

Monday, 23 October 2023

AUSTRALIAN CLINICAL LABS LIMITED – ANNUAL GENERAL MEETING 2023

Australian Clinical Labs Limited (ASX:ACL) provides to the market a copy of the addresses to shareholders for its 2023 Annual General Meeting, which will be held today at 9am AEDT.

– ENDS –

This announcement was authorised for release to ASX by the Company Secretary of ACL.

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Governance

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About Australian Clinical Labs

ACL is a leading Australian private provider of pathology services. Our NATA accredited laboratories perform a diverse range of pathology tests each year for a range of clients including doctors, specialists, patients, hospitals and corporate clients. ACL is one of the largest private hospital pathology businesses nationally. ACL is focused on its mission of combining talented people, and medical and scientific leadership, with innovative thinking and technologies to empower decision making that saves and improves patients' lives.

2023 ANNUAL GENERAL MEETING OF ACL

Chair and CEO Address

CHAIR's Address

Good morning everyone. This is ACL's third AGM, and it gives me great pleasure to welcome you all to the meeting today. My name is Michael Alscher and I have the privilege of being the Chair of your Board.

I would like to start by acknowledging the Traditional Custodians of the land on which we meet today, which for me in the City of Sydney is the Gadigal People of the Eora Nation. I also acknowledge the Traditional Custodians of country throughout Australia and the places from which our participants join us for this virtual AGM and their connections to land, sea and community. I pay my respects to their Elders past and present and extend that respect to Aboriginal and Torres Strait Islander peoples here today.

I have been informed by our Company Secretary that we have a quorum present, and I now declare the meeting open.

Before we begin with today's agenda, I would like to introduce my fellow Board members, who are present at the AGM today. Here in Sydney, I am joined by the Chair of our Remuneration and Nominations Committee, Mr Andrew Dutton, the Chair of our Audit and Risk Committee, Mr Mark Haberlin and also Ms Christine Bartlett and Mr Nathaniel Thomson. Our Company Secretary, Mrs Eleanor Padman, is also joining us virtually from Sydney as is the Company's legal adviser, Mr John Williamson-Noble from Gilbert and Tobin.

Joining us virtually from Melbourne, is our Chief Executive Officer, and Executive Director, Ms Melinda McGrath and fellow director Dr Leanne Rowe. They are joined by Mr James Davison, our CFO.

Also in Melbourne is ACL's auditor, Mr Stephen Witchurch from Pitcher Partners. Stephen will be available to answer questions that shareholders may have in relation to the 2023 financial statements and the conduct of the 2023 audit.

I will now take a moment to explain the interactive features of the webcast platform that we are using today. A Virtual Meeting 'Online Guide' was sent to shareholders with the Notice of Meeting and I will now run through the key features.

To vote, you will need to register by clicking on the "Get a Voting Card" button and providing your security holder number and post code. If you are an appointed proxy, please enter the proxy number issued by Link in the proxy details section.

Once you have registered, your voting card will appear with the resolutions to be voted on by shareholders during today's meeting. You may need to use the scroll bar to view all resolutions. On your voting card, you will see an option to enter a full vote or partial vote. To vote, you can click "For", "Against" or "Abstain". If you wish to submit a partial vote, please enter the number of votes you wish to lodge from the total you see displayed for each resolution. Once you have finished voting on all resolutions, please click "Submit Vote".

At the end of the meeting, a countdown timer will appear and voting will end five minutes after the close of the meeting. Please ensure you get your votes in on time.

To ask questions, shareholders can simply click “Ask a Question”. Depending on the volume of questions, we will focus on answering the most frequently asked questions. I would also ask that you confine your questions and comments to the business of the AGM.

If there is a technical issue that impacts the webcast, we ask for your patience while we work to address it as quickly as we can. If a technical issue results in me being unable to continue to Chair today’s meeting for a period of time, Mr Mark Haberlin is appointed Chair in my place and will continue with the meeting until the technical issues are resolved.

The Notice of Meeting for the AGM was made available to all shareholders, and I propose that it be taken as read. The Notice of Meeting can be found on our website under the “Investor Centre” tab and there is also a link on the AGM platform if you wish to download it from there.

Today I will begin with my Chair’s Address, then I will invite our CEO and Executive Director, Ms Melinda McGrath, to provide an overview of the FY23 financial and operational achievements and FY24 trading to date.

We will then move to the formal part of the meeting. As well as the formal tabling of ACL’s 2023 financial statements and auditor’s report, we have a busy agenda with six resolutions for shareholders to consider.

