

Integral Diagnostics Limited – 2017 AGM

Chairman's address delivered by Helen Kurincic

Good morning everyone and welcome to the 2017 Annual General Meeting of Integral Diagnostics Limited. My name is Helen Kurincic. I am the Chairman and Non-Executive Director of Integral Diagnostics.

Before we begin, could you all please check that your mobile phone is turned off or switched to silent.

For your safety, please note that in the event of an evacuation, an alarm will sound. Please wait in the room until a PwC emergency warden directs you the evacuation points.

Meeting opening

It is now the appointed time for holding the meeting. I am advised that a quorum is present, so I declare this Annual General Meeting of the shareholders of Integral Diagnostics, open. Thank you for attending.

I would like to introduce my fellow Directors, as well as the Company Secretary.

- Dr Ian Kadish, Managing Director & CEO
- John Atkin, Non-executive Director, Chair of the People and Remuneration Committee, and member of the Audit, Risk and Compliance Committee
- Rupert Harrington, Non-executive Director, Member of the Audit, Risk and Compliance Committee and the People and Remuneration Committee
- Dr Chien Ho, Executive Director, Chair of Integral Diagnostic's National Clinical Leadership Committee and accredited MRI supervising Radiologist with Lake Imaging Victoria

- Raelene Murphy, newly appointed Non-executive Director and Chair of the Audit, Risk and Compliance Committee, who stands for election today; and
- Kathryn Davies, Company Secretary.

Dr Sally Sojan, who is a radiologist based in Queensland, is absent and sends her apologies.

Present today is Jason Perry, Partner with the Company's Auditor, PricewaterhouseCoopers. Jason will be available to answer questions on the accounts at the appropriate time.

Also present are members of Integral Diagnostics' executive team - Anne Lockwood Interim CFO, Greg Hughes COO and Mica Duncalfe HR Director

The agenda for today's meeting is as follows. I will shortly present my address. Following that, Dr Ian Kadish, our Managing Director & CEO will present his review of the Company's activities. We will then proceed with the formal business of the Meeting. At the conclusion of the meeting, we invite you to join your Board and Executive for light refreshments. So to my address.

Formal Chair Address

Diagnostic imaging is an integral (pardon the pun) and transformative part of modern health care. Global healthcare trends point to increasing non-invasive solutions, earlier and more accurate diagnosis, more targeted and higher complexity of patient treatment, technological advances improving efficiency and quality and a focus on cost effectiveness and outcomes for the patient and the total health care system. Diagnostic imaging facilitates each of these and is an essential health care service. A key feature of healthcare change is also the increasing chronic disease as our population grows and ages requiring greater healthcare support as well as the expected rise of the empowered consumer as technology and information transforms access, choice and decision making.

As such Integral Diagnostics is making the changes and improvements required to best serve our patients and referrers both now and in the future.

Over the 12 months ended 30 June 2017 (FY17) the Company delivered a result that was within market guidance provided at the half year, but below the Board and management's expectations. While revenue grew 7.1%, cost growth was higher, leading to a \$1.5 million decline (9.3%) in underlying NPAT performance compared to FY16.

The company's balance sheet remains strong. A full year FY17 dividend of 7.0 cents per share fully franked was paid to shareholders.

We once again thank our former CEO and CFO, John Livingston and Craig Bremner for their decade plus of work as co-founders since the establishment of the first regional clinic in 2002. Thanks also to Garry Hounsell who resigned as a Non-Executive Director in March due to competing board commitments.

Dr Ian Kadish was appointed Managing Director & CEO in May 2017 to lead the Company in its strategy execution and improve financial returns given the strength and opportunities of the Integral Diagnostics business. With substantial healthcare and listed company experience in Australia and overseas, Ian brings an important mix of medical training, strong finance, IT and M&A experience in high-growth organisations. Anne Lockwood, a former partner of a major accounting firm and formerly our Group Financial Controller, was appointed Interim CFO.

Raelene Murphy was appointed as an independent Non-Executive Director and Chair of our Audit, Risk and Compliance Committee, in October.

After a challenging year for the Company, it is evident that the new leadership team have combined well and are delivering positive results that Ian will cover in his CEO address. Changes are on-going and clearly focused on greater cost disciplines, flexion to demand, improved asset utilisation and organic and inorganic growth opportunities. The Board is focused on realising the full potential of our business and delivering value to our stakeholders.

