

A woman in a white lab coat is smiling while working at a computer workstation in a laboratory. The background shows various pieces of laboratory equipment. The image is overlaid with a semi-transparent red and blue gradient.

healius

1H 2024 Results

27 February 2024

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Group overview

Maxine Jaquet, CEO & Managing Director

1H24 results: Underlying EBIT in line with guidance

Revenue BAU

\$847m

\$808m in pcp (up 4.9%)

Underlying EBIT

\$16m

\$40m in pcp \$16m ex COVID

Underlying NPAT

(\$14m)

\$8m in pcp

Reported net loss after tax

(\$636m)

Loss of \$29m in pcp

Pathology Revenue

\$619m

*BAU revenue growth 4.0% including
Agilex*

Imaging Gross Revenue

\$253m

Revenue growth 3.3%

Financial Performance

Group BAU revenue up 4.9%.

- Pathology revenue
 - BAU revenues up 4.0% including Agilex
 - Covid revenue down 97.0%
- Lumus Imaging
 - Revenue growth of 3.3% or 8.5% (in line with market) when adjusting for:
 - Medical Centres / BUPA immigration
 - Closed sites
- Net Debt at 31 December 2023 was \$327m and Gearing at 3.17x

Underlying results are defined as Reported results adjusted for non-underlying items. The Directors believe that presentation of Underlying financial information is useful for investors to understand the entity's core results from operations, without the impact of non-underlying items. For a reconciliation between Underlying and Reported refer Appendix.

Lumus Imaging

Financial

- Revenue growth of 8.5% (ex Medical Centres, BUPA and closed sites)
 - Top line revenue growth of 3.3%
 - Realisation of community sites strategy with 9.9% growth - ahead of plan
- EBIT margin 7.0% - up from 6.7%
- Average fee increase of 7.9% vs 1H23 due to indexation of 4.1%, price increases and investment in higher value modalities

Operational

- 19 new radiologists recruited in 1H24 and strong pipeline (15) into 2H24
- Labour margins improved 40 bps compared to pcp with further improvements expected with rollout of AI and workflow utilisation tools (Clario / Powerscribe One)
- Acknowledgement that radiologist costs / productivity measures a key improvement to drive margins

Lumus Imaging

Operational

- Community site strategy to increase average revenue per clinic ahead of plan
 - 3 new MRI services launching in 2H24
 - Commissioning of 2 Greenfields sites (1 comprehensive) in 2H24
 - 4 new comprehensive Greenfield sites planned in 1H25 (1 including PET)
- Hospital segment
 - Opening of 2 new Hospitals at Ramsay's Northern Private and Healthscope's La Trobe in 2H24 (Feb 2024)
 - Launch of PET at Northern Beaches Hospital in 2H24
 - Successful contract win – North Sydney LHD
- Medical Centres continues to drag on earnings until exit from underperforming clinics at end of lease term in 2027

Agilex Biolabs

Financial

- Revenue for 1H24 grew 19.5% to \$19.0m
- EBIT for 1H24 grew 250% to \$2.1m from \$0.6m

Operational

- SGS agreement - enabling Agilex to sell a global Phase 1 to Phase 3 proposition, Agilex to form part of SGS' offering
- Pipeline remains on track to deliver forecast growth
- Capital investment in laboratory equipment to increase capacity to meet growth in demand
- Robotics implemented in high value department with efficiency and productivity gains, increased capacity to focus on high value work
- Brisbane Toxicology facility now fully operational

Pathology

Financial

- Total revenue (excluding Agilex) down 5.3% on pcp
 - Core pathology revenue up 3.6%
 - Covid revenues down 97.0% or \$54.4m
- EBIT (excluding Agilex) of \$4.0m for 1H24, impacted by loss of high margin Covid EBIT contribution of \$24m

Operational

Higher Value Channels – Specialists / Hospitals / B2B

- Strong rebound in key hospital contracts with BAU volumes up 7.2% vs pcp
- Extension of public hospital contract in Victoria
- Successful tenders in the public sector for Victorian Police and WA Public Transport Authority
- Emerging growth in Specialist segment with 8.8% new specialist referrers

Pathology

Operational

GP Channel

- ACC wins (+30) at higher gross margin than ACC losses (-9)
- Despite being critical to primary health care, this segment is the most challenged with no indexation for 24 years, coning at 4% CAGR (at a cost of \$240-250m¹ annualised unpaid work), rent inflation and declining GP attendances (down 3.9% vs pcp)

New Clinical Areas

- Launch of new Genetic Carrier Screening
- March 2024 launch of PrecivityAD partnership with C2N Diagnostics diagnosing brain health bio-markers

Out of Pockets

- Rolling out terminals for upfront payments in select sites to reduce reliance on MBS

Cost Management

- Acknowledge requirement to continue to significantly reduce costs to match volumes – digitisation key
- Roll out of new rostering tool, enabling labour flexibility
- Rationalisation of ACC footprint focusing on large and more profitable practices

¹ Healius value of coned work.

