

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

PRY.AX - Healius Ltd Annual Shareholders Meeting

EVENT DATE/TIME: NOVEMBER 24, 2019 / 10:00PM GMT



CORPORATE PARTICIPANTS

Charles Tilley *Healius Limited - Company Secretary*

John McKechnie *Healius Limited - Chief Executive of the Pathology Division*

Malcolm W. Parmenter *Healius Limited - MD, CEO & Director*

Maxine Jacquet *Healius Limited - CFO*

Paul Francis Jones *Healius Limited - Non-Executive Director*

Robert Hubbard *Healius Limited - Chairman*

CONFERENCE CALL PARTICIPANTS

Patricia Beal

PRESENTATION

Robert Hubbard - *Healius Limited - Chairman*

Well, good morning, everybody. I'm just sitting here in this room surrounded by all this wonderful artwork. It just reminds me that I should pay my respects to the traditional owners of the land upon which we meet and their elders, past, present and emerging.

Welcome to the 2019 AGM of Healius. Our first AGM under the name of Healius, which was approved by you, our shareholders, last year. It's 9 a.m. I know it's a little early start for AGMs, but I'll tell you the story afterwards if anyone wants to know why I wanted it at 9 a.m. I declare the meeting open.

My name is Rob Hubbard, and I'm your company's Chairman, and I will chair the meeting today.

Joining me up here on the far right is Arlene Tansey; Paul Jones; our Managing Director, Malcolm Parmenter; our Company Secretary, Charles Tilley; Sally Evans; and Gordon Davis.

For those regular attendees at the AGM, you'll notice that a long-serving Director of the company, Errol Katz, is not with us today. After serving 9 years as a non-Executive Director of your company, Errol is not standing for re-election.

I'd like to thank publicly Errol for his contribution and commitment to your Board and particularly, in his role as Chairman of the Risk Management Committee over the last 9 years. He brought a rare contribution of both clinical, entrepreneurial and management skills to the Board. We will miss his contribution. But I think it's testimony to Errol because he's a very forward-looking Director that he chose to retire from the Board now as the company goes through a huge transformation, which we commenced a couple of years ago, and has some years to go. He realized that it's not only important to transform the company, it's also important to transform the Board, and this commences a process of Board renewal.

We'll undertake a search for suitable Board candidates over the next year or so, but we're in no great rush. So we'll take our time to find the right candidates for your Board.

Dr. Paul Jones, who's the other non-Executive Director, is retiring by rotation today. He's standing for re-election, and he will say a few words in support of his re-election later in the meeting.

Malcolm will also talk in more depth about his new executive team later today. We've had quite a few changes this year, including today's announcement, for those of you who have not caught up on the ASX [release] of Scott Beattie. Where is Scott? Can you stand up, Scott? Scott Beattie taking over as Chief Executive Officer of our Medical Centres division.



When you look at the appointments that we've made this year, and importantly, I think, all but 1 have come from within the organization, which I think is testimony to the succession planning and the work on development of the management teams in Healius over the last few years. But in particular, the depth and quality of the management that resides in the organization.

In my view, the team that we have now is a very strong team and one which we should incentivize to deliver on the transformation process. We have a new long-term incentive program that's coming to the shareholders today, and it's bespoke and designed specifically for the needs of Healius and where it's at in its business plan.

I flagged this change at last year's AGM, and in particular, the desire to deliver a scheme, which is predominantly equity-based, in order to increase the alignment with shareholders and takes into account the 5-year time frame of our transformation. We've been working on this framework throughout the year. We've had a few interruptions along through the year, and I'll talk about those later, but needed fundamentally the outcome of Malcolm's productivity review to be completed and the new operating model to be established before we could bring this to you. I will talk more about the new scheme before the resolution is put.

Turning to what we've been doing in the 2019 year. It's been another significant year for Healius. We re-branded the group. And I recall some questions last year. So I just want to confirm at a relatively modest cost. We acquired a leading Day Hospitals business in Montserrat. We progressed the implementation of our strategic initiatives following the capital raise in August. Just to remind shareholders, we do generate up to 90% of our income from the federal government through Medicare. So this is in a political exercise for us. It's talking to our major customer.

Later in the year, we initiated a broad program to deliver greater efficiencies in our cost base, which Malcolm will also talk about in his presentation.

We also released our first sustainability report, where shareholders can see the other foundations we are building to transform Healius. I think we're all learning, it's not just about money in business, and you build a long-sustaining valuable company by getting the foundations right.

However, in terms of the financial results, reflecting on 2019, revenue was up nearly 6% to \$1.8 billion and underlying net profit after tax, up 6.5% to \$93 million. All 3 divisions saw good momentum through the course of the year. Pathology continues to be our largest division, delivering about 60% of our profit. And after experienced a particularly soft period in the first half of the year, this business turned around in the second half and outperformed the general market. For the year, it produced EBIT of \$111 million.

The Medical Centres division includes the results of the Medical Centres; our dental business; Health & Co and our emerging IVF and Day Hospitals businesses. The division saw its revenue grow by 13%, and its EBIT, up 19% to \$38 million. This result reflected the beginning of the turnaround in the Medical Centres division, following Project Leapfrog, a strong contribution from dental and Health & Co making its maiden profit.

IVF and Day Hospitals continue to grow their revenue. But since they're growing businesses, we have yet to see substantial profit from these businesses.

Imaging saw its third successive year of double-digit growth. We levered up to \$39 million due to a combination of new and same-site growth assisted by productivity measures.

As you're aware, we report an underlying net profit number as this reflects the trading performance of the business. We have 4 main initiatives in the company at present, which we treat as nonunderlying items. These are the transformation program in Medical Centres called Leapfrog, the core technology upgrade in Pathology, the core technology upgrade in Imaging and our corporate infrastructure renewal program.

In an ideal world, and as you've heard me say before, in any business, you plan these out and you do them one after another. We didn't have that luxury. And given the magnitude, we feel it imperative that we separately identify, budget and manage these projects outside of the businesses themselves so that our trading performance, as we record it and report to you, is not distorted by them. It also gives a clear indication of the value of the underlying businesses that we have, which proved to be important this year given the circumstances in January.

The team at Healius aims to close the gap between underlying and statutory performance by the end of the transformation phase. This current financial year should be the peak of these underlying adjustments. Thereafter, the Imaging technology platform will be completed, while the Leapfrog and corporate infrastructure renewal programs will substantially reduce. This will leave our Laboratory Information System, or LIS project, in Pathology to be delivered over a 5-year time frame.

The commitment to a reduction in the quantum of adjustments between statutory and underlying profit is the only allowable adjustment for remuneration purposes from the financial year '22 -- 2022 onwards, when the LTIs are tested, will be the LIS project.

Our growth capital expenditure was high in the year as we funded our investments in the acquisition of Montserrat and other activities. Our expansion into Day Hospitals is consistent with global trends of moving certain procedures out of overnight hospitals, both to improve patient outcomes and to lower costs.

I was telling Malcolm actually, I have a friend of mine who had a hip replacement recently. And he was in hospital for 2 days. It's pretty close to a Day Hospitals procedure. At the same time, it enables us to diversify into more non-Medicare sources of income, which is also important to us.

At the end of the financial year, our net debt stood at \$678 million, and our banking gearing ratio was 2.4x. If you cast your mind back for those long-serving shareholders, we've retired, since 2015, over \$300 million worth of debt when the debt stood at well over \$1 billion. We remain focused on managing our debt levels and strive to balance an optimal gearing ratio with capital needs and dividends.

As a result of the continued investment in the company, your Board decided to reduce the final dividend this year. We declared a final dividend of \$0.034 per share, which equated to a payout ratio of 60% of reported profit and 40% of underlying profit. Total dividends for the year was \$0.072 fully franked.

We understand the importance of dividends in an environment of very low interest rates. We have a number of shareholders who are looking for regular income, and we do understand it. And we look to return to a normal payout ratio as we progress through the transformation program. We expect to be able to do this at the end of the current investment phase, but we will be, every year, looking at what we can do with dividends given the importance to shareholders.

In conclusion, I'd just like to thank the 13,000 people who work for Healius. Whenever I say that number, it reminds me of how large this organization is and how much it matters to everyday Australians, dare I say, quiet Australians, who are looking for quality health care. I'd also like to say the patients and the health care practitioners who use our service every day. But of course, at this meeting, you, our shareholders, who have continued to support us through this transformation.

