Healthia Limited and its Controlled Entities
Appendix 4D
Half-year report

1. Company details

Name of entity:	Healthia Limited
ACN:	626 087 223
Reporting period:	For the half-year ended 31 December 2019
Previous period:	For the half-year ended 31 December 2018

2. Results for announcement to the market

The Consolidated Entity has adopted Accounting Standard AASB 16 'Leases' for the half-year ended 30 June 2019 using the modified retrospective approach and as such the comparatives have not been restated.

				$'000
Revenues from ordinary activities	up	50.2%	to	44,264
Profit from ordinary activities after tax attributable to the owners of Healthia Limited	up	n/a	to	670
Profit for the half-year attributable to the owners of Healthia Limited	up	n/a	to	670

	31 Dec 2019 Cents	31 Dec 2018 Cents
Basic earnings per share	1.06	(1.78)
Diluted earnings per share	1.02	(1.78)

Dividends
As at the date of signing the financial report, the Directors of Healthia Limited have recommended the payment of an interim fully franked dividend of 1.00 cent per share to the ordinary shareholders of Healthia Limited.

2020 interim dividend dates:
- Ex-dividend date: 8 March 2020
- Record date: 9 March 2020
- Payment date: 3 April 2020

Dividends of $741,000 were paid during the current financial half-year to non-controlling interests, being the clinic class shareholders of Healthia Limited subsidiaries.

Comments
The profit for the Consolidated Entity after providing for income tax and non-controlling interest amounted to $670,000 (31 December 2018: loss of $839,000).

AASB 16 'Leases' had a significant impact on the current period. The current profit before income tax expense was reduced by $185,000. This included an increased depreciation and amortisation expense of $3,452,000, increased finance costs of $608,000 and decreased occupancy costs of $3,875,000. As at 30 June 2019, net current assets were reduced by $6,351,000 (attributable to current lease liabilities) and net assets were reduced by $1,156,000 (attributable to right-of-use assets, lease liabilities and deferred tax assets).

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	(69.21)	(16.41)

4. Control gained over entities

During the half-year to 31 December 2019 ('*H1 20*'), the Consolidated Entity acquired 19 allied health businesses (9 Physiotherapy clinics, 4 Hand Therapy Clinics and 6 Podiatry Clinics). Further information can be found in note 16 of the attached Half Year Financial Report.

5. Loss of control over entities

Not applicable.

6. Dividends

Current period
As at the date of signing the financial report, the Directors of Healthia Limited have recommended the payment of an interim fully franked dividend of 1.00 cent per share to the ordinary shareholders of Healthia Limited.

2020 interim dividend dates:
- Ex-dividend date: 8 March 2020
- Record date: 9 March 2020
- Payment date: 3 April 2020

Dividends of $741,000 were paid during the current financial half-year to non-controlling interests, being the clinic class shareholders of Healthia Limited subsidiaries.

Previous period
Dividends of $310,000 were paid during the previous financial half-year to non-controlling interests, being the clinic class shareholders of Healthia Limited subsidiaries.

7. Dividend reinvestment plans

The following dividend or distribution plans are in operation:

The legal parent company, Healthia Limited, has a dividend reinvestment plan under which holders of ordinary shares may elect to have all or part of their dividend entitlements satisfied by the issue of new ordinary shares rather than by being paid in cash. Shares are issued under the plan at a discount to the market price, as the Directors may determine.

8. Details of associates and joint venture entities

	Reporting entity's percentage holding		Contribution to profit/(loss) (where material)	
Name of associate / joint venture	**Reporting period %**	**Previous period %**	**Reporting period $'000**	**Previous period $'000**
Fracture Holdco Pty Ltd	45.00%	-	-	-
Group's aggregate share of associates and joint venture entities' profit/(loss) (where material)				
Profit/(loss) from ordinary activities before income tax			-	-

9. Foreign entities

Details of origin of accounting standards used in compiling the report:

Not applicable.

10. Audit qualification or review

Details of audit/review dispute or qualification (if any):

The financial statements were subject to a review by the auditors and the review report is attached as part of the Half Year Financial Report.

11. Attachments

Details of attachments (if any):

The Half Year Financial Report of Healthia Limited for the period ended 31 December 2019 is attached.

12. Signed

Signed

Date: 24 February 2020

Glen Frank Richards
Director

Healthia Limited and its Controlled Entities

ACN 626 087 223

Half Year Financial Report - 31 December 2019

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Consolidated Entity') consisting of Healthia Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2019.

Directors

The following persons were directors of Healthia Limited during the whole of the financial half-year and up to the date of this report, unless otherwise stated:

Dr Glen Frank Richards
Paul David Wilson
Lisa Jane Dalton
Wesley James Coote
Darren Lindsey Stewart
Anthony Peter Ganter

Principal activities

During the financial half-year the principal continuing activities of the Consolidated Entity consisted of:

- the operation of podiatry service businesses throughout Australia; and
- the operation of physiotherapy service businesses throughout Australia.

Dividends

As at the date of signing the financial report, the Directors of Healthia Limited have recommended the payment of an interim fully franked dividend of 1.00 cent per share to the ordinary shareholders of Healthia Limited.

2020 interim dividend dates:

- Ex-dividend date: 8 March 2020
- Record date: 9 March 2020
- Payment date: 3 April 2020

Dividends of $741,000 were paid during the current financial half-year to non-controlling interests, being the clinic class shareholders of Healthia Limited subsidiaries.

Review of operations

The profit for the Consolidated Entity after providing for income tax and non-controlling interest amounted to $670,000 (31 December 2018: loss of $839,000).

1. Significant changes for the half year period ended 31 December 2019

Adoption of AASB16

The Consolidated Entity has adopted AASB 16 from 1 July 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss.

The impact of AASB16 on the current period is detailed in Tables 7 and 8.

2. Financial Overview – Statutory Performance

During the half-year to 31 December 2019 ('*H1 20*'), the Consolidated Entity acquired 19 allied health businesses (9 Physiotherapy clinics, 4 Hand Therapy Clinics and 6 Podiatry Clinics). This should be considered when interpreting the statutory financial results.

The H1 20 statutory performance compared to the half-year period ended 31 December 2018 ('*H1 19*') statutory performance of the Consolidated Entity is as follows:

Table 1: H1 20 statutory performance compared to H1 19 statutory performance

This table has not been audited / reviewed	*31/12/2019 $'000's*	*31/12/2018 $'000's*	*Change $'000's*	*Change %*
Revenue	44,264	29,477	14,787	50.2%
EBITDA 1,2	4,285	1,820	2,465	135.4%
Net profit before income tax expense	1,877	164	1,713	1044.5%
Net profit after income tax expense	1,403	(497)	1,900	n/a
Amortisation expense	282	192	90	46.9%
NPATA 3	1,685	(304)	1,989	n/a
Non-controlling interest	733	342	391	114.3%
NPAT attributable to the owners of Healthia Limited	670	(839)	1,509	n/a
NPATA attributable to the owners of Healthia Limited	**952**	**(646)**	**1,598**	**n/a**
EBITDA margin 1,2	9.68%	6.17%		351 bps
NPATA margin 3	2.15%	(2.19%)		434 bps
EPS (NPATA/SOI) (cents) 4	1.51	(1.02)	2.53	

1. EBITDA is a non-IFRS measure and equals earnings before interest, tax, depreciation and amortisation
2. EBITDA excludes the impact from the adoption of AASB16 on lease payments of $3.87M (used to obtain like-for-like comparison with the prior period EBITDA)
3. NPATA equals net profit after income tax expense plus amortisation of customer list intangibles. NPATA is a non-IFRS measure
4. EPS or earnings per share is calculated as NPATA attributable to the owners of Healthia Limited divided by the number of shares on issue of 63,034,653 (H1 19: 63,034,653)

Revenue
The Consolidated Entity's revenue increased by $14.79M, or 50.2%, in comparison to H1 19 statutory revenue. This increase in revenue is primarily driven by the 19 acquisitions made during the half-year period compared to the timing of acquisitions made during the financial year ended 30 June 2019.