Pathology

Indexation

- Pathology has not been indexed for 24 years
- Coning is growing and creating significant additional cost in the business
- Engaging productively with the Federal Government on the need for indexation of the Medicare Benefits Schedule to support the continuation of bulk-billing to:
 - Continue with pathology services in less profitable regional and Indigenous communities;
 - Support sustainable investment in emerging pathology test areas
- This campaign is underpinned by independent economic modelling and patient research on the value of pathology to community health services and health outcomes
- The total health budget will only be effectively managed if we have a viable Pathology sector that can detect and treat disease earlier, lowering disease burden in the community and secondary care costs
- Budget ask is in line with Imaging indexation

In the context of margin dislocation in a changed operating environment, management is focussed on delivering a fundamental step-change in the cost structure

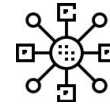
Support cost optimisation FY20-23



- Sourcing and procurement improvement
- Labs reset post COVID
- General spend control
- Reduced support cost base

Partially offset inflation

New Operating Model FY24-25



- Digital workflow tools such as Collections Portal and Courier Portal
- Modular core lab system replacement
- Billing infrastructure for "Out of pockets"
- New data platforms to leverage AI
- Digital pathology adoption
- Shift to national operating model
- Rationalised laboratory and ACC footprint

Uplift Margins

H27 Plan – Digital Automation FY26-27

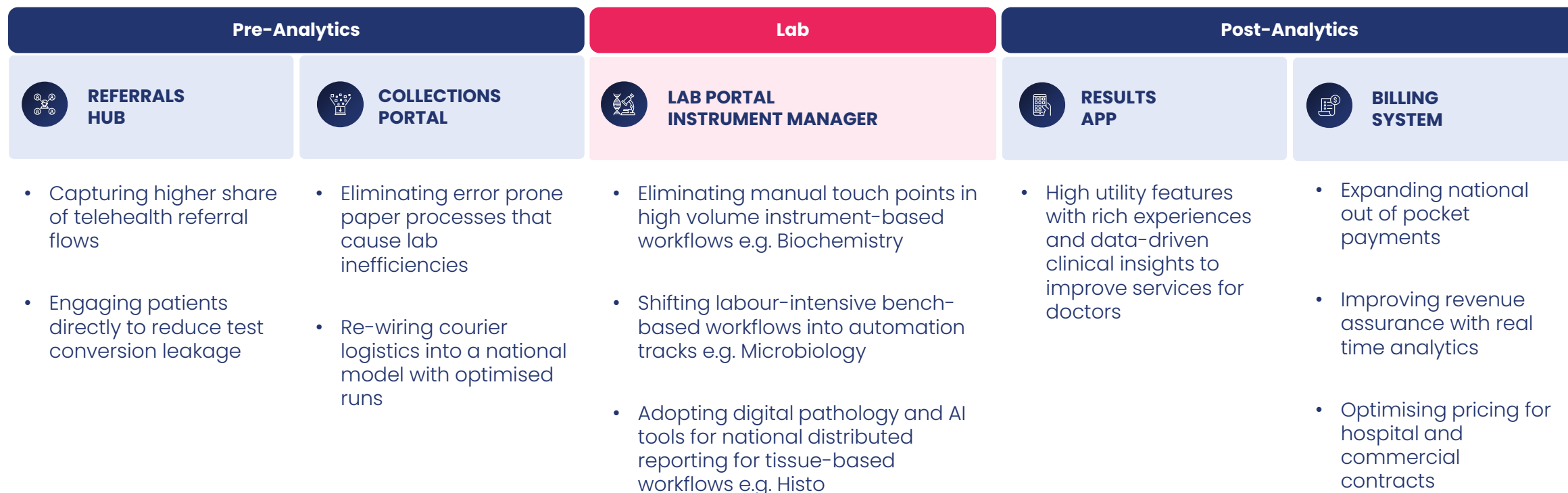


- Zero-based design on digital workflows
- Step change in automation of laboratory processes
- AI powered clinical decisioning support
- Segmented Specialist value propositions

