

## Annual General Meeting - Chairman's Address

23 November 2015

This has been a successful year for Healthscope and we are proud of what we have achieved. Over the past year, our company has delivered on its prospectus earnings forecasts, continued to build on its strong pipeline of growth projects and, most importantly, delivered the highest standards of healthcare to almost 10 million patients in Australia, New Zealand and South East Asia.

It is my pleasure this morning to take you through who we are today, the breadth of services that we offer and the important role that we play in delivering vital services to the healthcare sector. We are entering an exciting phase of growth in our hospital portfolio and I will also take some time to explain our pipeline which will expand our key hospitals to cater for the growing demands of Australia's ageing population.

Following my address, our Managing Director and Chief Executive Officer, Robert Cooke, will provide additional detail on our achievements over the last year, as well as our priorities for FY16.

### Healthscope today

2015 marks Healthscope's 30th anniversary since its formation in 1985. Healthscope was first listed on the Australian Securities Exchange in 1994 at which point the business consisted of only three hospitals. Today Healthscope operates 46 private hospitals and 52 medical centres and skin clinics in Australia and 50 pathology laboratories in New Zealand, Singapore, Malaysia and Vietnam.

We are an employer of over 15,000 people in Australia and 2,500 internationally. In addition, over 17,000 accredited medical practitioners provide services at our hospitals, and more than 420 general practitioners provide services at our medical centres.

Our employees and doctors touch the lives of thousands of people each day. In 2015, we

- Provided care for over 900,000 patients in our hospitals;
- Performed over 140,000 inpatient surgical procedures;
- Delivered over 13,000 babies;
- Performed over 7 million pathology tests in New Zealand, Malaysia, Singapore and Vietnam; and
- Provided over 2 million GP consultations in our medical centres.

### 2015 financial year overview

In 2015 we also delivered strong financial results in line with our prospectus earnings forecasts. Operating EBITDA of \$388.3 million was up 8.7% and Operating EBIT of \$286.9 million was up 9.4% on the prior year.

Operating net profit after tax of \$153.1 million was also significantly higher than the prior year partly reflecting the company's pre-IPO gearing structure.

I am also pleased to note that we provided shareholders with dividends equal to 7.0 cents per share, representing a payout ratio of 70% of pro-forma Net Profit after Tax.

These strong results were driven by our largest operating divisions, Hospitals and International Pathology.

During the year we also successfully divested our sub-scale and loss-making Australian Pathology operations.

### **Industry thematics and Government reform**

Healthscope operates in an attractive industry. In Australia, we currently spend in excess of \$150 billion on healthcare each year. Healthcare is one of the few sectors in Australia where we can be certain that underlying demand growth will continue to escalate over the next 10 to 20 years as the baby boomer generation ages.

As I am sure you are aware, demand for private health care services in Australia is not only underpinned by the growing and ageing population but also a public hospital system that is under considerable pressure. This is demonstrated by significant waiting lists for elective surgeries, such as hip and knee replacements. In FY15, 10% of patients waited longer than 253 days for elective surgery in Australian public hospitals. This is in contrast to private hospitals, where there are generally no waiting lists, and patients have the added benefit of the doctor of their choice. Avoiding waiting lists for elective surgery is one of the key reasons why 47% of Australians hold private health insurance.

It is worth noting that these waiting list issues are compounded by the fact that approximately 750,000 privately insured patients are being treated in public hospitals each year. This number has more than doubled over the last decade. Individual public hospitals seek out privately insured patients with the purpose of accessing additional funding from the private health insurance market. This is at the expense of public patients and results in growing waiting lists. Healthscope continues to advocate that public hospital beds should be prioritised for those patients that don't have private health insurance and are most in need.

There are currently three Government reviews underway which are designed to look at the growing pressure on the public health system and broader concerns around affordability of healthcare generally.

The first review is of the Medical Benefit Schedule which is out-dated and currently includes over 5,700 items. This review will examine these items in terms of their clinical appropriateness and value. It will provide an opportunity to modernise and reshape Medicare whilst hopefully delivering more streamlined administration processes.

The second review is of primary care and is centred on improving the interface between primary and acute care and determining the best way to support people with complex and chronic diseases. We believe the outcome of this review will include a greater emphasis on multi-disciplinary care and payment-for-outcomes. Our medical centres play an integral role in chronic disease management and we look forward to our involvement continuing, and growing, in the future.

The final public consultation process which was announced in late October relates to private health insurance. This process will focus on ensuring that the attractiveness of private health insurance for consumers is maximised. As part of this review we expect the Government to address policy complexity and the increasing number of so-called 'junk' policies which have so many exclusions that members find it difficult to access a private hospital and often have to revert back to the public



system. Given the importance of maintaining a sustainable private health insurance industry, we welcome this review and look forward to providing input during the round table discussions, in conjunction with the Australian Private Hospital Association.

