

Thursday 26 August 2021

ACL FY21 FINANCIAL RESULTS

The following announcements to the market are attached:

FY21 Appendix 4E

- ✓ FY21 full year financial statements and statutory reports, including the FY21 directors' report and operating and financial review

FY21 financial results investor presentation

– ENDS –

This announcement was authorised for release to ASX by the Board of ACL. For further information regarding this announcement, please contact:

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About Australian Clinical Labs

ACL is a leading Australian private provider of pathology services. Our 86 NATA accredited laboratories perform a diverse range of pathology tests each year for a range of clients including doctors, specialists, patients, hospitals and corporate clients. ACL is one of the largest private hospital pathology businesses nationally. ACL is focused on its mission of combining talented people, and medical and scientific leadership, with innovative thinking and technologies to empower decision making that saves and improves patients' lives.



Financial Report
For the year ended 30 June 2021

ACN 645 711 128

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The Directors of Australian Clinical Labs Limited (referred to as “Clinical Labs”, “ACL” or “the Company”) present their Report for the financial year ended 30 June 2021 (referred to as “the year”) accompanied by the Financial Report of Australian Clinical Labs Limited and the entities it controlled (referred to as “the Group”) from time to time during the year. Pursuant to the requirements of the **Corporations Act 2001** (Cth) (Corporations Act), the Directors’ Report follows:

1. Directors

ACL was incorporated on 6 November 2020 as ACL HoldCo Pty Ltd, in anticipation of its IPO. On 8 March 2021, ACL HoldCo Pty Ltd became an unlisted public company, before changing its name to Australian Clinical Labs Limited on 23 March 2021. ACL was then admitted to the ASX on 14 May 2021. Prior to the IPO, the business of the Company was operated through a different corporate vehicle, Clinical Laboratories Pty Ltd ACN 006 823 089. Clinical Laboratories Pty Ltd is now a wholly owned subsidiary of ACL but remains the primary operating vehicle of ACL. Further information on the corporate restructuring that took place as part of the IPO is set out in Section 8 below.



The following persons were Directors of the Company during the year (or, where indicated, during part of the year) and/or up to the date of this Report:

Current Directors	Position	Date Appointed	Date Resigned
Michael Alscher	Non-Executive Director	19 December 2020	–
Melinda McGrath	Chief Executive Officer and Executive Director	19 December 2020	–
Nathanial Thomson	Non-Executive Director	19 December 2020	–
Andrew Dutton	Independent Non-Executive Director	28 April 2021	–
Dr Leanne Rowe AM	Independent Non-Executive Director	28 April 2021	–
Dr Michael Stanford AM	Independent Non-Executive Director	28 April 2021	–
Mark Haberlin	Independent Non-Executive Director	28 April 2021	–
Past Directors			
Peter Lyon-Mercado	Non-Executive Director	6 November 2020	19 December 2020
Dr Shane Kelly	Non-Executive Director	19 December 2020	27 January 2021
Michael Lukin	Non-Executive Director	19 December 2020	28 April 2021
Joel Mahemoff	Non-Executive Director	19 December 2020	28 April 2021
James Davison	Executive Director	19 December 2020	19 December 2020

Directors' Report

for the year ended 30 June 2021

1. Directors (continued)



Name	Expertise, experience and qualifications
 <p>Michael Alscher <i>Non-Executive Director Chairman</i></p>	<p>Mr Michael Alscher was appointed Chair of ACL's predecessor corporate vehicle Clinical Laboratories Pty Ltd in 2015 following its acquisition by Crescent Capital Partners in 2015. Michael was appointed a Director of ACL on 19 December 2020 and Chair of ACL as part of the IPO process on 19 December 2020.</p> <p>Michael is the Managing Partner and founder of Crescent, a leading Australian private equity investment firm, specialising in high growth companies and certain industry sectors such as healthcare.</p> <p>Michael is the current Chair of Cardno Limited, National Dental Care Limited, National Home Doctor Service Pty Ltd and is a Non-Executive Director of Clearview Wealth Limited. Michael's former director roles include Chair of Cover-More Group Limited, LifeHealthcare Group Limited and Director of Metro Performance Glass Limited.</p> <p>Prior to founding Crescent in 2000, Michael was a strategy consultant at Bain International and LEK Partnership as well as holding several senior operating roles.</p> <p>Michael holds a Bachelor of Commerce (Finance and Mathematics) Degree from the University of New South Wales.</p>
 <p>Melinda McGrath <i>Chief Executive Officer and Executive Director</i></p>	<p>Ms Melinda McGrath has been the Chief Executive Officer and Executive Director of ACL's predecessor corporate vehicle, Clinical Laboratories Pty Ltd since 2015. Melinda was appointed an Executive Director of ACL on 19 December 2020. Melinda has more than 30 years' experience in healthcare with over 20 years of experience in chief executive roles and over 13 years of experience in pathology CEO roles.</p> <p>Melinda has played a lead role in the organisation's transformation, building ACL's scale and operational performance improvement over the past six years, overseeing the integration of Healthscope's Australian pathology business, St John of God Health Care's pathology business, Perth Pathology and SunDoctors. She has also driven the establishment of one performance oriented culture across the organisation, via one unified integrated pathology system.</p> <p>Melinda was Chief Executive Officer of QML Pathology (part of Healius) from 2008 to 2015, where she developed five QML brands and established Tasmania Medical Laboratories. Prior to that, Melinda held various chief executive roles at private regional and tertiary referral hospitals in Queensland including The Sunshine Coast Private Hospital, St Andrew's War Memorial Hospital and St Stephens Private Hospital.</p> <p>Melinda has held board member positions at Metro North Hospitals and Health Service including Royal Brisbane, Prince Charles, Redcliffe, Caboolture and related health services; and a superannuation fund, UC Super.</p> <p>Melinda holds a Bachelor of Human Movement Studies Degree and a Bachelor of Arts Degree from the University of Queensland, a Master of Business Administration from the University of Central Queensland, and a Certificate in Governance Practice from the Governance Institute of Australia.</p>

Name	Expertise, experience and qualifications
 <p>Nathaniel Thomson <i>Non-Executive Director Member – Nomination and Remuneration Committee</i></p>	<p>Mr Nathaniel Thomson has been a Non-Executive Director of ACL’s predecessor corporate vehicle, Clinical Laboratories Pty Ltd, since April 2018. Nathaniel was appointed a Non-Executive Director of ACL on 19 December 2020.</p> <p>Nathaniel is a Partner at Crescent, a leading Australian private equity investment firm. Nathaniel has over 20 years of experience in strategy consulting, private equity and investment banking. He has significant consulting experience from his prior role at McKinsey & Co.</p> <p>Nathaniel is a current Director of Cardno Limited, National Dental Care Limited, Clearview Wealth Limited and National Home Doctor Service Pty Ltd. Nathaniel’s former director roles include Deputy Chair of Cover-More Group Limited and a Non-Executive Director of Metro Performance Glass Limited.</p> <p>Nathaniel holds a Bachelor of Commerce Degree and Bachelor of Laws Degree from the University of Western Australia.</p>
 <p>Andrew Dutton GAICD <i>Independent Non-Executive Director Chair – Nomination and Remuneration Committee Member – Audit Committee</i></p>	<p>Mr Andrew Dutton has been a Non-Executive Director of ACL since 28 April 2021.</p> <p>Andrew has 30 years of management, business development and technology experience across Australia, Asia and Europe.</p> <p>Andrew is the current Chair of Land Registry Services and was recently an Advisor to FinancialForce APJ. He has had extensive Chief Executive Officer and Board experience globally and within Australia.</p> <p>Andrew’s former roles include Chair of NVOI Pty Ltd and SAI Global Pty Ltd; Chief Executive Officer at Land Registry Services and Integrated Research Limited; Managing Director of the Asia Pacific/Japan region for VMware Inc.; and senior executive positions at IBM, Computer Associates, BEA Systems Inc., Lend Lease and Norwich Union Financial Services Group including roles as CFO, CMO, CRO and Divisional Heads. At IBM, Andrew was elected to the Worldwide Senior Leadership Team.</p> <p>Andrew holds a Bachelor of Science Degree from the University of Sydney and is a member of the Australian Institute of Company Directors.</p>
 <p>Dr Leanne Rowe AM, MD, MB BS, FRACGP, FAICD, HonLLD Monash <i>Independent Non-Executive Director Member – Nomination and Remuneration Committee Member – Risk Committee</i></p>	<p>Dr Leanne Rowe has been a Non-Executive Director of ACL since 28 April 2021.</p> <p>Leanne is a clinical professor and medical practitioner with over 30 years of clinical experience in the public and private health systems across acute care, aged care, mental health and community health.</p> <p>Leanne is currently Chair of Nexus Hospitals and a Non-Executive Director of Japara Healthcare Limited, Doctor Care Anywhere Group PLC, the Medical Indemnity Protection Society and MIPS Insurance. Previously she was Chair of the Royal Australian College of General Practitioners and a Non-Executive Director of Medibank Private, I-MED Radiology Network, GMHBA, Australian Health Management, Barwon Health and Beyond Blue.</p> <p>Leanne is a former Deputy Chancellor of Monash University and has been awarded a Doctor of Laws (Honoris Causa) for her services. Leanne has also received a Member of the Order of Australia for her services to medicine and is a Fellow of the Royal Australian College of General Practitioners and the Australian Institute of Company Directors.</p> <p>Leanne holds a Doctor of Laws (Honoris Causa), Doctor of Medicine and a Bachelor of Medicine Degree and Bachelor of Surgery Degree from Monash University.</p>

Directors' Report

for the year ended 30 June 2021

1. Directors (continued)

Name	Expertise, experience and qualifications
 <p>Dr Michael Stanford AM, MB BS, MBA, FAICD <i>Independent Non-Executive Director</i> <i>Chair – Risk Committee</i> <i>Member – Audit Committee</i></p>	<p>Dr Michael Stanford has been a Non-Executive Director of ACL since 28 April 2021.</p> <p>Michael has over 25 years of Non-Executive Director experience across a range of industries including healthcare services, diagnostics, biotech, pharmaceutical, property, aged care and higher education.</p> <p>Michael is the current Chair of Diabetes Australia, an Independent Non-Executive Director of NorthWest Healthcare Property Management Limited and Nucleus Network Limited, and a Senior Advisor at Medibank Private Limited.</p> <p>Michael's former roles include Non-Executive Director for ACL between 2016 and 2019, Healthscope Limited, Virtus Health Limited, and Deputy Chancellor of Curtin University. He was in Group Chief Executive Officer roles for 23 years including 16 years at St John of God Health Care. Michael has also received a Member of the Order of Australia for his service to the health sector, to tertiary education and in the community of Western Australia.</p> <p>Michael holds a Bachelor of Medicine Degree and Bachelor of Surgery Degree from the University of New South Wales and a Master of Business Administration from Macquarie University. Michael is also a fellow of the Australasian Institute of Company Directors and was formerly a specialist in public health medicine.</p>
 <p>Mark Haberlin <i>Independent Non-Executive Director</i> <i>Chair – Audit Committee</i> <i>Member – Risk Committee</i></p>	<p>Mr Mark Haberlin has been a Non-Executive Director of ACL since 28 April 2021.</p> <p>Mark has over 25 years of audit, risk management, capital transactions and mergers and acquisitions experience across industries including healthcare, real estate and financial services.</p> <p>Mark is the Lead Independent Director and Chair of the Audit and Risk Committee of Abacus Property Group. Mark is also an Independent Non-Executive Director and the Chair of the Audit and Risk Committee of Laybuy Group Limited. Previously, Mark was the Chair of PwC Australia and PwC's Public Reporting Panel, as well as a Director of the European Australia Business Council and PwC Asia Pacific.</p> <p>Mark holds a Bachelor of Science (Civil Engineering) (Honours) from Imperial College London and qualified as a Chartered Accountant in the United Kingdom.</p>

2. Directorships of other listed companies

The following table shows, for each Director, all directorships of companies that were listed on the ASX, other than the Company, from 30 June 2018, and the period for which each directorship has been held:

Director	Listed Entity	Period Directorship Held
Michael Alscher	Cardno Limited	November 2015 – present
	ClearView Wealth Limited	November 2018 – present
	Intega Group Limited	August 2019 - present
Melinda McGrath	–	–
Nathanial Thomson	Cardno Limited	May 2016 – present
	ClearView Wealth Limited	October 2012 – present
Andrew Dutton	NVOI Limited	June 2016 – June 2019
Dr Leanne Rowe AM	Japara Healthcare Limited	July 2019 – present
	Doctor Care Anywhere Group PLC	September 2020 – present
Dr Michael Stanford AM	Healthscope Limited	March 2018 – June 2019
	Virtus Heath Limited	September 2019 – February 2021
Mark Haberlin	Layby Holdings Limited	April 2020 – present
	Abacus Property Group	November 2018 – present

3. Meetings of Directors and Board Committees

The number of meetings of the Board and each of the Board Committees are shown below. Board meetings are shown for the period 9 March 2021 (being the date that ACL HoldCo Pty Ltd became a public company) and 30 June 2021. Committee meetings are shown for the period 14 May 2021 (ASX listing date when the Committees commenced) and 30 June 2021.

From time to time, Directors attend meetings of Committees of which they are not currently members; however, only attendance by Directors who are members of the relevant Committee are shown below:

Current Directors	Board of Directors		Audit Committee		Remuneration and Nomination Committee		Risk and Management Committee	
	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
Michael Alscher	4	4	–	–	–	–	–	–
Melinda McGrath	4	4	–	–	–	–	–	–
Nathanial Thomson	4	4	–	–	1	1	–	–
Andrew Dutton	3	3	1	1	1	1	–	–
Dr Leanne Rowe AM	3	2	–	–	1	1	1	1
Dr Michael Stanford AM	3	3	1	1	–	–	1	1
Mark Haberlin	3	3	1	1	–	–	1	1
Past Directors								
Michael Lukin	2	1						
Joel Mahemoff	2	2						

Further meetings occurred during the year on specific issues, including meetings of the Chairman with the CEO and meetings of Directors with management.

Directors' Report

for the year ended 30 June 2021

4. Directors relevant interests in shares

The following table sets out the relevant interests that each Director has in the Company's ordinary shares as at the date of this report:

Director	Ordinary Shares	Performance Rights
Michael Alscher	250,000	–
Melinda McGrath	2,791,473	247,252
Nathanial Thomson	–	–
Andrew Dutton	80,000	–
Dr Leanne Rowe AM	37,500	–
Dr Michael Stanford AM	30,000	–
Mark Haberlin	25,000	–

5. Company Secretary

Eleanor Padman was appointed Company Secretary on 28 April 2021. Eleanor is a graduate of the University of Oxford and a corporate lawyer and governance expert with more than 25 years' experience gained in the UK and Australia. During the last 10 years Eleanor has held the roles of General Counsel, Company Secretary and Head of Risk and Compliance at various ASX-listed companies. Eleanor established her own boutique advisory business in 2019 and provides corporate governance services to ACL, as well as acting as Company Secretary to the Board and its Committees. Eleanor combines multi-disciplinary technical abilities with a strong commercial approach and a focus on promoting sound corporate governance. Eleanor is a Fellow of the Governance Institute of Australia, a Graduate of the Australian Institute of Company Directors and has held executive director positions on various public companies as well as having been the Chair of the Sydney Airport Trust (part of the ASX-listed stapled security for Sydney Airport Limited).

6. Principal Activities

During the year the principal continuing activity of the Group was the provision of pathology diagnostic services.

7. Operating and Financial Review

In line with the Prospectus dated 28 April 2021 all financial information reported below are on a pro forma basis. In particular, pro forma adjustments have been made to reflect the following:

- The estimated application of AASB 16 *Leases* (which came into effect in FY20) as if it had been applied by ACL from FY18 onwards. This adjustment has no net cash flow impact;
- The inclusion of the normalised historical results of SunDoctors;
- The removal of non-recurring integration and transaction related expenses incurred by ACL;
- The removal of the net impact of the non-recurring benefit of the JobKeeper Payments received by ACL, as well as the net impact of the JobKeeper Payments repaid by ACL;
- The capital structure in place post the Offer;
- The removal of the impact of the Offer Costs;
- ACL's estimate of the incremental annual costs associated with being a publicly listed company;
- The removal of the income statement benefit of the recognition of carried forward income tax losses from prior years recorded in FY20, net of the inclusion of income tax expense based on the effective income tax rate of 30% expected to be applicable going forward; and
- The income tax effect of the applicable pro forma adjustments noted above, based on the pro forma effective income tax rate of 30% expected to be applicable going forward.

Key financial highlights in the financial year ended 30 June 2021 include:

- Total revenue increased by 29% to \$674.4m. This compared with the pro forma Prospectus revenue forecast of \$647.0m (4.2% outperformance).
- Earnings before interest, tax, depreciation and amortisation (**EBITDA**) increased by 98.4% to \$230.7m. This compared with the pro forma Prospectus EBITDA forecast of \$207.7m (11.1% outperformance).
- Earnings before interest and tax (**EBIT**) increased by 373.0% to \$140.0m. This compared with the pro forma Prospectus EBIT forecast of \$119.3m (17.4% outperformance).
- Net profit after tax (**NPAT**) increased 659.1% to \$88.7m. This compared with the pro forma Prospectus NPAT forecast of \$74.5m (19.2% outperformance).
- Pro forma Net cash flow of \$97.2m which was 21.3% higher than the Prospectus forecast of \$80.2m.
- Cash EBITDA to Operating cash flow conversion of 101.4%.
- Net debt excluding lease liabilities decreased by 31.3% to \$64.1m.
- Earnings per Share of 58.35 cents. This compared with the pro forma EPS forecast of 48.95 cents (19.2% outperformance).

ACL achieved revenue growth for the year of 29.0% which was a combination of both the increased response to the COVID-19 pandemic but also a return of non-COVID-19 revenue which grew 6.3% for the year. Non-COVID-19 revenue growth for ACL in the first half declined by 0.7% impacted by the 112-day lockdown in Victoria with the Victorian business recording a 5.4% reduction in revenue versus the rest of the business which recorded 3.2% growth. Revenue growth in the second half, whilst still impacted by snap lockdowns and movement restrictions, was 14.0% with both Victoria and other States overall recording strong levels of growth.

During the year ACL has continued to benefit from the investment it has made in its systems and processes to leverage further operational efficiencies with operating costs (excluding consumables) increasing \$4.7m or 1.5% for the year. Labour efficiency as measured by episodes per full-time equivalent (FTE) increased 15.7% for the year.

The combination of revenue growth, cost control and operating efficiency gain has enabled the business to increase its EBITDA margin post AASB 16 to 34.2% (AASB 117 21.3%).

NPAT for the year at \$88.7m was 19.1% above Prospectus forecast and 6.0% above the midpoint of the guidance upgrade issued on 3 June 2021.

The low working capital requirements for the business enabled conversion of Cash EBITDA to Operating cash flow of 101.4%. Similarly, the business generated Net cash flow of \$97.2m which was 9.5% higher than the NPAT of the business of \$88.7m. Due to the outperformance against forecast and improved cash conversion ACL increased its cash balance to \$35.2m.

ACL strengthened its balance sheet with debt ratios comfortably within bank covenants. Total Net debt excluding lease liabilities decreased 31.3% to \$64.1m and Net debt (excluding lease liabilities)/FY21 EBITDA (AASB 117, excluding non-cash items) was 0.4x in comparison to 0.8x in the Prospectus.

