



ANNUAL GENERAL MEETING – CHAIRMAN’S ADDRESS

31 OCTOBER 2018

I am pleased to address you all at today’s AGM. We understand that you, our shareholders are seeking further details of the progress we have made since we last updated the market at our full year results on 21 August. Today is our opportunity.

FY18 was an important year of transition for Healthscope, as we responded to challenging market conditions and repositioned the business for the future.

Under Gordon Ballantyne’s leadership, we made significant progress on a number of fronts.

- We improved our operating performance, with the business achieving a turnaround and returning to growth in the second half of FY18. Importantly, performance has strengthened further in the first quarter of FY19, as Gordon will detail later.
- We have strengthened the executive leadership team in critical areas to drive improved performance.
- Northern Beaches Hospital has opened on time and on budget, with the first patients being transferred as we speak.
- We have completed major hospital expansion projects which have delivered double-digit revenue growth.
- We successfully divested the Asian Pathology division for a very attractive price.
- We have made significant progress in establishing an unlisted freehold property trust.

The Board would like to acknowledge the excellent progress made by the Healthscope team during the year.

Turning now to the financial performance for FY18.

Financial performance

Healthscope reported Group Operating EBITDA of \$375.9 million, down 4.4% on the prior year. Following a disappointing first half, we were pleased to see a turnaround in the performance of our hospitals business in the second half of FY18, reflecting actions taken during the year. This momentum has continued in the first quarter of FY19.

Statutory net profit after tax from continuing operations was \$75.8 million. This was a decline on the prior year, with the result including significant one-off expenses of \$75.4 million after tax. These were primarily associated with hospital closures, and the recognition of an onerous lease provision in our Victorian hospital portfolio, as announced in May.



In September 2018, shareholders received a final unfranked dividend of 3.5 cents per share, bringing the full year unfranked dividend to 6.7 cents per share.

Macro environment

Turning now to the macro environment.

Private hospitals form a critical part of Australia's healthcare system. Our business is founded on strong conviction that the medium to long-term industry fundamentals remain robust. Like many other developed countries, Australia is still facing increased demand for hospital admissions, and health services generally, fuelled by a growing and ageing population.

Notwithstanding the strong and positive long-term fundamentals, in the near term the private hospital market continues to be challenged by two macro themes: private health insurance participation rates are declining; and at the same time, public hospitals are actively competing for privately insured patients.

Let me first address the issue of declining private health insurance participation rates. It is entirely appropriate that consumers of healthcare services know what they are buying, and how much it is going to cost.

With the annual rise in healthcare expenditure outstripping economic growth, it is essential to both patients and to the system as a whole that consumers see value from their investment in their health.

After extensive reviews, in October 2017, the Federal Government launched a comprehensive package of policies intended to improve private healthcare insurance affordability, and provide policy certainty and stability for private healthcare operators.

These included improved mental health cover and premium discounts for young people to improve access for those in need. Specifically, instant cover for people requiring in-hospital mental health treatment is now available. Under the previous regime, young people had to wait up to two months before they could access insurance for their care. As a leading provider of mental health services, Healthscope welcomes such initiatives.

We also welcome the opportunity to continue to participate in developing industry wide solutions for private health insurance affordability.

I'll move now to the issue of private patients in public hospitals.

Healthscope has advocated for the recent reforms designed to strengthen private healthcare, and ensure an appropriately balanced private-public hospital system.

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The new Heads of Agreement for public hospital funding from 2020 to 2025 between the Commonwealth and six of the eight State and Territory governments is an important development.

Healthscope has played an influential role in this matter, exposing the costs to the overall health system and to Australian taxpayers and calling out the inequity to public patients, who suffer lengthy waiting times because of their insurance status.

We welcome the engagement of Federal and State governments to address this issue.

Strategy

Healthscope's strategy and business model are founded on the highest quality of care, delivered efficiently, compassionately, and innovatively, and backed by significant capital investment to fund future growth.

I think it is worth noting at this point the scale of Healthscope. In FY18, Healthscope employed over 18,000 people. We operate a portfolio of 43 hospitals in Australia, and 24 pathology laboratories in New Zealand. Our business plays a critical role in the Australian and New Zealand healthcare systems, and we take very seriously the unique responsibility of managing these assets. Each day our staff and doctors provide care for thousands of patients in the communities we serve.