We are supportive of the consultative approach the Government is taking with these reviews and we are confident that they will lead to positive healthcare reform and serve to endorse the role and efficiency of the private sector. Going forward, we are keen to work with State and Federal Government's to explore opportunities, where we can play an increased role in the provision of public healthcare, such as the Northern Beaches Hospital project.

### **Investing in the future**

I would now like to take a moment to reflect on the scale and scope of our hospital business. We have 46 hospitals across Australia, 11 of which are co-located with public hospitals. We are the only private hospital operator with a presence in every state and territory. Each of our hospitals has a local branding strategy to tie in with their local community, with the Healthscope logo being the common identifier.

Given the growing demand for private hospital services, a key focus for us in 2015, and the year ahead, has been investing in the future. We currently have a pipeline of nine hospital projects under construction and we invested \$275 million of capital into these projects in FY15. In addition we also have five projects that have been approved by the Board and we have a strong balance sheet in place to support further significant investment in coming years.

The projects currently under construction include a number of major brownfield projects at some of our key sites, concentrated in large metropolitan growth areas. For example, Knox Private Hospital in Victoria, National Capital Private Hospital in the ACT and Norwest Private Hospital in New South Wales. In addition, we have two significant projects underway where we will be relocating operations from an older hospital into a brand new larger facility. These new facilities are the Gold Coast Private Hospital which is scheduled to open during Easter next year and Holmesglen Private Hospital, which is co-located with Victoria's largest TAFE, and is scheduled to open in 2017.

It is worth noting that not only do hospital expansion projects provide future capacity, they also deliver significant construction, healthcare and facilities management jobs. It is estimated that Healthscope's current expansion program will create approximately 14,000 construction jobs over the next three years and a further 4,000 ongoing jobs.

### **Strong foundations for future growth**

In addition to the projects I have just described, we have invested significant time in developing master plans and securing permits for our hospitals which we believe will require increased capacity.

For example, Knox Private Hospital is already the third largest private hospital in Victoria, is situated in a high growth corridor in South East Melbourne, and services a highly insured population. Therefore, to address projected growth in surgical and medical requirements of the catchment area, we have secured a development overlay approval for a master plan, which will facilitate a staged expansion to over 500 beds and 20 operating theatres. This development overlay reduces both permit and timing risk.

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Stage 2 of this master plan is currently under construction and is expected to deliver 60 new beds by early 2016.

### **Private sector participation in public health**

Our largest project is the landmark Northern Beaches Hospital in Sydney. At the beginning of the meeting we gave you a virtual tour of this hospital. We are excited to be partnering with the New South Wales Government to deliver this world class facility to the Northern Beaches community. We commenced construction of this hospital in March this year and it will be completed in December 2018.

Under this innovative operating model, Healthscope is constructing a 450 overnight bed private hospital that will treat private patients as well as public patients on behalf of the New South Wales Government. When a patient presents to the hospital they will be admitted as either a public or private patient whilst being assured that they will receive the same high standard of care. A single medical, nursing and administration workforce will provide seamless support to the entire hospital and shared facilities such as an emergency department, intensive care and critical care units, in addition to 14 operating theatres, will ensure an efficient model of high quality healthcare delivery.

I think you will all agree that this is a very exciting project for us and I look forward to providing you with progress updates over the coming years.

Including this project, our hospital expansion pipeline will deliver 980 new beds and 50 new theatres by end of calendar year 2018, representing an increase of more than 20% on Healthscope's current bed numbers.

### **Recent additions to our hospital portfolio**

Whilst most of our activity is focused on expanding our existing hospital portfolio, we continue to look at opportunities to expand our hospital footprint in Australia. I am pleased to report we have added two new hospitals to our portfolio since the end of the 2015 financial year.

In July 2015, Healthscope entered into a lease to operate the 34-bed LaTrobe Private Hospital in Melbourne's fast growing northern corridor. This hospital is a newly refurbished facility with all single rooms and is located less than five kilometres from Healthscope's Northpark Hospital. It will form an important link in our Northern suburbs strategy.

Last week we acquired Hunter Valley Private Hospital. This hospital is located in Shortland, in the Hunter district of New South Wales. It has 83 beds and five theatres. Hunter Valley Private Hospital will complement our existing Newcastle Private Hospital and broader network in New South Wales.

### **Leveraging platforms, relationships and expertise**

Looking to the future, we have a number of opportunities to expand our business by leveraging our existing platforms, relationships and expertise.

We are currently exploring opportunities to export our hospital management expertise into South East Asia and China and have received several approaches over the last 12 months from government bodies and third parties interested in partnering with us. We see significant potential in the region and our expertise in operating high quality private hospitals is valued by these potential partners.