AASB 16 right of use assets and associated lease liabilities increased during the year due to longer-term options on a number of key sites being exercised.

Capital expenditure for the year of \$9.5m included growth capital to support increased capacity and the expansion into Queensland.

Directors' Report

for the year ended 30 June 2021

7. Operating and Financial Review (continued)

Pro forma Profit and Loss for the financial year ended 30 June 2021

AUD in millions	FY21		FY20		Growth	
	Pro forma	Prospectus	Pro forma	Prospectus	FY20	
Pathology revenue	655.0	629.1	505.5			
Clinic revenue	13.9	14.1	13.1			
Patient revenue	668.8	643.2	518.7			
Other revenue	5.6	3.8	4.1			
Total revenue	674.4	647.0	522.8	4.2%	29.0%	
Consumables	(121.9)	(116.7)	(89.4)			
Labour costs	(253.1)	(254.5)	(247.3)			
Property costs	(14.8)	(15.3)	(14.0)			
Repairs and maintenance	(7.0)	(6.8)	(6.8)			
Other operating expenses	(46.9)	(46.1)	(49.0)			
Total operating costs (excluding consumables)	(321.8)	(322.6)	(317.1)			
Total operating costs	(443.7)	(439.3)	(406.5)			
EBITDA	230.7	207.7	116.3	11.1%	98.4%	
Depreciation	(11.1)	(10.8)	(12.5)			
Depreciation AASB 16	(79.4)	(77.4)	(74.0)			
Depreciation	(90.5)	(88.3)	(86.5)			
Amortisation of acquired intangible assets						
Amortisation of acquired intangible assets	(0.2)	(0.2)	(0.2)			
EBIT	140.0	119.3	29.6	17.4%	373.0%	
Interest on loan	(1.8)	(1.6)	(1.6)			
Amortisation of capitalised borrowing cost	(0.4)	(0.3)	(0.3)			
Interest AASB 16	(11.1)	(11.0)	(11.0)			
Net finance expense	(13.2)	(12.9)	(12.9)			
PBT	126.8	106.4	16.7	19.2%	659.1%	
Tax expense	(38.0)	(31.9)	(5.0)			
NPAT	88.7	74.5	11.7	19.2%	659.1%	
<i>EBITDA margin</i>	<i>34.2%</i>	<i>32.1%</i>	<i>22.2%</i>	<i>211 bps</i>	<i>1197 bps</i>	
<i>EBIT margin</i>	<i>20.8%</i>	<i>18.4%</i>	<i>5.7%</i>	<i>233 bps</i>	<i>1510 bps</i>	

Balance Sheet as at 30 June 2021

AUD in millions	FY21		FY20
	Pro forma	Prospectus	Pro forma
Cash and cash equivalents	35.2	10.0	34.8
Trade and other receivables	63.0	53.7	63.3
Inventories	13.4	14.2	10.5
Other assets	5.7	6.4	3.5
Total current assets	117.2	84.3	112.1
Plant and equipment	42.3	41.1	38.6
Right-of-use assets	186.7	153.5	155.5
Goodwill and other intangibles	112.9	103.5	35.7
Other financial assets	0.0	1.0	1.0
Deferred Tax Assets	15.6	23.3	23.2
Non-current assets	357.5	322.4	254.0
Total assets	474.7	406.7	366.1
Trade and other payables	(42.6)	(40.0)	(32.8)
Borrowings	0.2	0.3	–
Lease liabilities	(70.4)	(64.5)	(63.4)
Provisions	(48.6)	(44.4)	(37.5)
Deferred consideration	(0.7)	(0.1)	(1.8)
Current tax liabilities	(4.0)	(7.2)	–
Total current liabilities	(166.2)	(155.9)	(135.5)
Lease liabilities	(124.5)	(95.6)	(97.7)
Borrowings	(99.5)	(103.6)	(60.1)
Provisions	(2.6)	(2.9)	(3.8)
Deferred consideration	–	(0.1)	–
Deferred tax liabilities	0.0	(1.5)	(0.0)
Total non-current liabilities	(226.6)	(203.7)	(161.6)
Total liabilities	(392.8)	(359.6)	(297.0)
Net assets	81.9	47.1	69.0

Directors' Report

for the year ended 30 June 2021

7. Operating and Financial Review (continued)

Pro forma Cash Flow for the financial year ended 30 June 2021

AUD in millions	FY21		FY20		Growth
	Pro forma	Prospectus	Pro forma	Prospectus	FY20
EBITDA	230.7	207.7	116.3	11.1%	98.4%
Non-cash items	1.7	0.8	0.9		
Property related payments AASB 16	(87.2)	(86.8)	(82.4)		
Cash EBITDA	145.2	121.7	34.8	19.3%	317.0%
Change in net working capital	2.0	0.7	2.7		
Operating cash flow pre capex	147.2	122.5	37.5	20.2%	292.4%
Capital expenditure	(9.5)	(8.4)	(9.4)		
Free cash flow before interest, tax and financing	137.7	114.1	28.1	20.7%	389.5%
Payments of principal portions of lease liabilities					
Net Offer proceeds					
Financing and investing activities					
Interest paid	(1.5)	(1.5)	–		
Income tax expense	(39.0)	(32.4)	–		
Net cash flow	97.2	80.2	28.1	21.3%	245.5%
Cash EBITDA to Operating cash flow	101.4%	100.6%	107.7%		

Shares and Dividends

	2021	2020
Shares on Issue*	153.7 million	147.3 million
Basic earnings per share*	58.35 cents	8.04 cents
Pre-IPO Dividends	\$42.0 million	Nil

* Calculated on retrospective number of shares and pro forma NPAT for the 2020 and 2021 financial years.

As stated in the Prospectus, ACL will not pay a dividend for the year ended FY21 as the business only listed in May 2021. The \$42m dividend relates to pre-IPO dividends.

Profit and Loss reconciliation

AUD in millions	FY21		FY20		Growth	
	Reported	Prospectus	Reported	Prospectus	FY20	
Statutory Revenue	644.7	618.2	519.5	4.3%	24.1%	
Pro forma adjustments (Prospectus)	28.9	28.9	3.3			
Other pro forma adjustments	0.9	–	–			
Pro forma Revenue	674.4	647.0	522.8	4.2%	29.0%	
Statutory EBITDA	196.6	173.0	125.3	13.6%	56.9%	
Pro forma adjustments (Prospectus)	34.7	34.7	(9.0)			
Other pro forma adjustments	(0.6)	–	–			
Pro forma EBITDA	230.7	207.7	116.3	11.1%	98.4%	
Statutory NPAT	60.4	48.3	41.3	25.0%	46.4%	
Pro forma adjustments (Prospectus)	26.2	26.2	(29.6)			
Other pro forma adjustments	2.2					
Pro forma NPAT	88.7	74.5	11.7	19.1%	659.1%	

The pro forma adjustments align with the Prospectus with notable differences being lower than expected Offer costs, accelerated expensing of legacy management equity plan and forecast statutory Prospectus tax rate being lower than actual.

Impact of COVID-19

Throughout FY21, ACL played a central role in Australia's response to COVID-19 with a rapid, efficient and effective response to the significant increase in demand for essential pathology and other clinical healthcare services. ACL worked in partnership with public health authorities to deliver a COVID-19 response that maintained a focus on appropriate clinical governance at all times.

As a result of the significant investment in upgrading systems and processes that was completed prior to 2020, ACL was well placed to respond to the COVID-19 pandemic. ACL was able to secure consistent supply of reagents as well as PPE and consumables to ensure patients' and staff safety, despite global shortages. ACL was able to move work around between laboratories despite logistics being impacted by Government-mandated lockdowns and travel restrictions.

ACL responded to outbreaks of COVID-19 by quickly establishing drive-through testing sites including mobilising medical staff together with other skilled, trained staff as well as marquees, security and traffic management. The ACL front line staff worked in often challenging conditions to assist the communities with a resolute focus on delivering accurate and rapid results.

The COVID-19 pandemic has had a material impact on the size and composition of the Australian pathology market. During FY21, the pathology market was impacted by outbreaks of COVID-19 as well as Government-mandated lockdowns and travel restrictions. Overall, in FY21, COVID-19 testing was additive to the size of the pathology market with non-COVID-19 testing rebounding during the period.

The ACL Board acknowledge and thank all of our staff, led by the Executive Team, for their significant efforts, throughout FY21. Responding to COVID-19 was at times challenging for all of our staff, and we take this opportunity to thank each and every one of them.

Directors' Report

for the year ended 30 June 2021

7. Operating and Financial Review (continued)

FY21 Operations

Australian Clinical Labs is one of the largest providers of pathology services in Australia by revenue, with operations in Victoria, New South Wales, Western Australia, South Australia, Queensland and the Northern Territory. ACL originates from the aggregation of Healthscope's Australian pathology business (2015), St John of God Health Care's (SJGHC) pathology business (2016), Perth Pathology (2016) and SunDoctors (2021). The Healthscope and SJGHC pathology acquisitions provided ACL with a heritage of hospital based pathology and the skills to deliver time-critical and complex hospital pathology, as well as the scale to efficiently provide community pathology.

Over the past six years, ACL has improved its operational performance through investing in the integration and optimisation of these businesses.

ACL's network comprises;

- More than 90 pathologists
- More than 3,750 scientists, collectors and support staff
- More than 80 accredited laboratories
- More than 995 collection centres
- More than 30 specialist skin cancer clinics

During FY21, ACL successfully delivered a broad range of operational achievements including in automation and digitisation, progress on the SunDoctors integration, as well as further efficiencies and advancements in innovation and precision medicine.

ACL delivered improved logistics and courier automation benefits that delivered both financial benefits to the Group as well as environmental benefits of a reduced carbon footprint.

The acquisition of SunDoctors occurred during FY21. SunDoctors is a skin cancer clinics and histopathology business and as well as synergy opportunities that are being realised, there is also a well-defined growth plan of revenue enhancement.

ACL has a constant focus on realising efficiencies across all areas of the business. Shared services were enhanced to include finance, IT, logistics, data entry and the call centre. Overall, as a result of these efficiencies, ACL delivered a reduced cost per episode, including compliance costs.

Across the business, there was a continual focus on innovation and process improvements, as well as an investment in R&D and new test innovation. There was further strong growth in the Human Genetics (Precision Medicine) business and there exist further opportunities in this space.

8. Significant changes in State of Affairs

In addition to the matters described in Section 7 above, the following significant events occurred:

Australian Clinical Labs Limited (formerly ACL Holdco Pty Ltd) was incorporated on 6 November 2020. Subsequently, on 6 November 2020, a new company, ACL Midco Pty Ltd ("Midco") was incorporated with the Company as its parent. A further company, ACL Finco Pty Ltd ("Finco"), was then incorporated on the same day with Midco as its parent company. On the same day, the Company formed a tax consolidated group with Midco and Finco with the Company acting as the head company.

On 4 December 2020, Finco entered into a syndicated (debt) facility agreement with an unrelated external financier. The provision of debt financing to Finco under the facility was conditional on Finco entering into an agreement to purchase 100% of the shares on issue by Clinical Laboratories Pty Ltd ("Clinical Labs") and Finco completing this transaction.

On 16 December 2020, Finco entered into a share purchase agreement to acquire 100% of the shares on issue by Clinical Laboratories Pty Ltd under a common control acquisition. The acquisition completed on 17 December 2020 with consideration in the form of cash (subsequently funded by the aforementioned new debt facility on 18 December 2020).

The acquisition of Clinical Labs was accounted for as a common control acquisition in accordance with Australian Accounting Standards. Refer to Note 23 for full details.

Australian Clinical Labs was admitted to the Official List of ASX Limited on 14 May 2021 with shares trading on a normal settlement basis from 19 May 2021.

On 18 May 2021 the Company acquired SunDoctors, a skin cancer clinics and histopathology business comprising 30 specialist skin clinics and two pathology laboratories.

On 3 June 2021 the Company issued an earnings guidance upgrade of 10-15% above prospectus.

9. Business Strategies and Future Developments

The Board and the Executive Management Team continue to focus on delivery against the well-defined growth strategy that is comprised of 5 core strategic initiatives:

- (1) Organic Market Growth
 - (a) The Australian pathology market is forecast to grow between 4-6% per annum due to predictable drivers including growing and ageing population, and increasing testing rates.
 - (b) ACL anticipates COVID-19 will be additive to the size of the pathology market.
- (2) Embedded Revenue Opportunities
 - (a) Broadening general practitioner relationships, broadening existing contracts and commercial COVID-19 testing.
- (3) Operational Performance Improvements
 - (a) Continuous improvement program, further benefits from the unified pathology system and further opportunities exist from SunDoctors integration.
- (4) Footprint Expansion
 - (a) Opportunities exist to grow revenues in New South Wales growth corridors and in Queensland
 - (b) Introduction of additional services.
- (5) Strategic Acquisitions

10. Key Risks and Uncertainties

ACL is subject to risks both specific to ACL and ACL's business activities, as well as general risks.

Government policy and regulation may change

ACL seeks to provide affordable pathology services to its patients. This is facilitated through bulk-billing the vast majority of its services to patients and receiving reimbursements through the Australian Government's Medicare Benefits Schedule (MBS). The MBS is subject to continual review and change, with the included services and prices being determined by the Federal Government.

Any changes to the MBS or any other Government funding initiatives, including reduction in fees or tests that will be covered by the MBS, could lead to a reduction in revenue for ACL and may adversely affect ACL's ability to provide testing and demand for ACL's services. This could include a reduction in COVID-19 fees or the fee paid for any particular test.

The nature, timing and impact of future changes to laws, Government policies and regulations are not predictable and are beyond ACL's control. Failure by ACL to comply with applicable laws, regulations and other professional standards and accreditation may lead to enforcement actions that disrupt ACL's operations and result in it being subject to fines, penalties, damages and disruption to its operations.

ACL monitors legislative and regulatory developments and engages proactively with key stakeholders to manage this risk.

COVID-19 or another pandemic may impact ACL's business

Pandemic risks, such as COVID-19, pose business continuity risk to ACL. There is the risk from lockdowns across communities in response to a pandemic that the volume of routine (non-COVID-19) pathology testing may be adversely impacted.

There is a risk that staff and laboratories are adversely impacted by a pandemic, such as COVID-19, which limits ACL's ability to provide testing facilities. ACL staff are front line personnel providing collection services to customers potentially infected by COVID-19. Notwithstanding policies and procedures in place to mitigate such risks, there is a risk that staff in key operational roles are infected, impacting ACL's operations.

Directors' Report

for the year ended 30 June 2021

10. Key Risks and Uncertainties (continued)

IT system may fail and may be subject to cyber security risks

ACL is heavily dependent on technology for the delivery of the services it provides its customers. Any information technology system is potentially vulnerable to interruption and/or damage from a number of sources, including but not limited to computer viruses, cyber security attacks and other security breaches, power, systems, internet and data network failures, and natural disasters.

ACL is committed to preventing and reducing cyber security risks. ACL has an information security policy and standards framework established in accordance with the international standard Information Security Management (ISO27001). ACL implements and operates IT security in-house with the assistance of partners and common IT security technologies to protect, detect and respond to security concerns. ACL conducts routine testing of systems and works closely with third-party security specialists to implement its security roadmap.

ACL may be unable to recruit and retain key personnel

The successful operation of ACL's business relies on its ability to recruit and retain experienced and high-performing management, pathologists, scientists, and IT and operating staff. Relationships with certain referrers may be heavily reliant on particular ACL personnel (especially pathologists and scientists), such that their departure from the business could have an adverse impact on ACL's relationship with the referrer. There is significant competition to recruit these personnel, which can lead to increased labour costs.

ACL's focus on diagnostic excellence through its centres of excellence and commitment to continuing professional education for staff and referrers, including training the next generation of pathologists and scientists, helps to attract and retain a professional workforce. ACL's unified pathology system also provides flexibility to its national workplace.

ACL's exposure to international developments may impact its operations

ACL sources testing supplies such as reagents and equipment from international markets. Prices of these supplies and equipment are subject to change driven by, among other factors, foreign exchange rates, market demand and supply, and scientific and technological advancements. ACL is unable to pass on cost increases as a substantial portion of ACL's revenue is derived from the MBS with almost all community pathology being bulk-billed under the MBS and some private hospital contracts linked to services in the MBS. Any adverse movements in testing supplies and equipment may increase ACL's costs of business and may have a material adverse impact on ACL's performance.

ACL manages supply price risk by entering into long-term fixed price arrangements with major suppliers for consumable products and by sourcing consumables locally in Australia. ACL remains vigilant in actively monitoring international developments, and managing supply costs and disruptions. For example, ACL has successfully managed the surge in demand for COVID-19 testing with no material operational disruptions.

11. Matters subsequent to the end of the financial year

Since the end of the financial year, the Directors are not aware of any matter or circumstance not otherwise dealt with in these financial statements that has significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

12. Dividends

The Board determined no final dividend would be paid in respect of the 2021 financial year.

As outlined in the Prospectus, it is intended that the first dividend paid by ACL will be an interim dividend in respect of the period from 1 July 2021 to 31 December 2021.

During the year, the 30 June 2020 final dividend of 6.21 cents per share (100% franked) was paid by Clinical Laboratories Pty Ltd to shareholders on 29 September 2020. On a retrospective basis, in line with the EPS calculation at Note 21, the dividend would have been 14.45 cents per share.

In respect of the 2021 financial year, a pre-IPO dividend of 14.25 cents per share (100% franked) was paid by Australian Clinical Labs Limited to shareholders on 18 May 2021.

13. Performance Rights and Options granted over unissued shares

The Australian Clinical Labs Long Term Variable Remuneration (LTVR) plan was created in March 2021 for selected senior executives including KMP. The purpose of the plan is to provide at-risk remuneration and incentives that reward executives for performance against long-term value creation objectives set by the Board at the beginning of the financial year and to align the interests of executives with the interests of shareholders through “skin in the game”.

In May 2021, the Company granted 804,532 Performance Rights under the LTVR plan. The Performance Rights granted during the financial year have an Indexed Total Shareholder Return (iTSR) vesting condition (100% weighting). The vesting of such Performance Rights will be determined by comparing the Company’s TSR over the Measurement Period with the TSR of the S&P/ASX 300 industrials Ex-Financials and Resources Index.

Each performance right entitles the holder to acquire one ordinary fully paid share in the Company.

On 13 July 2021 a further 104,025 Performance Rights were issued under the LTVR plan and are subject to the same vesting conditions.

The table in Section 14 sets out the details of Performance Rights that have been granted under the LTVR plan which remain on issue as at the date of the Directors’ Report.

Further information about Performance Rights issued under the LTVR plan is included in the Remuneration Report.

14. Shares issued on the exercise of Performance Rights

During the financial year ended 30 June 2021 there were no shares issued on exercise of Performance Rights.

The following table shows those Performance Rights that have been granted up to the date of this report.

Date performance right granted	Expiry date	Issue price	Number of Performance Rights on issue
25 May 2021	25 May 2026	Nil	804,532
13 July 2021	13 July 2026	Nil	104,025
Closing balance of Performance Rights			908,557

There were shares issued in previous years that were held in escrow by senior executives as part of the legacy Management Equity Plan which vested at IPO. Further information about the Management Equity Plan is included in the Remuneration Report.

15. Remuneration Report

The Remuneration Report which forms part of this Directors’ Report is presented separately from page 19.