In addition, strong organic revenue growth of 3.5% was achieved by the Consolidated Entity during H1 20; comprised of 1.3% in the Podiatry Segment and 5.8% in the Physiotherapy Segment. Organic revenue growth is calculated by excluding any closed clinics and clinics not held during the prior period.

Statutory Margins
The Consolidated Entity's Statutory H1 20 EBITDA margin (excluding the impact of AASB 16) of 9.68% increased by 351 bps over the prior period.

The Consolidated Entity's Statutory H1 20 NPATA margin of 2.15% increased by 434 bps over the prior period.

Both periods have been affected by significant one-off / non-recurring costs incurred by the Consolidated Entity. In particular, acquisition and integration costs of $1.31M were incurred during the period ($2.49M in H1 19).

Statutory NPATA margins were also impacted by a number of other factors, including:

- Corporate overheads increased by $0.45m over the prior period to assist the Consolidated Entity in realising its growth strategies ($2.91M in current period vs $2.46M in H1 19). The increases in corporate overheads came largely from:
  1. Healthia held its inaugural, industry leading education conference during the period which was attended by 437 of the groups clinicians at a cost of $0.31M;
  2. An increase in headcount and wages of $0.14M;
- Impairment of aged trade receivables in the current period of $0.20M; and
- The adoption of AASB 16 'Leases' reducing underlying NPATA in the current period by $0.19M.

Non-Controlling Interest
The Consolidated Entity's non-controlling interest in H1 20 EBITDA of $0.73M (H1 19: $0.34M) represents growth over prior period of $0.39M or 114.3%. The increase in non-controlling interest is primarily from the increase in clinic class share ownership from new clinics settled by the Consolidated Entity and is consistent with the increased proportion of clinicians having ownership in clinics.

There are 2,382 Clinic Class Shares (H1 19: 1,501 shares) in 93 different classes on issue (H1 19: 69 classes) in the Consolidated Entity's operating subsidiaries at reporting date with all shares being issued to clinicians as either part consideration of a newly acquired clinic and/ or for consideration. The Clinic Class Shares are designed to create alignment between the economic interests of clinicians and that of the Shareholders by providing the holder with an economic interest in the performance of the Clinic in the Consolidated Entity.

At 31 December 2019, the Clinic Class Shares on issue represent an economic interest of approximately 23.18% (H1 19:15.66%) in the underlying earnings of the Consolidated Entity (calculated as NCI / underlying NPATA detailed in Table 2).

3. Financial Overview - Underlying Results

To assist users, information about the underlying performance of the Consolidated Entity is presented, which excludes the impact of acquisition costs, integration costs, and other one-off expenses. The underlying performance is provided on an unaudited and unreviewed basis and a reconciliation between statutory and underlying performance is provided further below in Table 2.

The following table highlights the underlying performance of the Consolidated Entity:

Table 2: Underlying H1 20 performance compared to Underlying H1 19 performance

This table has not been audited / reviewed	*31/12/2019 $'000's Underlying* [1]	*31/12/2018 $'000's Underlying* [1]	*Change $'000's*	*Change %*
Revenue	44,264	29,477	14,787	50.2%
Underlying EBITDA [2,3]	5,760	4,308	1,452	33.7%
Underlying Net profit before income tax expense	3,354	2,652	702	26.5%
Underlying Net profit after income tax expense	2,880	1,991	889	44.7%
Amortisation Expense	282	192	90	46.9%
Underlying NPATA [4]	3,162	2,184	978	44.8%
Non-controlling interest (NCI)	733	342	391	114.3%
Underlying NPATA attributable to the owners of Healthia Limited	**2,429**	**1,842**	**587**	**31.9%**
Underlying EBITDA margin [2,3]	13.01%	14.61%		-160 bps
Underlying NPATA margin [4]	5.49%	6.25%		-76 bps
Underlying EPS (cents) [5]	3.85	2.92	0.93	31.8%
NCI / Underlying NPATA	23.18%	15.66%		752 bps

1. Underlying profit reflects statutory profit as adjusted to reflect the Directors' assessment of the result for the ongoing business activities of the consolidated entity, in accordance with AICD/Finsia principles of recording underlying profit. Underlying profit has not been audited or reviewed.
2. Underlying EBITDA is a non-IFRS measure and equals earnings before interest, tax, depreciation and amortisation
3. Underlying EBITDA excludes the impact from the adoption of AASB16 on lease payments of $3.87M (used to obtain like-for-like comparison with the prior period EBITDA)
4. Underlying NPATA equals net profit after income tax expense plus amortisation of customer list intangibles. NPATA is a non-IFRS measure
5. Underlying EPS or earnings per share is calculated as NPATA attributable to the owners of Healthia Limited divided by the number of shares on issue of 63,034,653 (H1 19: 63,034,653)

Underlying EBITDA
The Consolidated Entity's underlying H1 20 EBITDA (excluding the impact of AASB16) of $5.76M (FY19: $4.308m) represents growth over prior period of $1.45M or 33.7%. The increase in EBITDA is primarily driven by the 19 acquisitions made during the half-year period and the 3.5% organic revenue growth achieved by the Consolidated Entity.

Underlying NPATA

The Consolidated Entity's underlying H1 20 NPATA of $2.43M (FY19: $1.842m) represents growth over prior period of $0.59M or 31.9%. The increase in NPATA is primarily driven by the 19 acquisitions made during the half-year period and the 3.5% organic revenue growth achieved by the Consolidated Entity.

A reconciliation of statutory NPATA performance to underlying NPATA performance is as follows:

Table 3: Reconciliation of Statutory NPATA Performance to Underlying NPATA Performance

This table has not been audited / reviewed	***31/12/2019 $'000's***	***31/12/2018 $'000's***
Statutory NPATA attributable to the owners of Healthia Limited 1	952	(646)
Acquisition & one-off costs	1,308	2,488
Loss from insurance write-off	118	-
Share-based payments expense and associated costs	51	-
Underlying NPATA attributable to the owners of Healthia Limited 1,2	2,429	1,842

1. Underlying profit reflects statutory profit as adjusted to reflect the Directors' assessment of the result for the ongoing business activities of the consolidated entity, in accordance with AICD/Finsia principles of recording underlying profit. Underlying profit has not been audited.

2. Underlying NPATA equals net profit after income tax expense plus amortisation of customer list intangibles. NPATA is a non-IFRS measure

The Consolidated Entity incurred a number of one-off acquisition and integration costs in relation to the acquisition of the 19 allied health businesses acquired. Further detail is provided in Table 4.

Table 4: Actual H1 20 Acquisition & Integration Costs

This table has not been audited / reviewed	***31/12/2019 $'000's***
Acquisition advisory & transaction costs	678
Stamp duty associated with acquisitions	267
One-off costs of integration	364
Total	1,308

The loss from insurance write-off relates to the impairment of an insurance claim receivable. Healthia's 4 physiotherapy clinics in Townsville were heavily impacted by the 2019 Townsville floods and compensation was previously expected to be received from the Consolidated Entities insurer for this natural disaster event. The Consolidated Entity was unable to recover $0.118m of its losses from its insurer.