We will take questions as we address each item of business and will try to move at pace to ensure that we complete the agenda in our

allocated time.

Financial Year 2023 was very much a transition year dealing with the end of the pandemic, resetting the business for a post COVID-19 operating environment and the challenges of inflation and a workforce that has been operating under considerable pressure. I want to extend my appreciation to our exceptional ACL team throughout the organisation, who rose to these and other challenges throughout the year and ultimately delivered a strong operating and financial result once more.

Benefiting from the strong and resilient operating platform created over the past eight years, ACL delivered excellent results in FY23, including strong growth of our core (non-COVID) business operations. Among our FY23 financial highlights, ACL delivered more than 9 million pathology episodes, generating a revenue of \$697.1 million. ACL also continued its operational improvement program, which led to profit margins; as measured by earnings before interest and tax, reaching 10.1%.

ACL's key growth drivers continued to guide our business forward. ACL delivered an 11.4% increase in base-business growth compared to FY22, and above-market growth from our SunDoctors' business. While COVID-related revenue has reduced sharply, our strategic investments in SunDoctors and Medlab have been fully integrated into the business ahead of schedule, making ACL a stronger Company coming out of the pandemic than we were going into it.

ACL continues to focus on key operational initiatives and in FY23,

we had a disciplined and structured wind-down of COVID-related costs in line with testing volumes. A significant upgrade of the base laboratory information system was completed, and the roll-out of our patient-centred digitisation program was commenced. ACL also implemented a number of operational improvement projects with benefits continuing to accrue into FY24.

The challenges brought about by a high inflationary environment coupled with the broader healthcare market still operating at lower levels of activity and the supply constraints of clinicians throughout the healthcare sector have been material impacts on the pathology sector and our company has handled this operating dynamics head on.

One of the areas I am proudest of as Chair is ACL's continued position as a leader in science and technology. In 2018, ACL made a strategic investment in an innovative genomic testing business: Geneseq. During FY23, Geneseq completed validation studies for both early- and late-stage melanoma detection using genetic technology applied to tissue and blood. The tests that Geneseq have developed are material and represent diagnostic leadership on a global basis. ACL has a 10-year exclusivity period for the international patent pending technology, and commercialisation is expected to begin in FY24 as final regulatory approvals are received in Australia.

Geneseq will be making a number of announcements over the coming months as its products move to commercialisation and additional forms of cancer tests are developed using the same diagnostic platform. To give shareholders a sense of what we are

talking about one needs to look no further than at the success and opportunity of the Galleri product in the US, owned by Grail, an Illumini subsidiary.

In March 2023, ACL announced its intention to make an off-market takeover bid for Healius Limited, which, if successful, would create Australia's largest pathology provider – giving the combined entity the capacity to invest in emerging advances in diagnostics with international potential, as well as market-leading, front-end solutions to enhance doctor, patient and customer experience. The offer is subject to ACCC and FIRB approval, and other conditions. We remain in discussions with the ACCC and, as is always the case with larger mergers in concentrated industries, there are many stakeholders which wish to be heard and many questions to be answered. This takes time and requires patience. We continue to make our way through this process and remain of the view that the proposed merger is in the national interest and is good for the country, patients, staff and shareholders.

In regard to shareholders in particular, the offer made to Healius shareholders represented a nil premium merger, priced at the time of the announcement and the merger structure allows both groups of shareholders to benefit from the value creation of a combined company. We believe the potential value creation of the proposed merger for both sets of shareholders is too large for either shareholder group to ignore. We are hopeful that following ACCC approval we can work in a collaborative and productive way with the Healius board to ensure this transaction takes place, with the aim of achieving the potential value creation of the proposed merger for both shareholder groups. At the end of the day, for either company

to ignore such a merger opportunity, it would need to form a view that it has a stronger future on its own. We cannot see a basis for either company to genuinely come to this conclusion, given how compelling the value creation opportunity is.

From a Board Governance point of view, I am fortunate to be surrounded by an engaged and talented Board whose members uphold the ACL values as rigorously as our staff. In FY23, the ACL Board completed a Board performance evaluation which resulted in a range of action items to be implemented. A new charter for Audit and Risk Committee was drafted and adopted and we continue to review and update the Board's skills matrix and succession plan.

I would like to take this opportunity to welcome Ms Christine Bartlett, who commenced as a new Non-Executive Director of the ACL Board on August 23. Christine is an experienced non-executive director, with extensive executive experience gained through chief executive officer and senior executive roles with National Australia Bank, IBM and Jones Lang LaSalle. Pending Christine's election to the Board by Shareholders at this Meeting, we look forward to drawing on her vast experience.

