

Integral Diagnostics

Providing Excellence in Diagnostic Imaging in Australia and New Zealand



Macquarie Equities Conference

Dr. Ian Kadish (MD & CEO)

Anne Lockwood (CFO)

30 April 2019



“Good Medicine is Good Business”

Today's presenters



Dr. Ian Kadish

Managing Director and Chief Executive Officer

- Joined Integral Diagnostics in May 2017
- Has held roles including CSC Healthcare, McKinsey and Company, and Netcare, a major hospital group in South Africa and the United Kingdom where Ian was Executive Director from 1997 to 2005
- Since migrating to Australia in 2006, Ian's roles have included CEO and MD of Healthcare Australia, CEO and MD of Pulse Health Group (ASX-listed hospital group) and CEO of Laverty Pathology
- Medical Doctor with an MBA from the Wharton School of Finance at the University of Pennsylvania where he was on the Dean's List



Anne Lockwood

Chief Financial Officer

- Joined Integral Diagnostics in 2016 and appointed as Chief Financial Officer in September 2017
- Chartered Accountant by training and a former Partner of a major accounting firm
- Extensive experience across audit (including as National Head of Audit), technical accounting and mergers and acquisitions within the listed company environment
- Anne has a Degree in Commerce with majors in Accounting and Law
- She is also a Fellow of the Institute of Chartered Accountants

Topics for discussion

1 Company snapshot

2 Operational overview

3 Integral's financial profile

4 Industry trends and regulatory developments

5 Integral's Medical Leadership Model

6 Recent Expansion into New Zealand

7 Strategic update and current priorities

- No amendment to guidance provided with the 1H19 results

Company snapshot

- Listed on the ASX in 2015
 - Operates in diagnostic imaging sector which is expected to be a key beneficiary of recent campaign announcements
 - Geographically diversified, with 52 sites across Victoria, Queensland, Western Australia and New Zealand
 - Key brands include Lake Imaging, South Coast Radiology, Global Diagnostics, Specialist Radiology Group (SRG) and Trinity MRI
 - Comprehensively covers all diagnostic imaging modalities, with a focus on the specialist modalities of MRI, PET and CT
 - Modern equipment fleet with 4 PET Scanners and 19 MRI's, including 12 Medicare licensed MRIs in Australia (11 full and 1 partial)
 - 13 Australian hospital contracts
-

Note: Market data as at 23 April 2019.

KEY FACTS

- Ticker: IDX
 - IPO: 21 October 2015 at \$1.91 per share
 - Current share price: \$2.91 per share
 - Issued shares: 157.1 million
 - Current market capitalisation: \$457.1 million
 - Radiologists: 92
 - Employees: 914
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Operational overview



Total IDX

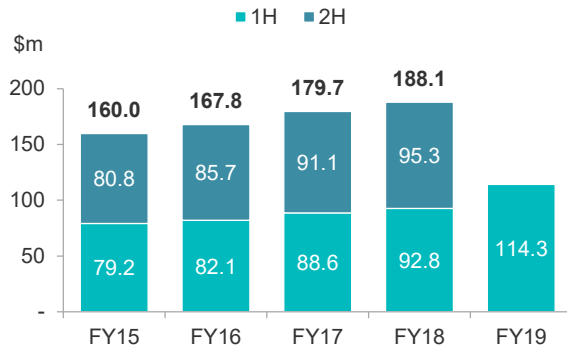
Geographic Market	Victoria	Queensland	Western Australia	New Zealand	
Core markets	Ballarat, Geelong, Warrnambool and outer western areas of Melbourne	Gold Coast, Toowoomba and Mackay	South West Western Australia	Auckland	
Sites (includes hospital sites)	27	13	9	4	53
Hospital sites	7	2	4	-	13
MRI machines	7	7	2	3	19
MRI Licences	4 full 0 partial	5 full 1 partial	2 full 0 partial	N/A	11 full 1 partial
Employed Radiologists¹	36	33	14	9	92
Employees	359	344	144	67	914

Note: Reflects current data as at January 2019.