Directors' Report

for the year ended 30 June 2021

16. Indemnification and insurance of Directors and Officers

The Company's Constitution provides that the Company may indemnify current and former Directors, alternate Directors, Executive Officers, Officers and auditors of the Company on a full indemnity basis and to the extent permitted by the law against all liabilities and losses incurred as an officer of the Group, except to the extent covered by insurance. Further, the Company's Constitution permits the Company to maintain and pay insurance premiums for Director and Officer liability insurance, to the extent permitted by law.

Consistent with (and in addition to) the provisions in the Company's Constitution outlined above, the Company has also entered into deeds of access, indemnity and insurance with all Directors and certain Officers of the Company which provide indemnities against losses incurred in their role, subject to certain exclusions, including to the extent that such indemnity is prohibited by the *Corporations Act 2001* (Cth) or any other applicable law.

During the financial period, the Company paid insurance premiums for a Directors' and Officers' liability insurance contract that provides cover for the current and former Directors, alternate Directors, Secretaries, Executive Officers and Officers of the Company and its subsidiaries. The Directors have not included details of the nature of the liabilities covered in this contract or the amount of the premium paid, as disclosure is prohibited under the terms of the contract.

The Group's auditor is Pitcher Partners (Melbourne) (PP). No payment has been made to indemnify PP during or up to the date of this report. No premium has been paid by the Group in respect of any insurance for PP. No Officers of the Group were Partners or Directors of PP whilst PP conducted audits of the Group.

17. Proceedings on behalf of the Company

There are no proceedings brought or intervened in, or applications to bring or intervene in proceedings, on behalf of the Company by a member or other person entitled to do so under section 237 of the *Corporations Act*.

18. Environmental regulation

The operations of the Group are not subject to any site-specific environmental licences or permits which would constitute particular or significant environmental regulation under the laws of the Australian Government or an Australian Territory.

ACL, through its internal policy and processes, is committed to managing operations in an environmentally sustainable manner to maximise resource efficiency in relation to the consumption of energy and natural resources and minimise waste.

ACL plans to publish a Sustainability Report in September 2021.

19. Non-audit services

There is no person who has acted as an officer of the Group during the year who has previously been a partner at Pitcher Partners when that firm conducted Clinical Labs' audit.

During the year Pitcher Partners did not provide any non-audit services.

20. Auditor's independence declaration



AUSTRALIAN CLINICAL LABS LIMITED
ABN: 94 645 711 128

**AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF
AUSTRALIAN CLINICAL LABS LIMITED**

In relation to the independent audit for the year ended 30 June 2021, to the best of my knowledge and belief there have been:

- (i) No contraventions of the auditor independence requirements of the *Corporations Act 2001*; and
- (ii) No contraventions of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*.

This declaration is in respect of Australian Clinical Labs Limited and the entities it controlled during the year.

A handwritten signature in black ink, appearing to read "S D Whitchurch".

S D WHITCHURCH
Partner

Date: 26 August 2021

A handwritten signature in black ink, appearing to read "P. O. J.". The signature is written in a cursive style.

PITCHER PARTNERS
Melbourne

Directors' Report

for the year ended 30 June 2021

21. Rounding of amounts

The Company is an entity of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Report) Instrument 2016/191, dated 24 March 2016, and in accordance with that Instrument, amounts in this Report and the Financial Report are rounded off to the nearest thousand dollars or, in certain cases, to the nearest dollar.

Some numerical figures included in this report have been subject to rounding adjustments. Any differences between totals and sums of components in tables or figures contained in this report are due to rounding.

22. Annual general meeting

ACL will be holding its inaugural AGM on 27 October 2021.

Signing of Directors' Report

Signed in accordance with a resolution of the Directors made pursuant to section 298(2) of the *Corporations Act* 2001. On behalf of the Directors.



Michael Alscher
Chair

26 August 2021

Remuneration Report

Overview

The Remuneration Report for the year ended 30 June 2021 (2021 Financial Year or FY21) forms part of the Directors' Report. It has been prepared in accordance with the Corporations Act 2001 (Cth) (the Act), Corporations Regulation 2M.3.03, in compliance with AASB124 Related Party Disclosures, and audited as required by section 208(3C) of the Act. It also includes additional information and disclosures that are intended to support a deeper understanding of remuneration governance and practices, for shareholders, where statutory requirements are not sufficient.

Report structure

The report is divided into the following sections:

Section		Description
1	Letter from the Chair of the Nomination and Remuneration Committee	A brief introduction from the Chair of the Nomination and Remuneration Committee outlining the Board's view of performance and reward in FY21.
2	People covered in this report	This section provides details of the Directors and Executives who are subject to the disclosure requirements of this report, together the Key Management Personnel (KMP), including roles and changes in roles.
3	Remuneration overview	This section provides an overview of performance and reward for FY21, including "at-a-glance" summaries, as well as key governance matters.
4	The Australian Clinical Labs remuneration strategy, policy and framework	This section provides details of the elements of the remuneration framework, including market positioning, changes to Fixed Pay, variable remuneration principles, and the terms of variable remuneration.
5	The link between performance and reward in FY21	This section addresses FY21 short-and long-term variable remuneration outcomes based on performance measurement periods completed during FY21, as well as the "achieved" remuneration outcomes for executives.
6	Statutory tables and supporting disclosures	This section provides the statutory disclosures not addressed by preceding sections of the report, including statutory remuneration tables, changes in equity, KMP service agreements, related party loans/transactions, and the engagement of external remuneration consultants.

Directors' Report

for the year ended 30 June 2021

Remuneration Report (continued)

Letter from the Chair of the Nomination and Remuneration Committee

Dear Shareholders,

On behalf of the Board, I am pleased to present the Remuneration Report for the year ended 30 June 2021 (FY21).

FY21 has been a successful year for ACL as it transitioned towards IPO and was admitted to the official list in May 2021. While communities, markets and businesses have grappled with the implications of COVID-19, the Company and its shareholders have continued to enjoy a high level of year-on-year growth despite the volatility of another COVID-19 impacted year.

ACL is fortunate to have personnel with extraordinary experience in many facets of pathology and health systems. Our goal is to ensure remuneration meets or exceeds our competitors and correctly recognises the efforts of our people in our collective drive to grow and expand your business.

Your Board has been in the process of implementing a remuneration framework appropriate for a listed company, to provide a clear line of sight between Company performance and remuneration outcomes, in addition to creating a strong alignment between the interests of directors, employees and shareholders. I welcome feedback on this report as an input into our considerations for FY22.

Some of the structures outlined in this report will not be evident for some time as the measurement periods for the first grant of Long Term Variable Remuneration (LTVR) will not conclude until the end of FY23.

While some key executives hold shares under a legacy (pre-listing) Management Equity Plan (MEP), a minimum of 60% of these shares remain in escrow which are subject to a service condition only.

In addition to this, a STVR plan was in place. Whilst the MEP creates some long-term alignment with executive remuneration and the experience of shareholders, the Company intends to transition over time to a combination of short-medium and long-term remuneration components more suitable to operating in a listed environment and to align it with market practice of comparable peers.

On behalf of the Committee and the Board, I would like to thank shareholders for their ongoing support of the Company.



Mr. Andrew Dutton

Chair, Remuneration and Nomination Committee

a. People covered in this Report

This Report covers Key Management Personnel (KMP) which are defined as those who have the authority and responsibility for planning, directing and controlling the activities of Australian Clinical Labs.

Name	Role at year end	Appointed	Committee membership		
			Audit	Remuneration and Nomination	Risk
Non-executive KMP					
Michael Alscher*	Board Chair	19/12/2020			
Nathanial Thomson*	Non-executive Director	19/12/2020		M	
Andrew Dutton	Independent Non-executive Director	28/4/2021	M	C	
Dr Leanne Rowe AM	Independent Non-executive Director	28/4/2021		M	M
Dr Michael Stanford AM	Independent Non-executive Director	28/4/2021	M		C
Mark Haberlin	Independent Non-executive Director	28/4/2021	C		M
Executive KMP					
Melinda McGrath*	Chief Executive Officer and Executive Director	9/11/2015			
James Davison	Chief Financial Officer	1/2/2011			

* Were previously Directors of Clinical Laboratories Pty Ltd prior to the incorporation of Australian Clinical Labs Limited.

M = Member, C = Chair.

The following changes to KMP occurred during FY21 or between the end of FY21 and the date of publication of this report:

- Peter Lyon-Mercado (Director – appointed: 6 November 2020, resigned: 19 December 2020)
- Michael Lukin (Director – appointed: 19 December 2020, resigned: 28 April 2021)
- Joel Mahemoff (Director – appointed: 19 December 2020, resigned: 28 April 2021)
- Shane Kelly (Director – appointed: 19 December 2020, resigned: 27 January 2021)
- James Davison (Director – appointed : 19 December 2020, resigned 19 December 2020)

Note: Appointment dates of non-executive KMPs above is the appointment dates in Australian Clinical Labs Limited. Michael Alscher and Nathanial Thompson were appointed as Directors of Clinical Laboratories Pty Ltd, the preceding parent entity of the Group, on 11 August 2015 and 30 April 2018 respectively.

Directors' Report

for the year ended 30 June 2021

Remuneration Report (continued)

b. Remuneration overview

FY21 executive remuneration structure at-a-glance

The following diagram outlines the executive KMP remuneration cycle under the remuneration framework as applicable for grants made in FY21 where STVR is Short Term Variable Remuneration, and LTVR is Long Term Variable Remuneration:

Component	FY21	FY22	FY23	FY24	FY25
Fixed	Fixed Pay Cash and Benefits				
Short Term	STVR Performance Period	Audit and Metric Assessment Cash Award			
Long Term		LTVR Performance Period – Performance Rights and SARs with a TSR Vesting Condition			Audit, Metric Assessment, Vesting, Exercise up to 5th Yr.

The table above represents the components of the FY21 remuneration being fixed component payable during the year, short term payable in FY22 as a results of audit and matrix assessment based on the FY21 year and long term exercisable in FY26 based on TSR from FY22 to FY24.

FY21 Company performance at-a-glance

The following outlines the Company's performance, which is intended to assist in demonstrating the link between performance, value creation for shareholders, and executive reward:

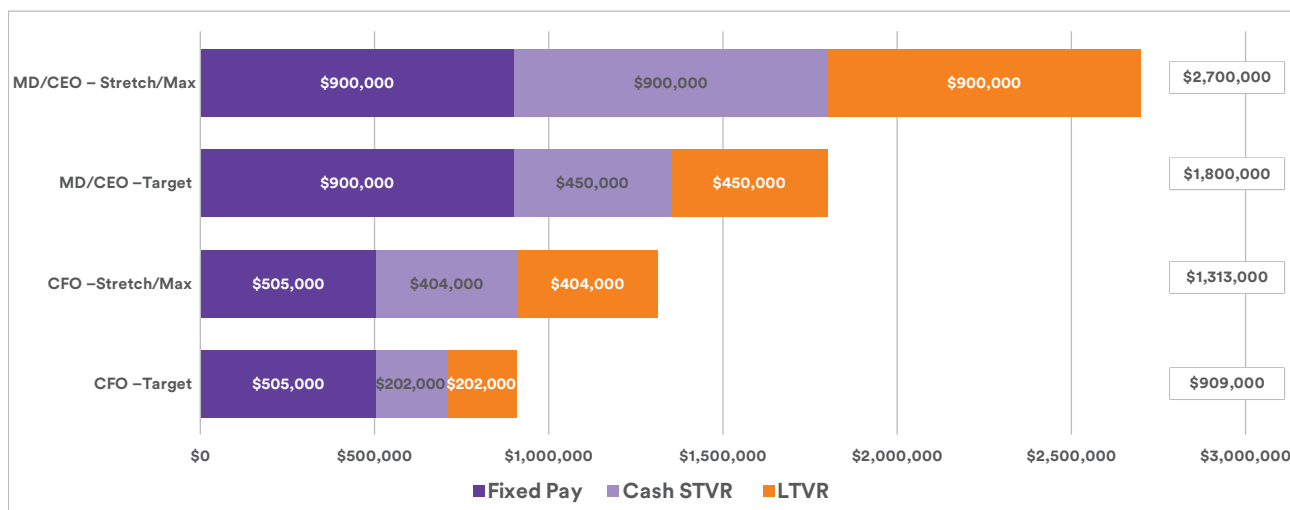
FY End Date	Pro Forma Net Profit After Tax	Share Price (end of year) \$	Pro Forma Revenue Growth Year on Year %	Pro Forma EBITDA Growth Year on Year %	Pro Forma NPAT Growth Year on Year %
30/6/2021	\$88.7m	\$3.40	29.0%	98.4%	659.1%

In addition to these metrics linked to value creation and the variable remuneration structures, the following were notable performance achievements for the year:

- Successful listing on the ASX
- Acquisition of SunDoctors
- Results exceeded Prospectus forecasts (NPAT up 19.1%)
- Results exceeded revised guidance on 3 June 2021 (NPAT up 6.0% on midpoint)

FY22 Executive remuneration opportunities

During FY21, a LTVR plan was introduced by ACL as the Company transitioned towards listing in May 2021 along with its existing STVR plan. The following charts outline the remuneration opportunities for FY22 under the new executive remuneration structures, with the outcomes dependent on performance over FY22 for STVR and over FY22 to FY24 for LTVR.



Key KMP Remuneration Governance Development in FY21

The following summarises the key remuneration governance developments that occurred in FY21:

- Developing and implementing STVR and LTVR plans in the transition towards listing, in line with the market and the expectations of shareholders and proxy advisors.
- Developing suitable governance structures and policies suitable to an ASX-listed status.
- Benchmarking of Executive and Non-Executive Director remuneration against comparable ASX listed companies to determine an appropriate quantum and mix of remuneration for ACL’s KMP upon listing.

c. The Australian Clinical Labs remuneration strategy, policy and framework

Executive remuneration – Fixed pay (FP), Total Remuneration Package (TRP) and the variable remuneration framework

Fixed Pay (FP) comprises base salary plus any other fixed elements such as superannuation, allowances, benefits and fringe benefits tax for example. Fixed Pay is intended to be positioned at P50 of market benchmarks for comparably designed roles.

Total Remuneration Package (TRP) is intended to be composed of an appropriate mix of remuneration elements including FP, short-term variable remuneration (STVR) and long-term variable remuneration (LTVR). The Target TRP (TTRP, being the TRP value at Target/Expected performance) is generally intended to fall around the P62.5 of market benchmarks, subject to smoothing for volatility across role samples at the same level. The Board views P62.5 market positioning as an indicator of P50 TTRP opportunities due to the impact of AASB 2/IFRS 2 and nil (sometimes negative) values that often appear in market data based on statutory disclosure, dragging down the market data compared to actual remuneration opportunities. That is, share based payment expenses for accounting purposes may be nil (sometimes negative) in market data therefore the Board views P62.5 market positioning as an indicator of P50.

Variable Remuneration is not a “bonus”, but a blend of at-risk remuneration (below Target) and incentives (above Target and up to Stretch/maximum). Metrics selected are intended to be linked to the primary drivers of value creation for stakeholders, and successful implementation of the long-term strategy over both the short and long term. Thresholds are intended to be a near-miss of expectations, while Target is intended to be a challenging but realistically achievable objective with a probability of around 50% to 60%. Stretch on the other hand is designed to be exceptionally challenging with a probability of around 10% to 20%.

The Board’s approach to the variable remuneration framework and how it fits within the remuneration policy is demonstrated in the below graphic:

Variable Remuneration Component	Policy Market Position – TRP	Performance
Target to Stretch – Incentive/Upside	P100+	Exceeds Expectations
	P62.5 to P100	
Target – Expected Reward	P62.5	Meets Expectations
Threshold to Target – At Risk/Down Side	P50 to P62.5	Below Expectations
	P50	
Fixed Pay Only	P10- (P50 of Fixed Pay Benchmarks)	Below Threshold

Executive KMP remuneration will be tested annually by reference to appropriate independently sourced comparable benchmark data, and specific advice as may be appropriate from time to time. Benchmark groups are generally designed to be based on 20 companies from the same market sector, within a range of 50% to 200% of the market value of the Company at the time, and evenly balanced to ensure measures of central tendency are highly relevant. Benchmarks may be adjusted upwards or downwards for variations in role design compared to market benchmark roles, and individual remuneration may vary by +/- 20% compared to the policy midpoint, to reflect individual/incumbent factors such as experience, qualifications and performance.

Directors' Report

for the year ended 30 June 2021

Remuneration Report (continued)

FY22 Short Term Variable Remuneration (STVR) plan

A description of the STVR structure applicable for FY21 is set out below. No changes will be made to this plan for FY22.

Purpose	To provide at-risk remuneration and incentives that reward executives for performance against annual objectives set by the Board at the beginning of the financial year. Objectives selected are designed to support long-term value creation for shareholders, and link to the long-term strategy on an annual basis.
Measurement Period	The Financial Year of the Company.
Opportunity	The Target value is 50% of Fixed Pay for the CEO, with a maximum/Stretch of 100% of Fixed Pay. The Target value is 40% of Fixed Pay for the CFO, with a maximum/Stretch of 80% of Fixed Pay.
Outcome Metrics and Weightings	The STVR is dependent on meeting Group Performance Objectives. For FY22 the metrics are based on EBITDA performance. This metric was selected because it is viewed by the Board as the primary driver of value creation for the business.
Settlement	Awards are determined following auditing of accounts after the end of the financial year.
Service Condition	STVR is subject to the Participant remaining employed on the last day of the financial year unless otherwise determined by the Board.
Malus and Clawback	The STVR is currently not subject to any malus or clawback clauses or policies, however this will be reviewed in FY22.
Board Discretions	The Board has discretion to modify the awards payable to Participants regardless of any performance outcome or gate, to ensure that outcomes are appropriate to the circumstances that prevailed over the Measurement Period.
Corporate Actions	The Board has discretion to determine the treatment of unpaid STVR in the case of major corporate actions such as a change in control, delisting, major return of capital or demerger.

Long Term Variable Remuneration (LTVR) plan

A description of the LTVR structure applicable for FY21 is set out below. No changes will be made to this plan for FY22. Details of the Company’s legacy equity plan, the Management Equity Plan, under which the CEO and CFO currently also hold shares, are provided later in this section of the report.

Purpose	To provide at-risk remuneration and incentives that reward executives for performance against long-term value creation objectives set by the Board at the beginning of the financial year and to align the interests of executives with the interests of shareholders through “skin in the game”.		
Measurement Period	Three financial years including the financial year of grant. For the FY21 grant, the measurement period is from FY21 to FY23.		
Opportunity	The Target value is 50% of Fixed Pay for the CEO, with a maximum/Stretch of double the Target, or 100% of Fixed Pay. The Target value is 40% of Fixed Pay for direct reports to the CEO, with a maximum/Stretch of 80% of Fixed Pay.		
Instrument	The Awards that may be offered under the LTVR Plan consist of Performance Rights for the CEO and CFO.		
Price and Exercise Price	The Price is nil, because it forms part of the remuneration of the Participant. The Exercise Price is nil.		
Allocation method	The Rights are valued using the following method: Right Value = Share Price – (Annual Dividend x Years to First Exercise) The Number of Rights to be granted = $FP\$ \times \text{Target LTVR \%} \div \text{Target Vesting \%} \div \text{Right Value}$ Share Price = Volume Weighted Average Price during last 21 days or listing price if less than 21 days. Note: dividing Target \$ by the vesting % at Target grosses the grant up to the Stretch \$ level.		
Performance Metrics and Weightings	FY21 granted Performance Rights have an Indexed Total Shareholder Return (iTSR) vesting condition (100% weighting). The vesting of such Performance Rights will be determined by comparing the Company’s TSR over the Measurement Period with the TSR of the S&P/ASX 300 industrials Ex-Financials and Resources Index. 50% of the Performance Rights will vest based on the following vesting schedule:		
	Company’s TSR compared to S&P/ASX 300 Ex-Financials and Resources Index over performance period		
	Performance Level		
	% of Tranche Vesting		
	Target	Index TSR + 5% CAGR	100%
	Threshold	Index TSR	50%
	Outcomes that fall between the threshold and target level of performance will result in a pro-rata calculation being applied.		

