Start of Transcript

Operator: Thank you for standing by and welcome to the Monash IVF Group Half Year Results 2019 conference call. All participants are in a listen-only mode. There will be a presentation followed by a question and answer session. If you wish to ask a question, you will need to press the star key followed by the number one on your telephone key pad. I would now like to hand the conference over to Mr Michael Knaap, interim CEO, and Mr Malik Jainudeen, interim CFO. Please go ahead.

Michael Knaap: Thank you, Lexie, and good morning to everyone and thank you for joining us today for the Monash IVF Group's FY19 first half results presentation. Our interim CFO Malik Jainudeen also joins me having previously held the role of finance and strategy manager in our group and he will be later stepping up through the detail of our half year numbers.

By way of background, Monash IVF is a market leader in women's health in our core assisted reproductive services, diagnostics and women's ultrasound services with a network of over 40 IVF clinics, ultrasound practices and service centres across Australia and Malaysia. Our heritage is such that we were there at the very conception of the assisted reproductive technology speciality, having achieved the world's first IVF pregnancy in 1973.

We will continue to break new ground with improvements in fertility care and women's imaging and diagnostics. Our network includes 106 doctors, that's both fertility specialists and phenologists, and in excess of 550 scientific, nursing, allied health and support staff.

Since our conception in the 1970s over 40,000 babies have been born with our help, and indeed today, a Monash IVF baby is born every two and a half hours and one of our patients is scanned the equivalent of over 10 minutes.

I wanted to touch on the key points of the first half of FY19 represented on page 3 of the presentation. Our NPAT exceeded guidance provided at our 2018 AGM, being 11.3% below PCP before one-off non-recurring items.

Our premium service business delivered stimulated cycles growth of 7%, excluded the impacts of now departed high volume specialist whilst the total of 15.6% growth was achieved in the combined markets of New South Wales, Queensland and South Australia.

ARS international growth through our Malaysian clinic in KL continues to deliver strong volume and earnings growth, whereby the stimulated cycle grew by 25.4% on the previous corresponding period.

Our operating priorities are well ahead of plan and beginning to deliver sustainable growth in the future. I will take you through these later. It is worth noting that our first half '19 financial result was impacted heavily by Q1 volume decline compared to the previous corresponding period due to the departure of a fertility specialist in September 2017.

Long-term funding was secured towards the end of 2018 as our syndicated debt facility was extended to January 2022. We delivered a very strong pre-tax cash conversion of EBITDA to operating cash flows of 103% compared to 85% in previous corresponding period.

We are unrelenting in continuing to focus on our premium service strategic growth intent. Our previous FY19 profit guidance has been re-confirmed in order to return to full year NPAT growth, excluding the one-off and non-recurring items, as we continue to gain positive momentum.

Furthermore, on behalf of the Board, a thorough search and recruitment process for the CEO division is well advanced. We anticipate confirmation of the appointment by the end of this financial year.

As we take a look at our long-term performance on slide 4, Monash IVF Group has a solid track record of performance against a five-year stimulated cycle industry CAGR of 1.7%. With the exception of the NPAT from the departed high-volume specialist in September 2017, we have a record of solid financial performance with strong CAGRs achieved across the key financial metrics of revenue, EBITDA and NPAT over the previous five years.

As we move onto the financial summary for the first half on slide 5. Monash IVF Group's underlying business remains solid, delivering a $10.7 million underlying NPAT and a $19.3 million underlying EBITDA, enabling continued investment in strategic and operational growth initiatives. Our revenue declined slightly by 0.3% to $77.2 million. This was a positive result when put into context with the loss of volume in Victoria due to the departed fertility specialist.

We managed to offset most part of this revenue decline by delivering price increases above market growth in Queensland, New South Wales and South Australia and particularly strong growth in our Malaysian clinic. We delivered an excellent cash conversion of 100.3% and declared a dividend of $0.03 per share for our shareholders.