Step change in cost base
Sustainable margins

Lowering support costs ongoing task

Digital automation underpins the cost restructuring of the Pathology business



← 'Zero-based design' of national workflows in one new digital technology platform →

Digitisation of diagnostic processes on track

○ Progress Estimation. Build and roll-out progress are not linear, with big one-off steps across modules

What we are building

How it drives benefits

Build **Rollout**

	<p>Referrals Hub Integrating with doctor workflows to order diagnostics tests and enabling a direct mobile patient experience.</p>	<ul style="list-style-type: none"> • Capture telehealth referral flows and increasing market demand for e-referrals. • Reduce paper-based data entry processes downstream. 			<p>Est End Q4 FY24</p>
	<p>Collections Portal Digitising the workflow in ACCs for registering patients, collecting specimens, taking payments, dispatching couriers.</p>	<ul style="list-style-type: none"> • Improve service experience. • Improve collector efficiency and minimise errors • Enable increased lab automation downstream with less manual specimen handling. 			<p>Est End Q4 FY24</p>
	<p>Lab Portal Instrument Manager Digitising workflows in labs with nationally standardised tests catalogues, resulting rules, and instrument configurations.</p>	<ul style="list-style-type: none"> • Improve lab staff efficiencies and minimise errors. • Reduce clinical and operational maintenance effort across lab processes. • Retire legacy systems and eliminate business continuity risks. 			<p><i>Histo, Cyto</i></p>
					<p><i>Core Lab</i></p>
					<p><i>Biochem, Haem</i></p>
					<p><i>Microbiology</i></p>
	<p>Billing System Managing pricing schedules, bulk and private billings, payments reconciliation, and revenue assurance.</p>	<ul style="list-style-type: none"> • Improve revenue assurance. • Reduce bad debt levels. 			
	<p>Results App Providing a modern experience for doctors to view results, share reports request tests and get clinical insights.</p>	<ul style="list-style-type: none"> • Grow referrers with better user experience and clinical insights functionality. • Reduce back-office queries and paper handling. 			
	<p>Data Platform Running a state-of-the-art data platform with 14 years of historical patient, referrer, and results data migrated.</p>	<ul style="list-style-type: none"> • Support advanced analytics to inform referrer growth and operational efficiencies. • Provide the foundation for leveraging AI in diagnostics. 			



Key financials

Paul Anderson,
Chief Financial Officer

1H24 Group Results

	1H24	1H23	
	\$m	\$m	Chg %
BAU revenue	847.3	808.0	4.9%
Covid revenue	1.7	56.1	(97.0%)
Total revenue (Underlying)	849.0	864.1	(1.7%)
EBITDA (Underlying)	159.1	176.8	(10.0%)
D&A	(143.4)	(136.8)	4.8%
EBIT (Underlying)	15.7	40.0	(60.8%)
Non-underlying items	(16.1)	(13.5)	19.3%
Impairment charges	(603.2)	(39.1)	1442.7%
Transactions with disc. operations	-	(0.6)	n/a
EBIT (Reported)	(603.6)	(13.2)	4472.7%
Interest	(36.0)	(28.5)	26.3%
Tax	9.6	15.8	(39.2%)
Loss from disc. operations	(5.8)	(2.8)	107.1%
NPAT (Reported)	(635.8)	(28.7)	2115.3%

Underlying EBIT in line with guidance

- Group BAU revenues up 4.9% / Covid revenues reduced 97.0%
- Pathology experiencing continued GP referral softness and margin compression due to strong cost inflation
- Agilex Biolabs – strong growth in revenue and EBIT
- Lumus Imaging gross revenue up 3.3%
 - 8.5% growth in community and hospital channels in line with market (when adjusting for BUPA and closed sites)
- D&A increases 4.8% due to full year impact of increases in rental costs in relation to ACC footprint
- Non-underlying items of \$16.1m – consistent allocation
- Impairment charge of \$603.2m in Pathology relates to near-term lower volumes and cashflows and increase in WACC
- Discontinued operations – warranty claim settled

Underlying results are defined as Reported results adjusted for non-underlying items. The Directors believe that presentation of Underlying financial information is useful for investors to understand the entity's core results from operations, without the impact of non-underlying items. For a reconciliation between Underlying and Reported refer Appendix.

