ASX Release

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LifeHealthcare Group Limited Announces Full Year FY17 Results

LifeHealthcare Group Limited (ASX: LHC) announces its results for the full year ending 30 June 2017.

Financial Results

LifeHealthcare delivered strong above market revenue growth and modest underlying earnings growth albeit EPS on an NPATA basis is only marginally up year on year. Revenue growth of 10.4% (9.1% organic growth) on the prior comparable period to $126.7 million was achieved with underlying EBITDA growth of 4.6% on the prior comparable period to $20.4 million.

The key contributors to these results were:

- Strong implant growth driven by new surgeon growth of 11.4% (14 new active surgeons) coupled with above market growth in minimally invasive spine and further traction in complex lower limb orthopaedics;
- Further spinal robotics penetration following the placement of three Mazor Renaissance spinal robotic systems bringing the installed base to seven, the highest installed base per capita outside the United States;
- Strong share penetration from synthetic biologics in spine and strong uptake in orthopaedics; and
- The continued growth in point of care ultrasound and interventional cardiology and respiratory following the acquisition of M4 Healthcare in FY15 and Medical Vision Australia in FY16, with 33% and 10% growth in FY17 respectively.

There was a deterioration in the gross margin percentage of 3.9% on prior year largely as a result of foreign exchange with the AUD to USD hedging rate reducing from an average rate in FY16 of 78c to an average rate in FY17 of 72c. Product mix also contributed to the gross margin decline due to the high growth in capital sales in the year.

EBITDA margin declined by 80 basis points to 16.1% on the prior comparable period due to gross margin deterioration, largely offset by operating expense management with a 3% improvement of operating expenses to sales ratio over the prior comparable period.

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Prudent balance sheet management has continued providing further improvements in working capital, net debt leverage and cash conversion. The working capital ratio of 31.0%, which is the working capital as a percentage of last twelve months' sales, has improved by 120 basis points since the full year FY16 and there has been strong cash conversion of EBITDA to operating cash flows of 78.3% up from 51.9% in FY16. Net debt leverage has reduced from 1.67x at FY16 year end to 1.39x with net debt of $28.3 million and headroom in banking facilities of $12.8 million.

Key Highlights

- LifeHealthcare continues to be the market leader in 3D printed interbody spine devices, with 197% growth in FY17 and launch of the Cascadia lateral interbody implant from K2M. LifeHealthcare has also assisted Australian surgeons to perform 21 patient specific custom procedures for limb salvage in lower limb orthopaedics in FY17;
- Continued high penetration of the Everest XT minimally invasive spine system since being launched in December 2015, with 200% growth in FY17;
- Continued strong growth in orthopaedics with growth across all areas of complex revision, limb lengthening and limb salvage applications, with particularly strong growth in synthetic biologics;
- Increased diagnostic imaging presence with the placement of a BodyTom mobile full body CT scanner alongside a Mazor Renaissance spinal robotic system at the Epworth Hospital in Victoria creating the world's second 'scan and plan' site, as well as the placement of a CereTom mobile cranial CT scanner into Australia's first stroke ambulance;
- Increased portfolio offering in interventional cardiology and respiratory technologies with the launch of the instant wave-free ratio (iFR) as an extension to the fractional flow reserve (FFR) diagnostic technology and the launch of the Bronchus Lungpoint navigation system providing image guidance for Bronchoscopy;
- Entrance into the tumour aspiration market with the first sales of the Sonostar system, an advanced ultrasonic system used for soft tissue aspiration;
- Successful launch of allograft and amniotic biologics portfolios into New Zealand, which has a different regulatory pathway than Australia; and
- Further advances in connectivity solutions with the establishment of a reference site for QPath at Royal North Shore Hospital in New South Wales, providing ultrasound workflow solutions and connectivity.

Outlook

The long term demand drivers in healthcare remain strong, underpinned by an ageing population, rising chronic care requirements and surgical procedure growth.

There have been a number of government reforms announced in the healthcare industry including the Private Health Insurance review, which remain in progress. The cuts to pricing on the Prostheses List announced for cardiac devices, orthopaedics and intraocular lenses that came into effect in February 2017 have not materially impacted LifeHealthcare. It is anticipated further cuts will come into effect in February 2018 and LifeHealthcare is working closely with its industry body, MTAA and Government to drive a fair and equitable outcome in the review.

The business continues to be well positioned for growth through expansion of active surgeons, new product introductions and penetration of high-end capital products alongside growth in orthopaedics following the acquisition of Oceania Orthopaedics on 31 July 2017, taking LifeHealthcare's market share in complex lower limb orthopaedics to an estimated number two position.

LifeHealthcare expects FY18 revenue, underlying EBITDA and underlying NPATA EPS growth to be in the high single to low double digits. This guidance is before any potential Prostheses List review impact.

Dividend

A final dividend (fully franked) of 7.5 cents per share has been declared for FY17 bringing total dividends for the year to 13.75 cents per share. This represents a payout ratio of 83.7% of statutory NPAT (66.3% of NPATA).

The Dividend Reinvestment Plan (DRP) for this final dividend has been activated with a 2.5% discount. We continue to see a number of potential growth opportunities and believe it prudent to ensure the company has the flexibility to take up these opportunities should they eventuate.

Financial Highlights

($m)	FY17	Restated FY16	Change on pcp
Revenue	**126.7**	**114.8**	**10.4%**
Gross Margin	65.9	64.1	2.7%
Gross Margin %	*52.0%*	*55.9%*	*(3.9%)*
Underlying EBITDA[1]	**20.4**	**19.5**	**4.6%**
EBITDA %	*16.1%*	*16.9%*	*(0.8%)*
Transaction Costs	(0.7)	(0.3)	92.9%
EBITDA	**19.7**	**19.1**	**3.0%**
Depreciation	(4.7)	(3.8)	23.6%
Amortisation	(1.3)	(1.7)	(20.7%)
One-off Loss in Share of Associate	(0.4)	0.0	
EBIT	**13.3**	**13.6**	**(2.5%)**
Interest Expense	(2.4)	(2.3)	2.6%
Income Tax Expense	(3.8)	(3.8)	0.4%
NPAT	**7.1**	**7.6**	**(5.5%)**
Underlying NPATA[2]	**9.0**	**8.9**	**1.4%**
Statutory NPAT EPS (c)	16.7	17.8	(6.2%)
Underlying NPATA EPS (c)	21.1	20.9	1.0%
DPS (c)	13.75	12.50	*1.25*
Dividend Payout % of Statutory NPAT	83.7%	74.4%	
Dividend Payout % of Underlying NPATA	66.3%	59.8%	

Notes:

1. FY16 accounts restated due to a change in accounting policy relating to in-bound freight costs included in the cost of inventory. This has increased EBITDA by $0.1m from that reported in the 2016 annual report.
2. Underlying EBITDA and NPATA excludes transaction costs and one-off impairment of investment in share of Associate. NPATA excludes amortisation of specifically identifiable intangibles.

Ends

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