Share-based payments relate to the Performance Rights granted during the period to key clinicians and administration staff, but excludes the costs associated with the executive performance rights. Further detail is provided in Table 5.

Table 5: Share-based Payments Expense and Associated Costs

This table has not been audited / reviewed	***31/12/2019 $'000's***
Performance rights expense - key management personnel	1
Performance rights expense - key clinicians & support staff	31
Compliance & advisory costs relating to performance rights	20
Total	52

Underlying Margins
The Consolidated Entity's Underlying EBITDA margin (removing AASB16) decreased by 160 bps from H1 19 to 13.01% for the period ended 31 December 2019.

The Consolidated Entity's Underlying NPATA margin decreased by 76 bps from H1 19 to 5.49% for the period ended 31 December 2019.

The decrease in underlying NPATA margins can be attributed to the following factors:
- Higher proportion of physiotherapy clinics owned during the period. Physiotherapy clinics typically produce lower margin than podiatry clinics. Physiotherapy revenue represented 48% of the Consolidated Entities revenue in H1 20 compared to 34% in H1 19;
- Corporate overheads increased by $0.45m over the prior period to assist the Consolidated Entity in realising its growth strategies ($2.91M in current period vs $2.46M in H1 19). The increases in corporate overheads came largely from;
  1. Healthia held its inaugural, industry leading education conference during the period which was attended by 437 of the groups clinicians at a cost of $0.31M;
  2. An increase in headcount and wages of $0.14M;
- Impairment of aged trade receivables in the current period of $0.20M; and
- The adoption of AASB 16 'Leases' reducing underlying NPATA in the current period by $0.19M.

Underlying Earnings per share
The Consolidated Entity's underlying earnings per share attributable to the owners of Healthia Limited increased by 0.93 cents per share or 31.8% to 3.85 cents per share (H1 19: 2.92 cents per share).

4. Cash-Flow

The Consolidated Entity's underlying cash flow conversion for the half-year period is detailed in Table 6 below.

Table 6: Underlying cash flow conversion for half-year period ended 31 December 2019

This table has not been audited / reviewed	***31/12/2019***	***31/12/2018***
	$'000's	***$'000's***
Underlying EBITDA [1,2]	5,760	4,308
Changes in working capital	760	140
Underlying Operating Cash Flows (pre-tax, ungeared) [3]	5,000	4,168
Conversion (%)	86.8%	96.8%

1. Underlying profit reflects statutory profit as adjusted to reflect the Directors' assessment of the result for the ongoing business activities of the consolidated entity, in accordance with AICD/Finsia principles of recording underlying profit. Underlying profit has not been audited or reviewed
2. Underlying EBITDA excludes the impact from the adoption of AASB16 on lease payments of $3.87M
3. Underlying operating cash flows (pre tax, ungeared) reflects statutory operating cash flows before finance costs and tax and excludes the impact of costs relating to acquisitions, integration, restructuring and other one off costs

The Consolidated Entity produced strong underlying cash flow to underlying EBITDA conversion of 86.8% during the half-year period (H1 19: 96.8%).

5. Capital Management

On the 13th of February 2020, the Consolidated Entity signed formal documentation to increase its total syndicated finance facility from $37.0M to $50.0M with Australian and New Zealand Bank and the Bank of Queensland Limited. In addition, the facility term has been extended to 30 September 2022.

The key financial covenants of the finance facility remain unchanged. They are:
- Leverage Ratio: (Debt: Adjusted EBITDA) must remain below or equal to 2.50 times;
- Fixed Charge Cover Ratio: (Adjusted EBITDA + rent expense) / (interest + rent expense) must remain above or equal to 1.75 times; and
- Debt to Capitalisation Ratio: Debt / (Debt + Book Value of Equity) must remain below than or equal to 50%.

Note that for the purposes of covenant testing, AASB16 "Leases" does not apply and covenants are calculated as they were prior to the adoption of this standard by the Consolidated Entity.

As at 31 December 2019, the Consolidated Entity has drawn down $26.7M out of the finance facility. An amount of $23.3M remains undrawn under the finance facility at the reporting date. The Consolidated Entity expects to use a combination of the undrawn debt amount, future operating cash flow and clinic class shares to fund future acquisitions.

6. Business Overview

The Consolidated Entity owns and operates a portfolio of allied health businesses throughout Australia. The focus of the Consolidated Entity is to operate and expand a network of allied health businesses in Australia, with a focus on the podiatry and physiotherapy industries. At the reporting date, the Consolidated Entity owned the following allied health businesses:

- 81 podiatry clinics;
- 42 physiotherapy clinics;
- 13 hand therapy clinics;
- 2 orthotics laboratories trading as iOrthotics; and
- 75% of a podiatry and foot care supplies and equipment wholesale business trading as D.B.S. Medical.

Highlights
Operational highlights for the Consolidated Entity for H1 20 included:

- Career pathways for clinicians have been mapped to provide all staff with improved long-term career progression, including a clear pathway to clinic ownership;
- The Consolidated Entity held its inaugural, industry leading education conference from October 12-13 2019 on the Gold Coast. 437 of the groups clinicians and support staff attended this event, which boasted industry and world leading speakers on a range of clinical and business topics;
- The Clinic Leadership Program has been developed to provide clinicians with the skills they need to be provide exceptional health care to their patients. This program commenced in January 2020 with 33 staff registered;
- The Business Leadership Program has been developed to provide the future leaders and aspiring clinic owners with the skills required to manage and run a successful clinic. This program commenced in February 2020 with 34 staff registered;
- The Consolidated Entity has recruited 26 physiotherapy graduates, 16 podiatry graduates, 2 occupational therapist graduates, and 1 exercise physiologist graduate. All new graduates attended graduate induction and training between 7 - 9 February 2020. These additional staff will help assist the Consolidated Entities future organic growth;
- Clinician staff retention rates of 90%; and
- Organic revenue growth of 3.5% (physiotherapy 5.8% and podiatry 1.3%) over prior period.

Acquisitive and portfolio growth highlights are as follows:

- 6 additional podiatry, 9 additional physiotherapy clinics and 4 additional hand therapy clinics were acquired and integrated during the period;
- On 28 January 2020, the Consolidated Entity announced the expansion of iOrthotics to North America with the launch of a 3D printed orthotics manufacturing laboratory in New York. The facility has been secured on a 5-year lease agreement, and will be operated by iOrthotics USA LLC, of which the Consolidated Entity owns 58%. The new facility in New York gives the Consolidated Entity the opportunity to expand internationally, and into the world's largest healthcare market. The foot orthotics insoles market in the United States was valued at USD $1.289bn annually, or approximately 40% of the global foot orthotic insole market[1];
- On 05 February 2020, project approval was given to iOrthotics, for a research and development grant of $0.451M by the Australian government's Advanced Manufacturing Growth Centre. The grant will fund continued research and development collaboration with the University of Queensland to test new 3D printable materials for the use in the production of foot orthotics;
- 4 additional podiatry clinics were opened inside of existing physiotherapy clinics of the Consolidated Entity;
- The relocation of the MyFootDr Indooroopilly podiatry clinic into the Allsports Physiotherapy Indooroopilly clinic occurred during the period. The clinic commenced trading in the new location in Jan 2020;
- 2 new Extend Rehabilitation hand therapy clinics were opened inside of existing physiotherapy clinics of the Consolidated Entity; and
- The Consolidated Entity has executed 2 leases for new greenfield multidisciplinary allied health clinics located in Bundaberg (QLD) and Pimpama (Gold Coast, QLD). The clinics are expected to be open for trading in April and October 2020 respectively.

