Healthscope

Pathology - AU

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Human Pathology Australia

General Pathology Business

- 57 laboratories, 263 collection centres.
- Laboratory infrastructure in every state and territory
- New Laboratories 2009 – Busselton, Kalgoorlie, New England, Darwin, Canberra

Market Share

- Total market share: 12.2%
- Market leader in Victoria and South Australia
- Key areas of growth in 2010 onwards: Queensland and New South Wales
- Operating margin for each state closely correlated to market share

Growth strategy 2009/2010

Entry into new regional areas

- Markets with one private provider
- Approaches received from scientists and doctors disenfranchised with competitor centralisation
- High contribution margins from regional laboratory with greater than 100 episodes per day

Increased capture from Healthscope hospitals

- Health fund contracts with all providers as differentiator → substantial growth in Victorian hospitals
- Employment of key pathologists from competitors where strong relationships exist with HSP specialists

Aggressive price with low market share

- Strong growth with competitors pushing private billing where they hold high market share

Health Care of Australia Acquisition

- Settled 26th August 2009
- ARL laboratory closed by 30th September
- Significant cost synergies achieved
- No loss of revenue – capture of some leakage from previous ARL referrers with greater menu of testing available
- Increased capture of histopathology referrals from Molescan doctors with local laboratory presence in each state.

Other Revenue streams

Molecular Pathology

- Leading molecular laboratory in Australian private pathology market
- Annual revenue growth + 60%
- Development of novel diagnostic tests – Pharmacogenomics, CUP other cancer diagnostics.

Veterinary Pathology

- Annual revenue growth – 12%
- Largest provider of veterinary pathology services in Australia
- Major contracts with Department of Primary Industries in SA and Vic
- Entering Qld market in 2010

Other Revenue streams

Commercial Pathology

- Annual revenue growth + 60%
- First AS 4308 Toxicology laboratory in Australia
- Major water testing contracts – Hydrochem, Integra Water

Functional Pathology

- Largest provider of complementary medicine practitioner pathology
- Part of ARL acquisition, opportunity to expand using national collection centre footprint

Industry changes and market trends

Timelines for changes announced in May 2009 budget	
Date	Change
1/07/2009	Increase in some anatomical pathology fees at the expense of other items
1/11/2009	$763M cut in PEI's over four years
1/11/2009	$348M increase in BB incentives over four years
1/07/2010	De-regulation of collection centre licences
1/07/2011	Introduction of patient choice

- $13.4M annual revenue impact to HSP in 08/09 financial year
- De-regulation removes previous barrier to growth in northern markets - collection centre cap
- Increased focus on service levels provided to patients
- Billing strategy

  - contracts with all health funds ensuring no out of pockets for inpatients

  - Private billing for specialist outpatients

  - Maintain current bulk billing rates for GP's. Differentiate and enable growth in northern states

Pathology Performance

Pathology margins improve

- Australian Pathology revenue like with like growth, approximately 8%
  - Above market growth of 4.8%
- Margins up 30 bps on last year
- Margins increased in Australia in second half year

Pathology Performance	FY2009	FY2008	Change
Revenue	$377.1m	$318.4m	18.4%
EBITDA	$61.8m	$51.2m	20.7%
EBITDA Margin	16.4%	16.1%	30 bps

Questions

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