Pathology

	1H24	1H23	
	\$m	\$m	Chg %
BAU revenue	598.3	577.5	3.6%
Covid revenue	1.7	56.1	(97.0%)
Agilex revenue	19.0	15.9	19.5%
Total Revenue	619.0	649.5	(4.7%)
EBITDA	119.4	136.5	(12.5%)
<i>EBITDA margin</i>	19.3%	21.0%	
EBIT	6.1	32.0	(80.9%)
<i>EBIT margin</i>	1.0%	4.9%	

BAU revenues up 3.6%

- Strong growth rate in Q1 FY24 did not continue in Q2 FY24
- MBS benefits paid reduced significantly in November and December 2023 to low single digits
- Margins impacted by inflationary cost pressures:
 - Labour was 2.1% down on pcp, with labour savings and Covid costs out offsetting EA rate and legislated increases
 - Property costs incurred CPI rate increases, with additional D&A costs coming through for new ACCs
 - Consumables remain stable at 16.2% of revenue

Agilex Biolabs

	1H24	1H23	
	\$m	\$m	Chg %
Revenue	19.0	15.9	19.5%
EBITDA	4.1	2.0	105.0%
EBIT	2.1	0.6	250.0%
<i>EBIT margin</i>	<i>11.1%</i>	<i>3.8%</i>	

Strong revenue and margin improvement

- Revenue up 19.5%
- EBITDA up 105% and EBIT up 250% vs pcip
- New business development structure showing positive signs with increase in new contracts signed
- New commercial agreement with SGS to enable a global proposition for Phase 1-3 clinical trials
- Market fundamentals, strategic rationale, competitive position remains
- Expecting to achieve the original investment case

Lumus Imaging

	1H24	1H23	
	\$m	\$m	Chg %
Gross revenue ¹	252.8	244.8	3.3%
Statutory revenue	228.3	212.8	7.3%
EBITDA	45.6	46.9	(2.8%)
<i>EBITDA margin</i> ²	18.0%	19.2%	
EBIT	17.6	16.5	6.7%
<i>EBIT margin</i> ²	7.0%	6.7%	

EBIT growth and margin expansion driven by revenue growth

- Gross revenue growth in community and hospital channels of 8.5% in line with market after adjusting for BUPA and closed sites
- Community sites growing above market
- BUPA contract – strong recovery following resumption of testing requirements in November 2023
- New Northern Private and La Trobe contracts from Feb 2024
- Volumes growth supported by indexation and investment in higher value modalities
- Radiologist recruitment supported by new engagement model with 19 new radiologists in 1H and solid pipeline for 2H
- Greenfield pipeline of 2 clinics to open in Q4 FY 2024 and ongoing investment in higher value modalities

¹ Gross revenue is before and statutory revenue is after deduction for contract radiologists' share of revenue and costs under AASB 15.

² Margins calculated based on gross revenue.

Cashflow and capex

Cashflow aligned to revenue recognition; targeted capex for sustainable growth

1H24 Gross Operating Cashflow

\$114m

Cash conversion

83%

1H24 maintenance capex

\$18m

\$25m in pcp

1H24 growth capex

\$16m

\$18m in pcp

FY24 maintenance capex

\$30-40m

Previously \$40-\$50m

Cashflow conversion

- 83% conversion of EBITDA to gross operating cash flow
- Maintenance capex \$18m, primarily site refurbishments for ACC's and imaging sites and replacement of aged equipment
- Growth capex \$16m with targeted spend on technology, higher value modalities & infrastructure, and site expansions
- Maintenance capex in FY24 expected to be ~\$30-40m for sustainable investment (reduced from \$40-\$50m)
- Growth capex oriented to organic growth, with focus on ROICs (ACC's, Greenfield & Brownfield imaging sites, technology)

Balance sheet: non-cash impairment of goodwill

- A non-cash impairment charge of \$603.2m has been made to goodwill in the Pathology cash generating unit (CGU)
- This impairment relates to near-term lower volumes and cashflows at a point in time as required for accounting standards, along with an increase in WACC from 8.5% to 8.8%
- Healius carries significant goodwill relating to historic acquisitions (Symbion) in 2008

Debt management

Disciplined capital management remains a key focus

1H24

- Net debt reduced to \$327m (\$447m FY23)
- Gearing¹ at 3.17x – covenant² of <4.0x
- Interest cover at 3.49x – covenant of >3.0x
- 5.6% WACD³ reflecting further increases in BBSY and higher margins due to gearing levels
- 76% of debt hedged

2H24 Outlook

- Capital management remains a major focus
- Disciplined capital investment with defined hurdles for growth
- Capital expenditure guidance reduced
- Gearing and interest cover to remain within bank covenants

Debt Facilities

- Bank Facilities reduced by \$250m to \$750m
- Refinancing discussions underway
- Asset reviews part of Capital Management focus

¹ Bank gearing ratio is calculated on banking underlying EBITDA of \$104.0 million (underlying rolling 12-month EBITDA of \$358.5 million before \$256.4 million for AASB 16, \$0.8 million for AASB 15 / loss on sale of assets and \$1.1 million for share-based payments expense) and net debt of \$329.3 million (net debt of \$327.0 million plus unamortised borrowing costs of \$2.3 million).