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[1] *IndustryARC (2019). "Foot Orthotic Insoles Market".*

Growth Strategies

The Consolidated Entity aims to drive growth from its allied health businesses through the following four-tiered growth strategy:

(a) patient focused outcomes;
(b) organic activities;
(c) future accretive acquisitions; and
(d) vertically integrated businesses units.

Given the fragmented nature of the targeted allied health industries, acquisitions will continue to be a central pillar of the Consolidated Entity's growth strategy. The Consolidated Entity will continue to assess opportunities on a case by case basis with reference to its existing network of clinics, strategic objectives and the Consolidated Entity's acquisition criteria.

7. Impact of AASB16

Impact of AASB16 on Financial Performance

The adoption of AASB16 had a significant impact on the Consolidated Entity's financial performance during the half-year period ended 31 December 2019. A summary of the impact is as follows:

Table 7: Impact of AASB16 adoption on H1 20 financial performance

This table has not been audited / reviewed	*31/12/2019* Statutory	*31/12/2019* Underlying 1	*31/12/2019* Underlying removing the impact of AASB16	Change (impact of AASB16)
	$'000's	*$'000's*	*$'000's*	*$'000's*
Revenue	44,264	44,264	44,264	-
EBITDA 2	8,158	9,635	5,760	3,875
EBITDA %	*18.4%*	*21.8%*	*13.0%*	*8.8 bps*
Depreciation	(4,691)	(4,691)	(1,239)	(3,452)
Amortisation	(282)	(282)	(282)	-
EBIT 3	3,185	4,662	4,239	423
Finance costs	(1,308)	(1,308)	(700)	(608)
NPBT	1,877	3,354	3,539	(185)
Income tax expense	(474)	(474)	(474)	-
Non-controlling interest	(733)	(733)	(733)	-
Amortisation expense	282	282	282	-
NPATA attributable to the owners of Healthia Limited	**952**	**2,429**	**2,614**	**(185)**
EPS (cents) 4	1.51			
Underlying EPS (cents) 5		3.85	4.15	(0.30)

1. Underlying profit reflects statutory profit as adjusted to reflect the Directors' assessment of the result for the ongoing business activities of the consolidated entity, in accordance with AICD/Finsia principles of recording underlying profit. Underlying profit has not been audited or reviewed.

2. EBITDA is a non-IFRS measure and equals earnings before interest, tax, depreciation and amortisation

3. EBIT is a non-IFRS measure and equals earnings before interest, tax, depreciation and amortisation

4. EPS or earnings per share is calculated as NPATA attributable to the owners of Healthia Limited divided by the number of shares on issue of 63,034,653 (H1 19: 63,034,653)

5. Underlying EPS or earnings per share is calculated as NPATA attributable to the owners of Healthia Limited divided by the number of shares on issue of 63,034,653 (H1 19: 63,034,653)

AASB16 'Leases' had a significant impact on the current period financial performance, reducing the profit before income tax expense by $0.19M and underlying earnings per share by 0.30 cents. This impact is comprised of the following changes due the adoption of AASB16:

- Occupancy costs decreased by $3.88M;
- Depreciation expense increased by $3.45M; and
- Finance costs increased by $0.61M.

Impact of AASB16 on Financial Position

The adoption of AASB16 had a significant impact on the Consolidated Entity's financial position for the period ended 31 December 2019. A summary of the impact is as follows:

Table 8: Impact of AASB16 adoption on the Consolidated Statement of Financial Position at 31 December 2019

This table has not been audited / reviewed	*31/12/2019 Statutory*	*31/12/2019 Removing the impact of AASB16*	*Change (impact of AASB16)*
	$'000's	*$'000's*	*$'000's*
Assets			
Current assets	11,245	11,245	-
Right-of-use assets	21,078	-	21,078
Deferred tax	2,613	2,117	496
Other non-current assets	81,911	81,911	-
Total assets	116,847	95,273	21,574
Liabilities			
Current Lease liabilities	6,794	576	6,218
Other current liabilities	10,237	10,237	-
Non-current Lease liabilities	17,787	696	17,091
Other non-current liabilities	27,758	27,758	-
Total liabilities	62,576	39,267	23,309
Net assets	54,271	56,006	(1,735)
Current ratio [1]	0.66	1.04	(0.38)

1. Current ratio is calculated as Current Assets / Current Liabilities

AASB16 'Leases' also had a significant impact on the Consolidated Entity's Statement of financial position at 31 December 2019, reducing net assets by $1.74M and reducing the Current Ratio from 1.04 to 0.66. This impact is comprised of the following changes due the adoption of AASB16:

- Right-of-use assets increased by $21.08m;
- Deferred tax assets increased by $0.50m;
- Current lease liabilities increased by $6.22M; and
- Non-current lease liabilities increased by $17.09M.

Notwithstanding the impact of AASB16 on the current ratio, the Directors are satisfied that the Consolidated Entity is forecast to generate sufficient operating cash flows to satisfy short-term leasing and other current liabilities.

Significant changes in the state of affairs

Acquisition of Physiotherapy and Hand Therapy Clinics

The Consolidated Entity acquired an additional 9 physiotherapy and 4 hand therapy clinics since 30 June 2019. Initial consideration paid for the acquisitions was $8.58 million including $4.63 million in cash consideration, $2.90 million in clinic class share consideration, with up to an additional $1.05 million payable in contingent consideration.

These clinics are expected to contribute Revenue and EBITDA (less lease payments or pre-AASB 16 change) of $9.60 million and $2.08 million respectively on a pro-forma basis.

Acquisition of Podiatry Clinics

The Consolidated Entity acquired an additional 6 podiatry clinics since 30 June 2019. Initial consideration paid for the acquisitions was $3.73 million including $3.13 million in cash consideration, $0.40 million in clinic class share consideration, with up to an additional $0.20 million payable in contingent consideration.

These clinics are expected to contribute Revenue and EBITDA (less lease payments or pre-AASB 16 change) of $4.23 million and $0.89 million respectively on a pro-forma basis.

Performance rights
On 27 November 2019, 2,102,500 unlisted performance rights were granted to employees and 575,858 unlisted performance rights were granted to key management personnel with a nil grant and exercise price. The performance rights will vest on 31 August 2022 (subject to satisfaction of the relevant vesting conditions) and expire on 31 October 2022. The vesting conditions include a number of performance and service conditions.

There were no other significant changes in the state of affairs of the Consolidated Entity during the financial half-year.

Rounding of amounts

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors

Glen Frank Richards
Director

24 February 2020

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DECLARATION OF INDEPENDENCE BY C K HENRY TO THE DIRECTORS OF HEALTHIA LIMITED

As lead auditor for the review of Healthia Limited for the half-year ended 31 December 2019 I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Healthia Limited and the entities it controlled during the period.

C K Henry
Director

BDO Audit Pty Ltd

Brisbane, 24 February 2020

Contents

General information

The financial statements cover Healthia Limited as a Consolidated Entity consisting of Healthia Limited and the entities it controlled at the end of, or during, the half-year. The financial statements are presented in Australian dollars, which is Healthia Limited's functional and presentation currency.

Healthia Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 4 East Tower
25 Montpelier Road
Bowen Hills QLD 4006

A description of the nature of the Consolidated Entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 21 February 2020.