I'd like now to pass to Malcolm, who will take you on a more in-depth journey through our business and our programs to grow the business. Thank you.

Malcolm W. Parmenter - *Healius Limited - MD, CEO & Director*

Thank you, Rob. Good morning, ladies and gentlemen. It gives me great pleasure to be here for my third AGM as Healius' Managing Director and CEO. My, how time flies.

As I stated last year, this company has an unrivaled collection of businesses in frontline health care built on solid foundations. However, we need to invest in our people, our technology, their facilities to continually deliver accurate and timely diagnoses in Pathology and Imaging and quality facilities in services in Medical Centres, Day Hospitals and IVF clinics, all supported by contemporary systems to manage clinical risk.

In 2019, we've been progressing the strategic transformation that we have outlined previously, and I'll give you some color around how this is going later.



Firstly, though, I'd like to introduce my executive team, who will be responsible for completing the strategic investment in this business and taking the company forward. We have them all here in the front row to introduce to you. John, if you wouldn't mind standing up. Let me introduce you to John McKechnie. John is a highly experienced operator of Pathology businesses, having most recently run our QML business which, in my view, is one of the best-performing pathology businesses in the entire country. He's now taken on the role of running the Healius Pathology division for us. So thank you, John, and welcome.

Scott Beattie, who you met. Scott is taking over today from Tim Haggett as Chief Executive Officer of Medical Centres. Scott brings over 15 years of experience in frontline health care. He was my deputy when I was running the Clinical Services division at Sonic. And since joining Healius, Scott has been focused on technology and the innovation of our health care services. And he's reorganized the operations and delivery of our IT function and has had oversight of our IVF business and Day Hospitals. In my view, Scott's exactly the right person for this phase in the transformation of our Medical Centres business. Welcome, Scott.

I'd also like to say a few words at this point about Dr. Tim Haggett. Tim steps down from the Chief Executive Officer role in Medical Centres today. Tim is a friend and colleague with whom I've worked for more than 10 years, and Tim has done an excellent job in leading the transition of the Medical Centres division for the last 2 years. He's been a real visionary for our Medical Centres business. He has turned around its brand to reputation, delivering record recruitment in FY '19 and completing the first phase of our technology and facility upgrades. Tim is not leaving the business, though. He will continue to work with us at Healius in an advisory capacity, overseeing our Immediate Care development, our occupational health and other consumer offerings, which are his particular areas of expertise.

Dean. Dean Lewsam is the CEO of our Imaging division. Dean has been with Healius for several years and for 4 years as CEO of the Imaging division. Dean and his team continue to grow the business very successfully, with 3 consecutive years now of double-digit growth in EBIT. Thanks, Dean.

Ben. Let me introduce you to Ben Korst. Ben is the CEO of our Day Hospitals division. Ben has been the CEO of Montserrat since 2010, where he grew the operations from a small group of 3 hospitals to an impressive set of 10 Day Hospitals today. His portfolio now includes Montserrat, the former Healius Day Hospitals at our IVF business, as we look to make this a meaningful segment of our business portfolio. Welcome, Ben.

So then, in terms of our group functions, we have Maxine Jacquet. So Maxine recently took over as our CFO. Maxine managed the strategic and efficiency reviews this year and previously ran our Health & Co startup business. With a focus on cost control and capital management, Maxine is already delivering on our leaner structure with over 200 initiatives in train. Welcome, Max.

Janet. Janet Payne is known to many of you. She continues in the role of Group Executive of Corporate Affairs. And with a background in finance and more than 20 years in the equity markets, Janet is well-known to many of you in her Investor Relations activity. So thank you, Janet.

And Peter. This is Peter's first day, okay? So if anybody is going to throw Peter a question, maybe it's what were you thinking there? Peter joins Healius today as Group Executive of People and Shared Services. Now this is a new role created from the consolidation of several head office functions and covers group IT, people, legal and marketing. Now Peter has a record of improving productivity, including at Qantas Airways, where he was formerly COO of Qantas International. In my view, Peter is the ideal candidate to ensure we manage our portfolio of group services in the most efficient way and the most effective way possible. So welcome, Peter.

So since our last Annual General Meeting, when shareholders approved the company's name change, we've created a vibrant new brand around the Healius name. And you can see this in the banners that are around and on the slides that are off to the side here. The Healius name and brand has delivered a modern identity for us, and it's an important signal of the changes that are underway in the group as we seek to attract doctors to work within our centers. I believe it's also been an important part of the success we saw in GP recruitment in FY '19.

Now in all our divisions, we are progressing with our strategic initiatives and remain confident they will deliver substantial clinical and operational benefits and create value for our shareholders.

Our Pathology business produced a very credible performance overall in the 2019 financial year, as Rob outlined earlier.



In terms of our investment for growth, we are currently upgrading our main chemical testing instrumentation, known as the Serum Work Area. Now the Serum Work Area refers to the part of the laboratory with the large, highly automated machines that test thousands of specimens every day. Now this upgrade will deliver increased automation, a reduction in testing costs and turnaround times and leading-edge clinical methodology as well as providing capacity for future growth. Replacement of the Serum Work Area, Laverty Pathology here in New South Wales, was completed in October, with other states to follow.

Now as you know, we're also progressing with a 5-year project to implement a new Laboratory Information System, or LIS. Our current LIS is close to its use by date and must be replaced. The new system will deliver cutting-edge automation, accuracy and efficiency from test ordering by doctors through to results delivery. This will support the Pathology division for many years to come.

Apart from anatomical and clinical pathology, growth is also coming from our niche specialties, in particular, our genomics (sic) [Genomic] Diagnostics business. Genomics has seen high growth in noninvasive prenatal testing, or NIPT, and most recently commenced testing in the exciting area of pharmacogenomics. These specialties enable us to diversify revenue more broadly.

Turning to our Medical Centres. As you know, we have a unique portfolio of large-scale medical clinics across the country. However, as we've said previously, many of these centers require updates across systems and processes, technology and facilities as we improve the working environment for our health care practitioners and staff.

The plan to transform our Medical Centres is called Leapfrog, and it's been progressing very well. This was evidenced by the record number of new GPs that joined us in FY '19.

As part of Leapfrog, we've completed the rollout of a single practice management system to all our centers, and this has enabled the introduction of appointments. Upgrades and extensions to 15 of our more successful centers were completed during the year, adding new consulting rooms, dental surgeries and procedure rooms.

You can see an example of the refurbishment work that was undertaken at Maroubra, which is 1 of the 15 sites here in New South Wales on the slide there to the side.

We've also, within our Medical Centres business, introduced some new consumer services, including the first of our SwiftQ Immediate Care centers. Now SwiftQ is a walk-in service that fills a gap between regular general practice and emergency departments. Immediate care is an established part of acute primary care in many Western countries, including places like the United States, New Zealand, Ireland and Israel.

We've also launched our Skin2 skin cancer clinics, our new GP-led skin cancer medicine service across Australia, and our Logic Health business, our specialized occupational health business.

Among the technology enhancements we are implementing to support the customer experience is an application which allows patients, wherever they are, to immediately join the queue to see the next available GP. Now one of the biggest complaints, and no doubt many of you in this room have had this complaint from time to time from customers about the experience of senior GP, is the amount of time you have to sit in the waiting room, and appointments don't always fix that.

Our new app has the potential to significantly improve that experience. If customers choose to see the next available GP, they can join the queue via their phone with an estimate of how long the wait is and then receive an SMS alert at 60 and 30 minutes prior to the estimated consultation, allowing them to manage their time of arrival to minimize waiting. It's part of our HaloGP app, which you can download from the App Store or Google Play. And as you can see on the slide, it's in the -- or at least, it's operational now in 7 centers and counting. And it's had great feedback so far, as you would expect.

We remain the fourth largest provider of dental services and the largest provider of bulk-billed IVF services in Australia. In 2019, our dental business continued to grow with new chairs introduced to a number of centers where that demand exists. We've launched SWiftQ Dental, a novel, low-cost dental service, which offers 5 basic dental treatments for \$99 each.

Now you may not know this, but poor dental health is recognized as the most common chronic disease in Australia. Around 30% of the population say cost is a barrier to accessing basic dental services. SwiftQ Dental seeks to address this need, offering basic services with a low fixed price that are primarily about getting you out of pain.