Directors' Report

for the year ended 30 June 2021

Remuneration Report (continued)

50% of the Performance Rights will vest based on the following vesting schedule:

Performance Level	Company's TSR compared to S&P/ASX 300 Ex-Financials and Resources Index over performance period	% of Tranche Vesting
Stretch	index movement + 10% CAGR	100%
Below Stretch	< Index TSR + 10% CAGR	0%

There will be no pro-rata calculation applied for outcomes that fall below the stretch level of performance.

TSR is the sum of Share price appreciation and dividends (assumed to be reinvested in Shares) during the Measurement Period. It is annualised for the purposes of the above vesting scale. The TSR of the Company over the Measurement Period will be calculated and converted to a compound annual growth rate (CAGR) value for the purposes of assessment against this scale. During periods of nil dividends being declared, TSR is equal to change in Share Price.

This metric was selected because it is the best measure of value creation for shareholders that adjusts for windfall gains and losses arising from broad market movements.

Equity grants are tested against the performance measures set. If the performance hurdles are not met at the vesting date, Performance Rights lapse.

Gate iTSR Performance Rights are subject to a gate of TSR for ACL being positive for the Measurement Period to ensure the grant does not vest when shareholders are losing value.

Settlement The Rights are "Indeterminate" which may be settled in the form of a Company Share (including a Restricted Share), or cash equivalent, upon valid exercise.

Term For FY22 grants, Rights must be exercised within five years of the Grant Date; otherwise they lapse.

Service Condition In addition to the performance conditions, continued service during the full Measurement Period is a requirement in order for any Rights to become eligible to vest.

Malus and Clawback The LTVR plan includes malus and clawback clauses which will result in forfeiture of unvested Rights in a range of circumstances, including material misstatements resulting in overpayment, or the Participant joining a competitor or being involved in actions that are deemed to have harmed other stakeholders.

Board Discretion The Board has discretion to modify vesting to Participants regardless of any performance outcome or gate, to ensure that outcomes are appropriate to the circumstances that prevailed over the Measurement Period.

Corporate actions In the case of a Change in Control, unvested Rights will vest in the proportion that the elapsed portion of the measurement period bears to the full measurement period. The Board, in its discretion, may determine that none, some or all of the remaining unvested Rights also vest. Any Rights that remain unvested following exercise of the Board's discretion will lapse.

In the case of a major return of capital or demerger, the Board has discretion to bring forward vesting or to alter the number of Rights or the Exercise Price or to alter Vesting Conditions to ensure that the outcome is fair to Participants. This is because following such an event the share price is likely to be materially different from the basis of the grant, and performance conditions set may be unable to be met.

Management Equity Plan (MEP/Legacy Plan)

The Group has previously established an equity incentive plan under which certain senior executives received ordinary shares as part of their incentive arrangements (Management Equity Plan and MEP Shares). Equity issued under the Management Equity Plan will be dealt with as described below to ensure that participants continue to be motivated to achieve sustained growth for shareholders.

Under the arrangements for the issue of the MEP Shares, if a participant ceases to be employed by the Group, the participant will no longer have an entitlement to MEP Shares still under escrow.

There are currently 3,545,863 MEP Shares which are being held in escrow as follows:

- One-third will be released from escrow following announcement of the Company's financial results for the period ended 31 December 2021;
- One-third will be released from escrow following announcement of the Company's financial results for the period ended 30 June 2022; and
- One-third will be released from escrow following announcement of the Company's financial results for the period ended 31 December 2022.

No further shares will be issued under the Legacy Plan.

FY21 Non-Executive Director (NED) fee policy

The following outlines the principles that Australian Clinical Labs applies to governing NED remuneration:

Principle	Comment
Fees are set by reference to key considerations	Fees for Non-Executive Directors are based on the nature of the Directors' work and their responsibilities, taking into account the nature and complexity of the Company and the skills and experience of the Director. Non-Executive Directors' fees are recommended by the Nomination and Remuneration Committee and determined by the Board. External consultants may be used to source the relevant data and commentary or to obtain independent recommendations given the potential for a conflict of interest in the Board setting its own fees.
Remuneration is structured to preserve independence whilst creating alignment	To preserve independence and impartiality, Non-Executive Directors are not entitled to any form of variable remuneration payments and the level of their fees is not set with reference to measures of the Company's performance. Non-Executive Directors are encouraged to hold shares in the Company, however they do not currently receive equity as part of their remuneration.
Aggregate Board fees	The total amount of fees paid to Non-Executive Directors in the year ended 30 June 2021 is within the aggregate amount disclosed in the Company Constitution of \$1,500,000 per annum.

Directors' Report

for the year ended 30 June 2021

Remuneration Report (continued)

The following outlines the Board Fees applicable as at the end of FY21:

Role/Function	Main Board	Audit Committee	Remuneration and Nomination Committee	Risk Committee
Chair	\$180,000	\$15,000	\$15,000	\$15,000
Member	\$120,000	\$10,000	\$10,000	\$10,000

Note: Fees are expressed as inclusive of superannuation. The Chair of the Board is not a member of any Committee and does not receive any fees in that capacity. Non-Executive Directors are also reimbursed for their reasonable out-of-pocket expenses that are incurred in the discharge of their roles.

Other elements of the FY21 KMP remuneration governance framework

The following outlines the other elements that together with the foregoing form the KMP remuneration governance framework:

- The Nomination and Remuneration Committee Charter, which outlines the roles and responsibilities of the Committee. This is available for inspection on the Company website.
- The Securities Trading Policy, which outlines under what circumstances and when trading in ACL securities by KMP and other nominated employees may be permitted or prohibited.
- External Remuneration Consultant (ERC) Engagement Policy which is intended to ensure the independence of any recommendation received regarding KMP remuneration, and which supports the Board's published statements regarding such recommendations. In addition to the requirements outlined in the Corporations Act, it requires the ERC to notify the Board if management makes contact with the ERC on remuneration matters outside of interactions approved or supervised by the Board, such as the provision of factual information for benchmarking purposes.

d. The link between performance and reward in FY21

The Board views the outcomes of remuneration for FY21 performance as appropriately aligned with stakeholder interests generally, given the strong Group and individual performance against annual objectives, the substantial shareholder value created through share price growth, and progress towards strategy objectives made by the executive team.

FY21 STVR Outcomes

The STVR plan is designed to reward executives for the achievement against annual performance objectives set by the Board at the beginning of the performance period. The payment of an STVR is dependent on delivery of performance against a range of outcome metrics. The primary metrics and outcomes of assessment against those metrics are summarised below:

Metric/Measure	Weight	Performance	Outcome (% of Target)	% of Target \$ Payable
Financial Performance	100%			
This metric is viewed as the primary financial driver of shareholder value creation under the current strategy.		> 150% of EBITDA vs Budget achieved	<p>Threshold 50% Target 100% Stretch 150%</p> <p>200% of Target \$ Payable</p>	

Remuneration Report (continued)

Achieved total remuneration package for FY21

The following outlines "Achieved" total remuneration, including the portions of maximum variable remuneration that were awarded or vested, and portions that were forfeited or lapsed as the result of performance assessments:

Name	Role(s)	Year	Fixed Pay (incl Super)		Total STVR Awarded Following Completion of the Financial Year				Value of MEP Shares that Vested Following Completion of the Measurement Period/FY				Achieved Total Remuneration Package (TRP)	Gains/Losses on Vested LTVR from Change in Value Before Vesting ⁽ⁱⁱⁱ⁾
			Amount	% of TRP	Amount ⁽ⁱ⁾	% of Max Awarded	% of Max Forfeited	% of TRP	Amount ⁽ⁱⁱ⁾	% of Max Vested	% of Max Lapsed	% of TRP		
Ms Melinda McGrath	Chief Executive Officer and Executive Director	FY21	\$919,328	41%	\$900,000	100%	0%	40%	\$425,872	100%	0%	19%	\$2,245,200	\$2,263,592
		FY20	\$892,265	50%	\$900,000	100%	0%	50%	\$0	0%	0%	0%	\$1,792,265	\$0
Mr James Davison	Chief Financial Officer	FY21	\$500,667	52%	\$346,678	100%	0%	36%	\$115,091	100%	0%	12%	\$962,436	\$611,730
		FY20	\$392,838	54%	\$339,877	100%	0%	46%	\$0	0%	0%	0%	\$732,715	\$0

(i) This is the value of the total STVR award calculated and accrued during the FY21. It will be settled following the release of the FY21 full year results.

(ii) This is the grant value of the LTVR that vested at IPO and is not held in escrow, i.e. number that vested multiplied by the Black-Scholes value at grant.

(iii) This is the difference between the Black-Scholes value at grant, and the realisable value based on the market value of a share at the time of vesting, for the LTVR that vested at IPO.

Directors' Report

for the year ended 30 June 2021

Remuneration Report (continued)

e. Statutory tables and supporting disclosures

The following table outlines the statutory remuneration of executive KMP. These disclosures have been calculated in accordance with the Australian Accounting Standards:

Name	Role(s)	FY	Fixed Pay			Variable Remuneration				Statutory Total Remuneration Package (TRP)	Statutory Total	Change in Accrued Leave ^(vi)	Termination Benefits	Other Statutory Items				
			Salary	Super	Other Benefits ^(v)	Total Fixed Pay	Cash STVR ⁽ⁱ⁾	LTVR ⁽ⁱⁱ⁾	MEP ⁽ⁱⁱⁱ⁾						MEP Accelerated ^(iv)			
			Amount	Amount	Amount	Amount	Amount	Amount	Amount						Amount	% of TRP	% of TRP	% of TRP
Ms Melinda McGrath	Chief Executive Officer and Executive Director	2021	\$875,418	\$24,600	\$19,311	\$919,328	40%	\$900,000	39%	\$13,259	1%	\$110,115	5%	\$368,993	16%	\$2,311,695	\$ 73,115	\$0
		2020	\$851,952	\$21,003	\$19,310	\$892,265	46%	\$900,000	47%	\$0	0%	\$133,451	7%	\$0	0%	\$1,925,716	\$65,208	\$0
Mr James Davison	Chief Financial Officer	2021	\$466,071	\$24,600	\$9,996	\$500,667	51%	\$346,678	35%	\$5,952	1%	\$29,758	3%	\$99,719	10%	\$982,774	(\$6,043)	\$0
		2020	\$358,242	\$24,600	\$9,996	\$392,838	51%	\$339,877	44%	\$0	0%	\$36,065	5%	\$0	0%	\$768,780	\$105,353	\$0

(i) Note that the STVR value reported in this table is the STVR that was accrued during the reporting period. This will be paid following the release of the FY21 full year results.

(ii) Note that the LTVR value reported in this table is the amortised accounting charge of all grants that have not lapsed or vested as at the start of the reporting period. Where a market based measure of performance is used such as TSR, no adjustments can be made to reflect actual LTVR vesting.

(iii) Note that the MEP value reported in this table is the amortised accounting charge of all grants that had not lapsed or vested up to IPO.

(iv) Note that the MEP accelerated value reported in this table is the accelerated accounting charge of all grants that vested at IPO including those are held within escrow.

(v) Other benefits include items such as car parking, car allowances, FBT, etc.

(vi) FY20 annual leave was impacted by Senior Executives (including KMP) who volunteered to accept a commensurate annual leave increase in lieu of salary to preserve cash within the business when the Covid-19 pandemic began.

Non-executive Director KMP statutory remuneration for FY21

The following table outlines the statutory and audited (A-IFRS) remuneration of NEDs (\$, except where otherwise indicated):

Name	Role(s)	Year	Cash Board Fees	Committee Fees	Superannuation	Other Benefits	Total
		2021	\$127,097	\$0	\$0	\$0	\$127,097
Mr Michael Alscher	Board Chair	2020	\$120,000	\$0	\$0	\$0	\$120,000
		2021	\$66,616	\$1,663	\$0	\$0	\$68,279
Mr Nathaniel Thomson	Non-executive Director	2020	\$60,000	\$0	\$0	\$0	\$60,000
Mr Andrew Dutton	Independent Non-executive Director	2021	\$19,951	\$4,156	\$2,290	\$28,274	\$54,671
Dr Leanne Rowe AM	Independent Non-executive Director	2021	\$19,951	\$3,325	\$2,211	\$26,301	\$51,788
Dr Michael Stanford AM	Independent Non-executive Director	2021	\$19,951	\$4,156	\$2,290	\$28,274	\$54,671
Mr Mark Haberlin	Independent Non-executive Director	2021	\$19,951	\$4,156	\$2,290	\$15,781	\$42,178
		2021	\$52,903	\$0	\$0	\$0	\$52,903
Mr Michael Lukin	Independent Non-executive Director	2020	\$60,000	\$0	\$0	\$0	\$60,000
		2021	\$52,903	\$0	\$0	\$0	\$52,903
Mr Joel Mahemoff	Independent Non-executive Director	2020	\$60,000	\$0	\$0	\$0	\$60,000
		2021	\$30,000	\$0	\$0	\$0	\$30,000
Dr Shane Kelly	Independent Non-executive Director	2020	\$60,000	\$0	\$0	\$0	\$60,000

(i) Other benefits relates to consulting fees that were paid prior to the Director being appointed as a Director of the Company.

KMP equity interests and changes during FY21

Movements in equity interests held by executive KMP during the reporting period, including their related parties, are set out below. All equity interests are granted by the listed entity unless otherwise specified:

Name	Instrument	Number Held at Open FY21 ⁽ⁱ⁾	Granted FY21		FY21 Purchased/Other ⁽ⁱ⁾	FY21 Sold	Number Held at Close FY21 ⁽ⁱⁱ⁾
		Number	Date Granted	Number	Number	Number	Number
	Shares	5,524,866	–	–	926,197	(3,659,590)	2,791,473
Ms Melinda McGrath	Unvested Rights	–	25/05/2021	247,252	–	–	247,252
	Shares	1,076,801	–	–	180,516	(502,927)	754,390
Mr James Davison	Unvested Rights	–	25/05/2021	110,988	–	–	110,988
TOTALS		6,601,667	n/a	358,240	1,106,713	(4,162,517)	3,904,103

(i) Note the numbers of shares has been restated retrospectively to 1 July 2020 to remove the impacts associated with the common control acquisition, share split and share consolidation processes that occurred as part of the initial public offering of the Company during the period.

(ii) Note the numbers of shares held at close are all held in escrow in accordance with the MEP.

Directors' Report

for the year ended 30 June 2021

Remuneration Report (continued)

Movements in equity interests held by non-executive KMP during the reporting period, including their related parties, are set out below:

Name	Instrument	Number Held at Open FY21	FY21 Purchased/ Other	FY21 Sold	Number Held at Close FY21
		Number	Number	Number	Number
Mr Michael Alscher	Shares	–	250,000	–	250,000
Mr Andrew Dutton	Shares	–	80,000	–	80,000
Dr Leanne Rowe AM	Shares	–	37,500	–	37,500
Dr Michael Stanford AM	Shares	–	30,000	–	30,000
Mr Mark Haberlin	Shares	–	25,000	–	25,000

The following outlines the accounting values and potential future costs of equity remuneration granted during FY21 for executive KMP:

FY21 Equity Grants									
Name	Tranche	Grant Type	Number	Vesting Conditions	Grant Date	Fair Value Each at Grant Date	Total Fair Value at Grant	Value Expensed in FY 21	Max Value to be Expensed in Future Years
Ms Melinda McGrath	Tranche 1	LTVR Rights	123,626	iTSR	25/05/2021	\$3.64	\$449,999	\$7,916	\$233,081
	Tranche 2	LTVR Rights	123,626	iTSR	25/05/2021	\$3.64	\$449,999	\$5,343	\$157,324
Mr James Davison	Tranche 1	LTVR Rights	55,494	iTSR	25/05/2021	\$3.64	\$201,998	\$3,553	\$104,627
	Tranche 2	LTVR Rights	55,494	iTSR	25/05/2021	\$3.64	\$201,998	\$2,398	\$70,621
TOTALS	n/a	n/a	358,240	n/a	n/a	n/a	1,303,994	\$19,210	\$565,652

Note: All Rights granted under the LTVR in FY21 will expire in FY26. They may only be exercised after vesting which is expected to occur after release of the year ended 30 June 2024 results.

The total fair value at grant date differs from the total value expected to be expensed through the profit and loss due to the measure of the plan using the Monte Carlo valuation for accounting purposes, which is different to the valuation at grant date.

KMP Service Agreements

Executive KMP Service Agreements

The following outlines current executive KMP service agreements:

Name	Position Held at Close of FY21	Employing Company	Duration of Contract	Period of Notice	
				From Company	From KMP
Ms Melinda McGrath	Chief Executive Officer and Executive Director	Clinical Laboratories Pty Ltd	No fixed term	6 months	6 months
Mr James Davison	Chief Financial Officer	Clinical Laboratories Pty Ltd	No fixed term	6 months	6 months

Non-Executive Directors service agreements

Non-Executive Directors are appointed under a service agreement. The service agreements stipulate that Non-Executive Directors' fees are inclusive of superannuation and that Non-Executive Directors are not eligible for any termination benefits or other contractual or statutory entitlements (other than superannuation) following termination of their office.

Other statutory disclosures

Loans to KMP and their related parties

During the financial year and to the date of this report, the Company has not made any loans to Directors and other KMP.

Historically, there were existing loans with KMP in relation to the MEP, which were repaid in full prior to the IPO.

In addition, there were historical loans with other shareholders advanced on commercial terms. These were also repaid in full prior to the IPO.

There are no loan balances outstanding as at 30 June 2021 with any related parties.

Other transactions with KMP

Certain Directors and KMP, or their personally-related entities (Related Parties), hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. A number of these entities transacted with the Company in the FY21 reporting period. The terms and conditions of the transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions with unrelated entities on an arm's-length basis.

There were no transactions which occurred with entities controlled by Related Parties.

External remuneration consultants

During FY21 the Board engaged approved External Remuneration Consultants to provide KMP remuneration recommendations and other services as outlined below:

- Godfrey Remuneration Group Pty Ltd:
 - Market data and recommendations regarding Executive Remuneration quantum and structure – \$18,000;
 - Recommendations on LTVR design and implementation – \$38,000; and
 - Assistance in producing Section 6 of ACL's Prospectus, and the FY21 Remuneration Report – \$24,000.
 - The consultant provided statements indicating that they viewed the advice they gave as being independent from undue influence.
 - The Board is of the view that the recommendations received were independent and free from undue influence of any KMP to whom the recommendations related, because the ERC complied with the Company's policy for engaging ERCs.