Our focus and ethos of providing the highest quality diagnostic imaging services and improving the patient experience through strong clinical governance is unwavering. Our new CEO is highly engaged in our clinical governance structures at State and National levels with our radiologists. At a Board level we benefit from Dr Chien Ho and Dr Sally Sojan's radiology insights to inform decision making.

The regulatory environment is now clearer following the Federal Government's decision in May 2017 not to remove bulk billing incentives for diagnostic imaging. In addition, the Federal Government has committed to reintroducing MBS rebate indexation for 18% of diagnostic imaging services from July 2020. Diagnostic imaging has operated with a MBS rebate freeze for nearly two decades and the sector has called for the indexation of all items in line with the reintroduction of GP indexation from 2018.

We look forward to the Medicare Services Advisory Committee's consideration of MBS inclusion of Prostate MRI. Prostate MRI has emerged as an important modality in localising and characterising prostate cancer, evaluating tumour margins and staging disease leading to earlier detection, targeted biopsies and more appropriate treatment in these patients. A great example of better outcomes for patients, at a better cost for the total health system.

The Board would like to take this opportunity to thank you as shareholders for your continued support and also to the exceptional radiologists, imaging and support staff of Integral Diagnostics who contribute each day to patient diagnosis and treatment across our 46 clinics.

I will now invite our CEO, Dr Ian Kadish to discuss Integral Diagnostic's performance.

-ENDS-

Helen Kurincic

Chairman

Integral Diagnostics Limited

22 November 2017

Speech delivered by Dr Ian Kadish, Managing Director & CEO

Thank you, Helen.

I am pleased to be presenting to you today at my first Integral Diagnostics' AGM as your Managing Director & CEO. I am delighted to have the opportunity of leading this excellent medical imaging company, and to drive the Company's growth.

→ *Slide 2*

Integral Diagnostics is uniquely positioned as a focused, pure-play diagnostic imaging company. Our network of hospital and community sites allows us to serve more than 16,000 referrers, and more than one million patients a year, focussing on the higher value higher margin imaging modalities.

Importantly, a significant number of our radiologists are owners in the business. This aligns them to the Company's long-term business growth and profitability.

→ *Slide 3*

We are a leader in each of regional markets we serve, in terms of the size and breadth of services offered, and with an integrated network of community and hospital sites.

In each market, we have the presence that allows us to provide our referrers with an integrated offering across all imaging modalities – including X-ray, US, CT, MRI and PET.

→ *Slide 4*

Your new management team is focussed on maximising the potential of our specialist staff, network of sites and state-of-the-art equipment to increase utilisation levels and through that financial returns.

Pleasingly, over the past six months, we have enhanced the operational strategies, systems and processes, needed to rebuild our margins and regain the earnings trajectory that the business has historically enjoyed.

With a strong asset portfolio in place at the start of this financial year, our focus has been to rebuild margins by:

- Reducing labour costs by flexing staff closer to patient demand
- Better utilising technology to deliver our services
- Increasing capacity utilisation of our MRI, PET and CT machines.

I will shortly cover our progress in relation to these three operational initiatives.

I have always firmly believed that good medicine is good business. In providing patients and referrers with optimal care, quality and service, Integral Diagnostics will deliver sustainable growth in shareholder value. By always putting patients first, we also put our shareholders first.

→ *Slide 5*

Integral Diagnostics is well placed in an industry with attractive long-term growth fundamentals.

Overall industry growth is supported by our ever aging population, and an increasing prevalence of chronic disease. At the same time, advancements in diagnostic imaging technology continue to assist early detection, screening and intervention that **reduces** the overall burden on our health system.

Not only do we operate in industry whose growth is underpinned by attractive long-term fundamentals, but it's a fair size industry. The size of our addressable market was estimated to be \$3.9 billion in annual revenues in FY17, delivering a compound annual growth rate of 6.8% since FY05.

→ *Slide 6*

CT and particularly MRI utilisation rates in Australia are lower than in any other OECD country. There is no reason that our patients should be deprived of this valuable, and sometimes life-saving, technology. Over time our utilisation rates should increase to more closely approximate the utilisation rates in other similar economies and Australian CT and MRI rates should increase accordingly.

→ *Slide 7*

Despite challenging operating conditions in FY17, Integral Diagnostics delivered the following operational achievements:

- Successfully acquired Western District Radiology and South West MRI;
- Expanded capacity in Toowoomba, Sunbury and Geelong
- Executed five, 5-year contracts with West Australian Country Health
- Refurbished diagnostic facilities at Pindara Private Hospital
- Installed new MRI machines at Robina and John Flynn Private Hospital
- Purchased a Mobile MRI (subsequently sold) to service regional WA
- Upgraded IT platforms for digital reporting.