Our IVF business continues to grow strongly as well, delivering high quality, highly effective fertility services at a fraction of the price than most other providers. Over the last year, we have rebranded the business to Adora Fertility, delivered substantial capacity upgrades and opened a new facility in Western Australia. Now our IVF business brings benefits on a whole-of-group basis as it uses our Day Hospitals and drives referrals to both Pathology and Imaging. The success of these 2 startups demonstrates our ability to build great businesses from scratch and to continue to pioneer the delivery of affordable care to all Australians.

Now during the year, we acquired Montserrat Day Hospitals, providing us with exposure to an exciting and growing market. We opened 3 new hospitals, including our flagship, Westside Private Hospital in Brisbane, which has 4 operating theaters; a center for hematology and oncology; specialist suites; an adjacent Medi-Hotel, with over 40 specialists operating out of its facilities. You'll see a photo of Westside Private on the screen behind me, showcasing the building and interior, along with one of the medi-hotel guest rooms. It's comparable to the 5,000-plus ambulatory surgical centers that are now available in the U.S., which perform a vast range of day and short-stay surgical procedures.

Health insurers in Australia are facing structural challenges with rising costs threatening to outpace their premium revenue. And facilities like Westside offer day-only and short-stay options for surgeries at significantly lower costs than can be provided in long-stay hospitals. Internationally, procedures such as hip and knee replacements in otherwise healthy individuals are frequently being done as day- or short-stay procedures, with care during recovery being delivered in the patient's home. Australia has already started following this trend. And Montserrat is ideally placed to be a significant provider in this growing market.

The integration of Healius' 5 existing Day Hospitals with the Montserrat Group is also well advanced. Healius Day Hospitals will share the same technology, quality systems and purchasing. And with Ben's appointment today, they will join the same management team. Over time, Montserrat will become a material contributor to the group's performance as a platform for our growth and diversification and deliver a good return on investment with profitability growing strongly in the first quarter of FY '20.

At Diagnostic Imaging, it's had a good -- it's been a good story for Healius under Dean's leadership. The division reported its third year of double-digit growth in FY '19, and its successes include winning the imaging contract at the Northern Beaches Hospital here in Sydney and the nationwide Australian Defence Force Health Services Imaging contract.

We're also nearing the completion of the rollout of our new radiology information and picture platform in Imaging, which is called the iCAR system. Now iCar delivers best-in-class voice recognition reporting and image delivery to referring doctors. And we've received very positive feedback from our radiologists and our staff on the improvements they have experienced since this system is implemented, as you can see on the slide behind me.

The successful 3-year rollout provides evidence of our capacity in major IT programs at Healius. And we obviously have that challenge coming with the implementation of our LIS program.

We have recently undertaken an organizational redesign to streamline our management -- the management of our portfolio and to improve the agility and autonomy of the individual businesses. This redesign also aims to reduce management overhead costs and drive greater accountability for these costs. In many cases, we've devolved the support functions such as information technology to our operating divisions with our best manage from a cost service perspective. This redesign has delivered a leaner head office, with a 26% in savings in management labor to date. In addition, we have expanded our profitability improvement initiatives and are looking at all expense items throughout the group, including roles, functions and management layers, procurement activities in our property portfolio. As an example, in pathology, we've been optimizing our footprint of laboratories, both large and small. And we've recently closed a number of small regional laboratories and moved the testing to our main laboratories, with no impact on service levels or response time.



Now turning to the big picture. The long-term drivers for providers of frontline health care services in this country remain positive. The strong underlying demand underpinned by a growing and aging population, increasing numbers of people living for longer with chronic illnesses and rising consumer expectations for health care to match the service levels seen in other sectors assisted by technology. We believe that a well-funded frontline health system is key to delivering efficient and effective health care. And we continue to engage with both sides of politics to ensure our views are heard. Having said that, the current government's health care policy settings point to a relatively stable regulatory environment in the near future.

Now indexation was introduced in July this year to the Medicare benefit schedule items in general practice and will be introduced in July 2020 in Imaging for the first time for something like 20 years. We continue to advocate for further funding in frontline care while cooperating with the government on its Medicare benefit schedule and on its compliance program on rental costs in pathology. GP recruitment remains competitive as more and more medical students are currently choosing to become specialists rather than GPs and visas for international medical graduates have been tightened this year.

Overall, as a predominantly bulk billing health care services provider, our business is one that continues to operate with constrained price growth and tight margins. It is incumbent upon us to be agile, diversify our revenues and reduce our cost structures.

Now turning to our outlook. We expect our underlying net profit after tax for the year to be between \$94 million and \$102 million. And this is before any changes from the implementation of AASB 16 on leases, which will be quantified in our half year results announcement and subject to any unforeseen circumstances. At the top end of the range, this will deliver an increase of 9.4%, in line with the seasonally adjusted run rate we achieved in the second half of 2019. Now continuation of the strong trading conditions that we've seen in Pathology in quarter 1 will be the most important factor in the successful delivery of our forecast. At the top end of the range, we'll also need to see a growth in volumes in the community space, both in Imaging and Medical Centres and strong GP recruitment.

With many options for investment, capital expenditure is under constant review as we manage spend within our gearing targets and align it with our best growth prospects. We're also mindful of the complexity of the Healius portfolio of businesses, and we continue to look for simplification of that portfolio and cost efficiencies.

Overall, I believe we have the best capabilities in our teams and the best optionality in our portfolio for a bright future for the group, one which will deliver high-quality affordable frontline health care for Australians and sustainable growth for you, our shareholders.

In closing, I'd like to thank all the dedicated people at Healius for the amazing things they do every day. I want to thank them for the care they deliver to the millions of Australians and for the dedication they have shown across the whole business as they work their way from what has been a tough few years towards what looks increasingly like a bright future. Also, I want to thank you, our shareholders, for your continuing support through what has been, for some of you, a long and at times hard journey as well.

I'd also like now to hand back the microphone to Rob, who will commence the formal part of the meeting. Thank you, Rob.

Robert Hubbard - *Healius Limited - Chairman*

Thank you, Malcolm. Before we move to the formal part of the meeting, I'm going to give shareholders an opportunity to ask questions now on any aspect of the business. All I ask is that if you have a specific question on a specific resolution, that you save that for the individual resolution. But otherwise, feel free to ask questions about any aspect of Malcolm's presentation, my address or the business in general.

I'd like to explain the procedure for questions because I'm grateful for everyone attending today, and I just want to make sure everyone gets an equal opportunity to ask a question, if they have one. As we have done in the past, we'll be using the voting handsets for questions. If you've not already done so, can you please insert your white plastic smart card into the slot at the top of your handset with the bar code at the bottom and facing towards you. When inserted correctly, a welcome message will appear briefly on the device's screen. You will be returned to the holding screen where your name will now appear at the top of the display. If you'd like to ask a question, please press the microphone button on your handset, then the green button. When your turn arises, I'll call your name. Please make yourself known, and 1 of the 3 microphones will be brought



to you. If you wish to leave the question queue, if someone has already asked your question, please just press the microphone button again and the green button again. If you don't have a handset, but you wish to ask question, so mainly people who have yellow admission cards, then use the traditional technique of raising your hand, a technique I quite like. Before asking your question, please give your name, and if you represent an organization, the name of the organization.

So would anyone with a question, please press the microphone button and the green button on your handset.

QUESTIONS AND ANSWERS

Robert Hubbard - *Healium Limited - Chairman*

Okay, Patricia from the ASA. Patricia, you'd like to ask your question, please?

Patricia Beal

(inaudible) I appreciate all the (inaudible) representing (inaudible) IT people (inaudible) shareholders (inaudible). Firstly, congratulations with what you've done so far (inaudible). And I noticed a couple of general comments in the introductory section of the annual report where your (inaudible) just support from (inaudible) wellbeing, along with disease prevention and early intervention and (inaudible) everyday (inaudible) not just (inaudible). I know you had covered that. Just so we can [gauge] in the presentation so far. I wonder if you have anything else to say. And I've got a couple of other.

Robert Hubbard - *Healium Limited - Chairman*

Give her own (inaudible). Why don't we deal with that one? And then...

Patricia Beal

We'll do (inaudible)

Robert Hubbard - *Healium Limited - Chairman*

Yes. We'll move on, and look as (inaudible)

Patricia Beal

And see if anyone else has questions.

Robert Hubbard - *Healium Limited - Chairman*

As I -- as an accountant who chairs a health care company, I've learned a long time ago to pass questions of clinical significance to clinicians. So I'll ask Malcolm to respond to that, Patricia.