In the last 12 months, the Healthscope executive team has completed a number of strategic and operational reviews of our business activities. These reviews have resulted in decisive action to lift performance, and have informed our strategy for future growth and investment.

Hospital portfolio review

I'd now like to comment on the outcomes of the Hospital Portfolio Review completed during FY18. One objective of the review was optimising our hospital portfolio to address areas of underperformance.

In May, we made the difficult but necessary decision to close our Geelong and Cotham private hospitals in Victoria. Despite exhaustive exploration and evaluation of alternatives, we concluded that the very specific challenges confronting each of these hospitals could not be overcome. On behalf of Healthscope, I would like to acknowledge the impact of the closures on our patients, employees and doctor partners, as well as the local communities in which these hospitals operated.

In addition to the hospital closures, we reviewed the future potential of Frankston Private Hospital, which resulted in a write-down in the value of assets at this site, and the recognition of an onerous lease provision.



In September 2018, we announced that Mosman Private Hospital will be relocated, with staff, patients and doctors to transfer to the new state-of-the-art Northern Beaches Hospital.

Another important objective of the hospital portfolio review was the identification of opportunities for investment across our hospital portfolio to underpin future growth. Our investment is targeted at key population growth corridors, and is aimed at ensuring that our hospitals remain contemporary and aligned to our commitment to exceptional care. This pipeline is being developed and, in August 2018, the Board approved a \$79 million stage-two expansion project at Knox Private Hospital in Melbourne.

Healthscope's hospital expansion program remains on track to deliver revenue and earnings growth. During FY18, revenue growth from our recently completed or maturing major hospital expansion projects was 10.2%, well above overall private hospital market growth.

Five hospital expansion projects with a total capital investment of \$170 million were completed in FY18, adding 75 beds and 13 operating theatres to the portfolio. These projects included developments at Newcastle Private and Norwest Private in New South Wales; and Gold Coast Private, Sunnybank Private, and Brisbane Private in Queensland. Most of these projects were completed towards the back end of FY18, and are expected to contribute earnings from FY19.

Work continues at a further seven projects, including in Victoria at John Fawkner, Melbourne Clinic and Geelong Clinic. These seven projects are planned to deliver an additional 110 beds and 9 operating theatres.

Northern Beaches Hospital

Yesterday, our landmark Northern Beaches Hospital in New South Wales opened on time and on budget. This happened on the exact day we committed to four years ago when Healthscope was awarded the contract to design, build and operate the facility.

Through a competitive process, Healthscope was chosen by the New South Wales Government after the IPO in 2014 because of our track record in efficiently delivering complex projects in collaboration with multiple stakeholders, and critically, because of our commitment to quality and transparency.

Since that time, we have enjoyed a strong and collaborative partnership with the New South Wales State Government and the Northern Sydney Local Health District. Healthscope has been entrusted with a 20-year agreement to provide public services in the hospital until 2038, and a 40-year agreement to 2058 to treat private patients.

The investment of approximately \$840 million in Northern Beaches Hospital represents the largest investment in private health infrastructure in New South Wales for some time, and has the potential to become a new model for healthcare delivery in Australia. Notably, this model provides a new way for Healthscope to deliver its private hospital expertise to public patients.

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Northern Beaches Hospital is the centrepiece of over \$1.5 billion invested by Healthscope in growth projects since the IPO. Over the next four to five years this hospital will be the cornerstone of our Company's planned growth.

The Board would like to acknowledge the dedicated team involved in achieving this milestone. We are confident that we have the leadership and governance in place to navigate the inevitable near term challenges of ramping up a project of this scale. Northern Beaches Hospital will be a great success.

Asian Pathology

Turning now to the sale of our Asian pathology division. During the year, we completed a strategic review and decided to divest this division to capitalise on the strong interest in this subscale part of our business, and to focus on our core operations. As a result, the business was sold in July for \$279 million. This was an excellent outcome, and a pre-tax gain on sale of around \$165 million will be booked as non-operating income in FY19. Cash proceeds from the sale have reduced net debt.

Healthscope hospital property trust

In August, we announced that we are working to establish a new unlisted property trust, which will own the majority of Healthscope's freehold property assets, and lease them back to Healthscope.

Since then, we have made significant progress. There is substantial market interest in co-investing with Healthscope in the property trust. Although we don't yet know the outcome of the competitive process, we currently anticipate that the value of the properties in the trust would be in the range of \$1.6 - \$1.8 billion (on a 100% ownership basis).