As we now take a look at slide 6 to focus on our ARS Australian operational performance. In regards to volume, we delivered growth of 15.6% in stimulated cycles in the combined markets of South Australia, New South Wales and Queensland, as previously outlined. As a result, our premium service stimulated cycles excluding the impacts from our departed specialist grew by 7% compared to the PCP.

New South Wales activity showed strong growth after a successful clinic consolidation with the closure of the Mossman clinic, whereby there was a very successful transition of patients to our Bondi Junction clinic in Sydney.

Queensland Stimulated Cycle growth was derived from our premium services business, in a market that is the most competitive market in Australia. Our only low-cost clinic in the northern suburbs of Brisbane, branded MyIVF, represents less than 2% of our Australian stimulated cycles.

It gives me great pleasure to say that our comparative volumes in the second half of financial year 2019 do not include the impact of a departed fertility specialist and will be on a like-for-like basis.

Overall, Monash IVF Australian stimulated cycles declined by 3.6% compared to PCP, as a result of a decline in the Victorian stimulated cycle activity. To put our stimulated cycle volume into perspective against the second half of 2018, encouragingly we achieved 4.4% cycle growth in the first half of '19 versus the previous period, confirming the positive momentum we are carrying through into the second half of financial year 2019.

We achieved market share growth in all key markets except for Victoria, however based on the most recent Medicare data to October 2018, our Australian stimulated cycle market share declined by 1.5% to 19%. Our view remains that the long-term stimulated cycles growth rate will be approximately 2%.

Our Australia segment revenue declined by $1.4 million, or 1.9% compared to the previous corresponding period, reflecting the 3.6% stimulated cycle decline, partly offset by a 2% to 3% price increases across all our service offerings.

Fertility revenue outside of Victoria increased by 13.2% driven by the growth in the South Australia, New South Wales and Queensland markets. Australian segment EBITDA, excluding one-offs, declined by 12.2% due primarily to the ARS volume decline.

Investment aligned with progressing our strategic and operating priorities, clinician investment and increased targeted marketing activity to drive demand.

As we take a look at slide 7 where we continue to invest in our operating priorities as we have focused on delivering sustainable growth. In the field of scientific leadership, we have an unrelenting drive to ensure we deliver the best outcomes for our patients, driven by our leading researchers and scientific directors.

An example is non-invasive pre-implantation genetic screening, that has been developed, tested and patented in-house, with professor Michelle Lane leading the project. This technology will become available to all Monash IVF Group clinics this financial year.

We have created a Group Scientific Advisory Committee, which is fast tracking greater collaboration and standardisation of scientific practices and protocols, known as The Monash Way. We have executed multiple large reviews in the last six months and we will ensure this best practice initiative will be rolled out across our [unclear] network within 2019.

Furthermore, we have entered into new collaborative partnerships including artificial intelligence capability with Life Whisperer and a sperm selection device Memphasys. We are continuing to build a strong innovation pipeline.

In our pursuit of clinical excellence, we will continue to invest in quality premium facilities that exceed our patient expectations. Recent investments include refurbishment of the Clayton Fertility Clinic, additional space at the Gold Coast Fertility Clinic to cater to growth, and new consultant locations broadening our South Australian reach.

Seven new fertility specialists were recruited in FY 2018 and have contributed to strong growth achieved in South Australia and New South Wales, while still also supporting succession planning.

Attraction of new specialists is ongoing as we continue to enhance our specialist value proposition, having recently recruited three specialists while having a positive new specialist pipeline.

IT and telephony infrastructure has been upgraded, enabling increased network efficiency, stability and group collaboration, supporting our wide-spread clinic network and improving quality of patient care to enhance communication.

We have reduced our fixed cost base through the closure of an underperforming Mossman clinic in Sydney, ultimately providing a better patient experience as our patients transition successfully to the Bondi Junction clinic.

As we look to enhance our patient experience further, we have fully deployed across our network a Net Promoter System. The valuable insights gained from the NPS process drive our actions to improve our patient experience. Most importantly, the measures have improved during 2018.

Our patient experience review continues across our network, including the introduction of a new Nurse Model of Care and reduction in in-effective touch points during the patient journey, improving our service delivery. We have also delivered better patient funding solutions to increase patient access to treatment.