Malcolm W. Parmenter - *Healius Limited - MD, CEO & Director*

We -- we've been -- particularly in our Medical Centres business, been really moving towards how we better provide services to people with complex and chronic health needs. And it's a growing group in the population that we can serve better. I mean, traditionally, our Medical -- or at least historically, our Medical Centres have been a walk-in service, and that tended to mean that we didn't do a lot of the preventative type service. It was more simple problems that more often than not, that people coming for prescriptions and referrals and relatively one-off experience rather than longitudinal management of their health concern.

So the introduction of appointments changes that quite a lot because now patients can make an appointment to see their regular GP the same way they would elsewhere. We've put a large number of nurses that are care managers into our practices, where they provide direct nurse-to-patient support for people with chronic and complex conditions as well. So it's become a real focus over the last 2 years as Tim and his team have been working on building that part of chronic disease management within our centers and health care education. So there's a real drive to do that. And that's been a big change for us as a company.

Patricia Beal

You said that certainly would be helpful, provided it's coupled with changing the culture of the people who are actually at the front line providing the services, which I presume you're also covering?

Malcolm W. Parmenter - *Healius Limited - MD, CEO & Director*

Yes. In fact, that sort of has contributed somewhat to our churn of doctors over the last few years as we've gone through a -- somewhat of a cultural change within our centers as we move to that.

And look, we have a vision for health care where an urgent care center, which is a walk-in service for people with a range of acute issues that run all the way through to things like fractures and lacerations, that is nurse-led within that, that operates like a casualty, sitting alongside a traditional general practice that works within those centers with 2 services side by side and with our dental, SwiftQ, sitting alongside that. So urgent care for both dental and medical, those extended hours sitting alongside traditional general practice that provide people with the option of 1 service for their one-off issues and another service for their longitudinal management of their ongoing health problems.

Robert Hubbard - *Healius Limited - Chairman*

And maybe I could comment, too, Patricia. I mean, there's -- we have 13,000 employees. The contact that most of us have -- and in fact, the most regular contact most of us have will be with that person who takes blood out of your arm at a collection center. That's the experience. And in changing the culture, it has to go right to that level.

Patricia Beal

And that must take a certain amount of time.

Robert Hubbard - *Healius Limited - Chairman*

Yes, it takes a certain amount of time because...

Patricia Beal

In specificity, yes.



Robert Hubbard - *Healius Limited - Chairman*

Yes. Historically, we've had a certain type of culture that wasn't patient-led. We're moving to a culture that is patient-led.

Next question is from [Natasha Lee]. Natasha? If you could just face the microphone because you just -- thank you.

Unidentified Participant

I thought my voice is loud enough. I don't need a mic.

Robert Hubbard - *Healius Limited - Chairman*

It is loud enough, but just in case.

Unidentified Participant

Now thank you, Mr. Chairman, and thank the Board for their hard work and achievements during the year. I've got 4 questions. I'll just run through the first 3 because that's sort of more financial ones first.

I note in the report that there was potential areas in classification entitlements relating to the Medical Centres, which are currently before the Fair Work Ombudsman. Can you advise on the dollar value of this matter and the expected impact on the financials? And also, advice on how this arose? And steps taken to reduce this risk -- or the risk of future errors occurring?

Robert Hubbard - *Healius Limited - Chairman*

Look, can I deal with each question in turn, rather than...

Unidentified Participant

Yes.

Robert Hubbard - *Healius Limited - Chairman*

So let's deal with that one. And this is, I mean, highly topical because sort of not a week goes by we're not opening up a newspaper and reading about issues with backpay and incorrect payment of people.

So we spoke about this at last year's AGM. And I think the phrase I said back then was, "We're not going to make profits out of the pockets of our people." And we are not going to do that. This was something we discovered. There were no complaints about it. But when we discovered it, we moved quickly to deal with it.

Now I suspect the cynics out there will say, "Well, of course, you would say that." But just to put this in perspective. The amount involved was \$18 million, and it was fully provided last year. So it was in the 2018 financial statements. It equated to an average of \$400 per employee, and we've gone back over 7 years. But these are lowly paid employees, right? I mean, they're not highly paid executives, with all due respect to the executives in the room. They're not paid a lot. So \$400 is a lot. And it's touched 6,000 employees of the Medical Centres group. I'm not going to comment any further on others, right? But without naming, there is another that had 6,000 employees and their number's \$300 million, right? So this was something we felt very passionate about correcting, even though there have been no complaints and it was a small -- it was a relatively small amount for most



employees. We're still dealing with the Fair Work Commission on this. So I think the Fair Work Commission of it's swamped in activity, but we're very keen to settle it in a way that satisfies the Fair Work Commission that they get confidence that this will not occur again.

But 13,000 employees, most remunerated on a sort of -- or many remunerated on a time basis. So capturing time is a big part of the systems. But we have put in place a range of things. And maybe, Malcolm, you can talk about the procedures we've put in place to try and prevent this happening again.

Malcolm W. Parmenter - *Healius Limited - MD, CEO & Director*

Here. Look, it's been a root-and-branch analysis of what's happened there. And so yes, we have -- we're going through a complete upgrade to our payroll system. So part of the technology issues that we've had across the business, as you've seen from the investment, we've had their payroll, and our payroll system is quite antiquated. So we're going through an upgrade to the [cardinal] system, and then over the next year or 2, to a full HRIS system that will support that. So that's in the future in terms of how we fix that.

In the meantime, we've had a full review of the position descriptions that exist there because this was actually a misclassification. In other words, where the staff -- at what level they were and their classification in terms of where they were rather than being underpaid for their particular classification that there were instances of the classification being incorrect.

So we've gone through a full review of that. There's an annual review of salaries to ensure they remain above the award. So there's a regular process of keeping on going to make sure this doesn't happen again. And there's an internal control process around any new work rules and updates to existing rules as well that sits around that and a formal training program that focuses on compliance. So we're determined that this is -- this doesn't happen again within that.

And look, it was a particular issue in Medical Centres, because most of those staff are not on EBAs, whereas across our Pathology and Imaging business, the vast majority of staff are on EBAs. And so it's something where, as a company, we're not proud of in terms of that, that happened at all. It shouldn't happen. But we're determined that it will never happen again.

Unidentified Participant

No, that sounds good. I'm glad that remedial action's being taken. And yes, the next question concerns the LIS. I note on your slide that it's a 5-year program. What is the total cost of this program? And it didn't seem to appear on the note C-5 of the financial's commitment to expenditure.

Robert Hubbard - *Healius Limited - Chairman*

Yes. The LIS -- or maybe I might ask John actually. It's one of the nice things about being a Chairman is you get the ability to pass out questions. I might just ask John to talk about the specifics of LIS in a moment. But let me give you my sort of layman's -- well, a bit more than layman's obviously, but Chairman's view.

The first thing is that we're rolling this out throughout all of our Pathology business. I can't stress enough the social importance of the Healius Pathology business. It's like a piece of social infrastructure that we have here. We do pathology tests for 40% of the Australian population. Well, probably more than 40%, but we do 40% of the tests in the country. And you can't afford for any of these major labs to be out of operation for a day. And so how do you roll this out? It takes a lot of care and a lot of planning, right? So -- and you certainly do not do it all at once. I mean, can you imagine the impact on society in Australia if, all of a sudden, the Healius labs could not operate for a week. Yes, it would -- so we take that responsibility very seriously. So that's why it takes a long time, right? You do piecemeal one after another, and you learn from that.

When we did the capital rising, we advised that we estimated the cost at \$100 million for LIS. We're coming to the completion of -- I love these terms in all consultant because consultants deliver new terms every few years. We're in the discovery phase, planning. We used to call it the planning phase. And we're close to completion of that, which will identify the all-up costs, the program of roll about. Now this is a significant planning

exercise. It's not a small planning exercise, what resources are required, et cetera, et cetera. And that lays out basically the blueprints and the pathway for how we roll this out. We're working with our chosen vendor on that, but we're not yet committed to them. That's why you don't find in the commitments the sort of \$100 million.

And there are some things we do here that are unique. There are some things that are different. Integration with the Medicare system, which is very important to us, is peculiar to Australia. And so it takes a lot of planning to do that.

But John, do you just want to give some insights as to the extent of what this will do for us? And how old our existing systems are?