Healthscope will own 51% of the property trust, and a new co-investor will be introduced to hold a 49% interest in the trust.

The Board considered a range of potential transaction structures, and the Company took expert advice on a broad range of matters from UBS, Herbert Smith Freehills, and Ernst & Young before deciding on a structure that is designed to maximise value for Healthscope shareholders, in both the near and long term.

The proposed transaction is designed to deliver multiple benefits for Healthscope's shareholders.

- Firstly, it will enhance shareholder value given the attractive valuations for investment grade property assets which are currently available. The potential market value of the freehold properties is significantly in excess of the current book value of \$1.1 billion.
- Secondly, it will generate significant cash proceeds which will be used to return capital to Healthscope shareholders, and to further strengthen the balance sheet.



- Thirdly, it will support Healthscope's future expansion plans through the introduction of a co-investor to fund part of the cost of Healthscope's future expansion projects.
- Finally, it will allow Healthscope to retain control of the property trust, through both a majority interest and management rights. This is a very important point. It will preserve our operational flexibility, allow us to prioritise delivering the highest quality care to patients, while also enabling us to continue to invest in future expansion projects.

Healthscope has already commenced a competitive process to select a preferred co-investor for the property trust. During September and October, approximately 100 parties were contacted globally in relation to this opportunity. Healthscope management, together with advisers, have met with numerous specialist property and infrastructure investors in Australia and overseas to discuss an investment in the proposed property trust. We have had positive feedback in relation to:

- the quality of the assets to be included in the property trust;
- the proposed transaction structure;
- the proposed lease terms and governance arrangements; and
- valuation.

This positive feedback strengthens the Board's confidence in our ability to execute the proposed transaction, and achieve the expected benefits for Healthscope shareholders. We are confident that we will be able to complete the process early in calendar 2019, and look forward to updating you at the half-year results or earlier.

Unsolicited proposals

I would now like to address the change-of-control proposals received during the year.

In May, the Board decided not to provide due diligence access to two parties who had made unsolicited, non-binding, indicative, and highly conditional proposals to acquire the Company. The Board carefully and diligently considered each proposal, including receiving presentations from management, conducting hospital site visits, and thoroughly analysing financial plans and underlying assumptions. We considered the external environment, and the implications of the many conditions attached to each proposal.

In particular, the Board deliberated at length regarding the important role of Australian Super given that it is Healthscope's largest shareholder, but also has a conflicting role as an exclusive member of the BGH private equity-led bidding consortium.

The Board unanimously concluded that neither proposal adequately reflected the long-term value of Healthscope, nor its underlying assets, nor its future potential.



The Board's decision was informed by our clear and overarching responsibility to uphold the long-term interests of the Company and all shareholders.

Since rejecting the proposals, we have made significant progress on several fronts. To recap, Healthscope has now returned to earnings growth, as evidenced by the first quarter trading update released today. We have strengthened the management team. We have opened our Northern Beaches Hospital. We have divested Asian Pathology for an attractive price. We have received strong interest in our hospital property portfolio and our balance sheet is in good shape.

Last week, we were presented with a further unsolicited, non-binding, indicative and highly conditional proposal from a previous bidder, the BGH private equity-led consortium that includes Australian Super. The proposal is substantially the same as that considered and rejected by the Board in May.

As you would expect, the Board is applying its diligence and rigour to the consideration of this proposal. As we did when we received the first proposal, we are taking the time necessary to fully and properly assess the proposal and its conditions, in the context of the current performance and position of the Company, and the outlook for the future. Shareholders would expect nothing less.

In doing so, we acknowledge the changing views of some of our institutional shareholders who wish to see immediate engagement. We take their views seriously and respectfully, and note that the lines of communications with the BGH/Australian Super Consortium have always been open. However, our focus at all times is on acting in the best interests of the Company, and all of its shareholders.

The timing of the current proposal last week was critical. It came just prior to the AGM, the opening of Northern Beaches Hospital, and after we had commenced a competitive process to select a co-investor for the property trust.

In determining the best way forward, the Board must consider the value that would be realised by a property trust transaction, the payment of more than \$400 million that we expect to receive early next year from the New South Wales Government for the Northern Beaches Hospital, and the plans already implemented by management to derisk and refocus the business for the future.

Let me be clear: there is considerable value for all shareholders at stake, and we believe that all shareholders should share in any value crystallised.