As we take a look at our slide 8 on our diagnostic performance, we are continuing to build our in-house diagnostic capability and develop new technologies whilst facing increased competition in the New South Wales ultrasound market. Our ultrasound scan volumes increased by 1.4% to 38,633 scans, however Sydney Ultrasound for Women scans declined by 3.2% due to greater competitive pressure as a result of an industry shift to the public health sector.

Construction has commenced and is near completion at our new state of the art flagship women's imaging clinic in Sydney CBD, with a planned opening in March. We have also refurbished our Clayton clinic in Victoria.

Our pre-implantation genetic screening and diagnosis tests decreased by 9.4%, with the relatively stable penetration of 19%. Our new technologies in the diagnostics field are headlined by our progress in the non-invasive PGS technology. Commercialisation is well-progressed with regulatory approval and roll-out expected this financial year.

To give you some understanding of non-invasive PGS technology, it is a new way of determining if an embryo has a genetic chromosomal abnormality that will prevent it from implanting or cause miscarriage. This new test extracts the DNA secreted into liquid the embryo grows in called the media culture. The DNA is then isolated from this liquid and can be tested to determine the genetic status of that embryo without any need to biopsy the embryo. We will ultimately be able to test embryos of all development age in a totally non-invasive manner.

In regards to non-invasive pre-natal testing volumes, they increased 4% to 6536 tests for the half, and the revenue generated from NIPT now represents 3.6% of our group revenue.

We are in the planning phase to broaden our genetic testing capability which will enable better patient integration on their journey from pre-conception to pre-natal genetic activities.

As you look at slide 9, our ARS international business continues to demonstrate exceptional growth, with positive momentum in all metrics, headlined by exceptional EBITDA growth versus the previous corresponding period of 53.7%.

Revenue increased by 41.4% to $5.5 million, as stimulated cycles increased by 25.4% to 518. This brings the annualised volume to approximately 1000 stimulated cycles, an excellent result in the context of being 526 annual stimulated cycles only four years ago.

EBITDA generated was $2.49 million for the first half, with the EBITDA margin percentage expanding by 3.5 percentage points to 44.9%, as we continue to leverage the cost base from the incremental volumes generated.

We were able to attract a new experienced fertility specialist to support long-term growth and succession planning, bringing our total complemented specialists to six in Malaysia. Given we have demonstrated the capacity and capability to acquire and grow services in this region, we are focusing on an Asia-Pacific expansion strategy, having identified key regional JV partners and we are continuing to explore numerous opportunities in the region.

I will now hand you over to Malik to take us through the financials.

Malik Jainudeen: Thanks, Michael. Turning to slide 11 which provides an overview of the financial results for the first half. Our performance in the half has exceeded guidance provided at the AGM, [and in] August last year as our NPAT for the half has declined by 11.3% compared to 15% before one-off items.

As noted on the slide, one-off items related to the closure to the Mossman clinic in Sydney and costs associated with CEO resignation in October last year. The accelerated depreciation on certain Mossman clinic assets of approximately $900,000 before tax post-closure. Much of the assets written off were leasehold improvements that were not transferable to other clinics.

In addition, the CEO on resignation was paid $473,000 pre-tax, reflecting his notice period terms.

I will go into further detail on the revenue [movements and EBITDA margin movements in coming slides but in summary, our revenue has remained consistent as compared to pcp

17:31] performance in markets outside of Victoria have mitigated the impacts and volumes decline in Vic. When looking at our EBITDA margin, it has declined by 2% to 25%. We had anticipated margin declines given volume declines in our Vic business, however we are seeing improvements in our margin which has increased from 23.5% in the second half of FY18 to 25% in the first half of FY19.

Just touching on our costs of funds, our interest costs increased about $200,000, our debt margins increased by 10 basis points, and the average DBSY on our variable debt higher. You will also see that our tax rate is consistent with last year.

Turning over to slide 12 which provides more detail on our revenue. The key challenge in the first half comparative to last year has been mitigating the impacts from the lost activity from the departure of the specialist in Victoria. The volume impact from this was the revenue decline of $5.9 million, or 8%.