We already have exposure in the rapidly growing Asian healthcare markets through our pathology operations in Malaysia, Singapore and Vietnam. Demand dynamics and market structures in these countries are attractive and we intend to explore opportunities to further capitalize on this growth.

In New Zealand we aim to grow the business through new District Health Board contract wins and renew existing contracts as they expire. Robert will provide additional details on our successful tender in Wellington later.

Finally, it is important to highlight that Healthscope's network of medical centres is one of the largest in Australia. It remains a core business for us and helps to strengthen links with both private health insurers and hospitals. We continue to explore ways in which we can leverage and grow this business, particularly in areas such as chronic disease management which the Government has focused on as part of its primary care review.

### **Board of Directors**

Let me now turn to the composition of your Board of Directors. The Board is currently reviewing its membership as part of the transition away from private equity ownership and we expect to be in a position to announce further board appointments early in the New Year.

As part of this process, we will look to appoint new directors who have complementary skills, experience and expertise. This will also provide us with an opportunity to expand the diversity of our Board.

Our private equity shareholders continue to hold a 17.8% stake in Healthscope however it is important to note that we have a broad-based group of over 21,000 shareholders which range from large Australian and international investment institutions to many individual retail shareholders.

### **Conclusion**

In conclusion, I would like to re-iterate that Healthscope has enjoyed a successful year following its re-listing – not only did we deliver strong financial results but we have also invested significantly in future growth.

I would like to thank the management team led by Robert Cooke, and our 17,000 employees for their outstanding efforts and commitment to Healthscope. I would also like to acknowledge our doctor partners who underpin the success of our business. We believe the journey ahead will be exciting as we enter a major growth phase.

# Chairman's address

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# Healthscope today



46

46 hospitals offering inpatient and outpatient services



900k

Provided care for over 900,000 patients in our hospitals



140k

Performed over 140,000 inpatient surgical procedures



13k

Delivered over 13,000 babies



7m

Performed over 7 million pathology tests in New Zealand, Malaysia, Singapore and Vietnam



2m

Provided over 2 million GP consultations in our medical centres

# 2015 financial year overview

8.7% ↑

Operating EBITDA<sup>1</sup>

\$388.3m

9.4% ↑

Operating EBIT<sup>1</sup>

\$286.9m

\$274m ↑

Operating NPAT<sup>1</sup>

\$153.1m

97%

Cash flow conversion<sup>2</sup>

2.47x

Gearing<sup>3</sup>

7.0c

Dividends per share

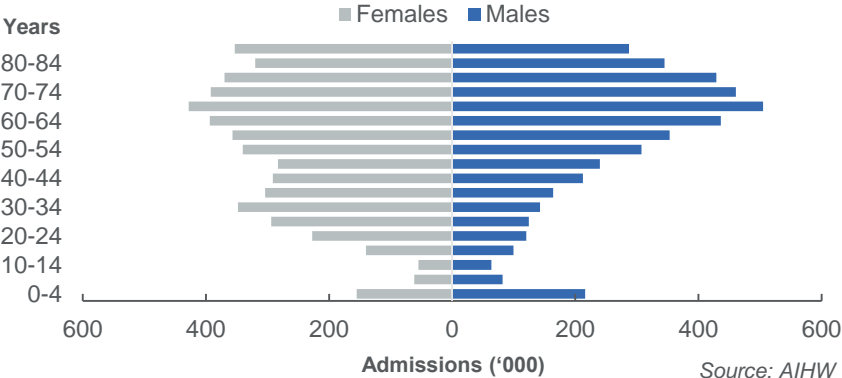
1. FY15 financial results have been presented before other income and expense items ("non-operating items").
2. Group Operating EBITDA to cash flow.
3. Net debt to Group Operating EBITDA.



# Industry thematics and Government reform

- Demand underpinned by growing and ageing population in Australia and a public hospital system that is under considerable pressure
- Significant waiting lists exist for elective surgeries in the public hospital system
- Three Government reviews underway – Medicare Benefit Schedule, Primary Care and Private Health Insurance

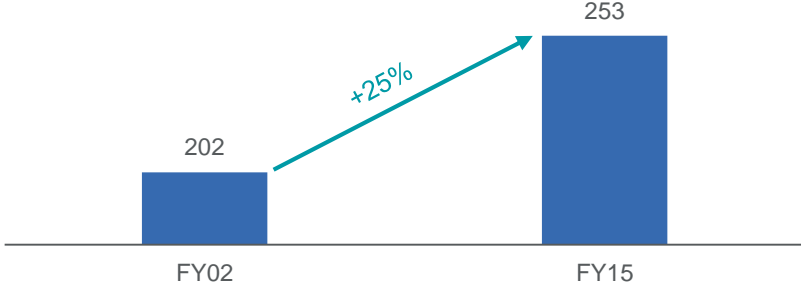
### Hospital admissions by age group



Note: Admissions used as a proxy for separations or hospitalisations.

