

ASX Announcement (ASX: PRY)

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PRIMARY ANNOUNCES THE ACQUISITION OF MONTSERRAT DAY HOSPITALS

Primary Health Care Limited (“Primary”) (ASX: PRY) is pleased to announce the signing of a binding agreement to acquire Montserrat Day Hospitals (“Montserrat”), an operator of seven specialist day hospitals and haematology / oncology clinics across Queensland, Western Australia and New South Wales.¹ Montserrat is also in the advanced stages of developing three new facilities in South East Queensland and Western Australia and has agreed to purchase a private hospital in Western Australia.

Montserrat will form the nucleus of a new Primary Day Hospital division which derives its revenue outside of the Medicare Benefits Schedule. It will continue to be operated by the existing Montserrat management team that has driven its growth since 2010.

Primary’s Managing Director and CEO, Dr Malcolm Parmenter, said: “The acquisition of Montserrat is an exciting opportunity for Primary. Montserrat is strategically aligned to Primary’s core business of providing frontline community healthcare. Moreover, the growth in day hospital admissions has outpaced overnight hospital admissions over the last ten years and this trend is expected to continue.

“In combination with Primary’s five existing day hospital facilities, Montserrat provides a scale platform for us to grow non-Medicare revenues. It is a high quality business, run by a strong and experienced management team who will remain with us and who will bring their capabilities to assist our existing day hospitals as well.

“Importantly, Montserrat with its combination of haematology / oncology clinics and day hospitals, will deliver synergies to the benefit of other divisions. We will be able to take advantage of Montserrat facilities as we grow our specialist businesses, like IVF. We also expect that our Pathology division will be able to organically grow revenue through Montserrat over time,” Dr Parmenter concluded.

The acquisition of Montserrat is expected to be completed in November this year, subject to the satisfaction of standard conditions precedent.

Upon completion, Primary will pay upfront consideration of \$75 million for Montserrat on a cash and debt free basis. A further deferred payment of up to \$20 million will also be payable by no earlier than 1 July 2019, subject to the successful commissioning of the three abovementioned development facilities, and completion of the private hospital acquisition in Western Australia.

¹ The rationale, terms of the acquisition and financial impact were foreshadowed in Primary’s recent investor presentation dated 20 August 2018 “Growth Initiatives and Capital Raising”. The final acquisition terms remain consistent with that presentation.

Further additional earn-out payments may be payable at the end of FY 2020 and FY 2021, depending on Montserrat achieving certain agreed financial milestones. The total acquisition consideration payable for Montserrat is capped at \$138.5 million and it is expected to be accretive from FY 2020.

At the time of its FY 2018 results announcement, Primary indicated that it expected underlying NPAT in FY 2019 to be at or above FY 2018 underlying NPAT, prior to the impact of the capital raising and potential acquisition.²

Primary confirms that guidance and notes that, following both the capital raising and the Montserrat acquisition, and taking into account interest expense savings and the earnings contribution from Montserrat (FY 2018 pro forma EBITDA of \$7 million³), underlying NPAT in FY 2019 is expected to be at or above \$100 million based on current trading activity. Primary expects the Montserrat earnings contribution to grow, assuming successful commissioning of the three facilities in development and completion of the private hospital acquisition in Western Australia.

As stated at the time of its FY 2018 results announcement, Primary will provide an update regarding its trading and outlook at the AGM in November 2018.

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For over 30 years Primary Health Care has been one of Australia's leading listed healthcare companies with a commitment to supporting quality, affordable and accessible healthcare for all Australians. Through an expansive network of multi-disciplinary medical centres, pathology laboratories and diagnostic imaging centres, Primary provides world class facilities and support services to independent GPs, radiologists, specialists and other healthcare practitioners, enabling them to deliver quality care to patients in partnership with Primary's pathologists, nurses and other employees. Primary's 'medical home' model makes healthcare services easily accessible and cost efficient, while enabling the coordination and continuity of patient care.

² Refer ASX Announcement dated 20 August 2018 "Strategic Growth – Non-Renounceable Entitlement Offer".

³ Based on unaudited management accounts provided by the vendor for the eleven months to May 2018, with one month of management forecast for June 2018, and adjusted for: (i) non-recurring items; (ii) non-operating items (including costs related to the development of new facilities); (iii) incremental corporate costs; and (iv) incremental earnings from a pending private hospital acquisition. The unaudited FY 2018 pro forma EBITDA has been provided by the vendor. Primary is unable to verify the accuracy or completeness of the unaudited FY 2018 pro forma EBITDA.