² Debt covenant waived for 31 December 2023 and raised from 3.5x to 4.0x for 30 June 2024 testing dates.

³ Weighted Average Cost of Debt pre-tax.

FY24 outlook

- Group EBIT guidance of \$70m – \$80m based on BAU Pathology volumes growing between 1 and 3%
- Significant changes being undertaken to cost base and structure of Pathology operations matching costs to volume environment
- Imaging market to continue current momentum through FY24
- Agilex to continue revenue and EBIT growth, and performing in line with expectations
- Digital program to drive further operational efficiency and set a basis for higher-yielding referrer mix
- Management continue to assess balance sheet flexibility and review assets
- Gearing and interest cover to remain within bank covenants

Q & A

A white car with 'lavery pathology' branding is parked in front of a building. A man in a light blue shirt and dark vest is standing by the driver's side of the car, looking towards the camera. The image has a blue and red color gradient overlay.

Appendix

Underlying v Reported Reconciliation

	1H24	1H23
	\$m	\$m
Underlying EBIT	15.7	40.0
Digital transformation costs	(12.5)	(8.0)
Transaction costs	(1.4)	(1.7)
Takeover costs	(1.0)	-
Restructuring, terminations and other costs	(1.2)	(3.8)
Impairment of goodwill	(603.2)	-
Impairment of leased assets	-	(39.1)
Transactions with discontinued operations	-	(0.6)
Reported EBIT	(603.6)	(13.2)

	1H24	1H23
	\$m	\$m
Underlying NPAT	(14.2)	8.1
After-tax adjustments to underlying EBIT	(433.5)	(36.8)
Tax differential for non-deductible items	(182.3)	3.3
Loss from discontinued operations	(5.8)	(2.8)
Transactions with discontinued operations - net of tax	-	(0.5)
Reported NPAT incl. discontinued operations	(635.8)	(28.7)

Divisional reconciliation – underlying

		Pathology	Imaging	Corporate	Group ¹
		\$m	\$m	\$m	\$m
1H24	Revenue	619.0	228.3	1.9	849.0
	EBITDA	119.4	45.6	(5.9)	159.1
	EBIT	6.1	17.6	(8.0)	15.7
1H23	Revenue	649.5	212.8	2.0	864.1
	EBITDA	136.5	46.9	(6.6)	176.8
	EBIT	32.0	16.5	(8.5)	40.0

¹ In 1H24 \$0.2 million (1H23 \$0.2 million) of intercompany revenue/expense was eliminated at a Group level.