Healthia Limited and its Controlled Entities
Consolidated statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2019

	Note	Consolidated 31 Dec 2019 $'000	Consolidated 31 Dec 2018 $'000
Revenue			
Revenue	3	44,264	29,477
Total revenue		44,264	29,477
Expenses			
Cost of sales		(3,409)	(2,394)
Employee benefits expense		(26,746)	(16,961)
Occupancy costs		(970)	(3,407)
Marketing costs		(586)	(428)
Other expenses		(2,294)	(2,050)
Education and training		(428)	(111)
Impairment of receivables		(195)	-
Acquisition and integration costs		(1,308)	(2,306)
Insurance write-off		(118)	-
Share-based payments expense and associated costs		(52)	-
Depreciation expense		(4,691)	(862)
Amortisation expense		(282)	(192)
Finance costs		(1,308)	(602)
Total expenses		(42,387)	(29,313)
Profit before income tax expense		1,877	164
Income tax expense		(474)	(661)
Profit/(loss) after income tax expense for the half-year		1,403	(497)
Other comprehensive income for the half-year, net of tax		-	-
Total comprehensive income for the half-year		1,403	(497)
Profit/(loss) for the half-year is attributable to:			
Non-controlling interest		733	342
Owners of Healthia Limited		670	(839)
		1,403	(497)
Total comprehensive income for the half-year is attributable to:			
Non-controlling interest		733	342
Owners of Healthia Limited		670	(839)
		1,403	(497)
		Cents	Cents
Basic earnings per share	17	1.06	(1.78)
Diluted earnings per share	17	1.02	(1.78)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Healthia Limited and its Controlled Entities
Consolidated statement of financial position
As at 31 December 2019

	Note	Consolidated 31 Dec 2019 $'000	Consolidated 30 Jun 2019 $'000
Assets			
Current assets			
Cash and cash equivalents		2,597	2,610
Trade and other receivables		3,564	3,396
Inventories		3,873	3,478
Other current assets		1,211	1,218
Total current assets		11,245	10,702
Non-current assets			
Investments accounted for using the equity method		46	10
Property, plant and equipment	4	7,659	7,643
Right-of-use assets	5	21,078	-
Intangibles	6	74,206	62,221
Deferred tax		2,613	2,074
Total non-current assets		105,602	71,948
Total assets		116,847	82,650
Liabilities			
Current liabilities			
Trade and other payables		3,471	3,397
Borrowings	7	75	72
Lease liabilities	1	6,794	412
Derivative financial instruments		124	-
Income tax		921	1,051
Employee benefit obligations		3,214	2,718
Provisions		187	162
Other current liabilities	8	2,245	1,715
Total current liabilities		17,031	9,527
Non-current liabilities			
Borrowings	9	26,735	19,606
Lease liabilities	1	17,787	433
Derivative financial instruments		-	92
Employee benefit obligations		269	260
Provisions		754	728
Other non-current liabilities		-	878
Total non-current liabilities		45,545	21,997
Total liabilities		62,576	31,524
Net assets		54,271	51,126
Equity			
Issued capital	10	49,884	50,369
Reserves	11	(4,363)	(4,395)
Accumulated losses		(3,541)	(3,725)
Equity attributable to the owners of Healthia Limited		41,980	42,249
Non-controlling interest	12	12,291	8,877
Total equity		54,271	51,126

The above consolidated statement of financial position should be read in conjunction with the accompanying notes

Healthia Limited and its Controlled Entities
Consolidated statement of changes in equity
For the half-year ended 31 December 2019

Consolidated	Issued capital $'000	Reserves $'000	Accumulated losses $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 July 2018	13,406	(696)	(1,999)	378	11,089
Profit/(loss) after income tax expense for the half-year	-	-	(839)	342	(497)
Other comprehensive income for the half-year, net of tax	-	-	-	-	-
Total comprehensive income for the half-year	-	-	(839)	342	(497)
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs	27,663	-	-	-	27,663
Issue of ordinary shares as consideration for business combinations, net of transaction costs	6,162	-	-	-	6,162
Issue of ordinary shares as consideration for acquisition of non-controlling interest, net of transaction costs	294	-	-	-	294
Conversion from clinic class shares to ordinary shares	2,225	-	-	(2,225)	-
Reclassification of existing clinic class shares from debt to equity	-	-	-	3,967	3,967
Contributions of clinic class shares	-	-	-	1,578	1,578
Issue of clinic class shares as consideration for business combinations	-	-	-	4,116	4,116
Transactions with non-controlling interests	-	(1,369)	-	(202)	(1,571)
Distributions paid to non-controlling interest	-	-	-	(310)	(310)
Pre-IPO distributions	-	(4,994)	-	-	(4,994)
Balance at 31 December 2018	49,750	(7,059)	(2,838)	7,644	47,497

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes

Healthia Limited and its Controlled Entities
Consolidated statement of changes in equity
For the half-year ended 31 December 2019

Consolidated	Issued capital $'000	Reserves $'000	Accumulated losses $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 July 2019	49,884	(4,395)	(3,240)	8,877	51,126
Adjustment for change in accounting policy (note 1)	-	-	(971)	-	(971)
Balance at 1 July 2019 - restated	49,884	(4,395)	(4,211)	8,877	50,155
Profit after income tax expense for the half-year	-	-	670	733	1,403
Other comprehensive income for the half-year, net of tax	-	-	-	-	-
Total comprehensive income for the half-year	-	-	670	733	1,403
Transactions with owners in their capacity as owners:					
Issue of performance rights	-	32	-	-	32
Contributions of clinic class shares	-	-	-	707	707
Issue of clinic class shares as consideration for business combinations (note 16)	-	-	-	3,303	3,303
Buy-back of clinic class shares	-	-	-	(588)	(588)
Distributions paid to non-controlling interest	-	-	-	(741)	(741)
Balance at 31 December 2019	49,884	(4,363)	(3,541)	12,291	54,271

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes

Healthia Limited and its Controlled Entities
Consolidated statement of cash flows
For the half-year ended 31 December 2019

	Note	Consolidated 31 Dec 2019 $'000	Consolidated 31 Dec 2018 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		44,971	28,174
Payments to suppliers and employees (inclusive of GST)		(37,404)	(26,312)
		7,567	1,862
Interest and other finance costs paid		(1,308)	(603)
Income taxes paid		(314)	(291)
Net cash from operating activities		5,945	968
Cash flows from investing activities			
Payment for purchase of business, net of cash acquired	16	(7,758)	(19,482)
Payment for purchase of non-controlling interest, net of cash acquired		-	(1,389)
Payments of contingent business purchases consideration		(500)	(20)
Payments for investments		(36)	-
Payments for property, plant and equipment	4	(726)	(1,938)
Payments for intangibles		-	(8)
Proceeds from disposal of property, plant and equipment		1	-
Net cash used in investing activities		(9,019)	(22,837)
Cash flows from financing activities			
Proceeds from issue of shares		-	28,472
Share issue transaction costs		-	(1,935)
Proceeds from issue of clinic class shares		707	-
Buy-back of clinic class shares		(588)	-
Proceeds from borrowings		7,130	17,025
Repayment of borrowings		-	(14,708)
Repayment of lease liabilities		(3,450)	-
Pre-IPO distributions		-	(2,494)
Distributions paid non-controlling interest		(741)	(310)
Net cash from financing activities		3,058	26,050
Net increase/(decrease) in cash and cash equivalents		(16)	4,181
Cash and cash equivalents at the beginning of the financial half-year		2,538	166
Cash and cash equivalents at the end of the financial half-year		2,522	4,347

Cash and cash equivalents at the end of the financial half-year are net of bank overdrafts of $0.075 million at 31 December 2019 (31 December 2018: $0.208 million).