In addition, we maintained a strong focus on the development and management of our people.

→ *Slide 8*

Our pace has not slowed over the first part of FY18. Over the past 4 months, Integral Diagnostics delivered the following operational achievements:

- Successfully integrated Western District Radiology and South West MRI, a business acquired in FY17 and earnings enhancing in FY18;
- Significantly grown our tele-radiology service utilising Australian-accredited radiologists based overseas to assist in providing 24/7 coverage at 48 WA hospitals (38 of which are regional and remote);
- Opened a new practice, a Spine Centre of Excellence, on the Gold Coast;
- Upgraded phone systems, IT platforms, and call centres to improve service and facilitate patient triage;
- Upgrading clinical systems to improve imaging quality, productivity and referrer engagement.

→ *Slide 9*

Industry growth is returning and this is evident in the Medicare data. The continued recovery will assist our endeavours to increase capacity utilisation and manage costs to improve returns.

→ *Slide 10*

As you heard in Helen's speech, the regulatory environment has become more supportive.

MBS indexation for selected DI services will be reintroduced from July 2020. The Federal Government has scrapped its proposed reductions in diagnostic imaging bulk billing incentives.

While the MBS review is ongoing, the direct changes made so far have had a negligible impact on our revenue given that chiropractors comprise a negligible proportion of our referrers, and similarly we don't do many repeat bone densitometry scans on the over 70's after the first test was normal.

We continue to see the regulatory environment being supportive given the recent MBS outcomes that were effective from the start of this month and the matters currently in public consultation.

→ *Slide 11*

I'd now like to spend a couple of minutes outlining the operational achievements over the first four months of FY18 and how they provide a good base for the full financial year.

We have successfully implemented changes that have improved scheduling and rostering. Staff are being flexed closer to patient demand and we are reviewing activity and cost information on a daily basis to improve the financial performance of the business.

Labour costs as a percentage of revenue have declined by 2% year to date. We have also stabilised the number of full time equivalent staff members in an environment where revenue has continued to grow.

We are finding efficiencies through investment and adoption of new technologies such as voice recognition, tele-reporting and automated worksheets.

Equipment utilisation rates are higher reducing capex by \$1 million annually through:

- Closing or reconfiguring under-performing sites;
- Selling under-utilised equipment; and

- Improving procurement.

→ *Slide 12*

On the Gold Coast we recently opened the South Coast Radiology Spine Clinic. So far this new centre is exceeding our expectations.

The Spine Clinic is another specialty Centre of Excellence – building on the successful and recognised work of the team at the Geelong Breast Clinic, and on the excellent work being done at TWIC, the Women’s Imaging Centre on the Gold Coast.

This type of investment is something we will look to replicate where opportunities present. Specialty Centres of Excellence will allow our radiologists to subspecialise in specific areas, and to develop the specialist skills that ensure we continue to add value to our referring specialists.

→ *Slide 13*

In addition to investing in Centres of Excellence, we are actively pursuing acquisition opportunities to expand our networks and deliver sustainable shareholder value and growth.

There is a strong pipeline of opportunities. Given recent activity, vendor price expectations for larger groups are challenging, but smaller and midsize acquisitions are achievable within our investment parameters.

Our team has a good track record of integrating businesses including Western District Radiology which was acquired in FY17. That business has integrated well, is earnings accretive, and delivering to expectations.

→ *Slide 14*

We are doing what we said we would do when we presented the FY17 results. We’re improving operational margins, managing capex, developing diagnostic centres of excellence, and actively pursuing earnings enhancing acquisitions.

→ *Slide 15*

Initiatives outlined are reflected in October YTD financial performance, providing optimism that high single digit growth in FY18 NPAT (before any transactions costs) will be achieved.

This compares to previous expectations indicated in August for NPAT to be moderately higher than FY17.

The results we expect to achieve in FY18 would not be possible without the great team at Integral Diagnostics. It is a privilege to lead such a talented and dedicated team, a number of whom are here with us today. I thank all our radiologists and staff for their continued efforts and dedication to the business, and our referrers for their faith and confidence.

Thank you for your time today. I am happy to answer any questions from shareholders.

-ENDS-

Dr Ian Kadish
Managing Director and CEO
Integral Diagnostics Limited
22 November 2017