FY17 Full Year Results

22 August 2017

LifeHealthcare

Not your typical multinational

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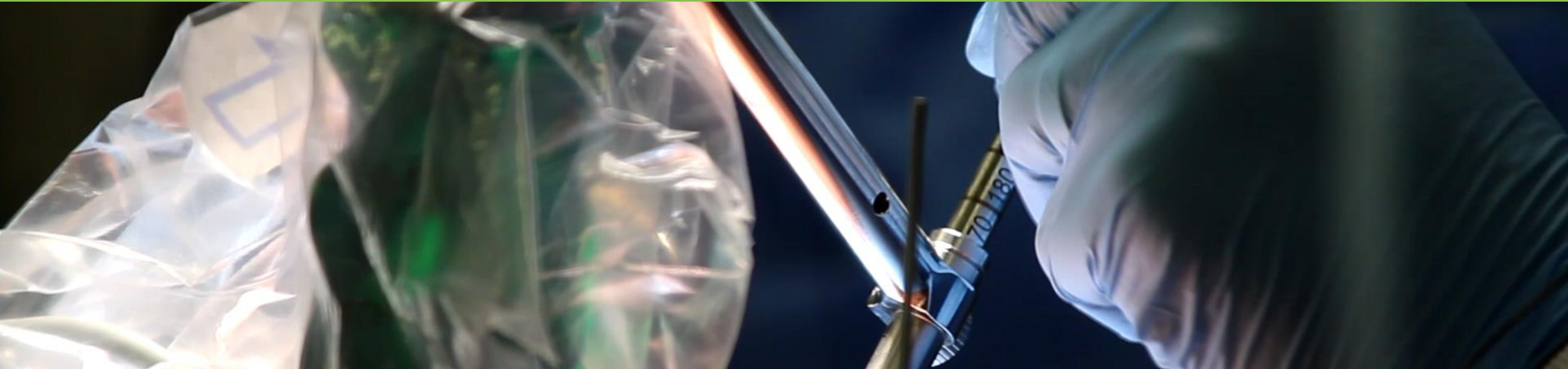

Agenda

1. Highlights
2. Financial Performance
3. New Product Launches
4. Acquisition of Oceania Orthopaedics
5. Strategy
6. FY18 Outlook
7. Appendix

Key Metrics

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Strong revenue performance for FY17 with 10.4% revenue growth on prior comparable period with modest underlying earnings growth of 4.6% on prior comparable period

14 (up)
137
Active Surgeons[1]
11.4% growth from 30 June 2016

10.4% (up)
$126.7m
Revenue
9.1% organic growth

390 bps[6] (down)
52.0%
Gross Margin
FX impact represents over 70% of decline

4.6%[6] (up)
$20.4
EBITDA[2]
16.1% EBITDA margin

2640 bps (up)
78.3%
Operating Cash Conversion[3]
(restated pcp 51.9%) [6]

120 bps (down)
31.0%
Working Capital
(restated pcp 32.2%)[6]
% to LTM sales

16.8% (down)
1.39x
Leverage
(restated pcp 1.67x) [6]
Net Debt to Underlying EBITDA

66% of NPATA[5]
13.75c
Full Year Dividend
(pcp 12.5c)
7.5c Final Dividend[4] (pcp 7.5c)

Notes:

1. Active surgeons are surgeons who generate $50,000 or more of revenue in the LTM (including biologics) for LifeHealthcare
2. Underlying EBITDA excludes transaction costs of $0.7m (pcp $0.3m) and one-off loss in share of Associate of $0.4m
3. Cashflow from operating activities as a percentage of underlying EBITDA

Notes:

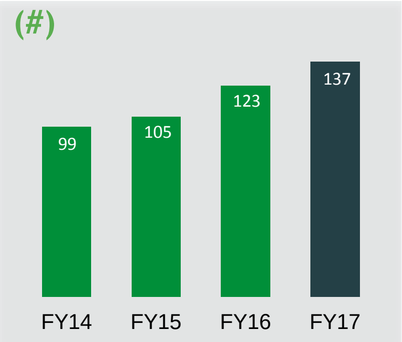
4. Final dividend fully franked and subject to Dividend Reinvestment Plan
5. Underlying Net Profit after Tax excludes transaction costs of $0.7m, one-off loss in share of Associate of $0.4m and amortisation of specifically identifiable intangibles of $1.2m
6. FY16 accounts restated due to a change in accounting policy relating to in-bound freight costs included in the cost of inventory. This has increased EBITDA by $0.1m and inventory by $0.8m and reduced the deferred tax asset by $0.3m from that reported in the 2016 annual report

