



Healthscope announces results for six months ending 31 December 2012

13 February 2013

Healthscope Notes today announced interim results for the Healthscope Group for the period ending 31 December 2012.

Financial results for the period include:

- Revenue of \$1,114.3 million, an increase of 5.3%;
- Operating EBITDA of \$156.0 million⁽¹⁾, an increase of 3.0%;
- Other expenses (non-operating) of \$123.3 million, comprising largely of an impairment charge in relation to Pathology Australia of \$120.0 million;
- Net loss (after other expenses) of \$109.1 million;
- Cash flows from operations of \$175.8 million;
- EBITDA cash conversion of 113%.

(1) Excludes other expenses (non-operating) of \$123.3 million

The Group result was driven by a strong result from the Hospitals division which represents 87% of Healthscope's EBITDA. The Pathology International division also continued to perform strongly. Pathology Australia's performance was impacted by both market conditions and the protracted divestment process that did not complete.

In reflecting on the annual results, Healthscope's Executive Chairman, Mr Robert Cooke, said "If we exclude the performance of Pathology Australia, Healthscope's delivered a very pleasing 1H13 financial performance, with the Hospitals and Pathology International divisions delivering robust growth."

With regard to the performance of Healthscope's Hospitals, Mr Cooke said "Hospitals contribute over 87% of Healthscope's EBITDA, and momentum in this division is continuing. Volume growth was solid and combined with excellent progress on labour and procurement initiatives, this division delivered margin uplift of 40bp".

"A number of brownfield projects were completed during the half, and since Healthscope was acquired by TPG and Carlyle in October 2010, 237 new beds and 16 theatres have been added to Healthscope's portfolio."

In commenting on the growth prospects for Healthscope's hospitals, Mr Cooke said "Demand for private hospital services remains strong, despite the recent introduction of means testing of the private health insurance rebate. The pipeline of new projects is robust, with expansion plans in place for a number of key hospitals, and planning for the new Gold Coast Hospital is progressing well."

Turning to Australian Pathology, Mr Cooke said "The Pathology Australia result was disappointing, driven largely by the underperformance of the New South Wales and Queensland businesses, which



were impacted by the divestment process that did not proceed. Over the last few months these businesses have been restructured, and with this process almost complete, we expect these businesses to deliver an improved performance in the second half.”

In commenting on the performance of Healthscope’s Medical Centres business, Mr Cooke said “Solid top line growth was achieved, and our large multi-disciplinary sites are performing strongly”.

In relation to the International Pathology, Mr Cooke said “Healthscope’s International Pathology business continued its momentum, with all countries delivering robust results. The track record of this business is excellent and it provides a platform for further expansion into South East Asia.”

Group results

	1H13	1H12	Movement
	\$m	\$m	%
Revenue	1,114.3	1,058.3	5.3%
Operating EBITDA (1)	156.0	151.4	3.0%
Depreciation	(46.7)	(41.4)	-12.8%
Operating EBIT (1)	109.3	110.0	-0.6%
Other expenses (refer next slide)	(123.3)	(4.4)	n/a
Net finance costs	(92.3)	(92.1)	-0.2%
Profit / (loss) before tax	(106.3)	13.5	n/a
Tax	(2.8)	(3.5)	20.3%
Net profit/(loss) after tax	(109.1)	10.0	n/a

(1) Operating EBITDA and Operating EBIT excludes other expenses (non-operating) of \$123.3 million. EBITDA and EBIT excluding operating expenses (Operating EBITDA and Operating EBIT) is presented as it provides an understanding of the underlying trading performance of the business

Note 1: Other expenses	1H13	1H12
Profit on sale of WA Pathology business	4.2	-
Acquisition costs	(0.5)	(0.9)
Restructure and other costs	(7.1)	(3.5)
Impairment of goodwill - Australian Pathology	(120.0)	-
Total other expenses	(123.3)	(4.4)

The Healthscope Group recorded revenue growth of 5.3% to \$1,114.3 million in 1H13, with all divisions contributing to revenue growth. EBITDA increased by 3.0% to \$156.0 million, driven by solid growth in earnings from the Hospitals and Pathology International divisions, partly offset by a decrease in EBITDA from Pathology Australia.



Impairment of Goodwill – Pathology Australia

In line with AASB 136 Impairment of Assets, the Healthscope Group recorded an impairment charge of \$120.0 million in 1H13 in respect to Pathology Australia. As at 30 June 2012, the NSW, QLD and WA pathology assets were subject to sale agreements with Sonic Healthcare, and as such impairment testing was completed using the fair value less costs to sell method based on the expected proceeds from the divestments. However, given the sale of the NSW and QLD assets did not proceed as at 31 December 2012 these assets have now been assessed using the 'value in use' method for the purposes of impairment testing. The carrying value of Pathology Australia's assets as at 31 December 2012 exceeded its value in use by \$120.0 million, which has been recognised as an impairment of goodwill. This impairment charge is a non cash item and has no impact on the Group's syndicated debt facility or banking covenant ratios.

Divisional results

Hospitals

	1H13	1H12 Movement	
	\$'000	\$'000	%
Revenue	836.8	796.1	5.1%
EBITDA	136.4	126.2	8.0%
EBITDA margin % (1)	16.3%	15.9%	+40bp

(1) EBITDA margin includes prosthetics revenue and costs

The Hospitals division recorded solid revenue growth through a combination of volume and acuity. Excluding the impact of the discontinued diagnostic imaging businesses, revenue growth in 1H13 was 6.0%. Acute hospitals delivered the strongest growth during the period, with recently completed brownfield at major developments such as Knox, Norwest and Prince of Wales performing ahead of expectations.