John McKechnie - *Healius Limited - Chief Executive of the Pathology Division*

Just as an example, I was involved in the rollout of the Ultra system, and that was back in the late '80s. So that's actually the age of the current system that we operate under.

The particular danger we have to our business and ongoing is in our QML laboratory up in Queensland, where I came from. The system is actually going to run out of rows that are available to write. So the system will come to a halt in early 2022. So it gives us plenty of time to be available to upgrade our system, but at the same time, we're taking a very good risk safety profile with everything. But as Rob says, we're doing it piece by piece, business by business, so that we learn from all of the integration issues that we're going to foresee in the first part of the rollout. But everything is on track at this stage. And as Robert said, we're just at the end of the discovery phase of this stage.

Patricia Beal

Okay. That's your (inaudible)

Robert Hubbard - *Healius Limited - Chairman*

Is that good?

Patricia Beal

Yes, yes. No, I appreciate that systems need to be upgraded from time to time, and it's...

Robert Hubbard - *Healius Limited - Chairman*

Yes, I think the time has come.

Patricia Beal

Just personally are you...

Robert Hubbard - *Healius Limited - Chairman*

And we can't take the sort of the Microsoft approach of throwing out the minimal viable product and seeing what problems it has.

Patricia Beal

No, that's good. I appreciate the due diligence around the planning and operational side of it, the rollout.

On to the orders and review of the financial statements, I note that there was a 29% increase to \$839,000, whilst we appreciate the business has expanded, such as the acquisition of bits and pieces. And this -- the size of this increase seems somewhat excessive, especially when the fees for due diligence increased significantly from \$1.25 million -- sorry, \$125,000 to \$394,000. Do you have a comment on it?

Robert Hubbard - *Healius Limited - Chairman*

Yes, I do. And look, this is probably one I can't delegate away because the auditor is an appointee of the Board on behalf of the shareholders. So I will talk to -- and I was sort of tempted because you do have the ability to ask questions of the auditor, to actually ask the auditor to justify his fee. But I think I'll let you [lucid] him and oversee and see what you can do for us.

But just a bit of history because it's a fine balance between getting a good commercial outcome for the organization in terms of the level of fees because you clearly don't want to pay -- you don't pay too much, but you also want a quality audit. So we changed our auditors 2 years ago, you might recall. So Ernst & Young, our current auditors, have been in that role for 2 years. When we did that, we not -- we got an opportunity to look at the quality that each of the firms was offering, and that was a reason in part why we went to tender. The other reason was we had no idea what a good commercial fee was because the market is opaque. So we got a significant reduction at that time in fees.

Over the 2 years, I think there's 3 things that have happened. Firstly, as you pointed out, the group has expanded the acquisition of Montserrat, but there's been a range of other expansionary activities and growth initiatives. Smaller businesses acquired, say, in Imaging, smaller practices acquired in Health & Co, et cetera, all of which adds greater scope to the audit. The second thing is we're going through a period of quite extensive changes to accounting standards. So we have -- a year or so ago, we had to change the financial instrument standard. This year in new accounts, you'll see we've got the change to the revenue standard. And going forward, we've got the change to the leasing standard. All of that requires further work. And then thirdly, when you're looking from the outside quoting on an audit, you probably don't understand the complexity of it. I suspect Ernst & Young was somewhat surprised at the complexity of it, and there needed to be some readjustment to that initial quote. And we're better off today for doing that process, both financially and from a quality point of view, than we would have been if we hadn't, without a doubt. But each year, I have to -- I assure you, as an ex-auditor, I know the -- I might be a little dated, but I think I know the game. I'm a fairly -- hopefully, a formidable negotiator when it comes to the audit fee.

Patricia Beal

Right. No, thank you very much for that. I'll save the last question later, [have the people a little bit of a run]

Robert Hubbard - *Healius Limited - Chairman*

So the next question is from Kevin, [Kevin Daly].

Unidentified Shareholder

I've got a question about your IVF centers. I'm a bit concerned about the competitive environment for them. I know at least 3 listed companies that are specialists in that space, and I guess there'd be a few unlisted ones as well. So I'm wondering if you could explain just where you fit into that space competitively?

Robert Hubbard - *Healius Limited - Chairman*

Yes, of course, [Kevin]. It's a good story. Malcolm, do you want to?

Malcolm W. Parmenter - *Healius Limited - MD, CEO & Director*

Sure. It is a good story. We have a model for our IVF service delivery that's different to all the other providers in the country. And so the way you would access this service, if you were to go to one of the higher-cost providers, is that you would have a specialist that would manage your treatment from beginning to end. And so for that benefit, you get about a \$4,000 or \$5,000 per cycle expense as a result of that out-of-pocket. Now there are lower cost providers starting to appear, and that's largely around the changes that we've driven.

The way the model works in -- at Adora Fertility is that when you come to Adora Fertility, you see a specially trained GP who does the screening work at the start. We have very high-quality specialist providers that then do sessions in egg pickup, in implantation and the various day hospital and lab procedures. And so it's a very efficient system that is lower cost -- it has a lower cost base around it. But the important part about it is, if you look at the comparable data that's out there, and every IVF provider is required to publish that data on their websites, our success rate is pretty much the same as everybody else is around that for a fraction of the cost around how that works. And so our market share now has grown to about 16% of the IVF market. That's starting from a standing start with no acquisition. So this isn't about spending capital to get there, this is simply about organic growth within that. We've opened in Western Australia, volumes are up again year-on-year in terms of where they're at, particularly as a result of that growth in Western Australia. So yes, we are causing some trouble to the existing providers around where it is. But look, the reality, and talking to experts in this field, is that fertility services are becoming increasingly automated, with cameras monitoring progress in a no-touch technique. And over the next 5 to 10 years, you would expect that, that would become completely automated to the point where the success rate for fertility procedures, for all the common fertility procedures. And clearly, there are higher technology components of it. But for the vast bulk of volume, success rates will be the same for everybody and price will be the only differentiator. And what you get for that price is somebody who smiles at you, is very nice to you from the beginning to the end, and you have to work out whether that's what you want to pay for.

Unidentified Shareholder

That is very reassuring. Thank you.

Robert Hubbard - *Healius Limited - Chairman*

I think this is -- I love this story because it's brought in -- it's given an opportunity to a group of people, because I think we all know couples are having children later in life generally now, and it's giving opportunities to a whole range of people who, because of price barriers, couldn't have that opportunity. And I think that's a wonderful thing this organization has done. And it shook up people in a sort of lazy, complacent, incumbent position quite nicely in doing it. Thanks, Kevin.

Patricia, I think you have another question?

Patricia Beal

Yes. I have another -- a general question, which maybe I'll come to later. Firstly, a specific question on something Malcolm was saying about cutting down costs in head office. And I have the experience of working in a government hospital, where it was decided to cut costs of some of the office staff who did all the rostering and this sort of thing. So immediately, the seniors in each of the labs who were already pretty hardworking were landed with a whole new thing of rostering the -- out of our staff and those who were -- the normal staff at working an extra shift or an extra few hours overtime. And that system was really -- didn't work very well but it ended with another sort of thing that the staff didn't enjoy.



Robert Hubbard - *Healium Limited - Chairman*

I mean, your concern really is in doing this, whether we increase the risk and create pressure on the people in the organization.

Patricia Beal

Yes. And basically, the work has to be done by somebody. So whether it's by an office employee or a senior technologist who has better ways of occupying their time basically?

Robert Hubbard - *Healium Limited - Chairman*

Yes. Yes. Other than to say, Patricia, sometimes work is created by structures that doesn't add value. I'll talk about -- I'll give a bit of historical context to it because Malcolm's only been here for a couple of years and can't go back over that sort of 4- or 5-year history, and then I'll ask Malcolm to talk about how that's been met, that specific issue is being managed, because it's a fair question. If we go back to primary health care of 4 or 5 years ago, it had a highly decentralized model with very direct leadership and a very small center. And so that in itself, and people have been in business now, there are no perfect structures to a business. That in itself brought with it some risk because things like investment in data security, investment in IT platforms, risk management, generally was not necessarily seen as valuable. And so you run risks when you do that, but you actually don't preserve the value of the organization. And importantly, you don't invest in the things that needed to be invested in. So in the first, say, the 2 years, 2 or 3 years before Malcolm joined when Peter Gregg was CEO, for example, we embarked on a fairly significant investment in those areas. And that's where a lot of these projects, from an IT platform point of view, arose because they've been ignored. And we centralized a lot of things in order to do that.