Consistent Track Record of Growth

Growth delivered in the number of active surgeons, revenue and underlying earnings albeit EPS on an NPATA basis is only marginally up year on year

- Revenue up 10.4% to $126.7m driven by new product introductions, strong implant sales and performance of prior acquisitions in FY15 and FY16
- Deterioration in gross margin of 3.9% largely as a result of foreign exchange with AUD to USD hedging rate reducing from average rate in FY16 of 78c to average rate in FY17 of 72c, partly offset by improved supplier terms
- EBITDA up 4.6% to $20.4m as a result of gross margin contraction offset by operating expense management with a 3% improvement of operating expenses to sales ratio over prior comparable period
- NPATA EPS up 1.0% on prior comparable period impacted from increased depreciation as a result of instrument set investments in FY16 to support major product launches and underlying implant growth, coupled with shares issued during the year from exercised options and the DRP

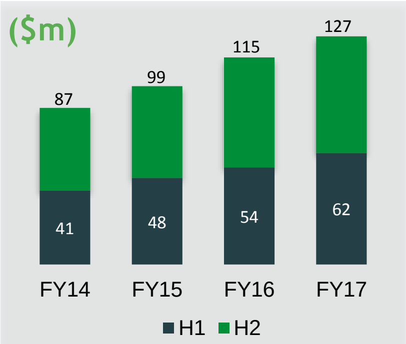
Active Surgeons[1]



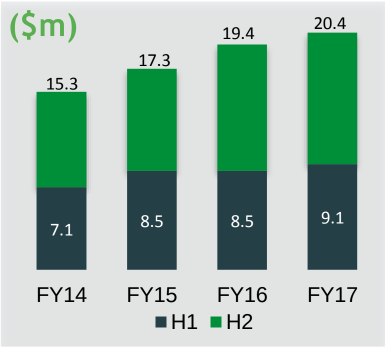
Revenue per active surgeon ($'000)

FY14	FY15	FY16	FY17
428	471	447	436

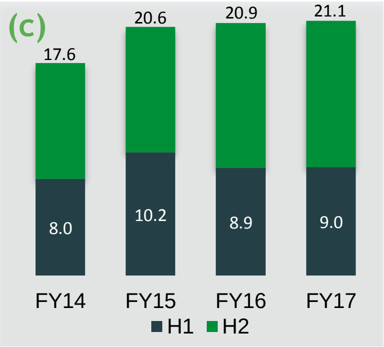
Revenue



EBITDA[2]



NPATA EPS [3]



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2. Underlying EBITDA excludes transaction costs of $0.7m (pcp $0.3m) and one-off loss in share of Associate of $0.4m
3. Underlying Net Profit after Tax excludes transaction costs of $0.7m, one-off loss in share of Associate of $0.4m and amortisation of specifically identifiable intangibles of $1.2m

Highlights

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Significant progress through continued surgeon engagement and executing on strategic priorities of channel optimisation, biologics and healthcare solutions

Continued Active Surgeon Growth

- Additional 14 active surgeons in FY17 bringing total to 137 active surgeons
- 10.5% growth in implants through penetration in complex lower limb orthopaedics, minimally invasive spine and spinal robotics

Leverage of 3D Printed Portfolio

- Market leader in 3D printed interbody spine devices, with 197% growth in FY17 and launch of Cascadia 3D printed lateral interbody implants from K2M
- Assisted Australian surgeons to perform 21 patient specific custom procedures for limb salvage in complex lower limb orthopaedics

Penetration in Robotics and Imaging

- Three spinal robotic systems installed in FY17 bringing installed base to seven, the largest installation base per capita outside of the United States
- BodyTom interoperative mobile full body CT scanner installed at Epworth and CereTom mobile cranial CT scanner installed in Australia's first mobile stroke ambulance