We are not yet in a position to make a decision in relation to the proposal from the BGH/Australian Super Consortium. We will update shareholders when we have completed our assessment.



Our culture

Our culture at Healthscope is centred on patient care and striving for excellence in all of our endeavours. Healthscope is established as a market leader in the efficient delivery of high quality care, and in providing an excellent experience for our patients.

The Board is active in overseeing and monitoring our culture, and ensuring that it remains contemporary with community expectations, that it delivers for all our stakeholders, and supports the achievement of our strategic objectives.

In this year of transition, we have made significant progress in strengthening our core business, and building a platform for growth. Gordon's strong track record in customer-focused industries has brought deep insight and leadership in defining a refreshed purpose for our business: *we work together for better care*. This purpose is underpinned by four strategic pillars that Gordon will detail in his presentation.

Board update

I would now like to provide an update on your Board. During the year we welcomed Dr Michael Stanford as a Director, and he is standing for election later today. Michael's well respected healthcare credentials further strengthen the Board, and he has made a strong contribution to Board deliberations to date.

Conclusion

In concluding, I would like to acknowledge the dedication and commitment of our staff and our doctor partners, and thank them for their contribution during this important year.

Patients come to Healthscope often in circumstances that are stressful and uncertain for them and their families. Our staff and doctors work hard to earn the trust of all those who choose Healthscope, and to provide the best possible clinical outcomes and patient experience for everyone who is in our care.

Paula J. Dwyer
Chairman

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Chairman's Address

Paula J. Dwyer



FY18 Financial Performance

Operating performance returned to growth in the second half of FY18

- Balance sheet remains strong to support execution of strategic priorities
- Dividend represents a payout ratio of approximately 70% of Statutory NPAT (continued and discontinued) after adjusting for non-cash impairments

\$375.9m¹
FY18 GROUP
OPERATING EBITDA

4.4 CENTS
PER
SHARE
EARNINGS PER SHARE (EPS)
Basic EPS from continuing operations

6.7 CENTS
PER
SHARE
TOTAL FY18 DIVIDEND
PER SHARE (DPS)²
Interim DPS of 3.2 cents and
final DPS of 3.5 cents

1. "Operating" results represent Statutory results from continuing operations before Non-Operating Expenses

2. Dividends are unfranked

Macro Environment

Private hospital sector plays a critical role in the Australian healthcare system

- Long term industry fundamentals remain robust, however short term pressures likely to continue
- Private health insurance pricing transparency
- Private patients in public hospitals
- Australian consumers are more informed and proactive about their health
- Recent Federal Government reforms strengthen private health insurance affordability
- 6 of 8 State and Territory governments now focused on addressing system costs and inequity of private patients in public hospitals



Healthscope Group

We are committed to delivering industry leading quality of care for patients and exceptional services for doctors through our hospitals and international pathology laboratories



1. Includes three hospitals under management for the Adelaide Community Healthcare Alliance (ACHA)
2. In June 2018, Cotham Private Hospital and Geelong Private Hospital were closed
3. As determined by the Australian Centre for Health and Research when compared with both private and public hospitals
4. Asian Pathology was sold on 17 August 2018

Hospital Expansion Program

Continue to invest in growth corridors

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Northern Beaches Hospital

Landmark Hospital opened on time and on budget

- Healthscope selected by the NSW Government to design, build, operate and maintain NBH
- A single campus treating public and private patients
- Features a large integrated emergency department, state-of-the-art intensive care and critical care units, and a modern inpatient mental health facility
- NBH replacing acute services from two existing public hospitals (Manly and Mona Vale) with first patients transferred from those hospitals yesterday



Asian Pathology

Divestment Complete

- Sale of Asian Pathology operations in Singapore, Malaysia and Vietnam completed on 17 August 2018
- Sale follows completion of a strategic review of this business
- Cash proceeds of \$279m received. Gain on sale of approximately \$165m (pre-tax) will be recognised in FY19
- Net cash proceeds of the sale have reduced net debt

Healthscope hospital property trust

Potential to crystallise significant value for shareholders

- New unlisted property trust to hold majority of freehold hospital property assets
- Structure designed to maximise value for shareholders, in both the near and long term
- Healthscope will own 51% interest in the trust
- Benefits for shareholders:
 - Enhancing value at a time of attractive valuations
 - Releasing substantial capital
 - Introduce a co-investor to help fund future expansion projects
 - Retaining control to preserve operational flexibility

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Our Culture

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