What we probably did was went too far on that pendulum. And so when Malcolm came along, he had a good look at that. And really, and Malcolm has been with us for 2 years. He's been looking at this for some time before we made the decision because of exactly the risks that you talked about to deal with it. But do you want to pick up a story from there, Malcolm, in terms of how you managed that?

Malcolm W. Parmenter - *Healium Limited - MD, CEO & Director*

I thought I might delegate this question. Maxine, our new CFO, has been leading this for me for the last -- at about most of the year, really, so -- as we work through this. So it certainly hasn't been a rapid thing of just taking a percentage of cost out. It's been well-thought out from top to bottom in terms of how we could do this in the most efficient and effective way, possible end up with a company that actually functions better at the end of it.

Maxine Jacquet - *Healium Limited - CFO*

Thanks, Malcolm. Look, I'd probably like to say 2 things. The first thing is that 26% number is actually a reflection of the management and the top management. It's not a reflection of staff right across the company. I'm sure everyone can appreciate that if you're asking people to take costs out, you've got to start at the top and work your way down. And the program actually hasn't been taking a -- it hasn't taken a heavy cost-cutting approach to front-line staff. And in particular, you mentioned rostering, this is actually an area that we're going to be investing in across all our divisions. It's something we can get a lot better at. So we have a number of initiatives that's focused on that. We're in the service business, obviously, and so we have to make sure that we adequately staff our services. And, of course, utilization is also important. So roster management is a critical area, and we're investing in it.

So I think the entire program has been focused at labor, mainly at management layers. But the rest of the program, of which there are over 200 initiatives, is focused on things like procurement, which would -- you would have seen in the notes around property leases and those sorts of activities. So it's quite expensive in terms of what the cost reduction is looking at. It's not just a focus on labor. And as Malcolm said, it has been well-thought out with a complete org redesign, starting from the top.

Patricia Beal

Okay. Good. A very general question. What do you think is the greatest challenge to Healius going forward for the next year or 2?

Robert Hubbard - *Healius Limited - Chairman*

If I put to one side the things that I can't control because I -- and the management can't control because, I mean, they can't come from you from left field, so the offers, the changes in government policy, all of those types of things. It really is execution on our plans. So we have the plans, we have the technology agenda, we have great businesses. So it's in our hands now to make sure that we implement and we execute as effectively as we can. And all of the things we'll talk about today in terms of the incentive plan, we're all about keeping together a team who we believe have got the capability to do that and give confidence to shareholders that they're on the journey with you in terms of success and return. So that would be my insight. Now I should flick to Malcolm. It's never wise to disagree with the Chairman, of course. But we may have another challenge that he wants to highlight.

Malcolm W. Parmenter - *Healius Limited - MD, CEO & Director*

Look, certainly, the challenge of technology, particularly in the laboratory space, is a significant one over the next little while, so a large technology project that's \$100 million or so in cost, and the risks to implementing that across a very dispersed business. We have over 2,000 collection centers. And there are very few other businesses in Australia that operate 2,000 sites. Domino's Pizza, I think, has about 1,200. So it gives you some -- it's one of those on every corner. So it gives you some idea of how many of these sites that we have.

But that is a challenge, and we're putting a lot of effort into making sure we minimize the risk around that. But the other part about it that we've been really exercising our minds around is what's the light on the hill? What do we want to look like in 4 or 5 years' time. We've spent the last 2 or 3 years getting all of these businesses with a positive trajectory in terms of where we go. What does it look like in the future? And look, you'll have to watch this space. We've done a lot of work in the background. We're not ready to say what it looks like yet, but we have a pretty clear picture in our minds as to what that might look like, and it's about delivering on that as well. And as Rob says, all of that stuff is about execution in terms of how you bring it to fruition and making sure that you're bringing everybody along for the ride.

Robert Hubbard - *Healius Limited - Chairman*

Next question is from [Natasha Lee].

Unidentified Shareholder

[Natasha Lee], shareholder, again. In the outlook for the company, your LIS price, convenience and technology shifting to (inaudible) whether bank disagree of these sentiments, we should have looked the impact of the on -- of an aging population, general increase in wealth in older Australians and almost sort of monthly announcements of new technologies although some of these would not be available to consumers. For instance, this use of Zebrafish larvae for, as avatars in cancer treatment. And more recently, a technology which has come online as whole body imaging for melanoma detection. How does Healius manage the competitive pressures of adopting or deciding which new technologies to adopt possibly ahead of competitors? Or given your reliance on Medicare, is that one of these -- one of the major drivers?

Robert Hubbard - *Healius Limited - Chairman*

Right. And look, that's a good reminder on technology because we've spoken a lot about technology within the organization, but health care technology is also moving at incredibly rapid rates. And I think Malcolm's spoken a bit about genomics, say in Pathology, for instance, which is moving rapidly. There's also new technologies in detecting skin cancers, et cetera. But Malcolm, do you want to talk a little bit more about those



things because the fundamentals that you talked to, aging population, greater spend on health care, that's what drives people's view on the growth in our industry. For us, though, we have the government as our major payer. And so their capacity to fund is less than others. And so we'll see the gap continue to grow, I think, and the pressure that private health insurance is under continue to grow until we get some sort of reform in that area. But just on the technology piece, from a health care point of view.

Malcolm W. Parmenter - *Healius Limited - MD, CEO & Director*

How long have you got, [Natasha]? Look, we -- I don't know much about Zebrafish larvae and if they're used as avatars. And so -- but look, in terms of technology, it might be better to talk about the things that we are engaging in terms of...

Unidentified Shareholder

Well, it's more about the process that sits in (inaudible) emerging technologies.

Malcolm W. Parmenter - *Healius Limited - MD, CEO & Director*

Yes, yes. So look, we're -- in many respects, we're a deliverer of health care rather than so much the clinical component of it. So a lot of the technology that sits around new treatments and therapies and that sort of thing, that part of the development of health care, and there's certainly no shortage of that as that's changing. Given the spaces we operate in, we don't tend to see as much of that. What we do look at though is -- ways that -- the parts that we do in terms of diagnostics, in terms of the actual consumer-facing delivery of health care and how people access that health care. It's the technology that impacts on that sort of thing that we're particularly interested in. In the areas of diagnostics, there's a -- we're part of a global group of laboratories, all unrelated, with no other commercial connection other than that they share an interest in new tests and new technologies that allow us to access new tests early in the process. We are particularly interested in artificial intelligence and machine learning in terms of technology. We're currently going through the process of reviewing, for example, digital microscopy across several applications. Now digital microscopy might not sound like very much, but -- and you might think that, that's just a case of sticking a digital camera on the top of a microscope and taking a picture, but all you get with that is just a tiny pin dot on the slide. What this technology does is allow you, on a normal screen, to be able to zoom out to the whole slide and then zoom all the way in on that image to the nucleus of a cell. So if you think about the detail that exists within a slide like that, it's -- the slides are something like 15 gigapixels in terms of their size.

Now what does that do for us? Well, it allows us to apply machine learning to that kind of technology to assist the pathologist in diagnosis that speeds the process, but it also increases the chance that they won't miss something on that slide as you kind of search around all over the slide for abnormal cells. It also allows us to shift those slides around much more easily in terms of if you've got hematologists, for example, with time to spare in New South Wales, and you've got a backlog in Western Australia, you can send digital images somewhere else. So real interest in terms of delivering on that type of technology.

In Imaging, the same kind of thing. There's technology now that scans every CT scan, and it will -- it can identify critical anomalies within those CT scans. And it can prioritize those CT scans to the top of the reporting list for the radiologist. And so that kind of technology is already in trial in Australia. We've certainly been working with providers to utilize that technology as well. It improves the accuracy so that radiologists don't miss things. But also it gets the more critical diagnoses reported faster, and hence, health benefits as a result of that.

Then it comes down to simple things about health care delivery. We think that -- and we're seeing this in the 7 centers that it's in, to be able to not have to sit in a waiting room and catch the virus that -- from somebody else who's sitting there and coughing and sputtering all over you, is actually something that people find attractive that you'll be able to join the queue on your phone and then just turn up and walk straight in to see the doctor. It's everybody's dream, right? I mean, we all make appointments to see the doctor. That doesn't guarantee we're not going to sit there for 0.5 hour or 45 minutes waiting for the -- to get to the appointment.