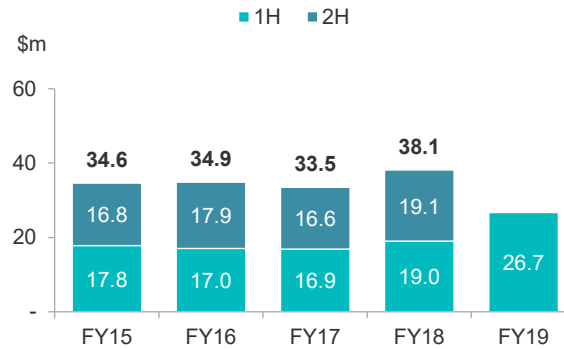
¹ Relates to employed radiologists only. In addition IDX has a number of contractor radiologists (~43 currently)

Strong financial profile

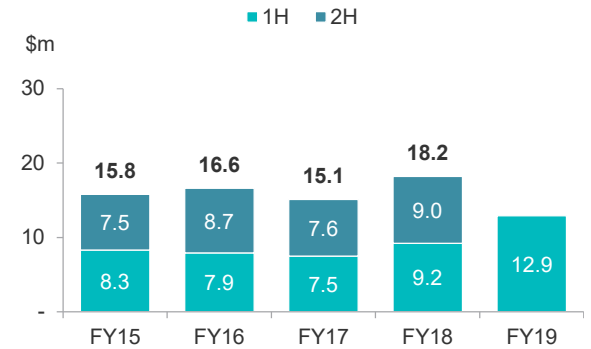
Operating revenue (A\$m)



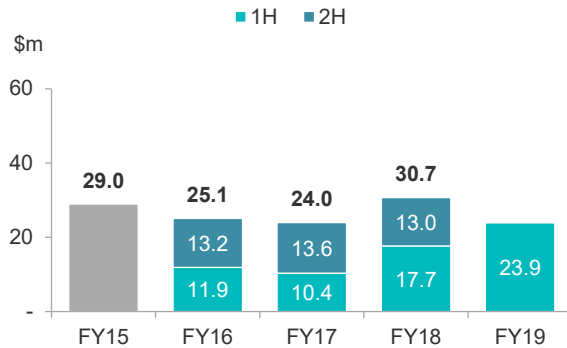
Operating EBITDA (A\$m)



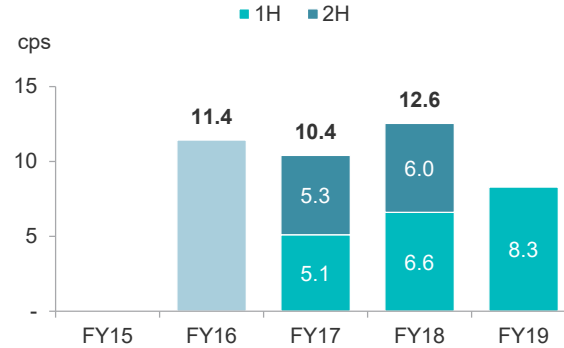
Operating NPAT (A\$m)



Free cash flow (A\$m)

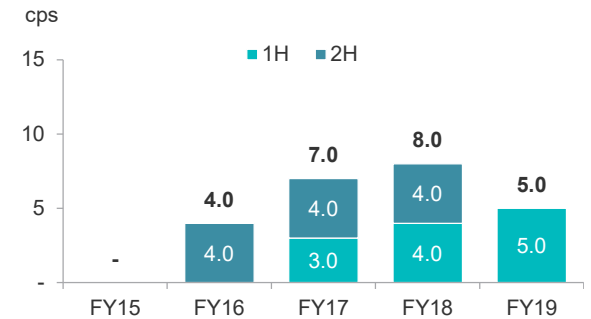


Operating EPS (cents)