Financial Statements



Consolidated statement of profit or loss for the year ended 30 June 2021

	Note	2021 \$'000	2020 \$'000
Revenue	3	646,702	490,570
Other income	3	(2,034)	28,952
Total		644,668	519,522
Consumables		(119,585)	(87,040)
Labour costs		(249,685)	(237,547)
Property costs		(14,017)	(18,292)
Repairs and maintenance		(6,889)	(6,668)
IPO transaction costs		(17,420)	–
Other operating expenses		(40,473)	(44,654)
Depreciation	4	(10,160)	(11,314)
Depreciation of right-of-use assets	4	(77,865)	(66,588)
Amortisation of acquired intangible assets	4	(27)	–
Total operating costs		(536,121)	(472,103)
Earnings before interest and tax		108,547	47,419
Net finance costs	5	(21,894)	(16,528)
Share of losses from equity accounted investments		–	(61)
Profit before income tax		86,653	30,830
Income tax (expense)/benefit	6	(26,264)	10,425
Profit for the year		60,389	41,255
Net (profit) attributable to non-controlling interests		(16)	–
Net profit to members of Australian Clinical Labs Limited		60,373	41,255
Earnings per share			
		Cents per share	Cents per share
Basic earnings per share from continuing operations	21	39.69	28.39
Diluted earnings per share from continuing operations	21	39.69	28.39

The above consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

Consolidated statement of other comprehensive income for the year ended 30 June 2021

	2021 \$'000	2020 \$'000
Profit for the year	60,389	41,255
Other comprehensive income		
Items that may be reclassified subsequently to profit and loss		
Exchange differences on translation of foreign operations	(36)	(10)
Other comprehensive income for the year, net of tax	(36)	(10)
Total comprehensive income for the year	60,353	41,245
Total comprehensive income attributable to:		
Members of Australian Clinical Labs Limited	60,337	41,245
Non-controlling interests	16	–
	60,353	41,245

The above statement of other comprehensive income should be read in conjunction with the accompanying notes.

Consolidated statement of financial position

as at 30 June 2021

	Note	2021 \$'000	2020 \$'000
CURRENT ASSETS			
Cash and cash equivalents	27(a)	35,233	34,849
Trade and other receivables	7	62,976	63,298
Inventories	8	13,356	10,498
Other assets	9	5,661	3,443
Current tax assets		–	12
TOTAL CURRENT ASSETS		117,226	112,100
NON-CURRENT ASSETS			
Plant and equipment	10	42,287	38,590
Right-of-use assets	11	186,657	155,463
Intangible assets	12	112,906	35,748
Other assets	9	–	988
Deferred tax assets	13	15,625	23,164
TOTAL NON-CURRENT ASSETS		357,475	253,953
TOTAL ASSETS		474,701	366,053
CURRENT LIABILITIES			
Trade and other payables	14	42,629	32,762
Lease liabilities	15	70,396	63,440
Borrowings	16	(190)	–
Provisions	17	48,648	37,465
Current tax liabilities		4,018	1,799
Deferred consideration		675	–
TOTAL CURRENT LIABILITIES		166,176	135,466
NON-CURRENT LIABILITIES			
Lease liabilities	15	124,544	97,695
Borrowings	16	99,511	60,070
Provisions	17	2,556	3,816
Deferred tax liabilities		–	18
TOTAL NON-CURRENT LIABILITIES		226,611	161,599
TOTAL LIABILITIES		392,787	297,065
NET ASSETS		81,914	68,988
EQUITY			
Issued capital	18	797,975	146,505
Reserves	19	(778,271)	(118,772)
Retained earnings		62,194	41,255
Total parent entity interest		81,898	68,988
Non-controlling interest		16	–
TOTAL EQUITY		81,914	68,988

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity for the year ended 30 June 2021

2020	Issued capital \$'000	Reserves \$'000	Retained earnings \$'000	Total \$'000	Non- controlling interest \$'000	Total \$'000
Opening balance at 1 July 2019	146,505	(119,085)	–	27,420	–	27,420
Profit for the year	–	–	41,255	41,255	–	41,255
Exchange differences on translation of foreign operations	–	(10)	–	(10)	–	(10)
Other comprehensive income for the year net of tax	–	(10)	–	(10)	–	(10)
Total comprehensive income for the year	–	(10)	41,255	41,245	–	41,245
Transactions with owners in their capacity as owners						
Management share scheme	–	323	–	323	–	323
Closing balance at 30 June 2020	146,505	(118,772)	41,255	68,988	–	68,988
2021	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening balance at 1 July 2020	146,505	(118,772)	41,255	68,988	–	68,988
Profit for the year	–	–	60,373	60,373	16	60,389
Exchange differences on translation of foreign operations	–	(36)	–	(36)	–	(36)
Other comprehensive income for the year net of tax	–	(36)	–	(36)	–	(36)
Total comprehensive income for the year	–	(36)	60,373	60,337	16	60,353
Transactions with owners in their capacity as owners						
Management share scheme	–	1,235	–	1,235	–	1,235
Dividend declared and paid	–	–	(42,000)	(42,000)	–	(42,000)
Reverse existing capital resulting from restructure	(146,505)	–	–	(146,505)	–	(146,505)
Ordinary shares issued net of transaction costs	797,975	–	–	797,975	–	797,975
Common control reserve from acquisition	–	(645,632)	–	(645,632)	–	(645,632)
Payment of promissory note	–	(12,500)	–	(12,500)	–	(12,500)
Reclassification of pre IPO Management Equity Plan	–	(2,566)	2,566	–	–	–
Closing balance at 30 June 2021	797,975	(778,271)	62,194	81,898	16	81,914

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

for the year ended 30 June 2021

	Note	2021 \$'000	2020 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and government grants		661,967	507,863
Payments to suppliers and employees		(450,224)	(393,809)
Cash provided by operations		211,743	114,054
Interest received		75	37
Interest and costs of finance paid		(39,390)	(12,494)
Income tax (paid)/received		(18,564)	139
Net cash provided by operating activities	27(b)	153,864	101,736
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of plant and equipment		112	110
Proceeds from disposal of investments		1,066	–
Purchase of plant and equipment		(9,506)	(9,381)
Inflows from/(payments for) business combinations (net of cash acquired)		2,252	(687)
Net cash used in investing activities		(6,076)	(9,958)
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal portion of lease payments		(75,134)	(60,916)
Proceeds from new shares issued net of transaction costs		146,254	–
Repayment of borrowings		(269,590)	–
Proceeds from borrowings		321,600	–
Payment for common control restructure		(216,000)	–
Dividends paid		(42,000)	–
Payment of promissory note		(12,500)	–
Net cash used in financing activities		(147,370)	(60,916)
Net increase in cash and cash equivalents		418	30,862
Foreign exchange differences on cash holdings		(34)	(144)
Cash and cash equivalents at the beginning of the year		34,849	4,131
Cash and cash equivalents at the end of the year	27(a)	35,233	34,849

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the financial statements

for the year ended 30 June 2021

Note 1: Summary of Significant Accounting Policies

The principal accounting policies adopted in the presentation of the financial report are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

(a) Basis of preparation

The general purpose financial report has been prepared in accordance with Australian Accounting Standards, interpretations issued by the Australian Accounting Standards Board (AASB), all other applicable authoritative pronouncements of the AASB and the Corporations Act 2001.

The financial report includes financial statements for the Consolidated Group ('the Group') consisting of Australian Clinical Labs Limited (formerly ACL Holdco Pty Ltd) ('Parent Company' or 'Company') and its subsidiaries. Australian Clinical Labs Limited is a for-profit entity domiciled in Australia.

The financial report was authorised for issue by the Directors on 26 August 2021.

Compliance with IFRS

The financial report of the Group complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The Parent Company financial information included in Note 29 also complies with IFRS.

Basis of measurement

The financial report has been prepared on the basis of historical cost except for the revaluation of financial assets and liabilities at fair value through profit or loss. Cost is based on the fair values of the consideration given in exchange for assets.

Where applicable, comparatives may be restated in line with current year presentation.

Going concern

As at 30 June 2021, the Group recorded a deficiency in current assets of \$49.0m. This has been caused by AASB 16 *Leases*, whereby \$70.4m of lease liability has been recognised as current; however the corresponding right-of-use asset is non-current. Excluding the current portion of the lease liability, the Group has a current asset surplus of \$21.4m.

The Directors have concluded that the Group will be able to pay its debts as and when they fall due with consideration of the above factors and the profitability of the Group. Accordingly, the financial report has been prepared on a going concern basis.

(b) Basis of consolidation

The financial report incorporates the assets and liabilities of all subsidiaries controlled by Australian Clinical Labs Limited as at 30 June 2021 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when it is exposed, or has rights to variable returns' from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

When control of an entity is obtained during a financial year, its results are included in the statement of profit and loss from the date on which control commences. Where control of an entity ceases during a financial year its results are included for that part of the year during which control existed.

Non-controlling interests in the results and equity of controlled entities are shown separately in the statement of profit and loss, statement of comprehensive income, statement of financial position and statement of changes in equity.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation.

Associates

An associate is an entity over which the Group is able to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

The Group's interests in associates are accounted for using the equity method after initially being recognised at cost. Under the equity method, the Group's share of the profits or losses of the associate is recognised in the Group's profit or loss and the Group's share of other comprehensive income items is recognised in the Group's other comprehensive income.

Unrealised gains and losses on transactions between the Group and an associate are eliminated to the extent of the Group's interest in the associate.

(c) Business combination

A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses and results in the consolidation of the assets and liabilities acquired. Business combinations are accounted for by applying the acquisition method unless it is a common control acquisition.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree. Deferred consideration payable is measured at its acquisition-date fair value. Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. At each reporting date subsequent to the acquisition, contingent consideration payable is measured at its fair value with any changes in the fair value recognised in profit or loss unless the contingent consideration is classified as equity, in which case the contingent consideration is carried at its acquisition-date fair value.

Goodwill is recognised initially at the excess of: (a) the aggregate of the consideration transferred, the amount of the non-controlling interest, and the acquisition-date fair value of the acquirer's previously held equity interest (in case of step acquisition); over (b) the acquisition-date amount of the identifiable assets acquired and liabilities assumed.

If the net fair value of the acquirer's interest in the identifiable assets acquired and liabilities assumed is greater than the aggregate of the consideration transferred, the fair value of the non-controlling interest, and the acquisition-date fair value of the acquirer's previously held equity interest, the difference is immediately recognised as a gain in profit or loss. Acquisition related costs are expensed as incurred.

Common control acquisition

A common control acquisition is a transaction whereby the direct ownership changes as a result of a restructure, however there is ultimately no change in control over the assets.

Common control acquisitions are recognised in accordance with Australian Accounting Standards and are presented as a continuation of the pre-existing entity.

(d) Foreign currency translation and balances

Functional and presentation currency

The financial statements for each entity within the Group are measured using the currency of the primary economic environment in which that entity operates (the functional currency). The Consolidated financial statements are presented in Australian dollars which is the Group's functional currency.

Transactions and balances

Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are translated using the spot rate at the end of the financial year. All resulting exchange arising on settlement or restatement are recognised as revenue or expenses for the financial year.

Foreign subsidiaries

Subsidiaries that have a functional currency different to the presentation currency of the consolidated Group are translated as follows:

- Assets and liabilities are translated at the closing rate on reporting date;
- Income and expenses are translated at actual exchange rates or average exchange rates for the period, where appropriate; and
- All resulting exchange differences are recognised in other comprehensive income.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates or other similar allowances.

Notes to the financial statements

for the year ended 30 June 2021

Note 1: Summary of Significant Accounting Policies (continued)

Rendering of services

Revenue from the provision of services is recognised when the related services are completed. Revenue is accrued at balance date for services which are completed but yet to be invoiced.

Clinic revenue

Clinic revenue represents support services provided to doctors (enabling them to treat patients), in consideration for a percentage share of billings as determined by each doctor's medical services agreement. Revenue is recognised in the period in which doctors' services are rendered to patients.

(f) Other income

Government grant income is only recognised when there is reasonable assurance that the Group will comply with the conditions attaching to the grant, and the grant will be received.

(g) Income tax

Income tax expense or benefit represents the sum of the tax currently payable and deferred tax.

Current tax

The current tax payable is based on taxable profit for the year. Taxable profit differs from 'profit before income tax' as reported in the consolidated statement of profit or loss because of items of income or expense that are taxable or deductible in other periods and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting year.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial report and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the year

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss. In the case of a business combination, the tax effect is included in the accounting for the business combination.

Tax consolidation

Australian Clinical Labs Limited and its wholly owned Australian controlled entities have implemented the Australian tax consolidation legislation on 6 November 2020.

Australian Clinical Labs Limited and subsidiaries in the tax-consolidated group have entered into a tax funding agreement such that each entity in the tax-consolidated group recognises the assets, liabilities, expenses and revenues in relation to its own transactions, events and balances only. This means that:

- the parent entity recognises all current and deferred tax amounts relating to its own transactions, events and balances only;
- the subsidiaries in the tax consolidated group recognise current or deferred tax amounts arising in respect of their own transactions, events and balances; and
- current tax liabilities and deferred tax assets arising in respect of tax losses are transferred from the subsidiaries in the tax-consolidated group to the head entity as inter-company payables or receivables.

The tax-consolidated group also has a tax sharing agreement in place to limit the liability of subsidiaries in the tax-consolidated group arising under the joint and several liability requirements of the tax consolidation system, in the event of default by the parent entity to meet its payment obligations.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and on demand deposits. Cash equivalents are short-term, highly liquid investments, that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(i) Inventories

Inventories represent medical and laboratory supplies. They are measured at the lower of cost and net realisable value.

(j) Plant and equipment

Each class of plant and equipment is carried at cost less, where applicable, any accumulated depreciation and accumulated impairment losses.

- Plant and equipment is measured on the cost basis.
- Leasehold improvements are measured on the cost basis.

Depreciation

The depreciable amount of all fixed assets, including buildings and capitalised lease assets, but excluding freehold land is depreciated over their useful lives to the Group, commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual accounting period, with the effect of any changes recognised on a prospective basis.

The ranges of depreciation rates used for each class of depreciable assets are:

Class of property, plant and equipment	Depreciation rate
Leasehold improvements	2% to 100%
Plant and equipment	5% to 50%

The gain or loss on disposal of all fixed assets is determined as the difference between the carrying amount of the asset at the time of disposal and the proceeds on disposal, and is included in operating profit before income tax of the Group in the year of disposal.

(k) Leases

At the commencement date of a lease (other than leases of 12 months or less and leases of low value assets), the Group recognises a lease asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

Notes to the financial statements

for the year ended 30 June 2021

Note 1: Summary of Significant Accounting Policies (continued)

Lease assets

Lease assets are initially recognised at cost, comprising the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date of the lease, less any lease incentives received, any initial direct costs incurred by the Group, unless those costs are incurred to produce inventories.

Subsequent to initial recognition, lease assets are measured at cost (adjusted for any re-measurement of the associated lease liability), less accumulated depreciation and any accumulated impairment loss.

Lease assets are depreciated over the shorter of the lease term and the estimated useful life of the underlying asset, consistent with the estimated consumption of the economic benefits embodied in the underlying asset.

Lease liabilities

Lease liabilities are initially recognised at the present value of the future lease payments. These lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined, or otherwise using the Group's incremental borrowing rate.

Subsequent to initial recognition, lease liabilities are measured at the present value of the remaining lease payments reduced by rental accruals for missed lease payments. Interest expense on lease liabilities is recognised in profit or loss (presented as a component of finance costs). Lease liabilities are remeasured to reflect changes to lease terms, changes to lease payments (once confirmed) and any lease modifications not accounted for as separate leases.

Variable lease payments not included in the measurement of lease liabilities are recognised as an expense when incurred.

Leases of 12 months or less and leases of low value assets

Lease payments made in relation to leases of 12 months or less and leases of low value assets (for which a lease asset and a lease liability has not been recognised) are recognised as an expense as incurred.

COVID-19 related rent concessions

The Group has elected to apply the practical expedient (as permitted by Australian Accounting Standards) not to assess whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications, and to account for any changes in lease payments resulting from the rent concessions as if the changes were not lease modifications. Any gains arising from COVID-19 related rent concessions are recognised in profit or loss.

The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all the following conditions are met:

- (a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- (b) any reduction in lease payments affects only payments due on or before 30 June 2022; and
- (c) there is no substantive change to other terms and conditions of the lease.

(I) Intangible assets

Goodwill

Goodwill represents the future economic benefits arising from other assets acquired in a business combination that are not individually identifiable or separately recognised. Goodwill is initially recognised at an amount equal to the excess of: (a) the aggregate of the consideration transferred, the amount of any non-controlling interest, and the acquisition date fair value of the acquirer's previously held equity interest (in the case of a step acquisition); over (b) the net fair value of the identifiable assets acquired and liabilities assumed. For accounting purposes, such measurement is treated as the cost of goodwill at that date.

Goodwill is not amortised, but is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Intangible assets acquired separately

Intangible assets acquired separately are recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with any changes in these accounting estimates being accounted for on a prospective basis.

Intangible assets acquired in a business combination

Intangibles acquired in a business combination are initially recognised at fair value (which, for accounting purposes, is treated as the cost of the intangible asset), and are subsequently amortised over their estimated useful lives commencing from the time the asset is available for use. The amortisation method applied to an intangible asset is consistent with the estimated consumption of economic benefits of the asset. Subsequent to initial recognition, intangible assets acquired in a business combination are measured at cost, less accumulated amortisation and any accumulated impairment losses.

(m) Impairment testing of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Intangible assets with indefinite useful lives such as goodwill and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash generating unit) is estimated to be less than the carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the profit or loss immediately, unless the relevant asset is carried at a re-valued amount in which case the impairment is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit other than goodwill) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at a re-valued amount in which case the reversal of the impairment loss is treated as a revaluation increase.

(n) Financial instruments***Recognition***

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. For financial assets, this is equivalent to the date that the Group commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value adjusted for transaction costs, except where the instrument is classified as fair value through profit or loss, in which case transaction costs are immediately recognised as expenses in profit or loss.

Classification of financial assets

Financial assets recognised by the Group are subsequently measured in their entirety at either amortised cost or fair value, subject to their classification and whether the Group irrevocably designates the financial asset on initial recognition at fair value through other comprehensive income (FVtOCI) in accordance with the relevant criteria in AASB 9.

Financial assets not irrevocably designated on initial recognition at FVtOCI are classified as subsequently measured at amortised cost, FVtOCI or fair value through profit or loss (FVtPL) on the basis of both:

- (a) the Group's business model for managing the financial assets; and
- (b) the contractual cash flow characteristics of the financial asset.

Classification of financial liabilities

Financial liabilities classified as held-for-trading, contingent consideration payable by the Group for the acquisition of a business, and financial liabilities designated at FVtPL, are subsequently measured at fair value.

All other financial liabilities recognised by the Group are subsequently measured at amortised cost.

Notes to the financial statements

for the year ended 30 June 2021

Note 1: Summary of Significant Accounting Policies (continued)

Trade and other receivables

Trade and other receivables arise from the Group's transactions with its customers.

Consistent with both the Group's business model for managing the financial assets and the contractual cash flow characteristics of the assets, trade and other receivables are subsequently measured at amortised cost.

Impairment of financial assets

Receivables from customers are tested for impairment by applying the 'expected credit loss' impairment model.

The Group applies the simplified approach under AASB 9 to measuring the allowance for credit losses for both receivables from contracts with customers and contract assets. Under the AASB 9 simplified approach, the Group determines the allowance for credit losses for receivables from contracts with customers and contract assets on the basis of the lifetime expected credit losses of the financial asset. Lifetime expected credit losses represent the expected credit losses that are expected to result from default events over the expected life of the financial asset.