So there's a whole range of things in terms of service delivery that we have the ability to really change the way people experience health care around those things. And we -- look, we hope to do that sort of thing across our pathology collection centers to be able to have a -- join the queue remotely for that. You don't have to physically come and sit in the waiting room. It's the 2020s.

Unidentified Shareholder

Yes, we're all time-poor and under pressures.

Malcolm W. Parmenter - *Healium Limited - MD, CEO & Director*

We are, yes. So look, it goes on and on, but...

Unidentified Shareholder

No, thank you very much. Because it gives a bit of an insight on your thinking and outlook and -- or your strategic planning. Thank you very much.

Robert Hubbard - *Healium Limited - Chairman*

No, thank you, [Natasha], and thank you for your interest. Look, there are no -- I have no more questions on the technology, but is there anyone who want to use the traditional technique of raising their hand and asking your question before I move on? No. Okay.

I'll move on to the formalities of the business now, and thank you for everyone who asked those questions. As usual, they were diverse in their topics and breadth.

The Notice of Meeting was sent to all members in the mail. Can I take it that the Notice of Meeting is taken as read, please? The minutes of the previous meeting of members of Healium Limited, which was the AGM held on the Thursday, the 22nd of November 2018, were approved by the Board and signed by me as Chair of the meeting in accordance with section 251A of the Corporations Act. The original minutes are tabled, and there are copies of those minutes available for inspection should any member wish to see them.

I have made rulings on the appointment of proxies, and I ask the Company Secretary secure to report to you on the matter of proxies.

Charles Tilley - *Healium Limited - Company Secretary*

Thanks, Rob. The number of proxy forms received by the company's registry, Computershare, by 9:00 a.m. on Saturday, 23 November 2019, was 660, and the Chair has ruled all of those proxy appointments valid. In accordance with Section 251AA (sic) [251A] of the Corporations Act, the minutes of this meeting will record in respect of each resolution in the Notice of Meeting; the total number of proxy votes exercisable by all proxies validly appointed; the directions in the proxy forms; and were decided on a poll, the total votes in favor, total votes against and the total of abstentions. Thanks, Rob.

Robert Hubbard - *Healium Limited - Chairman*

Thank you, Charles. Each of the agenda items will be considered in turn in some detail with an additional opportunity for shareholders to ask questions before voting on each item. But first, I need to deal with some procedural matters about the electronic voting.

As we have done for the last few years, we'll use electronic voting. When you registered for the meeting, you would have been given a voting handset containing a white plastic smart card. I hope that you're holding a voting handset. If you hold a white plastic smart card or a handset with



such a card inserted into it, you are a shareholder or proxy holder and entitled to vote. If you hold a yellow admission card, you are a joint shareholder or a shareholder who indicated in the registration that you will not be voting today. Holders of yellow cards are entitled to speak but not -- do not have the ability to vote. If you hold a white card, you're a visitor and you are not entitled to speak or vote at the meeting. If you do not have a white plastic smart card or yellow card and believe you should have one, can you let me now know, please?

Okay. The voting procedure will be -- I've determined that all items of business will be decided by a poll without any vote by a show of hands. The results of the poll on each item of business will be announced to the ASX and made available on the company's website following the meeting.

Maria Dzopalic of Computershare will act as returning officer for the poll.

Handset instructions are on the slide there. But if you have not already done so, put the white smart card into the slot with the barcode at the bottom and are facing towards you. When inserted correctly, a welcome message will appear on the device's screen. You will be returned to the holding screen where your name will appear at the top of the display. Once I declare a poll open and voting on a resolution begins, your voting options will appear on your handset screen. To vote for the resolution, press 1; to vote against, press 2; or if you wish to abstain from voting, press 3. Your selection and the word received will appear on the screen confirming your vote.

If you wish to change your mind or you've simply selected the wrong option, select a new option by pressing 1, 2 or 3. Your original vote will be canceled and the new selection will be counted. If you wish to cancel your vote and have no selection recorded, just press the X button. Any appointed proxy holders should vote using the same method, that is to press 1, 2 or 3.

Once a poll is closed on an item, the results will be displayed on the big screen showing the combination of votes directed in the room and proxies received prior to the meeting.

Okay. I just -- it's not tremendously complicated, but I just want to make sure everyone's ready to go before we embark on the items of business. So is everyone comfortable with that?

Okay. Moving to agenda, Item 1. This is the company's financial statements and the reports of the directors and auditors for the financial year-ended 30th of June. There's no vote required in relation to this item.

The subject to the company's annual financial report is now open for discussion. Although we have already had a session for general questions, there's now a further opportunity for shareholders as a whole to ask questions about or make comments on the management of the company, or someone more appropriate will answer your question.

Now it's also the time of the meeting where questions of the auditor may be asked. We've received no written questions directed to the auditor. But any questions that you may have should be directed to me first, and I will determine whether I believe it's appropriate to be asked by the auditor or a member of the Board or management team. If you got any questions in relation to remuneration, if I could ask that you save those for the remuneration report resolution. Are there any questions on the annual report, financial report or questions for the auditor, please? No? I'll move on to the first item of business in relation, being the remuneration report.

Item 2 in the Notice of Meeting seeks the adoption of the remuneration report, which is set on Pages 43 to 68 of the annual report. The explanatory statement, which accompanies the Notice of Meeting, describes the Board's policy on remuneration of directors and senior managers of the company. It's now open for discussion. If you have a question, either use the handset or raise your hand, please. Are there any questions on the remuneration report?

As there are no questions or comments, I will now report the position as the valid proxies of the remuneration report, which is on the screen in front of you, I think. As you can see, the proxy position is substantially in favor. I'll now put the motion that the -- I'm sorry, I've moved to the vote, of course. I'll put the motion that the remuneration report for the year-ended 30 June 2019 be adopted. Can you please direct your votes? 1, for; 2, against; 3, abstain.



(Voting)

Robert Hubbard - *Healius Limited - Chairman*

I think most of the voting is complete. Is there anyone still working at it? I think we're done. I now declare that poll closed. We'll now put the results on the screen.

So just under 98% for. Thank you. I declare the resolution carried.

The next item of business is the reelection of Dr. Paul Jones, who's a nonexecutive director of the company. At this point, I'd like to invite Paul to say a few words. Thank you, Paul.

Paul Francis Jones - *Healius Limited - Non-Executive Director*

Thank you, Chair. Good morning, ladies and gentlemen. I'm seeking reelection to the Board of Healius at a time that's both interesting and challenging, and that's not to say that the health care environment isn't always challenging. However, for Healius, as you've heard from our Chair and from the CEO, it's a time with a degree of optimism, which perhaps, given my standing as one of the ancients on the Board at this point in time, hasn't always been there. But I believe we are changing our company for the better. And that as a Board, we remain focused on a path, which is beneficial to our shareholders, to the clinicians who we provide services for and for the patients that they look after.

While much of my perspective comes from a background in medicine, I've had a fascination with the health system for the whole of my working life. I've been involved with medical politics and with the health system, among other things, with organizations like the AMA and divisions of general practice. I've been involved in hospitals in both clinical and governance sides. I gained an insight into the health system from both ends. From the point of view of the Healius perspective, I see it from the point of view of dealing with clinicians on a day-to-day basis while still thinking about the system as a whole and our company's place in it.

Under the leadership of our CEO, Dr. Malcolm Parmenter, on a platform founded by Dr. Edmund Bateman, and subsequent CEOs developing it, change continues at Healius. Not just a name change, but change which has modernized how we do business, but continued our history of innovation, and most importantly, has seen a shift. And for me, this is a really important one. We've seen a palpable shift in the way that Healius is viewed by the health professionals that we are trying to persuade to come and work within this organization, and that's in no small measure due to the changes that have occurred over the last couple of years under Malcolm's leadership.

I recall myself and Dr. Errol Katz, who, as Rob says, is standing down, talking about 7 years ago, about the fact that we needed to have clinicians coming to work at what was then primary because they want to work there and because it's a good place to work, and not just because we've handed them a lump sum and have given them the attraction of the cash. We are, I believe, getting there.

A couple of issues, which I understand concerns shareholders, I would like to address. The first of them, I continue to be a shareholder. My holding is currently close to the annual directors' fees that I earn from the company, and my intention when the windows permit and other things permitting is to increase that holding during my next term.