DPS (cents)

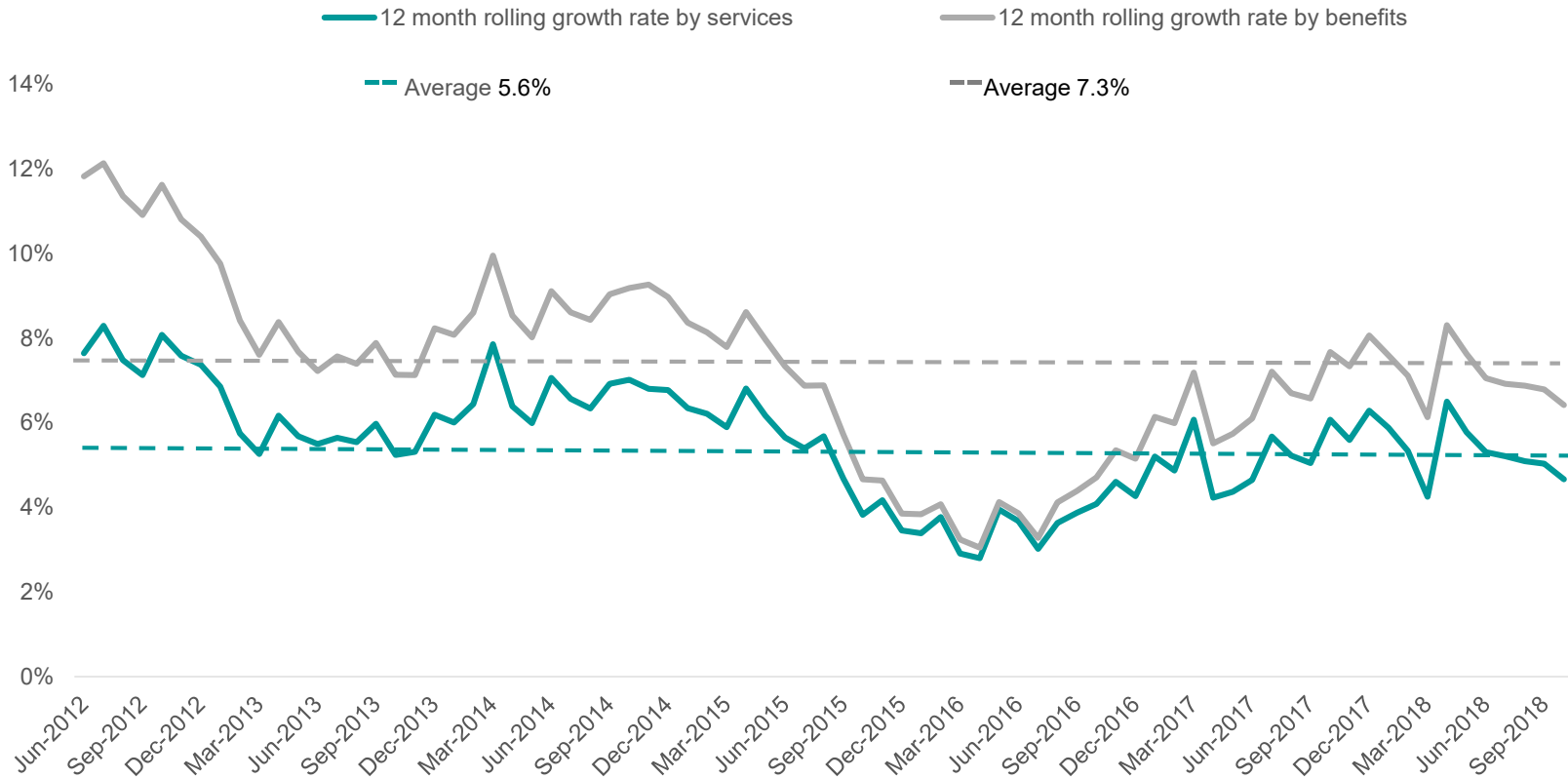
Target dividend payout ratio of 65% to 75% of NPATA, franked to the maximum extent possible



Note: Free cash flow calculated as EBITDA adjusted for non-cash items, changes in working capital and maintenance and replacement capital expenditure.