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes

Note 1. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2019 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

The Consolidated Entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The following Accounting Standards and Interpretations are most relevant to the Consolidated Entity:

AASB 16 Leases
The Consolidated Entity has adopted AASB 16 from 1 July 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the rental expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

In applying AASB 16 for the first time, the group has used the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics

For those leases previously classified as finance leases, the lease liability and right-of-use asset are measured on 1 July 2019 at the same amounts as under AASB 17 on 30 June 2019.

Impact of adoption
AASB 16 was adopted using the modified retrospective approach as permitted by AASB 16 C8(b)(i) and as such the comparatives have not been restated.

The following is a reconciliation of the financial statement line items from AASB 17 to AASB 16 at 1 July 2019.

	Carrying amount at 30 June 2019 $'000	Reclassifi-cation $'000	Change on adoption of AASB16 $'000	AASB 16 carrying amount at 1 July 2019 $'000
Right-of-use assets	-	-	21,016	21,016
Lease liabilities	(845)	-	(23,671)	(24,516)
Lease incentive liabilities	(1,009)	-	1,009	-
Deferred tax asset	2,074	-	675	2,749
Accumulated losses	(3,240)	-	(971)	(4,211)

Note 1. Significant accounting policies (continued)

The following is a reconciliation of total operating and finance lease commitments at 30 June 2019 (as disclosed in the financial statements to 30 June 2019) to the lease liabilities recognised at 1 July 2019:

	1 July 2019 $'000
Operating lease commitments as at 1 July 2019 (AASB 117)	18,958
Finance lease commitments as at 1 July 2019 (AASB 117)	845
Adjustment to operating lease commitments at 1 July 2019	6,990
Operating lease commitments discount based on the weighted average incremental borrowing rate of 5.0% (AASB 16)	(3,122)
Total lease liabilities recognised under AASB 16 on 1 July 2019	23,671

The lease liabilities recognised at 31 December 2019 are as follows:

	31 December 2019 $'000
Current lease liabilities	6,794
Non-current lease liabilities	17,787
Total lease liabilities	24,581

Changes to the significant accounting policies
Changes to the significant accounting policies as a result of the new standards adopted since the Annual Report date are as follows.

Right-of-use assets (from 1 July 2019)
A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The Consolidated Entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss on a straight-line basis over the lease term.

Lease liabilities (from 1 July 2019)
A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Note 1. Significant accounting policies (continued)

Going concern

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the normal course of business.

The Consolidated Entity has a working capital deficiency of $5,786,000 as at 31 December 2019. The reason for the working capital deficiency at 31 December 2019 is due to the impact of AASB 16 being adopted. Healthia has recognised a current liability of $6,794,000 which is predominately related to property leases.

Not-withstanding the working capital deficiency, the Directors are satisfied the Consolidated Entity is a going concern as the Consolidated Entity is forecast to generate sufficient operating cash flows to be able to pay short-term leasing and other liabilities.

Note 2. Operating segments

Identification of reportable operating segments
The Consolidated Entity has two operating segments: Podiatry and Physiotherapy.

These operating segments are based on the internal reports reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

The other category comprises of corporate functions.

The CODM reviews underlying EBITDA (earnings before interest, tax, depreciation and amortisation). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

The information is reported to the CODM on a monthly basis.

Types of products and services
The principal products and services of each of these operating segments are as follows:

Podiatry	This division provides podiatry services and podiatry related services including the manufacturing and sale of orthotics and podiatry related products.
Physiotherapy	This division provides physiotherapy and speciality hand therapy services.

Operating segment information

Consolidated - 31 Dec 2019	Podiatry $'000	Physio-therapy $'000	Other* $'000	Total $'000
Revenue				
Sales to external customers	23,006	21,258	-	44,264
Total revenue	23,006	21,258	-	44,264
EBITDA - underlying	7,409	5,135	(2,908)	9,636
Depreciation and amortisation	(2,234)	(1,578)	(1,161)	(4,973)
Insurance claim write-off	-	-	(118)	(118)
Share-based payments expense	-	-	(52)	(52)
Finance costs	-	-	(1,308)	(1,308)
Acquisition and integration costs	-	-	(1,308)	(1,308)
Profit/(loss) before income tax expense	5,175	3,557	(6,855)	1,877
Income tax expense				(474)
Profit after income tax expense				1,403

* The 'Other' category comprises corporate functions and does not represent an operating segment.

Note 2. Operating segments (continued)

AASB 16 was adopted using the modified retrospective approach and as such the comparatives have not been restated. Therefore, the current and comparative EBITDA are not directly comparable.

Consolidated - 31 Dec 2018	Podiatry $'000	Physio-therapy $'000	Other* $'000	Total $'000
Revenue				
Sales to external customers	19,440	10,037	-	29,477
Total revenue	19,440	10,037	-	29,477
EBITDA - underlying	5,086	1,682	(2,460)	4,308
Depreciation and amortisation	(616)	(315)	(123)	(1,054)
Finance costs	-	-	(602)	(602)
Acquisition costs	-	-	(2,306)	(2,306)
Restructure and integration costs	-	-	(182)	(182)
Profit/(loss) before income tax expense	4,470	1,367	(5,673)	164
Income tax expense				(661)
Loss after income tax expense				(497)

* The 'Other' category comprises corporate functions and does not represent an operating segment.

Note 3. Revenue from contracts with customers

	Consolidated 31 Dec 2019 $'000	Consolidated 31 Dec 2018 $'000
Rendering of services	39,914	24,438
Sale of goods	3,610	4,716
Other revenue - rent from sub-tenants	740	323
Revenue from contracts with customers	44,264	29,477

Disaggregation of revenue
The disaggregation of revenue from contracts with customers is as follows:

	Consolidated 31 Dec 2019 $'000	Consolidated 31 Dec 2018 $'000
Major product lines		
Podiatry	23,006	19,440
Physiotherapy	21,258	10,037
	44,264	29,477
Geographical regions		
Australia	44,264	29,477
Timing of revenue recognition		
Goods and services transferred at a point in time	44,264	29,477

Note 4. Non-current assets - property, plant and equipment

	Consolidated	
	31 Dec 2019 $'000	30 Jun 2019 $'000
Leasehold improvements - at cost	4,644	4,417
Less: Accumulated depreciation	(1,474)	(1,049)
	3,170	3,368
Plant and equipment - at cost	8,755	7,727
Less: Accumulated depreciation	(4,266)	(3,452)
	4,489	4,275
	7,659	7,643

Reconciliations
Reconciliations of the written down values at the beginning and end of the current financial half-year are set out below:

Consolidated	*Leasehold improve-ments $'000*	*Plant and equipment $'000*	*Total $'000*
Balance at 1 July 2019	3,368	4,275	7,643
Additions	131	595	726
Additions through business combinations (note 16)	112	433	545
Disposals	(16)	-	(16)
Depreciation expense	(425)	(814)	(1,239)
Balance at 31 December 2019	3,170	4,489	7,659

Note 5. Non-current assets - right-of-use assets

	Consolidated	
	31 Dec 2019 $'000	30 Jun 2019 $'000
Plant and equipment - right-of-use	24,530	-
Less: Accumulated depreciation	(3,452)	-
	21,078	-

Reconciliations
Reconciliations of the written down values at the beginning and end of the current financial half-year are set out below:

Consolidated	*Plant and equipment $'000*
Balance at 1 July 2019	-
Adjustment on transition to AASB 16	21,016
Additions through business combinations (note 16)	3,514
Depreciation expense	(3,452)
Balance at 31 December 2019	21,078