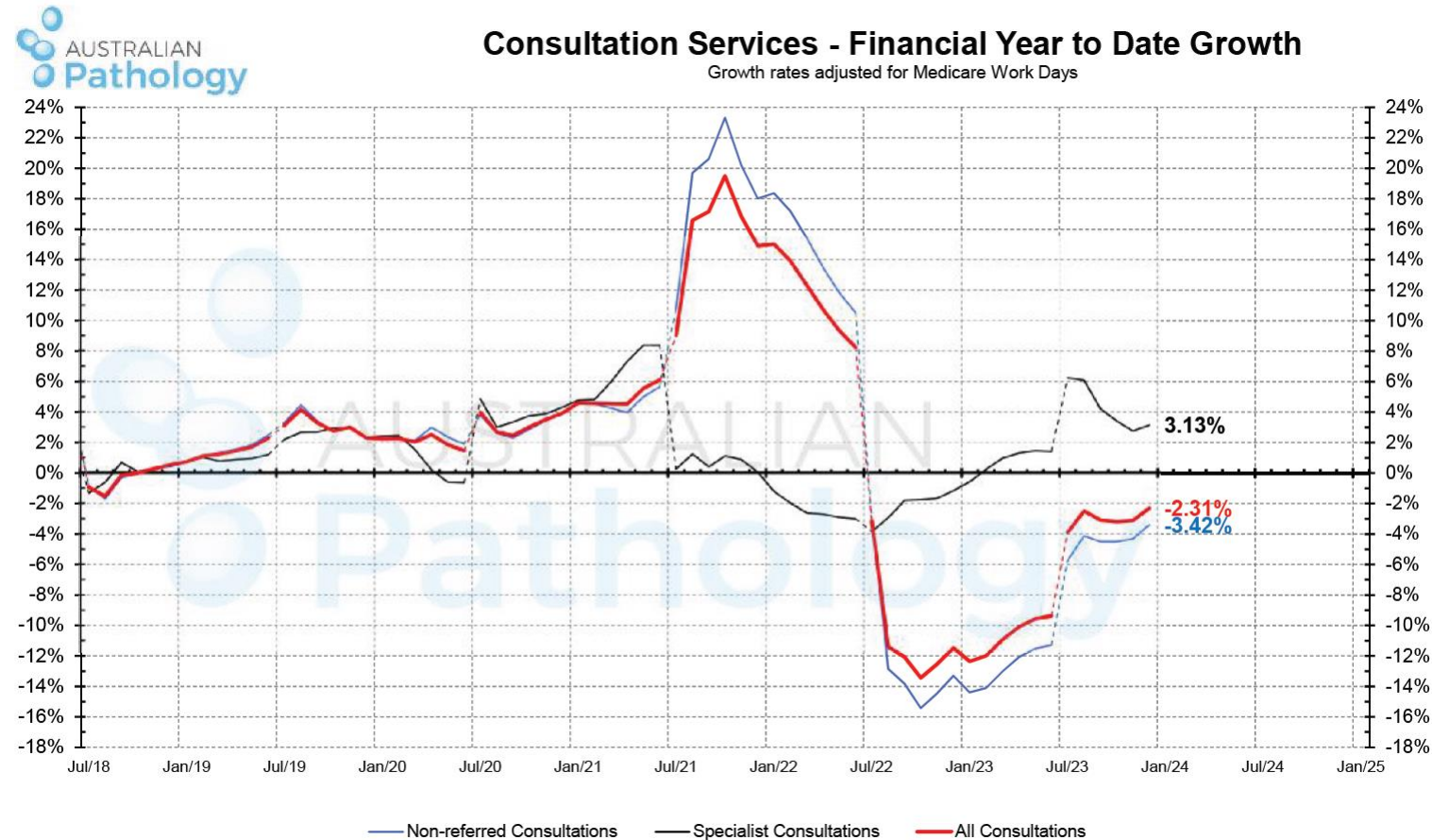
Pathology services market in Australia

Medicare benefits paid (MBS) represents a portion of the pathology services market

	Market segment	Payor	Referrer	Avg. fee (indexed to GP)	
Non-MBS	Clinical trials	Biopharma sponsors	Biopharma / CROs	n/a	<p>Total pathology services market in Australia is made up of all of these segments</p> <p>HLS participates in each of these segments</p> <p>No official market statistics (of the total market) are available</p> <p>MBS (Medicare paid benefits) comprises Primary Care (GPs), Specialist out-patient and some public hospital services</p> <p>Consequently, MBS data, while helpful, is not definitive of provider total market share</p>
	Animal	Owners (OOP); Insurers	Vets, Trainers	2.0x	
	Commercial (B2B)	Corporates	Employers	1.0x	
	Private hospitals	PHI, Patients (OOP)	Specialists	1.5x	
	Public hospitals	Commonwealth (MBS); State Govts	Specialists	0.75x	
MBS \$3.2B	Specialist out-patient	Commonwealth (MBS); PHI; Patients	Specialists	>1.5x	
	Primary care	Commonwealth (MBS)	GPs	1.0x	

Specialist segment is driving market growth

GP and Specialist attendances, Financial Year to Date



GP attendances continue to trail Specialist attendances, with market growth driven by Specialists

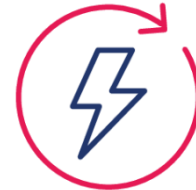
Source: Australian Pathology data

1H24 Sustainability highlights

Core to our purpose is the delivery of high-quality, accessible and efficient diagnostic healthcare services



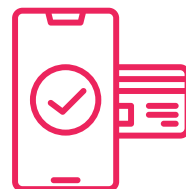
Scope 1 & 2 emissions for 1H24 were 15.1 kt



Long-term renewable energy agreement commenced in Jan-24



Committed to gender diversity and 40:40:20 target



Digital initiatives underpin customer progress



Supporter of local communities through our diagnostic services; CCI¹ national partnership