Industry growth rates stabilised and strong long-term drivers remain

Industry growth recovering



1: Medicare Australia Statistics Medicare by Broad Type of Service (BTOS) for the States IDX operates in

Regulatory environment positive

Advanced DI modalities, MRI and PET in particular, are becoming more essential to medical diagnosis and treatment. Their importance is increasingly being recognised by government and private payers as a mechanism to improve quality of care and better manage its cost

Australia

July 1, 2018

- Introduction on the Medicare Benefits Schedule (MBS) of MRI Prostate – an excellent outcome news for patients and a good contributor to IDX growth in 1H19 which we expect to continue
 - MRI prostate provides non invasive evaluation of the prostate for those at risk of the commonest cancer in Australian men
 - Enables earlier detection and treatment of prostate disease, improving outcomes and reducing cost.

November 1, 2018

- Removal of GP referred MRI of the knee for patients >50 yrs old from the MBS from 1 November 2018 – negative for patients and GP's, is expected to impact IDX revenue in 2H19
 - Restricts the ability for GP's to accurately diagnose knee conditions
 - Will likely increase specialist referral costs

MRI Licences

- 50 new licenses issued
 - IDX received full licence upgrade from partial at Pindara Private Hospital on 1 Nov 2018
 - Licenses also provided to competitors in Mandurah and Geelong, and were expected to be operational by 1 March 2019

Regulatory environment positive in Australia and NZ

Australia cont:

Future expected changes

- Reintroduction of MBS indexation for selected Diagnostic Imaging (DI) services from July 2020 – estimated to add circa \$2M in IDX pre-tax earnings in FY21
- Full MBS indexation for all DI services is a key focus of the Australian Diagnostic Industry Association (ADIA)
- IDX continues to closely monitor the regulatory landscape through active participation in the ADIA

Diagnostic Imaging announcements as part of the Federal Election campaign

- The Labor Party announced \$600 million to eliminating out-of-pocket costs for diagnostic imaging for cancer patients, with up to six million additional Medicare-funded cancer scans
- The Liberal Party have announced total investment in diagnostic imaging of more than \$606 million, including new MRI and PET items for breast cancer, and the 50 new MRI licenses

New Zealand

- No material changes
- Annual indexation is provided for in all contracts
- Auckland DI market is expected to continue growing at around 7%pa, driven by strong net migration, aging demographics and adoption of new technologies that improve patient outcomes.

Supporting Specialist and General Practice

- Hub and Spoke Model with full spectrum of comprehensive services at the hub – including PET and Nuclear Medicine, Medicare Licensed MRI's, and specialist radiologists
- 13 high acuity hospital sites, and Centres of Excellence in MSK, Breast, Prostate, Spine and Neurology
- Specialised and engaged radiologists
 - Clinical Governance and Medical Leadership (Board representations and Clinical Leadership Committees in each business)
 - Leading edge technology (e.g. AI software to improve clinical workflows and patient outcomes)
 - Clinical excellence (e.g. consolidated reporting platform to deliver sub-specialist care)
- Radiologist share plan (to provide a quasi-partnership track for promising new radiologists – the next generation of leadership)
- Active involvement and leadership in the peak industry body (ADIA)
- Ongoing relationship with RANZCR, including sponsorship of the College's annual Radiologist Graduation Ceremony
- Strong organic growth rates and less reliance on Bulk Billing (Medicare comprises <50% of revenues)