In FY23, ACL continued to prioritise environmental stewardship, good governance and social responsibility. Our ESG strategy continues to deliver strong performance across all areas of our ESG mission.

We have upheld our commitment to sustainability and environmental stewardship by the continued reduction in our carbon footprint through the roll-out of hybrid cars, increased installation of solar

panels in laboratories and a reduction in consumable packaging. ACL's dedication to environmental sustainability aligns with our broader mission of improving health outcomes for generations to come.

Some of our other ESG highlights include achieving a continued reduction of our Lost Time Injury Frequency Rate, increasing female Board and management representation; Increasing digital pathology referrals to 19%, up from 11% in 1H FY22; and Commencing our Reflect Reconciliation Action Plan (RAP), which aims to strengthen relations between Aboriginal and Torres Strait Islander and non-Indigenous peoples, and contribute in a meaningful way to national reconciliation.

On behalf of the ACL Board, I would like to thank Melinda McGrath, the senior leadership team and all of ACL's dedicated employees for their commitment and the important work that they do on a daily basis. By creating a culture of innovation, continuous improvement and doctor-patient centricity, we uphold our mission to empower decision making that saves and improves patients' lives.

I would also like to extend my gratitude to our shareholders for their support and trust in our organisation. I would like to now hand you over to Melinda McGrath for the Group CEO presentation. Thank you.

CEO's Address

Thank you, Michael, and good morning to you all.

I would also like to start by thanking Australian Clinical Labs' more than 5,000 employees, who, as always, have worked tirelessly to re-orientate the business post-COVID, and continue to provide our usual outstanding service to our patients and medical communities.

It was a difficult undertaking to dismantle our COVID infrastructure in a timely manner due to the steep drop-off in COVID testing rates, and the teams did an excellent job of managing this change.

I am pleased to let you know that in FY23, despite Australia's healthcare access and resource challenges, caused in part by years of low immigration rates for medical and nursing workers, ACL has delivered a strong performance, with the growth trajectory of our base business increasing 11.4% compared to FY22. The majority of this growth coming from both Specialists and General Practitioners.

As a brief overview, I would like to share with you the following key metrics to illustrate our FY23 performance. In the 12 months to 30 June 2023, ACL has achieved:

- Revenue of \$697.1 million, with non-COVID revenue up 11.4% on FY22;
- EBITDA* of \$193.0 million (representing a 27.7% margin);
- EBIT* of \$70.3 million (representing a 10.1% margin);
- Strong operating cash flow of \$59.2 million with a 90.5% cash conversion.
- Low gearing, with Net Debt at \$45.7 million (0.7x of FY23 AASB - 117 EBITDA), strong balance sheet with capacity for growth;

- Final dividend declared of 7cps, which combined with the interim dividend of 7cps takes the full year dividend to 14cps. Full year dividend represents 67% of NPAT, and a 4.4% dividend yield based on the share price on 18 August of \$3.18 and 5.1% based on the share price on 17 October of \$2.75; and
- The Board continues with its target dividend payout ratio of 50-70% of NPAT based on full-year NPAT and in the last 2 years the company has paid out \$0.67 cents fully franked.

The ACL team has delivered a continued strong financial performance, executed in a disciplined manner.

As a part of ACL's growth plan, we have continued our commitment to bring new genetic tests to Australia. In 2018, ACL made a strategic investment in a company called Geneseq, to develop a multi tissue and blood plasma genomic test for melanoma. The test, named Melaseq, is an exciting development to aid in the diagnosis and appropriate treatment of a key cause of cancer. Melaseq opens up the potential for earlier, less invasive and more accurate screening and diagnosis of individuals at risk of melanoma, and can detect the cancer at all stages.

Following ground-breaking research recently published in the British Journal of Dermatology showing 93% sensitivity and 98% specificity for invasive melanoma detection, commercialisation of the Melaseq test for melanoma is planned within the coming months, with final approval for the skin biopsy application of Melaseq expected soon, followed quickly by plasma approval.

As medical science progresses, we will continue to invest in this space, and these and other tests such as our liquid biopsy options will form part of a suite of personalised medicine options that our doctors and patients can turn to as they seek to improve their outcomes.

In FY23, our I.T. team introduced some innovative patient-facing solutions, designed to improve the way pathology request forms are received. SMS eRequests were made available for patients, allowing them to receive electronic copies of their referral directly from their doctor's practice management system.