A strong brownfields pipeline with a focus on major facilities continues to be planned and delivered, and Healthscope continues to explore a variety of funding opportunities to optimise its capital structure to efficiently fund these developments.

Cost initiatives, in particularly in relation to labour and procurement, gained further traction during 1H13, which contributed to the 40 basis points uplift in margin.

Healthscope continues to work more collaboratively with health funds, with six contracts renewed during the period.



Australian Pathology (including Medical Centres)

	1H13	1H12	Movement
	\$'000	\$'000	%
Revenue	183.7	181.5	1.2%
EBITDA	5.0	12.3	-59.4%
EBITDA margin %	2.7%	6.8%	-410bp

Note: For segment purposes, Medical Centres is included with Australian Pathology

The performance of Pathology Australia was impacted by the underperformance of the Queensland and New South Wales businesses, which were impacted by market conditions and the proposed divestment process that did not proceed. Performance of the Victorian and South Australian pathology businesses were in line with expectations, with Victoria achieving strong growth in revenues, partly due to new public hospital contract operations. The sale of Healthscope's Western Australia Pathology business was completed in October 2012, which negatively impacted revenue growth in 1H13.

A major restructure of the New South Wales business is close to completion, which has involved the closure of a number of collection centres and laboratories and the divestment of some small regional areas. Going forward, the New South Wales business will be focussed on providing a high quality and profitable service to Sydney and major regional areas. The impact of the recent restructure and cost initiatives is beginning to emerge, with improved results already being experienced.

In Queensland, the focus is on restoring stability to this business, including maximising the throughput of existing collection centres. A new management team has recently commenced in Queensland.

The Medical Centres business recorded solid revenue growth during the period. Healthscope now has seven centres that have been expanded and upgraded to large, multi-disciplinary centres, and these sites are all performing strongly. However, margins during the period were impacted by some underperforming smaller sites.

International Pathology

	1H13	1H12	Movement
	\$'000	\$'000	%
Revenue	93.7	80.7	16.1%
EBITDA	21.0	18.6	13.0%
EBITDA margin %	22.4%	23.0%	-60bp

International Pathology reported another strong result with strong revenue and earnings growth across all regions. In New Zealand, the new Christchurch laboratory was successfully commissioned with positive marketplace feedback on services to the Canterbury region. The Medlab South acquisition is performing well and contributed to the strong revenue growth in New Zealand.

The Singapore business delivered good revenue and earnings growth, especially in the higher margin specialist and commercial segments. The Malaysian business also delivered a solid result.



Cashflow and balance sheet

Cash flows from operations in 1H13 increased by 12.8% to \$175.8 million. The Group continued its strong cash generation performance over a number periods with EBITDA to cash flow conversion for the period at 113%.

The Healthscope Group had a net debt of \$1,542.6 million as at 31 December 2012, with a gearing ratio (net debt / net debt + equity) of 66.8%.¹

The Total Leverage Ratio as at December 2012 is 4.94x.

Covenants

As at 31 December 2012 the Healthscope Group continued to meet all of its covenants.

Banking covenants December 2012.

Covenant	Actual Covenant Dec-12	Covenant Limit Dec-12
Senior Gearing Ratio	4.29x	<4.60x
Debt Service Cover Ratio	1.36x	>1.05x
Interest Cover Ratio	1.80x	>1.60x

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¹ Net debt calculation excludes capitalised loan establishment fees in accordance with the definition of net debt in the Group's syndicated banking facility.



NOTE 1: BACKGROUND

Healthscope Notes Limited was incorporated on 8 November 2010 as a special purpose vehicle to issue publicly listed debt instruments and on-lend the net proceeds raised from the issue of the debt instruments to Healthscope Finance Pty Ltd, a member of the Healthscope Group. As a result of its listing on the ASX, Healthscope Notes Limited is required to lodge annual and half yearly financial reports in accordance with the ASX Listing Rules and the Corporations Act. In addition, it will lodge with the ASX annual and half yearly financial reports for the Healthscope Group, which aggregate the financial performance, the financial position and the cash flows of:

- Healthscope Hospital Holdings No. 2 Pty. Ltd ACN 145 126 094 and its controlled entities;
- Healthscope Pathology Holdings No. 2 Pty Ltd ACN 146 342 832 and its controlled entities; and
- CT HSP Holdings (Dutch) B.V. registration no. 34308383 and its controlled entities;

(together the 'Healthscope Group') to provide the holders of Healthscope Notes with an understanding of the financial position of the Healthscope Group, which was referred to in Healthscope Notes Ltd's prospectus dated 24 November 2010 as the 'Security Group'.

NOTE 2: RECONCILIATION TO NET PROFIT / (LOSS)

The following table reconciles the net profit/loss for the period to EBITDA before restructure and acquisition costs.

	Half-year 31 December 2012 \$'000	Half-year 31 December 2011 \$'000
Net profit/(loss) for the period	(109,145)	10,021
Add back:		
Income tax expense	2,863	3,468
Net finance cost	92,262	92,118
Depreciation and amortisation	46,704	41,406
Earnings before finance costs, income tax depreciation and amortisation, (EBITDA)	32,684	147,013
Add back:		
Profit on sale of WA pathology business	(4,203)	-
Acquisition costs	475	923
Restructure and other costs	7,054	3,479
Impairment of goodwill	120,000	-
	123,326	4,402
EBITDA before restructure and acquisition costs	156,010	151,415