracts. The Auckland DI market is expected to continue growing at around 7%pa, driven by strong net migration, aging demographics and adoption of new technologies that improve patient outcomes.

3. Strategy

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IDX now operates in four key markets

	Lake imaging	South Coast Radiology	Global Diagnostics	SRG Trinity MRI	Total IDX
Geographic Market	Victoria	Queensland	Western Australia	New Zealand	
Core markets	Ballarat, Geelong, Warrnambool and outer western areas of Melbourne	Gold Coast, Toowoomba and Mackay	South West Western Australia	Auckland	
Sites (includes hospital sites)	27	13	9	4	**53**
Hospital sites	7	2	4	-	**13**
MRI machines	7	7	2	3	**19**
MRI Licences	4 full 0 partial	5 full 1 partial	2 full 0 partial	N/A	**11 full 1 partial**
Employed Radiologists[1]	36	33	14	9	**92**
Employees	359	344	144	67	**914**

Note: Reflects current data as at January 2019.
[1] Relates to employed radiologists only. In addition IDX has a number of contractor radiologists (~43 currently)

Management's FY19 strategy – good medicine is good business

Strategy	1 Grow existing business and margin				2 Strategic acquisitions
Drivers of strategy	Drive organic growth & efficiency by leveraging hub & spoke model	Optimise technology solutions	Develop Centres of Excellence	Medical leadership	Further disciplined execution of strategic acquisitions

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2H19 Key priorities, focus and outlook

2H19 Key priorities, focus and outlook	
Drive organic growth and further efficiency gains	• Monitor and assess impact of new MRI licence allocations as well as removal of GP referred knee MRI for over 50's • Replace 2 CT's in WA with high end machines to meet demand and improve workflow and image quality • Begin re-development of the John Flynn Hospital on the Gold Coast (including planned new PET facility to open FY20) • Re-locate partial licenced MRI at Ballarat Base hospital to SJOG Ballarat creating a centralised super site in Ballarat with two fully licensed MRI's operating in cohesion and improving clinical outcomes and patient experience • Invest in developing the Peel Health specialist centre in Mandurah to meet patient and clinical demand as a result of new specialist oncology referrers in the region
Use digital technology to improve the patient and referrer experience	• First to market in Australia for testing and review of FDA approved and operational in the USA, proven AI software to improve clinical workflows ensuring better patient outcomes • Implement Patient APP to improve access, knowledge and flexibility of service for the patient and referrer • Leverage the consolidated reporting platform to start to develop sub speciality workflows for high end complex cases to deliver best in class comprehensive reports to patients and referrers
Prostate Imaging Centre of Excellence at the Australian Prostate Centre in North Melbourne	• Construction to be complete by June 2019 • Best in class equipment including wide-bore 3TMRI and advanced Cardiac CT to offer an expanded range of high end imaging services • Engaging with specialist referrers across a broad range of high end imaging services

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2H19 Key priorities, focus and outlook continued

2H19 Key priorities, focus and outlook continued	
Implement new radiologist recruitment, retention and incentive structure	• Broadening of the radiologist shareholder base ➢ Shares to be issued from over subscribed FY19 Radiologist share plan, FY20 issue under the plan to be offered • Continue to assess recruitment strategies to continue to attract high quality radiologists
Evaluate further strategic acquisitions that are a clinical fit, strategically aligned and earnings accretive	• Continue to assess acquisitions that are a clinical fit, strategically aligned and earnings accretive
Monitor and assess the regulatory landscape with an election looming	• Closely monitor and assess the regulatory landscape through participation in ADIA

We expect full year performance to be broadly in line with the 1H19, there is however uncertainty around the impact of new MRI licences and any other announcement being made through the forthcoming federal election.

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Questions?

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