Continued Growth in Orthopaedics

- Strong growth across complex revision, limb lengthening and limb salvage applications, with particularly strong growth in synthetic biologics offering
- Acquisition of Oceania Orthopaedics on 31 July 2017 strengthens LifeHealthcare's market position to number two in complex lower limb orthopaedics with a market leading offering in tumour & trauma

Momentum in Biologics

- Continued penetration of synthetic biologics portfolio driving market share gains with Cerapedic's peptide enhanced bone graft material iFactor across spine and orthopaedics
- Successful launch of allograft biologics in New Zealand, which has a different regulatory approval pathway than Australia

Performance of Acquisitions

- Revenue growth in point of care ultrasound following the acquisition of M4 Healthcare in FY15
- Penetration in interventional cardiology driven by the launch of iFR diagnostic technology and following the acquisition of Medical Vision Australia in FY16

Summary Income Statement

LifeHealthcare

Strong above market revenue growth and earnings growth within guidance through operating expense management to offset deterioration in AUD

($m)	FY17	Restated FY16[(1)]	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[(2)]	**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[(3)]	**9.0**	**8.9**	**1.4%**
Underlying NPATA EPS (c)	21.1	20.9	
Dividend Payout % of Statutory NPAT	83.7%	74.4%	
Dividend Payout % of Underlying NPATA	66.3%	59.8%	

- 10.4% revenue growth on pcp with organic growth of 9.1%
- As expected the deterioration of the AUS against the USD had a significant impact on gross margin partially offset by margin management strategies with suppliers
- Strong operating expense management resulting in improved operating expense to sales ratio of 300 bps on prior comparable period
- Depreciation increased due to investment in instrument kits to support revenue growth and warehouse automation to improve operational efficiency
- Interest expense decreased due to capital repayments during the year, offset by a full year impact of the debt funded acquisition of MVA that was acquired in October 2015
- Loss in share of Associate of $0.4m relates to one-off costs associated with winding down the Electrocore joint venture
- Final dividend of 7.5c subject to Dividend Reinvestment Plan with 2.5% discount

Notes:

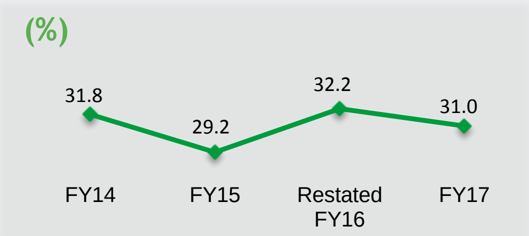
1. FY16 accounts restated due to a change in accounting policy relating to in-bound freight costs included in the cost of inventory. This has increased EBITDA by $0.1m from that reported in the 2016 annual report
2. Underlying EBITDA excludes transaction costs of $0.7m (pcp $0.3m) and one-off loss in share of Associate of $0.4m
3. Underlying Net Profit after Tax excludes transaction costs of $0.7m, one-off loss in share of Associate of $0.4m and amortisation of specifically identifiable intangibles of $1.2m

Balance Sheet and Cashflow Extract

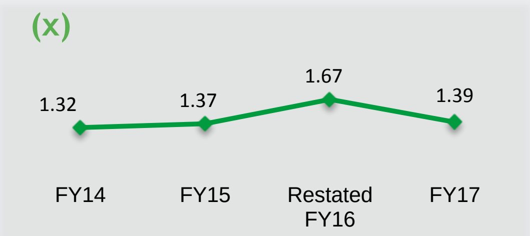
Prudent balance sheet management continues with improvement in underlying quality of inventory as well as improvement in net debt and cash conversion

($m) (extract)	FY17	Restated FY16[1]
Inventory	37.6	36.3
Trade & Other Receivables	24.1	24.9
Trade & Other Payables	(22.5)	(24.2)
Working Capital	**39.2**	**36.9**
Net Debt	**28.3**	**32.6**
Operating Cash Flow	16.0	10.1
Operating Cash Flow Conversion (on Underlying EBITDA)	78.3%	51.9%
Capital Expenditure	**4.9**	**5.1**

