



HEALTHSCOPE 2018 FIRST HALF RESULTS

15 February 2018

Healthscope Limited (Healthscope) today announced its financial results for the six months ended 31 December 2017 (1HFY18). Statutory NPAT from continuing operations declined 12.8% to \$77.5 million (1HFY17: \$88.9 million). Hospitals Operating EBITDA outlook for FY18 remains unchanged and is expected to be broadly similar to FY17.

Financial summary (continuing operations)

- Group Revenue up 4.9% to \$1,222.1 million (1HFY17: \$1,164.9 million)
 - Hospitals Revenue up 5.9% to \$1,070.1 million (1HFY17: \$1,010.6 million)
- Group Operating¹ EBITDA down 8.8% to \$193.5 million (1HFY17: \$212.1 million)
 - Hospitals Operating EBITDA down 8.6% to \$170.7 million (1HFY17: \$186.7 million)
- Group Operating EBIT down 13.9% to \$136.8 million (1HFY17: \$158.8 million)
- Group Operating NPAT down 17.0% to \$78.2 million (1HFY17: \$94.3 million)
- Strong operating cashflow conversion of 107.6% (1HFY17: 103.6%)
- Interim unfranked dividend of 3.2 cents per share (1HFY17: 3.5 cents per share)

Managing Director and CEO commentary

Healthscope Managing Director and Chief Executive Officer Gordon Ballantyne said:

“Despite softer private hospital market conditions, Hospitals revenue increased 5.9% and delivered on our priority of achieving above market growth². Importantly, we also achieved revenue growth of 14.9%³ from recently completed and maturing brownfield hospital expansions. This provides confidence that brownfield investment capital continues to be deployed in the right catchment areas to address growing patient needs.

“A decline in Hospital Operating EBITDA of 8.6% reflected adverse patient casemix. One-off planned brownfield disruptions and a range of costs, including wages, which increased faster than health fund price indexation, also impacted the result. In addition, the fixed cost structures in the recently opened Holmesglen Private and Frankston Private hospitals contributed to the decline.

“Importantly, Hospitals Operating EBITDA is expected to grow in 2HFY18. Continued revenue momentum will be primarily driven by brownfield sites as major projects continue to mature. The second half will also benefit from operational efficiencies of approximately \$6.0 million from the adoption of ‘best practice’ initiatives. One-off 1HFY18 cost items will not re-occur.

“New Zealand Pathology remains focused on delivering high quality pathology services through long-term contracts to its DHB partners, improving its operational efficiencies and diversifying its revenue streams. Its

¹ In this announcement “Operating” results represent Statutory results from continuing operations before non-operating expenses of \$0.7 million (net of tax) (1HFY17: \$5.4 million) – refer Appendix 1

² As indicated by the APRA Private Health Insurance Quarterly Statistics – December 2017

³ Includes revenue from Darwin Private, Frankston Private, Gold Coast Private/Allamanda Private, Holmesglen Private/Como Private, Knox cluster (Knox, Bellbird, Ringwood), National Capital Private, Norwest Private and Newcastle Private, being hospitals where a brownfield or relocate and grow project, with capital invested of greater than \$10 million, was completed in either FY16, FY17 or 1HFY18



performance was impacted by the expected slower rate of growth and adverse currency translation. Operating EBIT increased 2.0% on a local currency basis.

“Asian Pathology businesses across Singapore, Malaysia and Vietnam delivered strong organic growth, reflecting the quality of the operations. A strategic review of the Asian Pathology operations is underway.

“Across our divisions we continue to focus on delivering market leading quality clinical outcomes and exceptional patient care. These are fundamental to our on-going success. It is pleasing to report that in the Hospitals’ division, significant improvement has been achieved in a number of key measures including hospital acquired complication rates and patient care satisfaction levels,” said Mr Ballantyne.

Segment results (continuing operations)

\$m	Hospitals	Change on pcp	NZ Pathology	Change on pcp	Other	Change on pcp	Group ⁴	Change on pcp
Revenue	1,070.1	5.9%	119.3	(2.9%)	32.7	4.1%	1,222.1	4.9%
Operating EBITDA	170.7	(8.6%)	28.8	(5.6%)	9.6	9.1%	193.5	(8.8%)
Operating EBIT	124.3	(13.9%)	23.3	(2.1%)	7.5	10.3%	136.8	(13.9%)
Operating net profit after tax							78.2	(17.0%)
Non-operating expenses after tax							(0.7)	(\$4.7m)
Net profit after tax							77.5	(12.8%)
Operating EBITDA margin	15.9%	(260bp)	24.1%	(70bp)	29.4%	140bp	15.8%	(240bp)
Operating EBIT margin	11.6%	(270bp)	19.5%	20bp	22.9%	120bp	11.2%	(240bp)

Hospitals

The Hospitals division represents approximately 82% of Group Operating EBITDA, excluding corporate costs, in 1HFY18.

Hospitals generated revenue of \$1,070.1 million, up 5.9%. The result is a combination of strong revenue growth from brownfield hospital expansions of 14.9% offset by the growth in the ex-brownfields portfolio of 0.5%.

Operating EBITDA of \$170.7 million declined 8.6% (\$16.0 million year on year). The majority of the decline (\$11.4 million) was attributable to the Victoria & Tasmania operations due to:

- \$5.4 million impact from Holmesglen Private and Frankston Private developments, where new fixed cost structures are in place (rent and core clinical services – Emergency Department/Intensive Care Unit)
- \$1.6 million from planned brownfield expansion disruption at John Fawkner Private
- \$0.8 million decline at Geelong Private and The Victorian Rehabilitation Centre
- \$3.6 million decline due to softer organic revenue growth, casemix variability and increase in labour costs

Across the portfolio there were also a range of costs, including wages, which increased faster than health fund price indexation that impacted the result.