What is really encouraging is exceptional growth numbers were achieved in other markets, including Malaysia which has bridged the gap in the revenue. As Michael noted earlier, the combined stimulated cycle growth rate in South Australia, New South Wales and Queensland was 15.6%.

We also increased pricing during the period in our premium service business, which generated additional revenue of $1.2 million. Our Malaysian clinic contributed an additional $1.6 million, or 2.1% of revenue in the half. Stimulated cycles were up by 25% with this clinic now demonstrating growth year-on-year since acquisition in 2013.

Income from other revenue streams contributed an additional $300,000 of revenue, with this derived primarily from our day surgery unit in South Australia, which is largely driven by fertility activity. Our ultrasound business grew volumes by 1% in the half, with good growth experienced at our Melbourne business.

Turning over to slide 13 which provides some details on movements in our margin. While the EBITDA margin is down compared to PCP, we have seen margins that have been compared to the second half of last year. It should be noted that the comparison for the second half of last year is like-for-like, as the impact from the doctor departure has washed through a full 12 months since 1 January 2018.

Just to clarify which slide we're on, it's slide 13. This improvement is driven by the leverage benefits of high volumes, as we've seen an increase of approximately 250 cycles more than cycles performed in the six-month period from January to June 2018.

Market expenditure has increased compared to last year, which has been effective in driving an increase in marketing leads and a lower cost period. As Michael noted on slide 7, we have invested in our operating priorities but particular financial investments have been made in developing our NIPGS capability, cost to recruit new specialists into our New South Wales, South Australian and Malaysian clinics, which has supported the growth numbers achieved in these markets.

There has been further investment in clinical and scientific process improvements, which are anticipated to deliver improved patient satisfaction and outcomes. Given the volume declines in our Vic business we have adjusted our cost base in Victoria to align with volumes. Going forward, we anticipate seeing comparable margins period-on-period.

Turning over to the next slide. This provides a summary of our balance sheet position and metrics at December. We generated strong operating cash flows which have allowed us to repay $5 million of bank debt during the six months. As a result, our net debt has reduced has to $88.4 million, which in turn has reduced our net leverage ratio to 2.36 times. This is an improvement of 10 points in the six months.

In addition, we have extended our $150 million syndicated debt facility, noting $66 million facility was due to in June 2019. Our facility is now due in January 2022 and our existing lenders will continue to support the business going forward.

Our debt capacity has not changed under the new terms of the facility, so we have $22 million plus a third of $40 million in the according [unclear] for any acquisitions or capital expansion plans. Our covenant ratios are well within our covenant requirements and it should be noted that our covenants have not changed from amending the facility.

As Michael noted earlier, we have declared a $0.03 fully franked interim dividend which is in line with our Group policy and considering our cash flows over the short term.

Turning over the next slide, which provides an overview of our strong cash flow generation during the six months. Our post-tax operating cash flows increased by 28% to $15.8 million. This was an excellent EBITDA cash conversion of 100.3% compared to 85% this time last year. Whilst statutory EBITDA was down by 9.8%, our pre-tax operating cash flows have increased by $1.1 million, that's 6.2%, and encouragingly, this is driven by the improvement in receipts from our patients.

CapEx during the period has been lower which is due to timing and also finding efficiencies in how we improve and continue to develop our patient management system. In saying this, we do expect to continue to invest and this will be evident in higher CapEx in the second half.

Planned CapEx programs are focussed on our new ultrasound clinic in the Sydney CBD, as well as expecting replacement programs, including ultrasound machines and lab work stations. Further CapEx will be made in our fertility patient management system, as we improve work flows, processes and digitisation that will be enabled through our patient management system. The outcome of these cash flow movements has resulted in increased free cash flow of 46.3%, which is additional free cash of $4.4 million.

I will now hand you over back to Michael to detail the Group strategy.

Michael Knaap: Thank you, Malik. As we encounter the strategy and outlook section of the presentation, can I refer you to slide 17 as we take a look at our strategic priorities where our strategy to take us into the future remains consistent and focused.