Overview of Integral's New Zealand acquisition

Acquisition overview

- Acquired Specialist Radiology Group, Trinity MRI and Cavendish Radiology in July 2018
- Consideration of ~A\$99m comprising A\$75m in cash and A\$24m in equity
 - 80% of the equity to be held in escrow for up to five years
 - Staged earn-out for vendor radiologists based on earnings performance
- High quality business with leading radiologists
- Four specialist clinics
 - focus on musculoskeletal radiology and neuroradiology
- Meaningful scale and a premier platform
- Employs 14 radiologists (c.280 in NZ)
 - Primarily funded by the Accident Compensation Commission (ACC), health insurers and private individuals paying out of pocket (c.95% of volume)
 - c.5% of revenue comes from the public system (Auckland DHB)

Transaction rationale

- High levels of radiologist training in NZ. Common College accreditation with Australia
- Adds to the quality of Integral's specialist radiologist pool
- Attractive market structure, annual CPI indexation
- Similar to Australia, NZ market is a mix of public and privately funded services
- Market expected to deliver good growth
 - Growing and ageing Auckland population (strong net migration into South Auckland)
 - Increasing pressures on public health system with long waiting lists for CT and MRI
- Several high quality assets coming to market encouraged by NZ Govt's pending introduction of a capital gains tax

Management's FY19 strategy – good medicine is good business

Strategy	1 Grow existing business and margin				2 Strategic acquisitions
Drivers of Strategy	Drive organic growth & efficiency by leveraging hub & spoke model	Optimise technology solutions	Develop Centres of Excellence	Medical leadership	Further disciplined execution of strategic acquisitions

2H19 Key priorities, focus and outlook

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Drive organic growth and further efficiency gains

- Selectively upgrade CT technology to meet growing demand, improve workflow and image quality, reduce radiation levels and cater for expanded clinical applications
- Begin re-development of the John Flynn Hospital on the Gold Coast, including a planned new PET facility to open FY20, the 5th PET Scanner in the IDX group
- Re-locate MRI at Ballarat Base hospital to SJOG Ballarat creating a centralised super site in Ballarat with two fully licensed MRI's operating in cohesion and improving clinical outcomes and patient experience
- Invest in developing the Peel Health specialist centre in Mandurah WA to meet patient and clinical demand as a result of new specialist oncology referrers in the region

Use digital technology to improve the patient and referrer experience

- First to market in Australia for testing and review of FDA approved AI software to improve clinical workflow and patient outcomes
- Implement Patient APP to improve access, knowledge and flexibility of service for the patient and referrer
- Leverage the consolidated reporting platform for complex cases to deliver comprehensive, specialised reports to patients and referrers

Prostate Imaging Centre of Excellence at the Australian Prostate Centre in North Melbourne

- Construction to be complete by June 2019
- Best in class equipment including wide-bore 3TMRI and advanced Cardiac CT to offer an expanded range of high end imaging services
- Engaging with specialist referrers across a broad range of high end imaging services

2H19 Key priorities, focus and outlook continued

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Implement new radiologist recruitment, retention and incentive structure

- Broadening of the radiologist shareholder base
 - FY19 Radiologist share plan oversubscribed
 - Similar plan to be offered in FY20
- Engagement with leading new Radiologist Graduates
- Pay and governance structures that reward collegiality, quality and efficiency

Evaluate further strategic acquisitions that are a clinical fit, strategically aligned and earnings accretive

- Continue to assess acquisitions that are a clinical fit, strategically aligned and earnings accretive

Monitor, assess and proactively influence the regulatory landscape

- Closely monitor and assess the regulatory landscape through participation in ADIA
- Continue to promote the quality and cost benefits of Diagnostic Imaging to patients, referrers and payors, specifically new low dose CT, MRI and PET

➤ We expect full year performance to be broadly in line with the 1H19, there is however uncertainty around the impact of the new MRI licences and any other announcement being made through the forthcoming federal election.

Questions?

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