I know there have been concerns about my independence. But in my mind, and I think my colleagues would agree, I think I know when I'm in the boardroom to whom my responsibilities are. I understand the difference between my clinical work and my work on the Board. In fact, if anything, my clinical work over the last 7 or 8 years has probably suffered as a result of the Board work rather than the other way around.

I believe I've been able to contribute both via the Board generally and also via the committees on which I've served, Risk and Audit, and now in People and Governance. As I said, it continues to be an interesting and challenging role. I think it's a fascinating time, and it's a time of great opportunity for Healius. And I believe I can continue to contribute to the growth of the company. Therefore, I'm asking for your support in being reelected.



Robert Hubbard - *Healius Limited - Chairman*

Thank you, Paul. And I mean, I can tell you as a non-medical practitioner, it's absolutely invaluable having a GP of Paul's experience and background sitting on the Board with you. And I think that's a trend, now in many years to come, I would like to think Healius would always have. But I'll now come to the resolution. Are there any questions in relation to Paul's reelection, please? No? I will now report the position in relation to the proxies. As you can see, substantially supportive. I'll now put the motion that Dr. Paul Jones, a nonexecutive director retiring in accordance with the company's constitution and being eligible for reelection, is reelected as a nonexecutive director of the company. Could you proceed to the poll, please, and could you now exercise your vote?

(Voting)

Robert Hubbard - *Healius Limited - Chairman*

All done? Okay. I think I'll close the poll now. The results are on the screen or will be on the screen. Congratulations, Paul. I declare the motion carried.

Agenda Item 4 is the approval of the issue of securities under the transformation long-term incentive plan. I just want to say a few words in a little bit more detail on this resolution because it's a -- as these sorts of things go, this is an unusual plan. But it's been specifically designed for our time, our people and our needs. They're also relevant.

The comments I'm going to make now to Item 5 on the agenda regarding the resolution for Malcolm Parmenter's incentives. As directors, and this is a journey every director would say and when it comes to remuneration of the senior executives, is to ensure we've got a remuneration policy that's straightforward, motivational and competitive, with strong alignment to shareholder value. Since the appointment of Malcolm as CEO, Healius has developed the current strategy, which aims to deliver a sustainable increase in shareholder returns over time. The longer-stated initiative within this strategy at the moment is the implementation of LIS. I have no doubt in a few years' time, there'll be other things. There are many things that we are looking at. This is not a static situation. It's a dynamic situation. But we've made substantial progress on the initiatives we first outlined last year. We've also seen a reorganization of the executive team. And as I said earlier, I think we have a very strong team and one we should incentivize to deliver on the strategy.

We consider the existing long-term incentive plan neither adequately incentivize executives nor adequately aligns them to this time frame. Hence, we developed the new plan. It's bespoke to our requirements. The main features of the plan are: the hurdles in the proposed plan are all financial, not nonfinancial targets. Our need at the moment is sustainable increase in shareholder returns. That's what we're targeting at this point in time. There are some people who would say, "Why are there no nonfinancial targets in there?" We manage that every day at Healius, not on 3-, 4-, or 5-year rests. It's something you manage every day. These things include cultural change, employee engagement, living the values, the satisfaction of our health care practitioners and the people who use our facilities.

Secondly, we've been asked why we dropped the return on investment target from our LTI plan and move to fundamentally an EPS growth target. Each of the capital projects we have, have their own return dynamics. Trying to capture all that in 1 homogenous return on invested capital target means, like most averages, it's not suitable to anything that we do. It's just an average outcome. So it's not motivational to the people running those projects. So we moved to EPS. We'll manage capital every day, every month, every year. And incentives linked to capital management will come through the short term incentive plan.

As we move to vote on this item, I would like you just to think about the intention of what we're trying to do here. We're rewarding and creating incentives that will adequately reward the executive. But if we grow EPS in accordance with the vesting conditions, that almost certainly will be the driver for share price growth that will reward shareholders.

So now, Item 4 is open for discussion. Are there any questions or comments on the new long-term incentive plan, please? No. I'll move to the proxy position.



I'll now put the motion, that for the purposes of Listing Rule 7.2, Exception 9B and for all other purposes, the issue of securities under the transformation long-term incentive plan, the terms of which are described in the explanatory statement to this Notice of Meeting, be approved.

Okay. We'll now move to the poll, please. I think you're all familiar with the process. I won't read it again.

(Voting)

Robert Hubbard - *Healius Limited - Chairman*

All finished? I now declare the poll closed. You can put the results on the screen, please. Thank you. As you can see, there's overwhelming support for this. And in an environment where things like this are being heavily questioned, I really do thank shareholders for allowing us to do this and support this new initiative and this new incentive plan. It's an important part of the arrangements we're putting in place for the next few years.

I'll now move on to the approval of acquisition of securities by the Managing Director and Chief Executive Officer, Malcolm Parmenter. And this covers 2 or 3 things in relation to securities and all securities to Managing Director need to come to the -- a general meeting of the shareholders for approval.

Malcolm's done, I think, an outstanding job over the last 2 years. This is a business that has high turnover, relatively thin margins, and you can't afford to waste money, hence, the new operating model and productivity review. But it's also an organization that's been given purpose because we aim to be here for 20, 30, 40, as many years as you can think because what we do, everyone relies upon. Combining those 2 things is no easy challenge.

So let me bring item 5 open for discussion. Are there any questions in relation to item 5? I'll put the proxy position forward. I now put the motion that approval is given for all purposes for the grant or issue securities under the short-term incentive plan and the transformation long-term incentive plan to the Managing Director and Chief Executive Officer, Dr. Malcolm Parmenter, in the manner set out in the explanatory statement to this Notice of Meeting. Could you please exercise your vote?

(Voting)

Robert Hubbard - *Healius Limited - Chairman*

Okay. I think voting is completed. If we could put the results of the poll on the screen, please? Thank you. That's another outstanding show of support for the company.

Agenda Item 6 is the approval or issue of securities under the nonexecutive director share plan. Whilst I believe these decisions for individual directors, this individual director believes wholeheartedly that directors should hold shares in the companies that they're on the Board of. One of the problems is that it's not very tax effective because you have to buy those shares out of your after tax income. And so you get there a little slower than you may otherwise mean. The purpose of this plan is effectively a salary sacrifice plan. It's not driven by any incentives or performance conditions, just enables you to accumulate a shareholding position quicker than you may otherwise be able to.

I, for one, intend to take a reasonable percentage of my directors fees and apply it to this plan. They're fairly common place now, and I think a number of you or shareholders in other companies will have seen them around the place. Are there any questions, please, in relation to the nonexecutive director share plan? No? I'll put the proxies on the screen.

I'll now put the motion that for the purposes of ASX Listing Rule 10.14 and for all other purposes, the grant of share rights and the allocation of shares in the company on vesting of those share rights under the proposed nonexecutive director share plan to all nonexecutive directors for the next 3 years on the basis described in the explanatory statement to this Notice of Meeting be approved. Can you please vote by poll?

(Voting)

Robert Hubbard - *Healius Limited - Chairman*

I think that's completing the voting. If we could have the results, please? Thank you. Again, overwhelming support. Thank you very much.

Now move to Item 7, which is renewal of proportional takeover approval position -- provisions. It's the last item of business for the meeting, and it's a special resolution that the proportional takeover approval provision is contained in Schedule 2 of the company's constitution, which were last renewed for 3 years on 25th November, 2016, are renewed in the company's constitution. Are there any questions in relation to this resolution, please? Okay. I'll put the proxies up on the screen. I do think there's an error in those proxy. But for the astute observer, I think there's an error in those proxies, spreadsheets are being put up. But the final vote is not in error. That is, in fact, I think the percentage of the total share capital, including people who didn't vote in favor of the resolution, which is still a pretty good outcome when you have 77%, including the people who didn't vote.

Okay. I'll now put the motion as a special resolution, requires 75% approval, that the proportional takeover approval provision is contained in Schedule 2 of the company's constitution are renewed for a period of 3 years with effect from the date of this meeting. Could I ask you to vote, please?

(Voting)

Robert Hubbard - *Healius Limited - Chairman*

I think the vote is complete. Put the results on the screen. On that basis, I declare the resolution carried.

Thank you, everyone. That concludes the formality for the meeting. The results that you've seen on the screens will be posted with the ASX this afternoon. I declare the meeting closed. Could you please join us for morning tea? Thank you.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2019, Thomson Reuters. All Rights Reserved.