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Lodgement of Market Briefing**

**25 August 2016**

## Market Briefing

**Integral Diagnostics MD on FY16 results and outlook**

**Interview with John Livingston (Managing Director & CEO)**

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*In this Market Briefing interview, Integral Diagnostics' Managing Director & CEO, John Livingston, discusses the company's maiden full year results as a listed company and its outlook, including:*

- *Growing revenues over the 12 months ended 30 June 2016 [FY16] despite industry headwinds*
- *Volume growth above market*
- *Proposed changes to bulk-billing and the scheduled industry review*
- *Competitive environment dynamics*
- *Expectation that the company's FY17 revenue and earnings will be modestly higher than FY16.*

### Market Briefing

Integral Diagnostics' FY16 result showed pro forma revenue growth of 4.9% and NPAT growth of 5.1%. Did the business perform as you expected?

#### **John Livingston**

In what was a very difficult operating environment from last November, the FY16 results clearly show the resilience of Integral Diagnostics' business model given revenue and earnings were still able to grow and remain ahead of Medicare data in the states in which we operate. At the same time, we were able to maintain the investment required in facilities, people and technology to underpin longer term growth.

While the business didn't perform to Prospectus forecast given the industry headwinds, we achieved our revised forecast provided with the half year result in February for a second half performance above the first half.

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The Medicare data in the States you operate in showed industry growth of 3.7% over the 12-month period. However, IDX was able to grow at a faster rate than this. How did IDX maintain a higher level of growth than its peers and how sustainable is this going forward?

### John Livingston

Our growth in patient examination volumes through FY16 was 4.8%. This was above market growth levels reflecting our higher level of hospital work, comprehensive sites, higher value modalities, and a lower reliance on bulk billing compared to other providers in the industry.

Looking ahead, with substantial pressure about to be put onto our health system as the baby boomers age, the need for contemporary evidence-based preventative healthcare is increasing. Radiology is at the forefront of managing health outcomes to generate maximum efficiency in hospitals and healthcare systems more broadly. With a high proportion of our services provided at hospitals or facilities adjacent to hospitals, we are well placed to continue growing faster than market given the greater proportion of higher complexity work we do.

While the Medicare data is useful for understanding market demand we cannot guarantee that we will always outperform on this measure.

## Market Briefing

You mentioned that volumes were impacted by increased media and Government attention focused on the industry. How did this impact the business and what new regulations are likely over the near term?

### John Livingston

Late last year our industry experienced a disruption to referral patterns that impacted revenues from November 2015. This stemmed from media reports that alleged over-servicing in the healthcare system and the Government's proposed cuts to bulk billing incentives for pathology and diagnostic imaging providers.

We maintain that responsible referrals for diagnostic imaging equips General Practitioners [GP's] and Specialists with better information that improves patient outcomes and can reduce the long term costs to the health system. Furthermore, making bulk billing more difficult to access is regressive, to the detriment of our most vulnerable members of the community.

With the Federal election now behind us, there is improved regulatory certainty and the current government has committed to undertaking an independent review of the sector prior to making any cuts or changes to bulk billing incentives for diagnostic imaging services. Additionally, any changes to bulk billing would need to be ratified in the Senate and if there are any cuts, the Government has indicated it will reinvest up to \$50 million per annum of any savings back into the system to improve patient access to safe and affordable scans.

Notably the proposed reintroduction of indexation of diagnostic imaging Medicare rebates, a first since 1998, will coincide with GP indexation. This has been slated to occur in 2020, however, we would hope that this could be reintroduced sooner so that the health industry is able to remain strong and capable of servicing the needs of our rapidly ageing population.

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How does the competitive landscape look?

### John Livingston

With a substantial regional footprint and larger proportion of hospital sites compared to other operators, we have a more defensive position than those focused on metropolitan markets.

In Geelong there has been a new 172 bed hospital which has just opened. Epworth hospital offers a comprehensive range of imaging services, which competes against our offering in this region at St John of God Hospital Geelong. While this new facility supports our thesis that demand for health services will continue to grow, it is a substantial investment by a competitor that will likely have a short term negative impact on revenue and margins in the 2017 financial year.

Generally, we see our competitive landscape as being driven by rational operators. The costs of capital, employee and other expenses are such that anyone attempting to take market share by oversupplying or under charging will not be able to maintain such a business model for any great length of time.

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What will drive growth for IDX in the medium to longer term?

### John Livingston

The long term fundamentals for the diagnostic imaging industry have not changed and remain attractive. Australia has a growing and ageing population requiring greater healthcare support, and patient expectations for accurate diagnosis are high. Diagnostic imaging is a necessary element to improving patient outcomes and saving money through early detection of disease.

Our ability to harness efficiency gains through the deployment of new technologies across our networks will improve patient and referrer outcomes, allow our staff to help more patients in their communities, and deliver returns to investors above our cost of capital. We will continue to invest in technologies, our facilities and staff to drive organic growth.

In each of IDX's regional locations, it holds a strong competitive position, operates with the benefit of MRI licences and is the leader in each of these regions. We have a successful track record integrating acquisitions, with the benefits of prior acquisitions now flowing through. Additionally, our acquisition of Western District Radiology and the remaining 50% interest in South West MRI, is

performing in line with expectations and will contribute positively through FY17. To that end we will continue to assess prospective acquisition opportunities in existing and new regions.

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What is the outlook for the company in the next financial year?

### John Livingston

We expect Integral Diagnostics to generate a modest improvement in FY17 revenue and earnings when compared to FY16.

Our patient volumes for July 2016 were above the same month last year. We will continue to invest in sites, people and technology to ensure we can support growing volumes and changing patient requirements. We plan to increase service levels through the use of technology to improve outcomes and deepen relationships more generally.

The new Epworth hospital in Geelong supports Integral Diagnostics' demand thesis. However, the extra capacity in the local market will impact margins and volumes in FY17.

Additional revenue from Western District Radiology acquisition, Toowoomba and Sunbury, plus extra MRI at SJOG Geelong will flow in FY17. We are placed to benefit from this growth and continue reinvesting a portion of the increased revenues to support ongoing organic growth.

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Thank you, John

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For further information, please contact +61-3 5339 0704, or visit [www.integraldiagnostics.com.au](http://www.integraldiagnostics.com.au).

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