⁴ Group results include corporate costs. Refer to Note 2 of the half year financial report.

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Importantly, the Victoria & Tasmania portfolio is expected to stabilise with EBITDA marginally accretive in 2HFY18 and the Hospitals division to deliver growth year on year.

“Must Wins”

As previously announced, a range of initiatives have been undertaken to improve business performance. Four “Must Wins” were established in August 2017.

“Must Wins”	Performance in 1HFY18
Accelerating profitable topline growth	<ul style="list-style-type: none"> Improved revenue momentum in Hospitals, with growth of 5.9%, ahead of market⁵ and predominantly driven by brownfields expansion
Drive greater operational efficiency	<ul style="list-style-type: none"> Group Hospitals Best Practice Project Stage 1 complete Operational efficiency of approximately \$6.0 million identified to positively impact 2HFY18 with an expected annualised impact of up to \$10.0 million
Optimise portfolio	<ul style="list-style-type: none"> Portfolio review of all hospitals completed and will inform future capital investment decisions New leadership appointed in Victoria & Tasmania to finalise business cases
Continuing to successfully execute brownfields	<ul style="list-style-type: none"> Hospitals brownfield expansions during 1HFY18 being delivered in line with expectations with our landmark Northern Beaches Hospital on track to open in October 2018

New Zealand Pathology

The New Zealand Pathology division contributed 14% of Operating EBITDA, excluding corporate costs, in 1HFY18.

Growth was expected to moderate over the half with revenue increasing by 1.1% translating to Operating EBIT growth of 2.0% on a local currency basis. After the impact of adverse currency translation, revenue decreased by 2.9% to \$119.3 million and Operating EBITDA decreased 5.6% to \$28.8 million.

The division continues to diversify and expand its revenue streams through community and veterinary pathology and the commencement of non-invasive prenatal testing at the specialised molecular diagnostics laboratory in Auckland.

Other

Healthscope’s pathology operations in Singapore, Malaysia and Vietnam collectively contributed 4% of Group Operating EBITDA, excluding corporate costs, in 1HFY18.

Operating EBITDA for the division was \$9.6 million, up 9.1%, for the period. On a local currency basis, Operating EBITDA in Singapore increased 11.5% while Malaysia increased 14.0%.

Corporate

Corporate expense was \$15.6 million. FY18 Operating EBITDA corporate expense is expected to be between \$29.0 – 31.0 million.

⁵ As indicated by the APRA Private Health Insurance Quarterly Statistics – December 2017

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Capital expenditure and depreciation

Capital expenditure for the period was \$204.7 million (1HFY17: \$286.5 million) with \$167.5 million invested in growth projects. The landmark Northern Beaches Hospital accounted for \$94.5 million of the growth investment during the period.

The Newcastle Private project completed during the period. Seven hospital expansions are currently under construction with a further three projects planned to commence in 2HFY18.

Depreciation and amortisation expense increased to \$56.7 million (1HFY17: \$53.3 million) primarily due to the completion of a number of brownfield expansion sites, investment in new hospital capital equipment and theatre technology and investment in the New Zealand Pathology business.

Cash flow and balance sheet

Cash flow from operations decreased to \$209.7 million (1HFY17: \$224.5 million) with cashflow conversion⁶ increasing by 400bps to 107.6%.

Net debt increased by \$37.6 million over the period to \$1,682.9 million (30 June 2017: \$1,645.3 million), primarily as a result of the Northern Beaches Hospital development program. As at 31 December 2017, the Group recorded a total gearing ratio of 4.28 times Net Debt to Group Operating EBITDA (30 June 2017: 3.92 times). The Group's gearing ratio excluding the Northern Beaches project finance facility (which is excluded from all bank covenants) remained flat at 2.67 times Net Debt to Group Operating EBITDA (30 June 2017: 2.66 times).

The hospital expansion program continues to be funded through a combination of cash reserves, operating cash flow and available debt facilities. Existing bank facilities remain sufficient to fund the current expansion program.

Net interest expense decreased slightly to \$26.1 million (1HFY17: \$26.9 million) reflecting the increased cash position.

Interim dividend

An interim unfranked dividend of 3.2 cents per share will be paid on 23 March 2018 to shareholders registered on 2 March 2018 (1HFY17: 3.5 cents per share).

Key dates in relation to the interim dividend are listed below.

Ex-dividend date:	1 March 2018
Record date:	2 March 2018
DRP election date:	5 March 2018
Dividend payment date:	23 March 2018
DRP issue date:	23 March 2018

⁶ Cash flow generated from operations to Operating EBITDA including discontinued operations



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FY18 outlook

Subject to there being no material change to the external market conditions and barring unforeseen circumstances:

- 2HFY18 Operating EBITDA expected to deliver growth yoy with that momentum to carry forward into FY19 and beyond
- FY18 Operating EBITDA for the Company's Hospitals division is planned to be broadly similar to FY17

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Appendix 1: Reconciliation of Statutory net profit to Operating EBIT and Operating EBITDA

Continuing operations	1HFY18 (\$m)	1HFY17 (\$m)
Statutory net profit after tax from continuing operations	77.5	88.9
<i>Add back</i>		
Non-operating expenses after tax	0.7	5.4
Operating NPAT (Operating net profit after tax)	78.2	94.3
Income tax expense	32.5	37.6
Net finance costs	26.1	26.9
Operating EBIT (Operating earnings before finance costs and income tax)	136.8	158.8
<i>Add back</i>		
Depreciation and amortisation	56.7	53.3
Operating EBITDA (Operating earnings before finance costs, income tax, depreciation and amortisation)	193.5	212.1