Note 6. Non-current assets - intangibles

	Consolidated 31 Dec 2019 $'000	Consolidated 30 Jun 2019 $'000
Goodwill - at cost	72,243	60,485
Trademarks	20	20
Customer lists	2,902	2,393
Less: Accumulated amortisation	(959)	(677)
	1,943	1,716
	74,206	62,221

Reconciliations
Reconciliations of the written down values at the beginning and end of the current financial half-year are set out below:

Consolidated	*Goodwill $'000*	*Trademarks $'000*	*Customer lists $'000*	*Total $'000*
Balance at 1 July 2019	60,485	20	1,716	62,221
Additions through business combinations (note 16)	11,758	-	509	12,267
Amortisation expense	-	-	(282)	(282)
Balance at 31 December 2019	72,243	20	1,943	74,206

Note 7. Current liabilities - borrowings

	Consolidated 31 Dec 2019 $'000	Consolidated 30 Jun 2019 $'000
Bank overdraft	75	72

Note 8. Current liabilities - other current liabilities

	Consolidated 31 Dec 2019 $'000	Consolidated 30 Jun 2019 $'000
Deferred lease incentives	-	220
Contingent consideration	2,245	1,495
	2,245	1,715

Refer note 14 for details on fair value measurement.

Note 9. Non-current liabilities - borrowings

	Consolidated	
	31 Dec 2019 $'000	30 Jun 2019 $'000
Bank loans	26,735	19,606

Note 10. Equity - issued capital

	Consolidated			
	31 Dec 2019 Shares	30 Jun 2019 Shares	31 Dec 2019 $'000	30 Jun 2019 $'000
Ordinary shares - fully paid	63,034,653	63,034,653	49,884	49,884

Note 11. Equity - reserves

	Consolidated	
	31 Dec 2019 $'000	30 Jun 2019 $'000
Share-based payments reserve	482	450
Transactions with non-controlling interest reserve	(2,351)	(2,351)
Pre-IPO distributions reserve	(2,494)	(2,494)
	(4,363)	(4,395)

Note 12. Equity - non-controlling interest

	Consolidated	
	31 Dec 2019 $'000	30 Jun 2019 $'000
Issued equity - Clinic Class shares	11,862	8,440
Retained profits	429	437
	12,291	8,877

Note 13. Equity - dividends

As at the date of signing the financial report, the Directors of Healthia Limited have recommended the payment of an interim fully franked dividend of 1.00 cent per share to the ordinary shareholders of Healthia Limited.

2020 interim dividend dates:
- Ex-dividend date: 8 March 2020
- Record date: 9 March 2020
- Payment date: 3 April 2020

Dividends of $741,000 were paid during the current financial half-year to non-controlling interests, being the clinic class shareholders of Healthia Limited subsidiaries.

Note 14. Fair value measurement

Fair value hierarchy
The following tables detail the Consolidated Entity's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:
Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3: Unobservable inputs for the asset or liability

Consolidated - 31 Dec 2019	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Liabilities				
Interest rate swap	-	124	-	124
Contingent consideration	-	-	2,245	2,245
Total liabilities	-	124	2,245	2,369

Consolidated - 30 Jun 2019	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Liabilities				
Interest rate swap	-	92	-	92
Contingent consideration	-	-	1,495	1,495
Total liabilities	-	92	1,495	1,587

There were no transfers between levels during the financial half-year.

Valuation techniques for fair value measurements categorised within level 2 and level 3
Derivative financial instruments have been valued using quoted market rates. This valuation technique maximises the use of observable market data where it is available and relies as little as possible on entity specific estimates.

Contingent consideration has been valued based on expected EBITDA of the clinics, based on the knowledge of the business and how the current economic environment is likely to impact it. Consideration is capped at the values disclosed in the financial statements.

Level 3 assets and liabilities
Movements in level 3 liabilities during the current financial half-year are set out below:

Consolidated	Contingent consider-ation $'000
Balance at 1 July 2019	1,495
Additions	1,250
Settlement of contingent considerations	(500)
Balance at 31 December 2019	2,245

The level 3 liabilities unobservable inputs and sensitivity are as follows:

Description	Unobservable inputs	Range (weighted average)	Sensitivity
Contingent consideration	Expected EBITDA of acquired clinics	$127,000 - $660,000	Consideration is capped at values disclosed in the financials. No sensitivity adjustments required.

Note 15. Related party transactions

Parent entity
Healthia Limited is the parent entity.

Transactions with related parties
The following transactions occurred with related parties:

	Consolidated	
	31 Dec 2019 $	31 Dec 2018 $
Consideration relating to the acquisition of businesses at the time of Initial Public Offering:		
Ordinary shares issued for the acquisition of businesses to director Anthony Ganter	-	1,103,322
Ordinary shares issued for the acquisition of businesses to key management personnel Lisa Roach	-	630,548
Cash payment for the acquisition of businesses to director Anthony Ganter	-	1,260,366
Cash payment for the acquisition of businesses to director Darren Stewart	-	500,000
Cash payment for the acquisition of businesses to key management personnel Lisa Roach	-	638,391
Cash payment for the acquisition of businesses to key management personnel Glen Evangelista	-	1,000,000
Cash payment for the acquisition of businesses to key management personnel Dean Hartley	-	161,846
Other transactions:		
Rent and outgoings paid to entities controlled by director Darren Stewart	199,638	179,714
Rent and outgoings paid to entities controlled by director Anthony Ganter	97,598	65,065
Rent and outgoings paid to entities controlled by key management personnel Dean Hartley and Glen Evangelista	89,900	58,556
Rent and outgoings paid to entities controlled by key management personnel Lisa Roach	98,412	57,921
Payment for services to an entity associated with Wesley Coote	106,582	22,045

Receivable from and payable to related parties
There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to/from related parties
The following balances are outstanding at the reporting date in relation to loans with related parties:

	Consolidated	
	31 Dec 2019 $	30 Jun 2019 $
Current receivables:		
Loan to key management personnel, Chris Banks	200,000	200,000

Terms and conditions
All transactions were made on normal commercial terms and conditions and at market rates.

Note 16. Business combinations

Acquisition of Physiotherapy and Hand Therapy Clinics
The Consolidated Entity acquired an additional 9 physiotherapy and 4 hand therapy clinics since 30 June 2019. Initial consideration paid for the acquisitions was $8.58 million including $4.63 million in cash consideration, $2.90 million in clinic class share consideration, with up to an additional $1.05 million payable in contingent consideration.

These clinics are expected to contribute Revenue and EBITDA (less lease payments or pre-AASB 16 change) of $9.60 million and $2.08 million respectively on a pro-forma basis.

Note 16. Business combinations (continued)

Acquisition of Podiatry Clinics
The Consolidated Entity acquired an additional 6 podiatry clinics since 30 June 2019. Initial consideration paid for the acquisitions was $3.73 million including $3.13 million in cash consideration, $0.40 million in clinic class share consideration, with up to an additional $0.20 million payable in contingent consideration.

These clinics are expected to contribute Revenue and EBITDA (less lease payments or pre-AASB 16 change) of $4.23 million and $0.89 million respectively on a pro-forma basis.