The Group consider a range of information when assessing whether the credit risk has increased since initial recognition. This includes such factors as the identification of significant changes in external market indicators of credit risk, significant adverse changes in the financial performance or financial position of the counterparty, significant changes in the value of collateral, and past due information.

The Group assumes that the credit risk on a financial instrument has increased significantly since initial recognition when contractual payments are more than 120 days past due.

The Group determines expected credit losses using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the financial asset as well as current and future expected economic conditions relevant to the financial asset. When material, the time value of money is incorporated into the measurement of expected credit losses. There has been no change in the estimation techniques or significant assumptions made during the reporting period.

The gross carrying amount of a financial asset is written off (i.e. reduced directly) when the counterparty is in severe financial difficulty and the Group has no realistic expectation of recovery of the financial asset. Financial assets written off remain subject to enforcement action by the Group. Recoveries, if any, are recognised in profit or loss.

(o) Employee benefits

Short-term employee benefit obligations

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of short-term employee benefits are measured at their nominal value, using the remuneration rate expected to apply at the time of settlement.

Long-term employee benefit obligations

Liabilities recognised in respect of long-term employee benefits are measured at the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

Retirement benefit obligations

Contributions to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

Share based payments

The Group operates share-based payment employee share and option schemes for accounting purposes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. In respect of share-based payments that are dependent on the satisfaction of performance conditions, the number of shares and options expected to vest is reviewed and adjusted at each reporting date. The amount recognised for services received as consideration for these equity instruments granted is adjusted to reflect the best estimate of the number of equity instruments that eventually vest.

Bonus plan

The Group recognises a provision when a bonus is payable in accordance with the employee's contract of employment, and the amount can be reliably measured

(p) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

(q) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- (i) Where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- (ii) For receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables. Cash flows are included in the Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

(r) Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, and in accordance with that instrument, amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

(s) Significant accounting estimates and assumptions

In the financial report, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

The following are the estimates and judgements that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial report:

Employee entitlements

Management judgement is applied in determining the following key assumptions used in the calculation of long service leave at balance date:

- Future increases in salaries and wages;
- Future on-cost rates;
- Experience of employee departures and period of service; and
- Appropriate discount rate to reflect long-term liabilities at present value.

Impairment of tangible and intangible assets

Determining whether assets are impaired requires an estimation of recoverable amount for the cash-generating units to which these assets have been allocated. The recoverable amount of each cash-generating unit is the greater of its value in use or fair value less costs to sell.

Value in use is determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form. Value in use is determined by applying assumptions specific to the Group's continued use and cannot take into account future development. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties.

Share based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the day on which they are granted. The fair value is determined using a Black-Scholes model or Monte Carlo model and is recognised as an expense over the vesting period, with a corresponding increase to an equity account.

Notes to the financial statements

for the year ended 30 June 2021

Note 1: Summary of Significant Accounting Policies (continued)

Deferred tax balances

The extent to which deferred tax assets can be recognised is based on an assessment of the probability that future taxable income will be available against which the deductible temporary differences and tax loss carry-forwards can be utilised. In addition, significant judgement is required in assessing the impact of any legal or economic limits or uncertainties in various tax jurisdictions.

Determination of the lease term as the non-cancellable term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal including penalties to terminate, the value of leasehold improvements remaining plus current and future expected economic performance from use of the asset.

After the commencement date, the Group generally can only make a reasonable certainty assessment if there is a significant event or change in circumstances that is within its control and affects the ability to exercise (or not exercise) the option to renew.

Calculation of incremental borrowing rates

Where the Group cannot readily determine the interest rate implicit in lease contracts, the present value of the Group's lease liabilities is estimated using the incremental borrowing rate as if leasing over a similar term, and the funds necessary to obtain an asset of a similar value to the right-of-use asset, in a similar economic environment. The Group uses observable inputs such as market interest rates as applicable.

(t) Adoption of new and revised Accounting Standards

The Group has applied all new and revised Australian Accounting Standards that apply to annual reporting periods beginning on or after 1 July 2020. These standards do not have a material impact on the Group's financial results or position.

(u) Standards and interpretations issued but not yet effective

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods. The Group has decided not to early adopt any of these new and amended pronouncements. These pronouncements are not expected to have a material impact on the entity in the current or future reporting periods or on foreseeable future transactions.

Note 2: Segment Information

The Group's Chief Executive Officer and the Board of Directors (the chief operating decision makers) review the Group's performance of the business to assess performance and determine the allocation of resources. Discrete financial information is reported to the chief operating decision makers on at least a monthly basis. The discrete financial information is provided by one operating segment and one geographical segment, being Australia.

The Group has the one reportable segment:

Pathology

Pathology/clinical laboratory services provided in Australia.

Note 3: Revenue and Other Income

	2021 \$'000	2020 \$'000
An analysis of the Group's revenue for the year is as follows:		
Pathology revenue	639,679	487,530
Clinic revenue	1,632	–
Rental revenue from subleasing right-of-use assets	673	662
Other revenue	4,718	2,378
Total revenue	646,702	490,570
Other		
JobKeeper income	(2,034)	28,900
Gain on disposal of plant and equipment	–	52
Total other income	(2,034)	28,952

On 3 March 2021, the Board chose to repay JobKeeper grants received in the financial year with the repayment conducted on 16 March 2021. The 2021 balance shown above was initially recognised as income in June 2020 as it related to the last fortnight in June. However, these funds were repaid in full in March 2021 resulting in a negative income amount shown above.

Notes to the financial statements

for the year ended 30 June 2021

Note 4: Expenses

	2021 \$'000	2020 \$'000
Profit before income tax includes the following specific expenses:		
(a) Depreciation expense		
Leasehold improvements	3,733	4,143
Plant and equipment	6,427	7,171
Right-of-use assets	77,865	66,588
	88,025	77,902
(b) Amortisation expense		
Customer lists	27	–
(c) Lease rental expense		
Short-term/low value lease payments	12,070	16,186

Note 5: Finance Income and Expenses

	2021 \$'000	2020 \$'000
Finance Income		
Bank deposits	75	38
Finance Expenses		
Interest expense – related parties	(1,046)	(4,072)
Interest expense – bank facilities	(3,054)	–
Interest expense – leasing arrangements	(11,030)	(12,494)
Other borrowing costs	(6,839)	–
	(21,969)	(16,566)
Net finance costs	(21,894)	(16,528)

Other borrowing costs

As part of the IPO, the pre-existing debt facility was repaid in full resulting in \$5.8m of transaction costs being released into the P&L through other borrowing costs.

Note 6: Income Tax

	2021 \$'000	2020 \$'000
(a) Components of income tax expense		
Current tax	33,401	8,690
Recognition of tax loss carried forward	–	(19,742)
Deferred tax	(7,137)	627
	26,264	(10,425)
(b) Income tax reconciliation		
The prima facie tax payable on profit before income tax is reconciled to the income tax expense as follows:		
Profit before tax	86,653	30,830
Domestic tax rate	30%	30%
Expected income tax expense	25,996	9,249
Adjustments for non-deductible expenses:		
Other non-deductible expenses	268	68
Tax losses recognised	–	(19,742)
Actual income tax expense	26,264	(10,425)
(c) Amounts recognised directly in equity		
Aggregate current and deferred tax arising in the reporting period and not recognised in the net profit or loss or other comprehensive income but credited directly to equity		
Capital raising costs	6,208	–

Notes to the financial statements

for the year ended 30 June 2021

Note 7: Trade and Other Receivables

	2021 \$'000	2020 \$'000
CURRENT		
Trade receivables	44,117	34,226
Allowance for expected credit loss	(2,342)	(1,969)
	41,775	32,257
Accrued revenue	19,744	29,548
Other receivables	1,457	1,493
	62,976	63,298

a) At 30 June, the ageing analysis of trade receivables is as follows:

	Gross Value	
	2021 \$'000	2020 \$'000
Current	31,131	23,996
30 to 60 days	6,783	5,117
60 to 90 days	1,551	807
90 to 120 days	965	841
120 days +	3,687	3,465
Closing balance at 30 June	44,117	34,226

b) Allowance for expected credit loss

The Group applies the simplified approach to measure the expected credit losses, using a provision matrix for all trade receivables and adjusts for any known forward-looking issues specific to the debtors and the economic environment. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The provision matrix assesses all debtors greater than 120 days based on past experience. As at 30 June 2021 current trade receivables for the Group with a nominal value of \$2.3 million (2020: \$2.0 million) were impaired.

	Gross Value	
	2021 \$'000	2020 \$'000
Movement in allowance for expected credit losses		
Opening balance at 1 July	1,969	2,509
Provision for impairment expensed	1,476	882
Receivables written off	(1,103)	(1,422)
Closing balance at 30 June	2,342	1,969

Amounts charged to the allowance for expected credit loss are generally written off when there is no expectation of recovering additional cash in excess of the cost of recovery.

c) Foreign exchange and interest rate risk

Information about the Group's exposure to foreign currency risk and interest rate risk in relation to trade and other receivables is provided in Note 28. All carrying amounts of the Group's trade debtors are denominated in functional currency.

d) Fair value and credit risk

Due to the short-term nature of these receivables, the carrying value is assumed to approximate their fair value. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above.

Note 8: Inventories

	2021 \$'000	2020 \$'000
Consumable supplies at cost	13,356	10,498

Note 9: Other Assets

	2021 \$'000	2020 \$'000
CURRENT		
Prepayments	4,612	3,008
Bonds and securities	1,049	435
	5,661	3,443
NON-CURRENT		
Equity accounted other investments	–	988

On 27 April 2021, the Group entered into a conditional contract to dispose of its equity accounted investment. The transaction completed on 18 May 2021. The contribution of this investment was not material to the Group.

Note 10: Plant and Equipment

2021	Leasehold improvements \$'000	Plant and equipment \$'000	Capital work in Progress \$'000	Total \$'000
Gross carrying amount	44,973	87,762	1,687	134,422
Accumulated depreciation	(31,559)	(60,576)	–	(92,135)
Total plant and equipment as at 30 June 2021	13,414	27,186	1,687	42,287
2020				
Gross carrying amount	42,194	81,197	482	123,873
Accumulated depreciation	(28,845)	(56,438)	–	(85,283)
Total plant and equipment as at 30 June 2020	13,349	24,759	482	38,590

Notes to the financial statements

for the year ended 30 June 2021

Note 10: Plant and Equipment (continued)

2021	Leasehold improvements \$'000	Plant and equipment \$'000	Capital work in Progress \$'000	Total \$'000
Gross carrying amount				
Balance at 1 July 2020	42,194	81,197	482	123,873
Additions	2,246	5,793	1,507	9,546
Additions through business combination	1,571	2,429	499	4,499
Disposals	(1,153)	(2,287)	–	(3,440)
Capitalisation of work in progress	135	666	(801)	–
Net exchange differences	(20)	(36)	–	(56)
Balance at 30 June 2021	44,973	87,762	1,687	134,422
Accumulated depreciation				
Balance at 1 July 2020	(28,845)	(56,438)	–	(85,283)
Disposals	1,045	2,248	–	3,293
Net exchange differences	4	11	–	15
Depreciation	(3,763)	(6,397)	–	(10,160)
Balance at 30 June 2021	(31,559)	(60,576)	–	(92,135)
Carrying amount at 30 June 2021	13,414	27,186	1,687	42,287
2020	Leasehold improvements \$'000	Plant and equipment \$'000	Capital work in Progress \$'000	Total \$'000
Gross carrying amount				
Balance at 1 July 2019	40,479	75,687	211	116,377
Additions	1,776	6,054	357	8,187
Disposals	(30)	(630)	–	(660)
Capitalisation of work in progress	(19)	105	(86)	–
Net exchange differences	(12)	(19)	–	(31)
Balance at 30 June 2020	42,194	81,197	482	123,873
Accumulated depreciation				
Balance at 1 July 2019	(24,784)	(49,792)	–	(74,576)
Disposals	(14)	615	–	601
Depreciation	(4,049)	(7,264)	–	(11,313)
Net exchange differences	2	3	–	5
Balance at 30 June 2020	(28,845)	(56,438)	–	(85,283)
Carrying amount at 30 June 2020	13,349	24,759	482	38,590

Note 11: Right-of-use Assets

	2021 \$'000	2020 \$'000
Carrying amount of lease assets, by class of underlying asset:		
<i>Buildings under lease arrangements</i>		
At cost	331,103	222,051
Accumulated depreciation	(144,446)	(66,588)
Total carrying amount of lease assets	186,657	155,463
Additions to right-of-use assets		
Buildings under lease arrangements	104,109	42,092

Note 12: Intangible Assets

2021	Goodwill \$'000	Brand names \$'000	Customer lists \$'000	Total \$'000
Gross carrying amount	105,983	5,600	1,350	112,933
Accumulated amortisation	–	–	(27)	(27)
Total intangibles as at 30 June 2021	105,983	5,600	1,323	112,906

2020

Gross carrying amount	35,748	–	–	35,748
Accumulated amortisation	–	–	–	–
Total intangibles as at 30 June 2020	35,748	–	–	35,748

2021	Goodwill \$'000	Brand names \$'000	Customer lists \$'000	Total \$'000
Gross carrying amount				
Balance at 1 July 2020	35,748	–	–	35,748
Additions through business combination	70,235	5,600	1,350	77,185
Balance at 30 June 2021	105,983	5,600	1,350	112,933
Accumulated amortisation				
Balance at 1 July 2020	–	–	–	–
Amortisation	–	–	(27)	(27)
Balance at 30 June 2021	–	–	(27)	(27)
Carrying amount at 30 June 2021	105,983	5,600	1,323	112,906

Notes to the financial statements

for the year ended 30 June 2021

Note 12: Intangible Assets (continued)

2020	Goodwill \$'000	Brand names \$'000	Customer lists \$'000	Total \$'000
Gross carrying amount				
Balance at 1 July 2019	35,748	–	–	35,748
Additions	–	–	–	–
Balance at 30 June 2020	35,748	–	–	35,748
Accumulated amortisation				
Balance at 1 July 2019	–	–	–	–
Amortisation	–	–	–	–
Balance at 30 June 2020	–	–	–	–
Carrying amount at 30 June 2020	35,748	–	–	35,748

On 18 May 2021, the Group acquired the SunDoctors Group (refer to Note 23) and as a result the brand name associated with SunDoctors was recognised along with associated customer lists.

Impairment testing of goodwill and intangibles with indefinite useful lives

Goodwill is allocated to a cash-generating unit or units (CGU) according to management's expectations regarding which assets will be expected to benefit from the synergies arising from the business combination that gave rise to the goodwill. Management has assessed that only one CGU exists, being the Australian pathology business.

The recoverable amount of a CGU is based on value-in-use calculations. These calculations use cash projections based on financial budgets/forecasts approved by management for covering a minimum period of one year (maximum of five years). Management's determination of cash flow projections and gross margins is based on past performance and its expectation for the future. The present value of future cash flows has been calculated using an average growth rate of 5.4% (2020: 1.5%) for cash flows in years two to five which is based on historic growth rate and industry trends and a terminal value growth rate of 3.5% (2020: 1.5%) and a discount rate of 9.3% (2020: 8.5%) to determine value-in-use.

The carrying value of brand names at 30 June 2021 relates solely to SunDoctors. The recoverable amount of the SunDoctors brand is based on value-in-use calculations via the relief from royalty valuation method. Under this method, the fair value is based on the present value of future foregone royalty payments over the life of the asset by virtue of owning the asset. The present value of future cash flows has been calculated using a royalty rate of 3%, an indefinite useful life and a discount rate of 8.7%.

Management has determined that this brand will be used as part of the wider pathology business with synergies from the existing pathology operations and as such, the brand relates solely to the existing one CGU and the recoverable amounts are assessed as part of the recoverable amount of the CGU.

After performing sensitivity analysis, management believes that any reasonably possible change in the key assumptions on which the recoverable amount has been assessed would not cause the carrying amount to exceed the recoverable amount.

Note 13: Deferred Tax Assets

Deferred taxes arising from temporary differences and unused tax losses are summarised as follows:

	2021 \$'000	2020 \$'000
Doubtful debts	703	591
Employee benefits	15,211	10,477
Sundry accruals	1,320	318
Lease liability	58,407	48,147
Tax losses	–	12,851
Share issue costs	2,682	572
Capitalised costs	1,502	–
Less: amounts offset against deferred tax assets	(64,200)	(49,792)
	15,625	23,164
Amounts offset against deferred tax assets		
Prepayments and sundry debtors	(197)	(20)
Inventories	(4,007)	(3,149)
Right-of-use assets	(55,832)	(46,453)
Intangibles	(2,085)	–
Plant and equipment	(1,966)	(9)
Capitalised costs	(113)	(161)
	(64,200)	(49,792)

Movement	2021 \$'000	2020 \$'000
Opening balance at 1 July	23,164	10,891
Amounts recognised in profit or loss	(7,014)	12,273
Amounts recognised in business combination	(2,027)	–
Amounts recognised directly in equity	1,502	–
Closing balance at 30 June	15,625	23,164

Note 14: Trade and Other Payables

	2021 \$'000	2020 \$'000
CURRENT		
Trade creditors	17,025	12,890
Sundry creditors and accruals	25,604	19,872
	42,629	32,762

Due to the short-term nature of these payables, the carrying values are assumed to approximate their fair value.

Notes to the financial statements

for the year ended 30 June 2021

Note 15: Lease Liabilities

	2021 \$'000	2020 \$'000
Lease liabilities		
Current lease liabilities	70,396	63,440
Non-current lease liabilities	124,544	97,695
Total carrying amount of lease liabilities	194,940	161,135

	2021 \$'000	2020 \$'000
Cash outflow		
Total cash outflow in relation to lease liabilities and associated interest	(86,164)	(73,410)

Lease arrangements

The above information is presented in accordance with AASB 16 *Leases*. Leases relate to properties leased by the Group with lease terms between one and 15 years. Leases can contain market review/fixed increments/CPI increment within the lease period and can contain additional clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

Note 16: Borrowings

	2021 \$'000	2020 \$'000
CURRENT		
Unsecured – at amortised cost		
Bank loans	(190)	–
NON-CURRENT		
Unsecured – at amortised cost		
Related party loans	–	60,070
Bank loans	99,511	–
	99,511	60,070

Related party loans are at arm's length and are interest bearing. Related party loans were repaid in full on 29 September 2020.

Details of the fair values and interest rate risk exposure relating to each of the unsecured liabilities are set out in Note 28.

Terms and repayment schedule

The terms and conditions of outstanding loans are as follows:

Loan	Currency	Nominal interest rate	Year of maturity	2021 \$'000	2020 \$'000
Bank loans	AUD	BBSY + 1.5% - 2.4%	2024	99,321	–
Related party	AUD	7.00%	2022	–	60,070
				99,321	60,070

Note 17: Provisions

	2021 \$'000	2020 \$'000
CURRENT		
Employee benefits	42,770	36,557
Other	5,878	908
	48,648	37,465
NON-CURRENT		
Employee benefits	2,556	3,816

The current provision for employee entitlements is calculated using probability models of employees reaching vesting dates. The calculations are based on pattern of leave taken and are grossed up for future rates, discounted to present value at appropriate discount rates. They are inclusive of on-costs.