Source: AIHW

### Public hospital elective surgery waiting times (days) – 90<sup>th</sup> percentile

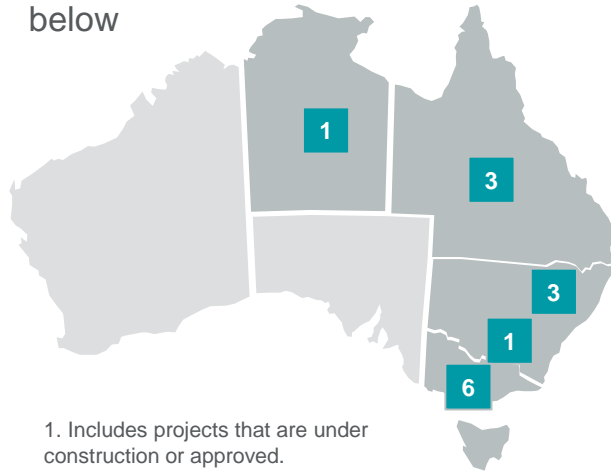


Source: AIHW

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# Investing in the future

- Significant hospital expansion program with \$275m invested in FY15
- Current pipeline of 14 projects<sup>1</sup> will deliver 980 beds and 50 operating theatres by the end of 2018 per the geographic spread below



## Major projects currently under construction

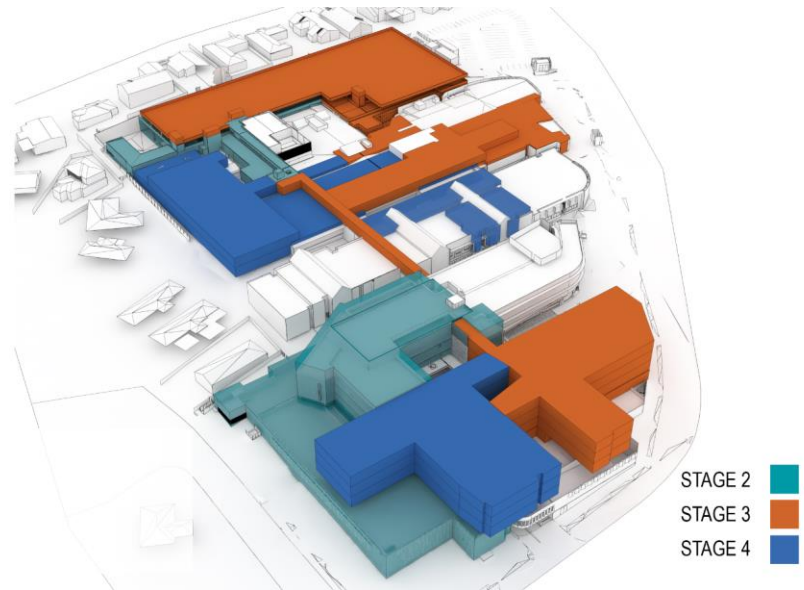
	
Gold Coast Private – 64 new beds / 3 new theatres	Holmesglen Private – 147 beds / 8 theatres
	
National Capital Private – 41 beds / 3 theatres	Norwest Private – 60 beds / 3 theatres
	
Northern Beaches – 450 beds / 20 theatres	Knox Private – 60 beds

# Strong foundations for future growth

Significant time invested in developing master plans and securing permits

## Knox Private Hospital case study

- Situated in a high growth corridor
- Services highly insured population
- Master plan will facilitate a staged expansion to over 500 beds and 20 operating theatres



# Private sector participation in public health

## Northern Beaches Hospital



- Landmark project
- Innovative operating model
- 450 overnight beds<sup>1</sup>
- 14 operating theatres
- Scheduled to open end of 2018

1. 488 beds if inclusive of day beds.

# Recent additions to our hospital portfolio

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LaTrobe Private Hospital (VIC)



Hunter Valley Private Hospital (NSW)



# Leveraging platforms, relationships and expertise

## Hospitals

- Explore opportunities in South East Asia and China

## International pathology

- Grow exposure to Asian markets with attractive demand dynamics and market structures
- Continue to expand New Zealand business through new District Health Board contract wins

## Medical centres

- Explore opportunities to leverage and grow business opportunities



# Board of Directors

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# Conclusion

- Successful year following re-listing on ASX
- Strong financial results delivered in FY15
- Investing significantly in future growth
- Entering a major growth phase