Details of the acquisitions are as follows:

	Physio-therapy and Hand Therapy clinics	Podiatry clinics	
	Fair value $'000	Fair value $'000	Total $'000
Inventories	171	89	260
Other current assets	23	6	29
Plant and equipment	243	302	545
Right-of-use assets	2,002	1,512	3,514
Customer lists	350	159	509
Deferred tax asset	163	37	200
Deferred tax liability	(105)	(47)	(152)
Employee benefits	(528)	(124)	(652)
Lease liability	(2,002)	(1,512)	(3,514)
Other liabilities	(104)	(82)	(186)
Net assets acquired	213	340	553
Goodwill	8,370	3,388	11,758
Acquisition-date fair value of the total consideration transferred	8,583	3,728	12,311
Representing:			
Cash paid or payable to vendor	4,631	3,127	7,758
Contingent consideration	1,050	200	1,250
Clinic Class shares issued to vendor	2,902	401	3,303
	8,583	3,728	12,311
Cash used to acquire business, net of cash acquired:			
Acquisition-date fair value of the total consideration transferred	8,583	3,728	12,311
Less: contingent consideration	(1,050)	(200)	(1,250)
Less: Clinic Class shares issued by Company as part of consideration	(2,902)	(401)	(3,303)
Net cash used	4,631	3,127	7,758

The values identified in relation to the acquisitions are provisional as at 31 December 2019.

Acquisition related costs of $1,020,000 are included as acquisition costs in the consolidated statement of profit or loss and other comprehensive income.

Note 17. Earnings per share

	Consolidated	
	31 Dec 2019 $'000	31 Dec 2018 $'000
Profit/(loss) after income tax	1,403	(497)
Non-controlling interest	(733)	(342)
Profit/(loss) after income tax attributable to the owners of Healthia Limited	670	(839)
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	63,034,653	47,248,084
Adjustments for calculation of diluted earnings per share:		
Performance rights	2,678,358	-
Weighted average number of ordinary shares used in calculating diluted earnings per share	65,713,011	47,248,084
	Cents	**Cents**
Basic earnings per share	1.06	(1.78)
Diluted earnings per share	1.02	(1.78)

Note 18. Share-based payments

Unlisted performance rights
On 27 November 2019, the Company issued 2,678,358 performance rights to key management personnel, support staff and key clinicians. Details of the performance rights are as follows:

Grant date:	27 November 2019
Grant price:	$nil
Exercise price:	$nil
Vesting date:	31 August 2022
Expiry date:	31 October 2022
Restriction on shares issued on exercise:	Can only be traded in accordance with Securities Trading Policy and insider trading laws

Vesting conditions for support staff and key clinicians

Service condition	50% of the performance rights will be exercisable upon satisfaction of the service condition, being continuous employment from grant date until the vesting date.
Performance conditions	50% of the performance rights will be exercisable if the performance condition is achieved, with the relevant performance condition to be tailored to the participant, as follows: Support staff: The Consolidated Entity delivering positive (greater than zero) compounding annual growth in underlying earnings per share (underlying EPS), as determined by the Board in its discretion, for the period from quotation of the Company's shares on ASX to 30 June 2022. Key clinicians: The respective clinic delivering a positive EBITDA growth over the next 3 years, whereby EBITDA growth is calculated as (FY22 EBITDA - FY20 EBITDA) / FY20 EBITDA.

Note 18. Share-based payments (continued)

Vesting conditions for key management personnel

Service condition	The performance rights will be exercisable upon satisfaction of the Service condition, being continuous employment with the Company from Grant Date until the Vesting Date.
EPS Growth condition	The Consolidated Entity's compounding annual growth in underlying earnings per share (underlying EPS) for the period from quotation of the Company’s shares on ASX to 30 June 2022 greater than 10% per annum. The underlying EPS results to be used will be Basic EPS recorded in the Consolidated Entity's audited financial statements in the relevant years, adjusted for one-off and non-recurring items and the amortisation of customer lists, as determined by the Board at its discretion. 50% of the performance rights will be exercisable if this condition is met.
Total Shareholder Return condition	Total Shareholder Return ('TSR') to exceed 150% for the period from quotation of the Company’s shares on ASX to 30 June 2022, with TSR calculated as follows: TSR = (Price End - Price Begin + Dividends)/Price Begin Where: Price Begin = share price at quotation of the Company’s shares on ASX; Price End = share price at 30 June 2022; and Dividends = total dividends paid per share during the period from listing to 30 June 2022. 50% of the performance rights will be exercisable if this condition is achieved.

The performance rights do not rank equally with existing ordinary shares quoted. Prior to vesting, the performance rights do not carry a right to vote or receive dividends.

Where shares are issued upon the vesting and exercise of the performance rights (within the periods detailed above), those shares will rank equally with existing ordinary shares of Healthia Limited.

To participate in a dividend, the ordinary shares must be issued prior to the record date for the dividend.

Set out below are summaries of performance rights granted under the plan:

	Number of rights 31 Dec 2019	*Weighted average exercise price 31 Dec 2019*	*Number of rights 31 Dec 2018*	*Weighted average exercise price 31 Dec 2018*
Outstanding at the beginning of the financial half-year	-	$0.00	-	$0.00
Granted	2,678,358	$0.00	-	$0.00
Forfeited	-	$0.00	-	$0.00
Exercised	-	$0.00	-	$0.00
Expired	-	$0.00	-	$0.00
Outstanding at the end of the financial half-year	2,678,358	$0.00	-	$0.00
Exercisable at the end of the financial half-year	-	$0.00	-	$0.00

The weighted average remaining contractual life of performance rights outstanding at the end of the financial half-year was 2.83 years.

Note 19. Events after the reporting period

On the 13th of February 2020, the Consolidated Entity signed formal documentation to increase the current syndicated finance facility limit from $37,000,000 to $50,000,000 with Australia and New Zealand Banking Group Limited and the Bank of Queensland Limited. The facility term has been extended until 30 September 2022 and there have been no material changes to banking covenants.

On the 5th of February 2020, the Consolidated Entity restructured its interest rate swap to take advantage of favourable market conditions. The previous $11.0M interest rate swap with a fixed rate of 2.15% expiring on 12 December 2020, was restructured via a 'blend and extend' transaction into a $20.0M interest rate swap with a fixed rate of 1.21% expiring on 30 September 2022 (representing a saving of 0.94%).

On the 5th of February 2020, project approval was given to iOrthotics, for a research and development grant of $0.451M by the Australian government’s Advanced Manufacturing Growth Centre. The grant will fund continued collaboration with the University of Queensland to test new 3D printable materials and innovate iOrthotics ERP for export to addressable global markets

Acquisition of 1 Physiotherapy Clinic
The Consolidated Entity acquired an additional 1 physiotherapy clinic since 31 December 2019. Consideration paid for the acquisition was $0.58 million, including $0.38 million in cash consideration, $0.10 million in clinic class share consideration and up to $0.10 million in contingent, deferred consideration. The Consolidated Entity is yet to complete the business combination accounting for these newly acquired clinics.

Apart from the dividend declared as disclosed in note 13, no other matter or circumstance has arisen since 31 December 2019 that has significantly affected, or may significantly affect the Consolidated Entity's operations, the results of those operations, or the Consolidated Entity's state of affairs in future financial years.

Healthia Limited and its Controlled Entities
Directors' declaration
31 December 2019

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes give a true and fair view of the Consolidated Entity's financial position as at 31 December 2019 and of its performance for the financial half-year ended on that date; and

- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors

Glen Frank Richards
Director

24 February 2020

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Healthia Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Healthia Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year then ended, and notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001* including:

(i) Giving a true and fair view of the Group's financial position as at 31 December 2019 and of its financial performance for the half-year ended on that date; and

(ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2019 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

BDO Audit Pty Ltd

BDO

C K Henry
Director

Brisbane, 24 February 2020