Leveraging our team of experienced in-house developers, we continue to enhance our customer-friendly, front-facing eHealth products including eOrders, eDownloads and eResults.

Our Paperless Pathology project is now underway, aimed at increasing the accuracy of pathology referrals and decreasing wastage and paper by utilizing our digital eHealth suite to enhance and improve these clinical outcomes.

It is our focused business improvement programs such as these that enable us to continue to grow and innovate, and achieve and maintain strong operating margins.

Some of the projects in progress across FY23 and FY24 include:

- Continuous Approved Collection Centre (ACC) review process to allow focus on profitable growth;

- Removal of COVID collection sites and associated costs – achieved in a timely manner in H1FY23;
- Integration of Medlab’s laboratories, generating \$20 million of annual savings – achieved in H1FY23;
- Digitisation rollout and transition to progress to paperless referrals; and
- We have also commenced an exciting and transformational operational project to complement our growth plans. This project, “ACL Lab of the Future” is focussed on redesigning our operations to maximise our strategic advantage – one lab information system across the country – and our learnings about borderless workflow gained through COVID. During COVID we were able to trial operations without borders, based on the most efficient way to do the work, not its location.

The Lab of the Future project will integrate these learnings, our digitisation projects, the latest in laboratory automation and digital enhancement in the world, with world class front end processes and logistics to improve clinical service and connectivity, while minimising our laboratory footprint and maximising our efficiency even further.

This project will have benefits from this year and over several years and, applying benefits from our one lab information system, allows us to measure and share best practice innovations of our laboratories throughout Australia.

Looking forwards to FY24, while the underlying core business continues to grow back to trend, negligible COVID revenue is expected in the FY24 result – a gap that needs to be closed to

deliver total revenue growth as we focus on our revenue enhancement programs. First quarter volume results in the underlying core business show volume growth of 5% over the prior year and remain affected by a health sector reemerging after nearly 3 years of dealing with the COVID-19 pandemic. Workforce availability and access to services are affecting healthcare service volumes. The market continues to rebuild volume levels post COVID as doctor access issues and private hospital capacity improves.

In Q1, human pathology +5% for the first quarter of FY24 versus the same time last year. This excludes Queensland, where we have exited a number of underperforming Medlab legacy collection centres.

COVID and respiratory testing down 76% for the quarter on prior year representing ~5% of total revenue. As a result, we believe that ACL will achieve a similar EBIT result in FY24 of between \$65 million and \$70 million.

In conclusion, I would like to thank all our stakeholders, our more than 5,000 employees, our many supportive medical professionals, and our excellent management team. I would like to thank our Pathologists for their leadership. I would also like thank our shareholders for their continued support in our shared vision.

I would now like to hand you back to our Chair, Michael Alscher.

END

Welcome to our 2023 AGM

The meeting will begin shortly.

2023 Annual General Meeting

Acknowledgment of Country

I would like to start by acknowledging the traditional custodians of the land on which we meet today, which for me in the city of Sydney is the Gadigal people of the Eora Nation.

I also acknowledge the traditional custodians of country throughout Australia and the places from which our participants join us for this virtual AGM, and their connections to the land, sea and community.

I pay my respect to their elders past and present and extend that respect to Aboriginal and Torres Strait Islander peoples here today.

How to ask a question

- Click on the “Ask a Question” button
- Fill in the box and then click submit question

Ask a Question ×

We welcome any questions that you may have and will endeavour to answer all questions during the Meeting. To submit a question, please select what the question pertains to and type your question in the provided area. If you have multiple questions please submit each individually.

Regarding

Question

Type your question here..

1. Acknowledgment of Country
2. Chair's address
3. CEO's address
4. Formal business of meeting including Q&A



Chair's Address

Michael Alscher
Non-Executive Director

FY23 results - Disciplined operational execution and continued strong financial performance. EBIT¹ \$70.3m in line with guidance of \$68-74m

- Key highlights from FY23 include:
 - Revenue of \$697.1m
 - EBITDA¹ of \$193.0m (27.7% margin)
 - EBIT¹ of \$70.3m (10.1% margin)
 - NPAT of \$35.9m
 - Non-COVID revenue grew by 11.3% on FY22
 - Outperformed Medicare market growth by 100bps²
 - Strong operating cash flow (post-Capex) of \$52.2m with an 80.0% cash conversion (90.5% pre-Capex)
 - Low gearing with Net Debt at \$45.7m (0.7x of LTM AASB-117 EBITDA), strong balance sheet with capacity for growth
- Managed the complexity of the transition out of a COVID environment to deliver strong financial performance - strong top line and cost management in an environment in which non-COVID revenue has not yet fully returned to trend. ACL estimates there is >\$50m+ of latent revenue opportunity as the market returns, including private hospitals, clinical trials and GP referrals.
- Final dividend declared of 7 cents per share (cps), which combined with the Interim dividend of 7 cps takes the full year dividend to 14 cps. Full year dividend represents 67% of NPAT¹, and a 4.4% dividend yield based on the share price on 18 August of \$3.18/share and 5.1% based on the share price on 17 October; and
- Board continues with its target dividend payout ratio of 50-70% of NPAT based on full year NPAT

