ASX Release

20 February 2018

LifeHealthcare Group Limited Announces Half Year FY18 Results

LifeHealthcare Group Limited (ASX: LHC) announces its results for the half year ending 31 December 2017.

Financial Results

LifeHealthcare delivered solid revenue growth and strong underlying earnings and NPATA growth for the period. Revenue growth of 9.3% (3.4% organic growth) on the prior comparable period to $67.4 million was achieved with underlying EBITDA growth of 9.9% to $9.8 million and underlying NPATA growth of 10.2% to $4.0 million.

There was an uplift in the gross margin percentage of 2.5% as a result of foreign exchange with the AUD to USD hedging rate improving and a change in product mix due to higher growth in implants than capital products relative to the prior comparable period.

EBITDA margin increased by 10 basis points to 14.6% on the prior comparable period due to gross margin improvement, offset by increasing operating expenses from investment in staff in key growth divisions and a higher cost of sale through agency model in Oceania Orthopaedics that will decline over time as sales from direct sales force increases.

Prudent balance sheet management has been maintained focusing on continued improvement in underlying quality of inventory, working capital and cash conversion. The working capital to last twelve month's sales ratio of 31.0% has remained consistent and is in line with management's expectations for the half year. Cash conversion of EBITDA to operating cash flows of 85.2% is up from 80.2% on prior comparable period with net debt leverage at 1.82x at the half year, up from 1.73x in the prior comparable period as a result of funding the acquisitions of Oceania Orthopaedics and Point Blank Medical's spine services division.

Key Highlights

- New active surgeon growth of 27% since June 2017 (14 new active organic surgeons and 23 new active surgeons from acquisitions totalling 37 new active surgeons since June 2017);
- Double digit organic implant growth in Spine with over 100% growth in 3D printed implants. The minimally invasive Spine platform that was launched in December 2015 continues to gain traction with 79% growth over the prior comparable period;
- High single digit organic implant growth in Orthopaedics with growth across all areas of complex revision, limb lengthening and limb salvage applications, with particularly strong growth in synthetic biologics;
- The acquisition of Oceania Orthopaedics on 31 July 2017 taking LifeHealthcare's market share in complex lower limb orthopaedics to a number two position in this market;
- The acquisition of Point Blank Medical's spine services division with effect from 1 November 2017 allowing entry into the bone repair allograft biologics market in Australia estimated at over $100 million per annum;
- Regulatory stability and pricing certainty in the private market in the medium term with the four year strategic agreement announced in October 2017 in relation to the Prostheses List; and
- Transaction costs of $1.9m were incurred which comprised $0.5m relating to legal and due diligence costs in relation to the acquisitions of Oceania Orthopaedics and Point Blank Medical's spine services division and $1.4m of costs associated with the exit of a previous orthopaedics supplier.

Outlook

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

The business continues to be well positioned for growth through expansion of active surgeons and new product introductions alongside growth in orthopaedics following the acquisition of Oceania Orthopaedics on 31 July 2017 and growth in biologics and spine following the acquisition of Point Blank Medical's spine services division on 11 October 2017.

Guidance for FY18 remains unchanged and LifeHealthcare expects FY18 revenue, underlying EBITDA and underlying NPATA EPS growth to be in the high single to low double digits.

Dividend

A fully franked interim dividend of 7.5 cents per share has been declared for the half year FY18. This represents a payout ratio of 154% of statutory NPAT (84% of NPATA).

The Dividend Reinvestment Plan (DRP) has been suspended with immediate effect and until further notice, in accordance with the rules of the DRP. Accordingly, the DRP will not operate in respect of the FY18 interim dividend.

Scheme of Arrangement

As announced to the market on 5 February 2018, LifeHealthcare has entered into a binding Scheme Implementation Deed with Pacific Health Supplies BidCo Pty Limited, an entity wholly-owned by funds advised by Pacific Equity Partners (PEP), under which it is proposed that PEP will acquire 100% of the shares in LifeHealthcare by way of a Scheme of Arrangement (Scheme) for $3.75 per share (which will be reduced by the cash amount of the FY18 interim dividend of 7.5 cents per share and the cash amount per share of any permitted special dividend declared and paid by LifeHealthcare in connection with the Scheme).

$3.75 per share represents:

- 46% premium to closing price of $2.57 on 2nd February 2018;
- 44% premium to 1 month VWAP;
- 42% premium to 3 month VWAP; and
- 131% total return to shareholders since its IPO in 2013 (inclusive of dividends).

The implementation of the Scheme is subject to a number of conditions, including approval by LifeHealthcare shareholders and the Court. It is currently expected that the Scheme Booklet (which will include information relating to the Scheme, the independent expert's report and details of the Scheme Meeting) will be sent to shareholders in April 2018, with the Scheme Meeting being held in May 2018. These dates are indicative only and remain subject to change. See LifeHealthcare's ASX announcement on 5 February 2018 for more information about the Scheme.

Financial Highlights

($m)	H1 FY18	Restated H1 FY17[1]	Change on pcp
Revenue	**67.4**	**61.7**	**9.3%**
Gross Margin	37.3	32.6	14.4%
Gross Margin %	*55.4%*	*52.9%*	*2.5%*
Underlying EBITDA[2]	**9.8**	**8.9**	**9.9%**
EBITDA %	*14.6%*	*14.5%*	*0.1%*
Transaction Costs	(1.9)	(0.5)	1.4
EBITDA	**7.9**	**8.5**	**(6.5%)**
Depreciation	(2.2)	(2.2)	-
Amortisation	(0.6)	(0.8)	0.2
EBIT	**5.1**	**5.4**	**(6.9%)**
Interest Expense	(1.2)	(1.3)	(7.1%)
Income Tax Expense	(1.7)	(1.4)	25.4%
NPAT	**2.2**	**2.8**	**(22.3%)**
Underlying NPATA[2]	**4.0**	**3.7**	**10.2%**
Statutory NPAT EPS (c)	4.9	6.6	(25.8%)
Underlying NPATA EPS (c)	9.1	8.6	5.8%
Dividend Payout % of Statutory NPAT	*154%*	*95%*	
Dividend Payout % of Underlying NPATA	*84%*	*73%*	

Notes:

1. FY16 and H1 FY17 accounts restated due to a change in accounting policy relating to in-bound freight costs included in the cost of inventory and PP&E. This has reduced EBITDA by $0.2m and increased net assets by $0.5m for H1 FY17 from that reported in the half year ended 31 December 2016.

2. Underlying EBITDA and NPATA excludes transaction costs and one-off costs associated with the exit of a previous orthopaedics supplier resulting from the introduction of supply of implantcast GmbH products following the acquisition of Oceania Orthopaedics. NPATA excludes amortisation of specifically identifiable intangibles.

Ends

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