Our strategic priorities are driving our activities to stimulate growth and create sustainable shareholder value. We will remain focused on our premium fertility offering for women and men, including providing holistic fertility solutions. We are increasing integration of our fertility and diagnostics operations and broadening the diagnostic service offering.

We are establishing a more balanced business portfolio across Australia and are focused on under penetrated markets such as New South Wales and Queensland.

We are pursuing international opportunities, mainly in the Asia Pacific region. As we move onto our operational priorities on slide 18 we continue to focus on our operating priorities of patient experience, clinical excellent and scientific leadership, which is all underwritten by our people and their engagement.

Scientific leadership is about advancing good science and innovative technology to improve the patient experience, our clinical practices and most important to support our market leading success rates.

Clinical excellence is focused on partnering with our clinicians to deliver a superb clinical operation, we continue to strengthen our partnership with our clinicians and recruit new clinicians to expand our operations in Australia.

Our patient experience provides for an empowering, convenient and consistent experience throughout the fertility journey. We are fortunate to have world renowned specialised clinicians, nurses, scientists and an incredible support team, all dedicated to assist people to have healthy children and grow a family. We will continue to attract and retain the most talented people.

If you turn to slide 19 this provides a real flavour of some of the operating priorities initiatives that have been progressed in order to deliver longer term sustainable growth in our organisation. Although many of these have been outlined in the early operational performance updates, I will just touch on those not previously commented on.

In the field of scientific leadership, to complement previously identified projects we are well advanced on multiple time-lapse incubated trials, we continue to build a stronger R&D framework supported with focused investment ensuring that we have a robust pipeline of exciting innovations and advancements.

A key element to clinical excellence is to enhance our clinician value proposition and engagement, including two-way information and communication forums, support to build their business and ensuring the symbiotic relationship is at its strongest.

In regards to the patient experience, we have established a 24/7 telephone service so that people can contact us at their convenience. We recently launched a new mobile website whilst constantly focusing on website enhancement and we plan to launch a dedicated patient app in the new term.

Digital solutions and engagement with our patients is a key element of providing an improved patient experience.

If you turn to page 20 and take a look at our outlook statement for FY19 that in effect concerns our guidance statement, we provided at our 2018 AGM. We anticipate moderate underlying full year FY19 NPAT growth compared to the previous corresponding period, before $1 million of one-off non-recurring expenditure.

This is subject to the ARS market growth at approximately 2% in the second half of '19, as well as our market share improving as compared to PCP. As a result, we anticipate returning to NPAT growth of greater than 15% in the second half of 2019 as compared to the previous corresponding period.

So with that said, I will bring a close to the formal part of the presentation and Malik and I are happy to move to Q&A. Thanks, Lexie.

Operator: Thank you. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star two. If you are on a speaker phone, please pick up the handset to ask a question.

Your first question comes from Sean Laaman from Morgan Stanley. Please go ahead.

Sean Laaman: (Morgan Stanley, Analyst) Good morning, Michael, I hope you are well. Michael, are you able to give us a bit of granularity on what you observed in Victoria in the September quarter versus the December quarter if you are able?

Michael Knaap: Yes, we lost approximately about 350 cycles from the departure of a clinic fertility specialist, which most of those occurred in the first quarter, there were some residual impacts in the second quarter as we maintained some of these cycles. But it is a lot more of a flat result in Victoria in the second quarter versus the first quarter where there were significant declines as a result of the departing of the fertility specialist.

Sean Laaman: (Morgan Stanley, Analyst) Thanks, Michael, and on the 4.4% sequential growth in cycles, just to clarify that is Australia-wide.

Michael Knaap: That is Australia-wide, yes.

Sean Laaman: (Morgan Stanley, Analyst) It would be fair to say that Victoria outpaced the rest of the states in that sequential growth analysis?

Michael Knaap: We lost a fair amount of the volume in the second half of last financial year, so Victoria was actually pretty flat. A lot of the growth came from, as we have talked about, the South Australian, Queensland and New South Wales markets.