(1) Excluding normalisations related to HLS transaction costs

(2) Working day adjusted. ACL excluding acquisitions, COVID and non-Medicare commercial work. Market data based on Medicare statistics excluding COVID testing outlays and estimated associated PEI and BBI outlays

Lab of the Future project

- Transformational operational project to complement our growth plans.
- Focussed on redesigning our operations to maximise our strategic advantage – one lab information system across the country – and our learnings about borderless workflow gained through COVID.
- Project will integrate COVID learnings, our digitisation projects, the latest in laboratory automation and digital enhancement in the world, with world class front end processes and logistics to improve clinical service and connectivity, while minimising our laboratory footprint and maximising our efficiency even further.
- Project will have benefits from this year and over several years and, applying benefits from our one lab information system, allows us to measure and share best practice innovations of our laboratories throughout Australia.

Outlook Financial Year 2024

FY24 remains a transition year with expected return to trend in BAU volumes

- The market continues to rebuild volume levels post COVID as doctor access issues and private hospital capacity improves.
- Underlying core business remain affected by a health sector reemerging after nearly 3 years of dealing with the COVID-19 pandemic. Workforce availability and access to services are affecting healthcare service volumes.
- In Q1, human pathology +5% for the first quarter of FY24 versus the same time last year. This excludes Queensland, where we have exited a number of underperforming Medlab legacy collection centres.
- COVID and respiratory testing down 76% for the quarter on prior year representing ~5% of total revenue.
- As a result, as per previous guidance we believe that ACL will achieve a similar EBIT result in FY24 of between \$65 million and \$70 million

*Formal business of the meeting including
Q&A*

“That, for the purposes of section 250R(2) of the Corporations Act and for all other purposes, the Remuneration Report of the Company for the financial year ended 30 June 2023 as disclosed in the Directors’ Report be adopted”

Proxy votes received	
For	98.05%
Open	0.63%
Against	1.33%

“That Ms Christine Bartlett, having been appointed by the Board as a Director on 23 August 2023 to fill casual vacancy under rule 6.1(d) of the Company’s Constitution and retiring as a Director of the Company for the purposes of ASX Listing Rule 14.4 and rule 6.1(e) of the Company’s Constitution and who has consented to stand for re-election (and being eligible), be re-elected as a Director of the Company in accordance with rule 6.1(i) of the Company’s Constitution.”

Proxy votes received	
For	98.43%
Open	0.62%
Against	0.95%

“That Mr Mark Haberlin, retiring as a Director of the Company in accordance with rules 6.1(f)(i)(A) and 6.1(g) of the Company’s Constitution and who has consented to stand for re- election (and being eligible), be re-elected as a Director of the Company in accordance with rule 6.1(i) of the Company’s Constitution.”

Proxy votes received	
For	92.39%
Open	0.62%
Against	6.99%

“That Dr Leanne Rowe, retiring as a Director of the Company in accordance with rule 6.1(f)(i)(B) of the Company’s Constitution and who has consented to stand for re- election (and being eligible), be re-elected as a Director of the Company in accordance with rule 6.1(i) of the Company’s Constitution.”

Proxy votes received	
For	98.47%
Open	0.62%
Against	0.91%

“That approval be given for the purposes of ASX Listing Rule 10.14, and for all other purposes, for the grant and issue of up to 395,490 Performance Rights to Ms Melinda McGrath, Chief Executive Officer and Executive Director of the Company, in relation to her LTVR for FY24, in accordance with the LTVR Plan and on the terms and conditions described in the explanatory memorandum accompanying this Notice of Meeting”

Proxy votes received	
For	97.98%
Against	0.63%
Abstain	1.40%

“That the Proportional Takeover Provisions contained in rule 14 of the Company’s Constitution be renewed for a period of three years commencing on the date this resolution is passed ”

Proxy votes received	
For	87.89%
Against	0.63%
Abstain	11.48%

Thank you and goodbye