Working Capital to LTM Sales



Net Debt to EBITDA



- Increase in inventory relating to average cost price of inventory increasing due to AUD to USD deterioration offset by inventory optimisation initiatives undertaken
- Working capital ratio of 31.0% reflects improvement in inventory optimisation and is in line with management expectations
- Strong cash conversion of 78.3% of underlying EBITDA to operating cash flows with $5.5m cash at bank at financial year end
- Capital expenditure relates to investment in instrument kits to support revenue growth along with further investment in automation of warehouse management with the installation of a 3rd inventory carousel and conveyor system
- Significant improvement of net debt leverage to pcp closing at 1.39x underlying EBITDA as a result of capital repayments of $3.0m during the year and improved cashflow

Note:

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 inventory by $0.8m and reduced the deferred tax asset by $0.3m from that reported in the 2016 annual report

New Product Launches

LifeHealthcare

11 major product launches in FY17 contributing $2.7m revenue in launch year

- CereTom Mobile Stroke Units in Ambulances

- Cascadia Lateral Interbody 3D Implants

- Instant Free-wave Ratio (iFR) Diagnostic Technology

- Telexy Qpath POC Ultrasound Workflow Solution

TeLeXY

- Barricaid Lumbar Disc Repair Technology

- Broncus Lungpoint System

- Sonostar Ultrasonic System for Soft Tissue Aspiration

Oceania Acquisition Strategic Rationale

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Oceania acquisition takes LifeHealthcare's market share in the $45 million per annum complex lower limb orthopaedics market to number two with an estimated 16% market share

Grow Orthopaedics Therapeutic Channel

- Acceleration of scale in Orthopaedics with retained focus on attractive complex lower limb market segment
- Strengthens platform for further organic and inorganic opportunities in other Orthopaedic sub-segments including primary arthroplasty, upper limb and foot & ankle

Customer Leverage

- Access to additional 55 surgeons, 22 of which are active surgeons per LifeHealthcare classification
- Ability to leverage LifeHealthcare's complimentary orthopaedic portfolio, including Biologics, to these additional surgeons

Strong Supply Partner

- implantcast GmbH is an innovative and market responsive supply partner with primary, complex and tumour arthroplasty solutions
- New 10 year supply agreement provides platform for long term investment

Superior Product Offering

- Superior product offering in complex and tumour arthroplasty with Mutars portfolio
- Only TGA registered silver coated tumour arthroplasty solution in Australia (silver coating provides anti microbial properties reducing morbidity events such as infection in complex tumour surgeries)

Additional Market Segment Leverage

- Acquisition of Oceania establishes a primary knee presence in Australia
- Next generation primary knee platform involving lead Australian design surgeons under development with implantcast GmbH

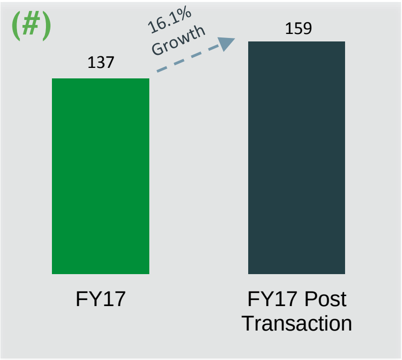
Driving towards number one market share position in complex lower limb whilst expanding into other orthopaedic market segments such as primary knee, upper limb and foot & ankle

Oceania Acquisition Financial Metrics

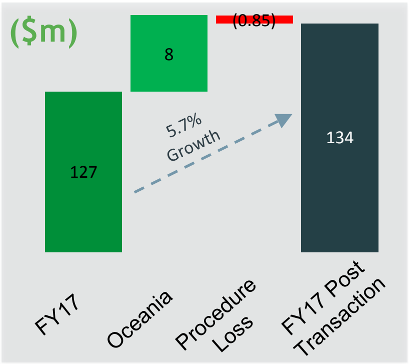
LifeHealthcare

The acquisition of Oceania drives an uplift in pro-forma FY17 financial metrics with marginal underlying NPATA EPS accretion in FY18 before growing to mid to high single digit accretion thereafter

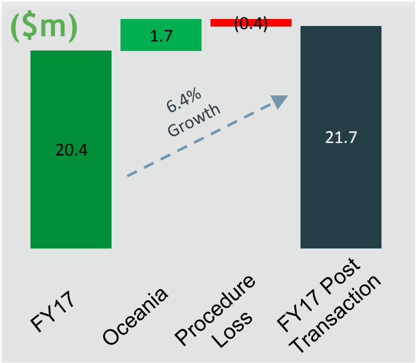
Active Surgeons[1]