Sean Laaman: (Morgan Stanley, Analyst) Right, and on the non-invasive PGS, is that a replacement - like is it almost 100% replacement of the invasive testing?

Michael Knaap: Ultimately it will head to that, Sean, but in the first instance we will go through a transition process within the organisation. But I would expect that the invasive technology will be redundant technology over the next couple of years.

Sean Laaman: (Morgan Stanley, Analyst) Great. That's all the questions I have, Michael. Thank you.

Michael Knaap: Thank you.

Operator: Thank you. Once again, if you wish to ask a question please press star one on your telephone and wait for your name to be announced. Your next question comes from David Stanton from CLSA, please go ahead.

David Stanton: (CLSA, Analyst) Good afternoon and thanks for taking my questions. I wondered if we could start by asking a little bit about the implied revenue decline in percentage terms that we must have seen in Australian diagnostics and/or Australian ultrasound on PCP. Can you give us some colour on that please?

Malik Jainudeen: David, it's Malik here. As we have noted previously, we [haven't] been transparent with separation of our revenues outside of Australia in terms of split between fertility and our ultrasound business, but our ultrasound business has been pretty flat. The actual volumes are up by about 1%, but it's safe to say that actual absolute revenue number is pretty flat on prior year.

David Stanton: (CLSA, Analyst) Thank you. Can I get some colour as to why there has been a shift in the ultrasound to the public sector for the Sydney clinic?

Michael Knaap: For our Sydney clinics with the private obstetric markets, there has been quite a significant decline, I think close to double figures in private obstetrics volume. So therefore, there has been a shift to the public sector. That has implicated our volumes in the ultrasound market in Sydney as a key referrer was private obstetrics, given we are at the premium end of the market.

The other important aspect is that complex obstetrics, Medicare data suggests that that has declined by around about 7% as well. Clearly given we are at the top end of the market, we specialise in complex cases so that is also having a deflation on our scans volume.

Malik Jainudeen: Just touching on that, David, our Melbourne business hasn't seen that fluctuation in volumes, so the Melbourne business is going pretty well, particularly down in the South East. So we have seen some differences between the Melbourne and Sydney markets.

David Stanton: (CLSA, Analyst) Fair enough. CapEx, you mentioned the CapEx would be higher in the second half, can you give us some kind of metrics around that for the second half please?

Malik Jainudeen: David, so probably assume about $3 million to $4 million in the second half, there was just a bit of timing in the first half [unclear] look to replenish some of our office and our machines particularly in the second half, as well as the new clinic in Sydney as well. Then we've got some assets, particularly in Victoria in our fertility business that are due to replacement as well. So expect about $3 million or $4 million.

David Stanton: (CLSA, Analyst) Great. I'm really interested to hear your views on the increase that you have seen ex Victoria. What could you put your finger on in terms of the reasons for that? It can't all just be down to new specialists, what have you been doing differently? Thanks.

Michael Knaap: I think, look, a big part of it is specialists, in particular in the New South Wales market and South Australia market. In New South Wales we had a new doctor that is extremely driven to grow his practice and has been very, very dynamic in his business development, supported by us to grow business significantly in that particular market. Supported heavily by some other clinicians that are very, very hungry for growth.

Some of the things we're doing differently is engaging heavier on the various social media digital platforms and engaging heavier with referrers, particularly GP through communication sessions, information sessions with GPs.

If I look at the South Australian market, we again recruited fertility specialists and have had some sort of targeted programs around those specialists and around our brands from a marketing perspective. But the other element that is important is from I guess a pricing perspective, a key competition in that market is Flinders, who have changed their pricing metrics to be nearly the double out-of-pocket number that it was previously, so that has also had a positive influence on us.

Probably just touching on the Queensland market again, we have a very strong Gold Coast clinic heavily driven PR activity in that particular region as well and that's driven a great deal of the volume, particularly in the Gold Coast clinic.

David Stanton: (CLSA, Analyst) Thank you.

Operator: Thank you. Once again, if you wish to ask a question please press star one on your telephone and wait for your name to be advanced. Your next question comes from Andrew Bolland from Salt Funds Management. Please go ahead.

