1H17 Highlights

28 February 2017
Australian Securities Exchange Limited

PULSE HEALTH GROWTH CONTINUES

Highlights

- 1H17 group revenue growth of 42% to $49.5m (1H16: $34.9m)
  - Revenue from established hospitals and day surgeries[1] increased by 37% to $46.4m
    - Contribution from recently acquired hospitals and day surgeries in 2016[2]: $13.5m
    - Contribution from existing hospitals[3]: $32.9m
  - Greenfield ramp-up of Gold Coast Surgical Hospital continuing with a revenue contribution of $3.1m
- 1H17 underlying EBITDA[4] growth from established hospitals and day surgeries of 59% to $7.2m (1H16: $4.5m)
  - Contribution from existing hospitals: $4.4m, representing growth of 15% compared to 2H16 (1H16: $4.5m)
- Positive cash flow from operating activities $3.6m

Specialist private hospital operator Pulse Health Limited (ASX Code: PHG) (the "**Company**"), today released its results for the first half of 2017 ("**1H Results**"), reflecting further revenue, underlying earnings, and margin growth.

The Company reported that 1H17 established hospitals and day surgeries revenue increased by 37% to $46.4m and underlying EBITDA increased by 59% to $7.2m, relative to the prior corresponding period. The 1H Results include half year contributions from the recently acquired Boulcott Hospital in Wellington, New Zealand and four endoscopy specialty day surgeries in New South Wales and Victoria.

Continued growth from established hospitals and day surgeries, and strong performance of our rehabilitation and mental health hospitals provided underlying EBITDA improvement from existing assets of 15% on 2H16. This reflects revenue and margin growth from cost savings, new rehabilitation programmes and stronger business development, achieved in market conditions in which Australian private health

[1] Established hospitals and day surgeries includes all hospitals except the greenfield Gold Coast Surgical Hospital.
[2] Recently acquired hospitals and day surgeries in 2016 include Boulcott Hospital, Healthwoods Specialist Centre, and Hobson Day Surgeries.
[3] Existing hospitals include all established hospitals excluding recently acquired hospitals and day surgeries in 2016.
[4] Underlying EBITDA excludes ramp-up costs associated with the Gold Coast Surgical Hospital, one-off costs of the proposed acquisition with Healthe Care, one-off benefit of the deferred consideration of $2.3m from acquisitions and other one off items. Underlying EBITDA is reconciled to NPAT from continuing operations as reported in Appendix 1.

insurance participation in the December quarter was at the lowest level since June 2012, and exclusionary policies increased 1.7% in the 12 months to December 2016.

Good progress is being made at the Gold Coast Surgical Hospital:

- The hospital continues to negotiate and secure contracts with other parties, and undertook its first contracted surgery list in February 2017. It expects to service 100 contracted patients before May, with more referrals expected in May and June.
- The hospital is introducing a new ophthalmology service with highly respected local ophthalmologists. Once ramped up, the hospital expects to service 1,000 ophthalmology patients per year.
- The hospital has implemented tighter cost controls and conducted an organisational restructure which is expected to deliver cost savings of c.$500k per annum.
- Five new doctors were accredited in February 2017 and the hospital is expecting to continue to accredit several new doctors every month.
- Revenue contribution $3.1m representing a 32% increase over 2H16

Outlook

The Company reaffirms guidance of FY17 underlying EBITDA[5] for established hospitals and day surgeries to be between $13.5m and $15.5m.

Performance at the Gold Coast Surgical Hospital has been supported by more surgical activity driven by an increasing number of doctors. Ramp-up progress has been affected by a delay in the commencement of contracts and joint venture arrangements, and slower than expected onboarding of surgeons predominantly driven by the uncertainty caused by the proposed acquisition by Healthe Care. EBITDA ramp-up losses associated with the Gold Coast Surgical Hospital are expected to be c.$4.5m in FY17 with profitability expected in FY18.

Pending the results of the proposed acquisition by Healthe Care, further growth via acquisitions or development of niche specialist private hospitals and day surgeries is on hold.

Scheme of Arrangement with Healthe Care ("Scheme")

As announced by the Company on 30 November 2016, under the scheme implementation deed, Healthe Care proposes to acquire 100% of the outstanding shares in Pulse for a cash consideration of $0.47 per share. Shareholders will be given the opportunity to vote on the Scheme at a meeting expected to be held on 22 March 2017. Subject to approval from the Supreme Court of New South Wales, shareholder approval, and the other conditions of the Scheme being satisfied, the Scheme is expected to be implemented on 6 April 2017.

[5] Underlying EBITDA excludes ramp-up costs associated with the Gold Coast Surgical Hospital, one-off costs of the proposed acquisition with Healthe Care, one-off benefit of the adjusted deferred consideration of $2.3m from acquisitions and other one off items. Underlying EBITDA is reconciled to NPAT from continuing operations as reported in appendix 1.

Following its review of the Company's 1H Results and based solely on the information contained in the 1H Results announcement, Healthe Care has confirmed to Pulse that the 1H Results do not alter its intention to proceed with the Scheme on the terms set out in the scheme implementation deed.

The Company has also asked Leadenhall Corporate Advisory Pty Ltd, the independent expert commissioned by the Company to opine on the Scheme, to update its opinion following release of the 1H Results. The Company will advise the market once this is received from the independent expert.

The Board of Directors of Pulse continues to unanimously recommend that the Pulse shareholders vote in favour of the Scheme at the upcoming Scheme meeting, in the absence of a superior proposal and subject to the independent expert reaffirming the Scheme is in the best interests of the Pulse Shareholders.

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Appendix 1 – Reconciliation of underlying EBITDA to Reported Net Profit After Tax from Continuing Operations

	1H17 $'000	1H16 $'000
Net profit after tax from continuing operations as reported	**2,379**	**(812)**
Income tax (benefit)/expense	178	(519)
Depreciation and amortisation	1,787	851
Finance costs (net)	957	599
Rent expense	6,935	5,280
Acquisition activity expenses and associated costs (note 1)	1,527	1,635
Deferred consideration adjustment (note 2)	(2,341)	-
Ramp up costs - Gold Coast Surgical Hospital (note 3)	1,377	1,381
EBITDA-R	**12,799**	**8,415**
Rent paid (note 4)	(5,594)	(3,892)
EBITDA	**7,205**	**4,523**
Depreciation and amortisation (note 3)	(1,073)	(587)
EBIT	**6,132**	**3,936**
Finance costs (net)	(957)	(599)
Profit before tax	**5,175**	**3,337**
Income tax expense (note 4)	(1,247)	(397)
Net profit after tax from continuing operations	**3,928**	**2,940**

For the first half of 2017 the following significant and non-recurring expenses were incurred:

Note 1. During the period the Company incurred costs of $1.527m associated with the acquisition of Australian and New Zealand sites, together with costs associated with the Healthe Care scheme of arrangement.

Note 2. The fair value of contingent consideration for The Hills Clinic was adjusted by $520k and the fair value of contingent consideration for Zenitas Holdings (Hobson/Healthwoods) was adjusted by $1.821m.

Note 3. Ramp up losses associated with the greenfield hospital on the Gold Coast, opened on the 31 August 2015.

Note 4. Excludes greenfield hospital costs.