Revenue



EBITDA[2]



- Acquisition marginally EPS accretive on an underlying NPATA basis in FY18 as a result of:
  - Existing procedures not transferring to implantcast product portfolio, partially offset by leverage of other LifeHealthcare orthopaedic products to Oceania surgeon base; and
  - Timing in relation to realisation of cost synergies
- One-off stock write off expected in FY18 from legacy supply partnership impacting statutory EBITDA
- 30 June 2017 net debt leverage post transaction of 1.68x
- Working capital requirements in line with other implant divisions

Notes:

1. Active surgeons are surgeons who generate $50,000 or more of revenue in the LTM (including biologics)
2. Underlying EBITDA excludes transaction costs relating to the acquisition of Oceania and Oceania EBITDA is calculated on a normalised maintainable basis, which includes a number of one-off adjustments

Update on Strategic Priorities

LifeHealthcare®

Progress on strategic priorities ensuring sustained future growth, benefits of scale and adaptation to evolving healthcare trends

Organisational Efficiency & Effectiveness

- Enhanced sales and operations planning driving improved supplier forecasting, quality of stock holding and product lifecycle management
- North Ryde warehouse reconfiguration and automation delivering improved workflow, inventory visibility and increased scalability
- Scoping of enterprise resource planning system upgrade in order to enable greater stock and instrument management

Channel Optimisation

- Eleven major products launched in established therapeutic channels during FY17 driving future organic growth and enabling leverage of existing sales infrastructure
- New supply partnerships established in spine, interventional cardiology, orthopaedics, neurosurgery and ultrasound
- Acquisition of Oceania Orthopaedics in July 2017 resulting in an estimated number two market share position in complex lower limb orthopaedics

Biologics Growth

- Continued penetration of synthetic biologics portfolio, driving market share gains with Cerapedics' peptide enhanced bone graft material iFactor in spine and orthopaedics
- Successful launch of allograft and amniotic biologics offering in New Zealand, which has a different regulatory approval pathway than Australia, with procedures performed in spine, plastics and wound management

Develop Solutions to Address Changing Needs of Healthcare

- Further inroads made into providing efficacious, innovative technology that addresses health economics including Mazor Renaissance spinal robotics and incorporation of the CereTom CT scanner in Australia's first mobile stroke ambulance

FY18 Outlook

FY18 guidance of high single to low double digit growth in revenue, underlying EBITDA and underlying NPATA EPS

Macro Environment

- Demand for healthcare continues to be strong, driven by an ageing population, emerging technology and rising rates of chronic disease
- Slight decline in surgical procedural volumes in Q4 of 2016 and Q1 of 2017(1)
- Prostheses List review continues with announcement of further cuts anticipated in November 2017 for implementation in February 2018
- LifeHealthcare is working closely with its' industry body, MTAA and Government to drive a fair and equitable outcome in the Prostheses List review

FY18 Imperatives

- Integration of Oceania Orthopaedics acquisition
- Further development of acquisition pipeline in order to drive inorganic growth
- Continued focus on capital management including investment for growth
- Management of any potential Prostheses List review impact including supplier and overhead management

FY18 Outlook

- High single to low double digit growth in:
  - Revenue
  - Underlying EBITDA
  - Underlying NPATA EPS
- Improving gross margin year on year
- Stronger AUD to USD partially offset by weaker AUD to Euro
- Guidance before any potential Prostheses List review impact

Source:

1. APRA - total surgical procedures in private healthcare

Appendix

Summary Balance Sheet

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($m)	FY17	Restated FY16[1]
Cash	5.5	4.1
Trade & Other Receivables	24.1	24.9
Inventory	37.6	36.3
PP&E	10.4	10.3
Deferred Tax Asset	4.4	5.8
Intangible Assets	27.3	28.4
Other	0.0	0.7
Total Assets	**109.3**	**110.5**
Trade & Other Payables	(22.5)	(24.2)
Borrowings	(33.8)	(36.7)
Provisions	(2.3)	(2.2)
Other	(3.4)	(3.2)
Total Liabilities	**(62.0)**	**(66.3)**
Net Assets	**47.3**	**44.2**

Note:

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 inventory by $0.8m and reduced the deferred tax asset by $0.3m from that reported in the 2016 annual report

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