Andrew Bolland: (Salt Funds Management, Analyst) G'day, guys. I joined the call late so apologies if you have covered this, but just keen to get a sense if you can provide any at all as to the changing landscape and the low-cost sector and whether that has had much movement over the last six months or perhaps since last time we spoke.

Michael Knaap: It's flattened out in the Queensland market, for New South Wales market and Victoria, although Virtus did state last week that they had grown their low cost offer by around about 17% from memory, so they are having a positive impact in the costs.

Victoria, there's still some momentum being gathered from Primary but there was strong growth in Victoria, so we see that 7% growth that was demonstrated to October heavily driven by Primary and also The Fertility Centre which I believe are delivered both in the Victorian markets. So look, the pleasing thing, and I often refer to the Queensland market which is the most competitive market in Australia, where Primary and other low-cost providers are quite prevalent in that particular market, we still managed to deliver growth of approximately 10% in Queensland in our Premium Fertility services.

So we are still strongly of the view that both low cost and premium service in IVF can co-exist and in fact, you can still drive premium IVF services growth comparable to the long-term industry growth date of 2%.

Andrew Bolland: (Salt Funds Management, Analyst) Sure, and just the other comment, and again I might have misheard you, but did you make the comment around the possibility of pursuing growth beyond Australia, in the Asia Pac region and presumably that would be of an acquisitive nature. Could you just put that colour around that please?

Michael Knaap: Yes, the Asia Pac region whereby we have a business development manager in the Singapore area and given our history with success with the Malaysian clinic we are targeting that region.

Look, the nature of those growth opportunities is probably more about joint ventures and partnerships with various hospitals, well-established hospitals, which have credentialled clinicians within their network whereby we can provide the scientific and process and system expertise to complement them starting up in IVF services in South East Asia.

They are still very underpenetrated markets, so it is more likely going to be joint ventures and partnerships as opposed to straight acquisitions, Andrew.

Andrew Bolland: (Salt Funds Management, Analyst) Sure thing. Just touching lastly on Malaysian business, what should we be expecting there in terms of legs of growth to that business from here? Obviously still off of a small base but good pipeline I imagine.

Michael Knaap: Look, clearly there has been a significant step change in growth over the last 18 months, clinicians and new clinic based. We sort of expect over the longer term, given it is still a fair lowly penetrated market versus Australia, with no government funding, we still need to deliver that sort of mid-teen sort of growth over the longer term.

Andrew Bolland: (Salt Funds Management, Analyst) Very good. Thanks very much.

Michael Knaap: Thanks, Andrew.

Operator: Thank you. Your next questions is a follow-up question from David Stanton at CLSA. Please go ahead.

David Stanton: (CLSA, Analyst) Thanks, I'll waste your time by asking some more questions if that is all right. Just a couple of housekeeping ones, interest expense for the second half or even the full year, second half compared to the first half and then tax rate we should be thinking for F19 please.

Malik Jainudeen: Yes. So, Dave, as I mentioned in my section, we've refinanced our facility or extended the terms of our facility for another three years, so we are essentially going to take up the three year pricing that was applicable in December. So we previously had four and five year money in there as well, so our previous four and five year money is pretty comparable to the current three year, whilst the $66 million that we had to refi by June, and we were probably looking at about 25 basis points more on the three year money.

So on average, it probably landed in the high teens in terms of basis point increase, so you will probably expect to see about 0.1 or 0.2 of a million increase in our funding costs in the second half.

David Stanton: (CLSA, Analyst) Thank you, and tax? Tax rate for the year.

Malik Jainudeen: Sorry, David. On the tax rate comparable half and half as well as PCP.

David Stanton: (CLSA, Analyst) Thank you.

Operator: Thank you, there are no further questions at this time. I will now hand back to Mr Knaap for closing remarks.

Michael Knaap: Thank you all for participating in the call with Malik and I, along with our COO Brett Comer who will joining us on the road shows, and we look forward to catching up with many of you over the following weeks.

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