Note 18: Issued Capital

a) Share capital

	2021 Shares	2020 Shares	2021 \$'000	2020 \$'000
Fully paid ordinary shares	201,834,105	337,909,852	797,975	146,505

b) Movements in ordinary share capital

Date 2021	Details	Number of shares	Value of shares \$'000
7/1/2020	Opening balance of the Group	337,909,852	146,505
12/17/2020	Reverse existing capital resulting from restructure	(337,909,852)	(146,505)
11/6/2020	Incorporation of ACL Holdco Pty Ltd	1	0
12/16/2020	ACL Holdco Pty Ltd share issue	100,000	1
12/17/2020	Ordinary shares issued to existing shareholders	584,000,000	584,000
2/3/2021	Shares issued under Management Equity Plan	7,984,946	2,256
3/22/2021	Share consolidation	(489,113,638)	-
4/26/2021	Share split	44,355,737	-
5/18/2021	Shares issued under acquisition of SunDoctors	18,688,342	74,652
5/18/2021	Shares issued via Employee Gift Offer	183,000	732
5/18/2021	Shares issued via Priority Employee Discount Offer	332,058	1,328
5/18/2021	Shares issued under an Institutional Placement	35,303,659	141,215
5/18/2021	Transaction costs associated with issue of new shares	-	(6,209)
6/30/2021	Balance of the Group	201,834,105	797,975
2020			
7/1/2019	Opening balance of the Group	337,909,852	146,505
6/30/2020	Balance of the Group	337,909,852	146,505

Notes to the financial statements

for the year ended 30 June 2021

Note 18: Issued Capital (continued)

c) Ordinary shares

All shares are equally eligible to receive dividends and the repayment of capital and represent one vote at shareholders' meetings of Australian Clinical Labs Limited.

d) Options and performance rights

Details of options and performance rights issued, exercised and forfeited during the financial year and options and performance rights outstanding at the end of the financial year are set out in Note 20.

e) Share restructure

Capital was reversed and reissued to existing shareholders as part of the common control acquisition explained in Note 23.

f) Shares issued as part of acquisition of business

Shares were issued in the Company as part of the SunDoctors acquisition. Refer to Note 23 for full details.

g) Employee gift shares

Eligible employees who elected to receive \$1,000 worth of shares in the Company at no cost as part of the IPO.

h) Priority employee discount offer

Eligible employees who elected to acquire shares at a discounted price of 85% of the Offer price as part of the IPO.

Note 19: Reserves and Retained Earnings

	Share based payment reserve \$'000	Foreign currency translation reserve \$'000	Common control reserve \$'000	Loss reserve \$'000	Total reserves \$'000
2020					
Opening balance at 1 July 2019	1,051	152	–	(120,288)	(119,085)
Exchange differences on translation of foreign operations	–	(10)	–	–	(10)
Management share scheme	323	–	–	–	323
Closing balance at 30 June 2020	1,374	142	–	(120,288)	(118,772)
2021	\$'000	\$'000	\$'000	\$'000	\$'000
Opening balance at 1 July 2020	1,374	142	–	(120,288)	(118,772)
Exchange differences on translation of foreign operations	–	(36)	–	–	(36)
Management share scheme – Legacy Plan	272	–	–	–	272
Management share scheme – Legacy Plan (acceleration)	920	–	–	–	920
Management share scheme – LTVR	43	–	–	–	43
Common control reserve from acquisition	–	–	(645,632)	–	(645,632)
Payment of promissory note	–	–	–	(12,500)	(12,500)
Reclassification of pre-IPO Management Equity Plan	(2,566)	–	–	–	(2,566)
Closing balance at 30 June 2021	43	106	(645,632)	(132,788)	(778,271)

a) Share based payment reserve

The share based payment reserve reflects the fair value of equity-settled share based payments.

The Group established an equity incentive plan under which management received ordinary shares as part of their incentive arrangements (Legacy Plan). Equity issued under the Legacy Plan is treated as share options for accounting purposes and the expense associated with the current year is booked in the share based payment reserve.

The IPO triggered the Legacy Plan to vest and subsequently there was an acceleration of the expense associated with this plan which led to a one-off expense totalling \$920k.

Given the Legacy Plan has ceased for accounting purposes, the share based payment reserve associated with this reserve has been transferred to retained earnings.

Post IPO the Group established a Long Term Variable Remuneration (LTVR) Plan. The current year expense relates to the first issue from 25 May 2021 to 30 June 2021.

Refer to Note 1(s), Note 26 and the Remuneration Report for full details.

b) Foreign currency translation reserve

Exchange differences arising on translation of the foreign subsidiary are taken to the foreign currency translation reserve as described in accounting policy Note 1(d).

c) Common control reserve

On 17 December 2020, a restructure took place that resulted in a newly incorporated company, Australian Clinical Labs Limited (formerly ACL Holdco Pty Ltd) obtaining control over Clinical Laboratories Pty Ltd and its controlled entities. Refer to Note 23(a) for full details.

The financial report is presented on the basis of historical cost however the debt and restructure occurred based on the fair value of the business which has not been reflected in the financial report resulting in the recognition of a common control reserve.

d) Loss reserve

The reserve is comprised of losses up to 30 June 2019 (\$120.3m), and a \$12.5m payment to Advanced Medical Technology Pty Ltd as a result of the restructure, where the Group recognised and settled a Promissory Note.

Note 20: Share Based Payments

The Group has an equity-settled share based compensation plan for executives and employees. The fair value of equity remuneration granted under the plan is recognised as an expense with a corresponding increase in equity. Please refer to Note 1(s) for further details.

(a) Employee Share Schemes – Employee Gift Offer (IPO)

The Employee Gift Offer was an offer in conjunction with the IPO and was open to Eligible Employees, being persons who are full-time or part-time employees of the Group, with a start date prior to 31 December 2020 who have a registered address in Australia and are not located in the United States, and who have received an offer from the Company to acquire \$1,000 worth of shares in the Company at no cost and have not elected to receive the equivalent cash gift or receive the equivalent amount in cash.

Directors of the Company were not eligible to participate in the Employee Gift Offer.

Eligible Employees may not sell, transfer or otherwise dispose of any shares acquired under the Employee Gift Offer for a minimum period of three years, unless the Eligible Gift Employee ceases to be employed by ACL or the dealing is required by law (in which case the shares will be released).

Grant date	No. of employee gift shares issued	Share price at grant date	Exercise price	Share based payment expense recognised
18 May 2021	183,000	\$4.00	\$0.00	\$732,000

Notes to the financial statements

for the year ended 30 June 2021

Note 20: Share Based Payments (continued)

(b) Employee Share Schemes – Priority Employee Discount Offer (IPO)

The Priority Employee Discount Offer was an offer in conjunction with the IPO and was open to Eligible Priority Employees. Eligible Priority Employees are persons who have a registered address in Australia and are not located in the United States, and are employees of the Company as management or pathologists.

Eligible Priority Employees have received an offer from the Company to acquire shares at a discounted price of 85% of the Offer Price. The Offer Price for IPO was \$4.00.

Eligible Priority Employees may not sell, transfer or otherwise dispose of any shares acquired under the Priority Employee Discount Offer until the release of 30 June 2022 results, unless the Eligible Priority Employee ceases to be employed by ACL or the dealing is required by law (in which case the shares will be released).

Grant date	No. of priority employee discount shares issued	Share price at grant date	Exercise price	Share based payment expense recognised
18 May 2021	332,058	\$4.00	\$3.40	\$199,235

(c) Australian Clinical Labs Limited Rights Plan

Performance rights are granted under the Australian Clinical Labs Limited Rights Plan for no consideration and carry no dividend or voting rights. When exercisable, each performance right is convertible into one ordinary share.

Grant Date	Expiry date	Exercise price	Balance at start of year	Granted during the year	Balance at end of year	Exercisable at end of year	Balance at date of this report
25-May-21	24-May-26	Nil	–	804,532	804,532	–	804,532

Fair value of rights granted

The average assessed fair value of rights granted during the year ended 30 June 2021 was \$1.814 per right (2020: nil). The valuation model inputs for performance rights granted during the year ended 30 June 2021 included:

Grant Date	Expiry date	Exercise price	Share price at time of grant	Expected life (years from date of issue)	Share price volatility	Risk free rate	Dividend yield
25-May-21	24-May-26	Nil	\$3.60	3.1	45%	0.15%	2.96%

A Monte Carlo simulation was applied to fair value the TSR performance condition element of performance rights granted. The model simulated ACL's TSR and compared it against the peer group over the vesting periods.

(d) Legacy Plan

The Company established an equity incentive plan under which key management personnel received ordinary shares as part of their incentive arrangements (Legacy Plan/MEP). Equity issued under the Legacy Plan will be dealt with as described below to ensure that participants continue to be motivated to achieve sustained growth.

Under the arrangements for the issue of the MEP Shares, if a participant ceases to be employed by the Group, the participant will no longer have an entitlement to unvested MEP Shares.

Of the current MEP Shares, they will be held in Escrow and vest as follows:

One-third will vest after the release of the Company's results for the period to 31 December 2021;

One-third will vest after the release of the Company's results for the period to 30 June 2022; and

One-third will vest after the release of the Company's results for the period to 31 December 2022.

The IPO triggered the Legacy Plan to vest and subsequently there was an acceleration of the expense associated with this plan which led to a one-off expense totalling \$920k.

No further shares will be issued under the Legacy Plan.

(e) Expenses arising from share based payment transactions

Total expenses arising from equity-settled share based payment transactions recognised during the financial year as part of employee benefit expense were as follows:

	2021 \$'000	2020 \$'000
Employee gift offer	732	–
Priority employee discount offer	199	–
Share based payment expense	315	323
Share based payment expense (accelerated)	920	–
	2,166	323

The IPO triggered the Legacy Plan to vest and subsequently there was an acceleration of the expense associated with this plan which led to a one-off expense totalling \$920k.

Note 21: Earnings Per Share**Basic and diluted earnings per share**

The calculation of basic and diluted earnings per share (“EPS”) has been based on the following profit attributable to ordinary shareholders and weighted-average number of ordinary shares.

	2021 Cents	2020 Cents
Basic earnings per share	39.69	28.39
Diluted earnings per share	39.69	28.39

Earnings	2021 \$'000	2020 \$'000
The earnings used in the calculation of basic and diluted earnings per share are the same and can be reconciled to the consolidated statement of profit or loss and other comprehensive income as follows:		
Profit for the year	60,389	41,255
Net (profit) attributable to non-controlling interests	(16)	–
Earnings used in calculating basic and diluted earnings per share	60,373	41,255

Weighted average number of shares	2021	2020
The weighted average number of shares used in the calculation of basic earnings per share	152,104,491	145,340,171
The weighted average number of shares and potential ordinary shares used in the calculation of diluted earnings per share	152,104,491	145,340,171

The number of ordinary shares outstanding has been adjusted retrospectively back to 1 July 2019 (see Note 18).

Performance rights under the Australian Clinical Labs Performance Rights Plan are determined to be contingently issuable shares because their issue is contingent upon satisfying specified conditions in addition to the passage of time and therefore are not included in the determination of diluted earnings per share.

Details of the options and rights exercised, forfeited and issued in the period between the reporting date and the date of this report are detailed in Note 20.

Notes to the financial statements

for the year ended 30 June 2021

Note 22: Dividends

	2021 \$'000	2020 \$'000
(a) Dividends paid or declared		
Final dividend for the year-ended 30 June 2020 of 6.21 cents (2019: Nil cents) per share paid on 29 September 2020 fully franked. On a retrospective basis, in line with the EPS calculation at Note 21, the dividend would have been 14.45 cents per share.	21,000	–
Pre IPO dividend of 14.25 cents per share paid on 18 May 2021 fully franked. On a retrospective basis, in line with the EPS calculation at Note 21, the dividend would have been 14.25 cents per share.	21,000	
	42,000	–
(b) Franked dividends		
Franking credits available at year end for subsequent financial years based on a tax rate of 30%	11,687	1,853

Note 23: Changes to the Composition of the Group

a) Common control acquisition

On 17 December 2020, a restructure took place that resulted in a newly incorporated company, Australian Clinical Labs Limited (formerly ACL Holdco Pty Ltd) obtaining control over Clinical Laboratories Pty Ltd and its controlled entities. The shareholders in Australian Clinical Labs Limited prior to the restructure were also all shareholders in Clinical Laboratories Pty Ltd with the same proportionate economic and beneficial interests. Notwithstanding the direct ownership of Clinical Laboratories Pty Ltd changed as a result of the restructure, there was ultimately no change in the control over its assets.

Accordingly, the Directors have accounted for the restructure as a common control acquisition in accordance with the Australian Accounting Standards. As such, the financial report of Australian Clinical Labs Limited has been presented as a continuation of the pre-existing entities. Those entities being:

- Clinical Laboratories Pty Ltd
- Clinical Laboratories (WA) Pty Ltd
- Perth Medical Laboratories Pty Ltd
- Malvern Pathology Labs Sdn Bhd
- ACL Specialist Investments Pty Ltd (deregistered 5 August 2020)

The financial report is presented on the basis of historical cost however the debt and restructure occurred based on the fair value of the business which has not been reflected in the financial report.

b) Deregistration of ACL Specialist Investments Pty Ltd

On 5 August 2020, ACL Specialist Investments Pty Ltd was voluntarily deregistered.

c) Disposal of interest in Geneseq Pty Ltd

During the 2020 financial year, the Group acquired shares in Geneseq Pty Ltd (“Geneseq”) in addition to those held at the end of the 2019 financial year, resulting in the Group holding a 20% share in Geneseq. Consequently, the investment is treated using the equity method as the Group was deemed to have significant influence over Geneseq.

On 18 May 2021, the Group disposed of all shares at cost price.

d) Business combinations

Acquisition of SunDoctors

On 18 May 2021 in conjunction with the IPO, the Group acquired 100% of the issued share capital in Southern Sun Clinics Pty Ltd (SunDoctors).

The details of the business combination are as follows:

	2021 \$'000
Fair value of consideration transferred	
Amount settled in cash	90
Shares issued in Australian Clinical Labs Limited	74,651
Total	74,741
Recognised amounts of identifiable net assets	
Cash and cash equivalents	2,358
Trade and other receivables	2,426
Inventories	597
Other assets	967
Total current assets	6,348
Plant and equipment (Note 10)	4,499
Right-of-use assets	4,942
Total non-current assets	9,441
Trade and other payables	4,701
Lease liabilities	1,807
Provisions	1,118
Current tax liabilities	26
Borrowings	4,661
Deferred consideration	664
Total current liabilities	12,977
Lease liabilities	3,229
Deferred tax liabilities	496
Total non-current liabilities	3,725
Identifiable net assets	(913)
Goodwill on acquisition (Note 12)	70,235
Brand value on acquisition (Note 12)	5,600
Customer lists on acquisition (Note 12)	1,350
Deferred tax on acquisition	(1,531)
Consideration transferred settled in cash	(90)
Cash and cash equivalents acquired	2,358
Net cash inflow on acquisition	2,268

Notes to the financial statements

for the year ended 30 June 2021

Note 23: Changes to the Composition of the Group (continued)

Consideration transferred

The acquisition of SunDoctors was settled in cash of \$90k and shares issued in the Company amounting to \$74.7m.

Acquisition-related costs are not included as part of consideration transferred and have been recognised as an expense in the consolidated statement of profit or loss, as part of other expenses.

Identifiable net assets

The fair value of the trade and other receivables acquired as part of the business combination amounted to \$2.4m, with a gross contractual amount of \$2.4m. As of acquisition date, the Group's best estimate of the contractual cash flow not expected to be collected is \$nil.

SunDoctors contribution to the Group results

SunDoctors made a profit of \$585k for the period from 18 May 2021 to the reporting date, 30 June 2021. Revenue for the period was \$3.4m.

Note 24: Controlled Entities

The financial report includes the financial statements of Australian Clinical Labs Limited and its controlled entities as listed below:

	Country of incorporation	Percentage owned (%) 2021	Percentage owned (%) 2020
<i>Parent Entity:</i>			
Australian Clinical Labs Limited	Australia		
<i>Subsidiaries of Australian Clinical Labs Limited:</i>			
ACL MidCo Pty Ltd	Australia	100	–
ACL Finco Pty Ltd	Australia	100	–
Clinical Laboratories Pty Ltd	Australia	100	100
Clinical Laboratories (WA) Pty Ltd	Australia	100	100
Perth Medical Laboratories Pty Ltd	Australia	100	100
Malvern Pathology Laboratories Sdn Bhd.	Malaysia	100	100
ACL Specialist Investments Pty Ltd	Australia	–	100
Southern Sun Clinics Pty Ltd	Australia	100	–
SunDoctors Kalowen Pty Ltd	Australia	85	–
Southern Sun Practices Pty Ltd	Australia	100	–
SunDoctors Taree Pty Ltd	Australia	100	–
SunDoctors Coffs Harbour (Southern Cross) Pty Ltd	Australia	100	–
SunDoctors Pottsville Pty Ltd	Australia	100	–
SunDoctors Byron Bay Pty Ltd	Australia	100	–
SunDoctors Burleigh Heads Pty Ltd	Australia	100	–
SunDoctors Novocastrian Pty Ltd	Australia	100	–
Dermaphath AI Pty Ltd	Australia	100	–
Southern Sun Pathology (Helix) Pty Ltd	Australia	100	–
Southern Sun Healthcare Pty Ltd	Australia	100	–
SunDoctors Joondalup Pty Ltd	Australia	100	–
WSCC Healthcare Pty Ltd	Australia	50	–
Orange Skin Cancer Clinic Pty Ltd	Australia	100	–
Ryde Skin Cancer Clinic Pty Ltd	Australia	100	–
Bolton Street Cancer Clinic Pty Ltd	Australia	100	–
Gosford SCC Pty Ltd	Australia	100	–
Southern Sun Pathology Pty Ltd	Australia	100	–
Skin Cancer Clinic Parramatta Pty Ltd	Australia	100	–
Aussie Skin Cancer Clinics Pty Ltd	Australia	100	–
Wollongong SCC Pty Ltd	Australia	100	–

Notes to the financial statements

for the year ended 30 June 2021

Note 24: Controlled Entities (continued)

In the 2020 column of the above table, the parent entity was Clinical Laboratories Pty Ltd. Please refer to Note 23(a) for more details regarding the common control acquisition that occurred in the 2021 financial year.

Malvern Pathology Laboratories Sdn Bhd. recharges its costs plus a mark-up to Clinical Laboratories Pty Ltd which is eliminated upon consolidation.

On 5 August 2020, ACL Specialist Investments Pty Ltd was voluntarily deregistered.

Note 25: Interests in Associates and Joint Arrangements

At the end of the 2020 financial year, the Group had a 20% ownership interest in Geneseq Pty Ltd. The interest was immaterial to the Group. The Group's interest in Geneseq was sold on 18 May 2021. Please refer to Note 23(c) for more details.

Note 26: Related Parties

a) Parent entities and subsidiaries

Australian Clinical Labs Limited is the ultimate Parent Company in the Group comprising the Company and its subsidiaries as detailed in Note 24.

b) Key management personnel compensation

Details of remuneration of key management personnel and transactions with them have been disclosed in the Remuneration Report within the Directors' Report. The aggregate remuneration of the key management personnel is shown below:

	2021 \$'000	2020 \$'000
Short-term employee benefits:	3,159	2,934
Long-term employee benefits	51	76
Post-employment benefits	58	46
Share based payments	159	170
Share based payments (accelerated)	469	–
	3,896	3,226

The IPO triggered the Legacy Plan to vest and subsequently there was an acceleration of the expense associated with this plan which led to a one-off expense totalling \$920k of which \$469k was in relation to key management personnel. Refer to Note 20 for full details.

c) Related party loans

On 29 September 2020, the Group repaid loans totalling \$61.1m inclusive of interest to shareholders of Clinical Laboratories Pty Ltd. Refer to Note 16. The loans were provided to Clinical Laboratories Pty Ltd on ordinary arm's length terms.

Note 27: Notes to the Statement of Cash Flows

(a) Reconciliation of cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial period as shown in the statement of cash flows are reconciled to the related items in the statement of financial position as follows:

	2021 \$'000	2020 \$'000
Cash and cash equivalents – at amortised cost	35,233	34,849

(b) Reconciliation of net profit for the year to net cash flows from operating activities

	2021 \$'000	2020 \$'000
Profit for the year before taxation	86,637	30,830
Non-cash flows in operating profit		
Depreciation	88,052	77,902
Loss on sale of assets	(26)	(52)
Share of losses from equity accounted investments	–	61
Share based payments expense	2,166	323
Accrued interest expense on borrowings	(16,672)	4,071
Capitalised borrowing costs	(749)	–
Non-controlling interest	16	–
	159,424	113,135
Changes in assets and liabilities		
(Increase)/decrease in trade and other receivables	2,749	(16,803)
(Increase)/decrease in other assets	(1,251)	1,013
Increase in inventories	(2,261)	(828)
Increase to trade and other payables	5,175	5,749
Increase/(decrease) to provisions	8,592	(669)
Income tax (paid)/received	(18,564)	139
Net cash provided by operating activities	153,864	101,736

(c) Non-cash financing and investing activities

The following non-cash financing and investing activities occurred during the year and are not reflected in the statement of cash flows:

- Acquisition of right-of-use assets (Note 11)
- Options and rights issued to employees for no cash consideration (Note 20)

(d) Bank facilities and guarantees

At 30 June 2021, the Group had a bank overdraft available of \$6.5m which had not been utilised at year end (2020: \$6.0m, nil utilised).

Financial guarantees also existed in relation to rental properties. The Group has utilised \$5.1m (2020: \$5.4m of designated \$7.0m facility) with the Commonwealth Bank at 30 June 2021.

In order to enhance the Group's liquidity, the Group established the following unsecured debt facilities:

- \$13.5m with the Commonwealth Bank, which includes the facility in relation to the financial guarantees noted above (\$5.1m utilised)
- \$100.0m funded jointly by Commonwealth Bank and HSBC which is fully utilised as at 30 June 2021 (2020: nil, nil utilised)

Notes to the financial statements

for the year ended 30 June 2021

Note 28: Financial Risk Management

The Company's activities expose it to a variety of financial risks which include market risk (including currency and interest rate risk), credit risk and liquidity risk. The Company's risk management is coordinated at its head office, in close cooperation with the Board of Directors, and focuses actively in ensuring the Company's short-to medium-term cash flows by minimising potential adverse effects on the financial performance of the Company.

The Company's financial instruments consist mainly of deposits with banks, debt facilities, trade receivables and trade payables. The Company does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The below is an outline of key financial risks and the Company management's strategies for managing them.

Risk	Description	Strategy for management
Capital management risk	<p>The Company manages its capital with the aim to ensure the consolidated entity's ability to continue to operate as a going concern so that it can continue to provide returns to its shareholders.</p> <p>The Company aims to optimise its debt and equity balance to reduce the cost of capital.</p>	<p>The Company proactively manages its capital structure and may issue new shares, or enter into rights issues or vary the amount of dividends paid to shareholders.</p> <p>The capital structure of the Group is mainly monitored on the basis of the following ratios, which are also covenants under the Company's debt facilities:</p> <ul style="list-style-type: none"> • Leverage Ratio. The Company's leverage ratio as at 30 June 2021 is approximately 0.48, which is well under the upper threshold of 3.50. • Fixed Charge Cover Ratio. The Company's fixed charge ratio as at 30 June 2021 is approximately 8.84, which is well over the bottom threshold of 1.50.
Market risk		
Interest rate risk	The Company's exposure to market risk from changes in interest rates relates primarily to its short-term cash investments and bank borrowings at variable interest rates.	The Company may enter into interest rate swap contracts to hedge against exposure to fluctuations in interest rates. The Company did not enter into any interest rate swaps in the current year.
Foreign exchange risk	<p>The Company has minimal foreign currency risk from the following:</p> <ul style="list-style-type: none"> • Translation of the net assets of the Company's foreign controlled entity, which operates using a different functional currency. • The Company has a limited number of transactions that are required to be settled in foreign currencies. 	The Company may enter into cash flow hedges for committed, large and known expenditure denominated in foreign currency to manage its foreign exchange risk.
Price risk	The Company does not have significant exposure to fluctuations in the fair values or future cash flows of financial instruments associated with changes in market prices.	The Company does not currently invest in equity securities or other financial instruments with market prices risk.

Risk	Description	Strategy for management
Credit risk	<p>The exposure to credit risk at the balance date is the carrying amount of those assets, net of any provisions for impairment as disclosed in Note 7 of the financial report.</p> <p>The Company does not have any material exposure to any individual customers or counterparties other than certain Government or statutory funded bodies which the Company operates.</p>	<p>The Company manages credit risk by performing ageing analysis on receivable balances on an ongoing basis. The Company also has a rigorous process in place to minimise bad debts which involve sending out reminder notices, demand for repayments and referral to debt collection agencies.</p> <p>The Company has not renegotiated any material collection/repayment terms of any financial assets in the current of previous financial years.</p>
Liquidity risk	<p>The Company is required to maintain a high level of liquidity to ensure that it is capable of meeting its obligations associated with its financial liabilities and to fund its long-term strategic initiatives and expansion plans.</p>	<p>The Company manages its liquidity risk by:</p> <ul style="list-style-type: none"> • The Company has adequate debt facilities in place should they be required to refinance any short-term liabilities. • Ongoing cash flow forecasting and reporting.

a) Interest rate risk

The Company's exposure to interest rate risk and the effective weighted average interest rate by maturity period is set out in the below table. Exposure predominantly arises from the Company's borrowings at floating interest plus a fixed margin.

	Average Interest Rate %	Fixed Interest Rate				Total \$'000
		Variable Interest Rate \$'000	Less than 1 year \$'000	1 to 5 years \$'000	More than 5 years \$'000	
2021						
Financial assets						
Cash	0.15%	35,233	–	–	–	35,233
Financial liabilities						
Bank loans	BBSY + 1.5% - 2.40%	(99,321)	–	–	–	(99,321)
Lease liabilities	2.05% - 7.00%	–	(70,396)	(110,062)	(14,482)	(194,940)
Total		(64,088)	(70,396)	(110,062)	(14,482)	(259,028)

	Average Interest Rate %	Fixed Interest Rate				Total \$'000
		Variable Interest Rate \$'000	Less than 1 year \$'000	1 to 5 years \$'000	More than 5 years \$'000	
2020						
Financial assets						
Cash	0.10%	34,849	–	–	–	34,849
Financial liabilities						
Related party loans	7.00%	(60,070)	–	–	–	(60,070)
Lease liabilities	7.00%	–	(63,440)	(82,620)	(15,075)	(161,135)
Total		(25,221)	(63,440)	(82,620)	(15,075)	(186,356)

Notes to the financial statements

for the year ended 30 June 2021

Note 28: Financial Risk Management (continued)

b) Sensitivity Analysis

The following table summarises the sensitivity of the consolidated entity's financial asset and liabilities to interest rate risk. The analysis has been determined based on the Company's exposure to variable interest rates during the financial year projecting a reasonably possible change taking place at the beginning of the financial year, held constant throughout the financial year and applied to variable interest payments made throughout the financial year.

	Carrying Amount \$'000	Result		Equity	
		0.5%/50BP Increase \$'000	0.5%/50BP Decrease \$'000	0.5%/50BP Increase \$'000	0.5%/50BP Decrease \$'000
2021					
Financial Assets					
Cash	35,233	176	(176)	176	(176)
Financial Liabilities					
Bank loans	(99,321)	(497)	497	(497)	497
Total	(64,088)	(321)	321	(321)	321

	Carrying Amount \$'000	Result		Equity	
		0.5%/50BP Increase \$'000	0.5%/50BP Decrease \$'000	0.5%/50BP Increase \$'000	0.5%/50BP Decrease \$'000
2020					
Financial Assets					
Cash	34,849	174	(174)	174	(174)
Financial Liabilities					
Related party loans	(60,070)	(300)	300	(300)	300
Total	(25,221)	(126)	126	(126)	126

Note 29: Parent Entity Information

	2021 \$'000
Assets	
Current assets	226,984
Non-current assets	586,579
Total assets	813,563
Liabilities	
Current liabilities	865
Non-current liabilities	–
Total liabilities	865
Equity	
Issued capital	797,975
Reserves	43
Retained earnings	14,680
Total equity	812,698

	2021 \$'000
Financial performance	
Loss for the year	(9,353)
Total comprehensive income	(9,353)

At 30 June 2020, the parent entity of the Group was Clinical Laboratories Pty Ltd (see Note23(a)). Consequently, there is no comparative 2020 column above as Australian Clinical Laboratories Limited, the parent at 30 June 2021, did not exist in the prior financial year.

Note 30: Auditors' Remuneration

	2021 \$'000	2020 \$'000
Auditor of Australian Clinical Labs Limited – Audit Services		
Audit of the financial report for the financial year ended 30 June 2021	195	129
Review of the financial report for the half year ended 31 December 2020	85	–
Total audit and other assurance services	280	129

Note 31: Contingent Liability

The Company had issued a promissory note to Advanced Medical Technology Pty Ltd payable on sale of the Clinical Laboratories Pty Ltd shares whereby the return on investments exceeds a predetermined amount. At 30 June 2020 the maximum amount payable was \$12.5m.

On 21 December 2020 the Promissory Note was paid totalling \$12.5m.

No other contingent liabilities are noted.

Notes to the financial statements

for the year ended 30 June 2021

Note 32: Deed of Cross Guarantee

Pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785, the wholly owned subsidiaries listed below are relieved from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports, and Directors' reports.

It is a condition of the Instrument that the relevant holding entity and each of the relevant subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that each holding entity guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries in each Group under certain provisions of the Corporations Act 2001. If a winding up occurs under other provisions of the Corporations Act 2001, each holding entity will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that each holding entity is wound up.

The parent entity and subsidiaries subject to the Deed of Cross Guarantee as at 30 June 2021 are as follows:

- Australian Clinical Labs Limited
- ACL MidCo Pty Ltd
- ACL FinCo Pty Ltd
- Clinical Laboratories Pty Ltd
- Clinical Laboratories (WA) Pty Ltd
- Southern Sun Clinics Pty Ltd
- Southern Sun Pathology Pty Ltd
- Southern Sun Healthcare Pty Ltd
- Southern Sun Pathology (Helix) Pty Ltd

These entities above represent a 'Closed Group' for the purposes of the Instrument.

a) Consolidated statement of profit or loss of the Closed Group

	2021 \$'000	2020 \$'000
Revenue	641,616	486,191
Other income	(2,034)	28,952
Total	639,582	515,143
Consumables	(119,547)	(87,040)
Labour costs	(245,957)	(234,318)
Property costs	(14,015)	(18,247)
Repairs and maintenance	(6,859)	(6,637)
IPO transaction costs	(17,420)	–
Other operating expenses	(40,008)	(44,141)
Depreciation	(9,720)	(11,004)
Depreciation of right-of-use assets	(77,865)	(66,588)
Amortisation of acquired intangible assets	7	–
Total operating costs	(531,384)	(467,975)
Earnings before interest and tax	108,198	47,168
Net finance costs	(21,848)	(16,480)
Share of losses from equity accounted investments	–	(61)
Profit before income tax	86,350	30,627
Income tax (expense)/benefit	(26,176)	10,470
Profit for the year	60,174	41,097
Net (profit) attributable to non-controlling interests	(16)	–
Net profit attributable to members of the Closed Group	60,158	41,097

b) Consolidated statement of other comprehensive income of the Closed Group

	2021 \$'000	2020 \$'000
Profit for the year	60,174	41,097
Other comprehensive income		
Items that may be reclassified subsequently to profit and loss		
Exchange differences on translation of foreign operations	–	–
Other comprehensive income for the year, net of tax	–	–
Total comprehensive income for the year	60,174	41,097
Total comprehensive income attributable to:		
Members of the Closed Group	60,158	41,097
Non-controlling interests	16	–
	60,174	41,097

Notes to the financial statements

for the year ended 30 June 2021

Note 32: Deed of Cross Guarantee (continued)

c) Reconciliation of retained earnings of the Closed Group

	2021 \$'000	2020 \$'000
Retained earnings at the beginning of the financial year	41,099	–
Profit from ordinary activities after income tax expense	60,158	41,099
Dividends paid during the year	(42,000)	–
Reclassification of pre-IPO Management Equity Plan	2,566	–
Retained earnings at the end of the financial year	61,823	41,099

d) Consolidated Statement of Financial Position of the Closed Group

	2021 \$'000	2020 \$'000
CURRENT ASSETS		
Cash and cash equivalents	34,565	34,834
Trade and other receivables	62,864	63,424
Inventories	13,249	10,498
Other assets	7,159	3,298
Current tax assets	–	–
TOTAL CURRENT ASSETS	117,837	112,054
NON-CURRENT ASSETS		
Plant and equipment	40,784	37,880
Right-of-use assets	184,358	154,842
Intangible assets	111,371	35,748
Other assets	–	988
Deferred tax assets	16,145	23,164
TOTAL NON-CURRENT ASSETS	352,658	252,622
TOTAL ASSETS	470,495	364,676
CURRENT LIABILITIES		
Trade and other payables	42,262	32,713
Lease liabilities	69,570	63,300
Borrowings	(190)	–
Provisions	48,441	37,432
Current tax liabilities	4,003	1,799
Deferred consideration	200	–
Intercompany	–	–
TOTAL CURRENT LIABILITIES	164,286	135,244

	2021 \$'000	2020 \$'000
NON-CURRENT LIABILITIES		
Lease liabilities	123,038	97,188
Borrowings	99,511	60,070
Provisions	2,556	3,816
Deferred tax liabilities	–	–
TOTAL NON-CURRENT LIABILITIES	225,105	161,074
TOTAL LIABILITIES	389,391	296,318
NET ASSETS	81,104	68,358
EQUITY		
Issued capital	797,975	146,505
Reserves	(778,710)	(119,246)
Retained earnings	61,823	41,099
Total parent entity interest	81,088	68,358
Non-controlling interest	16	–
TOTAL EQUITY	81,104	68,358

Note 33: Subsequent Events

There were no significant changes in the Group's state of affairs that occurred following the end of the financial year and up to the date of the financial report, other than those referred to elsewhere in this report.

Directors' declaration

In the Directors' opinion:

- a) the financial statements and notes set out on pages 34 to 77 are in accordance with the Corporations Act 2001, including:
 - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Group's financial position as at 30 June 2021 and of its performance for the financial year ended on that date; and
- b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable; and
- c) at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in Note 32 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the Deed of Cross Guarantee described in Note 32.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required under section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the Directors.



M. Alsher
Chair
Sydney, 26 August 2021



M. McGrath
Chief Executive Officer and Executive Director
Melbourne, 26 August 2021



**AUSTRALIAN CLINICAL LABS LIMITED
AND CONTROLLED ENTITIES
ABN: 94 645 711 128**

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
AUSTRALIAN CLINICAL LABS LIMITED**

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Australian Clinical Labs Limited "the Company" and its controlled entities, "the Group", which comprises the consolidated statement of financial position as at 30 June 2021, the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2021 and of its financial performance for the year then ended; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* "the Code" that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the key audit matter
<p><i>Carrying value of Goodwill</i> Refer to Note 1(l) and Note 12</p> <p>At 30 June 2021 the Group's balance sheet includes goodwill relating to one cash generating unit ("CGU"). We believe due to the significance of the goodwill balance, that the carrying value is a key audit matter.</p> <p>Specifically, the key audit matter for us was whether the Group's value in use model for impairment included appropriate consideration and support for significant estimates and judgements and the selection of key external and internal inputs.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> • Assessing management's determination of the Group's CGU based on our understanding of the nature of the Group's business and the economic environment in which it operates. • Understanding and evaluating the design and implementation of management's process and controls regarding valuation of the Group's goodwill assets to determine any asset impairment including the procedures around the preparation and review of forecasts.

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Independent Auditors' Report (continued)



**AUSTRALIAN CLINICAL LABS LIMITED
AND CONTROLLED ENTITIES
ABN: 94 645 711 128**

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
AUSTRALIAN CLINICAL LABS LIMITED**

Management's assessment of impairment of the Group's goodwill balances incorporated significant estimates and judgements in respect of factors such as forecast:

- revenues;
- expenses;
- capital expenditure; and
- economic assumptions in the cash flow model such as, discount rates, growth rates and terminal growth rate.

- Evaluating the Group's significant estimates and judgements used to determine the recoverable value of its assets, including those relating to forecast revenue, expenses, capital expenditure, and other economic assumptions.
- Engaging an auditor's expert to evaluate the key economic assumptions to external market data.
- Recalculating the mathematical accuracy of the cash flow model.
- Assessing the historical accuracy of forecasting of the Group.
- Performing sensitivity analysis in relation to the significant estimates and judgements used by management.
- Assessing the adequacy of disclosure in the financial statements.

Purchase price allocation of SunDoctors intangible assets

Refer to Note 1(l) and Note 12

On 18 May 2021 the Group acquired SunDoctors Group. The purchase of SunDoctors included significant intangible balances relating to customer lists, brand value and residual goodwill. Significant accounting estimates and judgements were undertaken to assess the identification and valuation of the intangible assets arising from the acquisition of SunDoctors.

Management's assessment of the purchase price allocation involved engaging an external expert to provide a report outlining the allocation of intangible assets in conjunction with discounting forecasted cashflows for calculation of the acquired business' enterprise value.

Our procedures included, amongst others:

- Assessing management's determination of the Group's purchase price allocation based on specialist advice provided by management's expert.
- Understanding and evaluating the design and implantation of management's process and controls regarding the allocation of the Group's customer lists, brand value and goodwill assets to determine the appropriate allocations for each intangible asset recently acquired in the business acquisition.
- Evaluating the mathematical accuracy of the purchase price allocation model.
- Recalculating the Group's purchase price allocation using observable inputs.
- Engaging an auditor's expert to evaluate the key economic assumptions, accounting estimates, judgements and the methodology used in the report produced by management's expert to identify and value intangible assets arising from the business acquisition.
- Assessing both management's and auditor's experts' qualifications and expertise.
- Assessing the adequacy of disclosure in the financial statements.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2021, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

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**AUSTRALIAN CLINICAL LABS LIMITED
AND CONTROLLED ENTITIES
ABN: 94 645 711 128**

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
AUSTRALIAN CLINICAL LABS LIMITED**

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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Independent Auditors' Report (continued)



**AUSTRALIAN CLINICAL LABS LIMITED
AND CONTROLLED ENTITIES
ABN: 94 645 711 128**

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
AUSTRALIAN CLINICAL LABS LIMITED**

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in page 19 to 33 of the Directors' report for the year ended 30 June 2021. In our opinion, the Remuneration Report of Australian Clinical Labs Limited, for the year ended 30 June 2021, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

S D WHITCRUCH
Partner

PITCHER PARTNERS
Melbourne

26 August 2021

