

ASX Announcement (ASX: HLS)



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Healius announces FY20 results, trading update and growth initiatives

- **Helping to combat COVID-19 with a safe environment for our people and patients**
- **FY20 result underpinned by Pathology and cash conservation**
- **Strong pathology trading with elevated COVID testing supports positive outlook for FY21**
- **Healius Primary Care sale to provide balance sheet flexibility and streamlined portfolio**
- **Margin expansion to flow from Sustainable Improvement Program**

Healius Limited (ASX: HLS) today announced underlying¹ EBIT of \$102.7 million and underlying¹ NPAT of \$55.4 million, for the year ended 30 June 2020 ("FY20"), in line with its trading update on 27 July 2020. Reported EBIT was \$76.0 million and reported NPAT was a loss of \$70.5 million. The latter included \$142.5 million loss relating to the in-year impact of the sale of the Healius Primary Care² business, primarily driven by a non-cash impairment of goodwill. Importantly, the receipt of approximately \$470 million³ in proceeds on completion of the sale will deliver significant balance sheet flexibility.

	30 JUNE 2020 \$M UNDERLYING ¹	30 JUNE 2019 \$M UNDERLYING	30 JUNE 2020 \$M REPORTED	30 JUNE 2019 \$M REPORTED
Revenue	1,600.4	1,565.4	1,597.4	1,566.4
EBIT	102.7	125.9	76.0	107.6
NPAT (continuing operations)	55.4	70.3	72.0	57.2
NPAT (incl. discontinued operations)			(70.5)	55.3

Commenting on the results, Managing Director and Chief Executive Officer, Dr Malcolm Parmenter said: "The underlying results for FY20 demonstrate our relative resilience to the impacts of COVID-19 with a strong performance in Pathology, targeted management initiatives and a fantastic response from all our people all helping to offset the dramatic COVID-related volume declines across the Group in the six-week lock-down in mid-March and April 2020.

¹ Underlying results for continuing operations for the year ended 30 June 2020 exclude the impact of the loss on sale of Healius Primary Care, items considered to be outside the underlying activities of the Group and the impact of AASB 16. For a reconciliation and analysis, refer to the Review of Operations in the Appendix 4E or the Investor Presentation.

² Healius Primary Care comprises 69 large scale medical centres, 13 Health & Co practices and 62 dental clinics. 4 small scale medical centres have been retained by Healius and are in the process of being closed.

³ Less part or all of \$75 million, which will be deferred if the earnings of the Dental clinics have not returned to pre-COVID-19 levels at the time of completion. Also to be adjusted for working capital, capital expenditure and costs-to-complete.

“The resilience in Pathology has continued into July and August and we have seen significantly elevated levels of COVID-19 testing, up to 16,000 per day, in response to recent state-based outbreaks. These high levels of private sector testing are an indispensable part of the country’s fight against COVID-19.

“We are grateful for the introduction of the COVID-19 MBS fee by the Federal Government. It enabled a rapid reconfiguration of our laboratories to accommodate COVID testing equipment, the roll-out of drive-through testing centres for easy and safe public access, and the operation of significantly extended hours at our laboratories to get results back to the public quickly and efficiently,” Dr Parmenter concluded.

FY20 Results

Healius was tracking in line with guidance until mid-March 2020, with strong growth in revenue and earnings in Pathology, Imaging and Montserrat Day Hospitals.

When the spread of COVID-19 accelerated in Australia, Healius focused on helping to combat the virus through its frontline services. In mid-March and April, the Group saw a rapid and significant decline in volumes in non-critical and routine services in line with community concerns around visiting healthcare centres. At their worst, volumes were down over 30% and 40% in Pathology and Imaging respectively on prior comparable periods in FY19 (pcp). Partially offsetting these declines were increases in COVID-19 testing and GP telehealth services.

At a time when the extent and timing of the lock-down was not known, management implemented proactive measures to reduce operating costs, including the temporary closure of metropolitan collection centres and imaging community sites, and rental reductions and deferrals with the help of landlords. While keeping all its permanent workforce employed, Healius undertook labour management with the assistance of employees and unions.

Pathology is eligible for Government assistance, currently estimated at \$11 million in connection with its revenue declines in April, in return for the ongoing delivery of pathology services including in remote and rural areas, maintaining permanent staffing levels, and reducing senior management and Board salaries and fees. Montserrat and Healius Day Hospitals received a combined \$1.7 million in JobKeeper and viability payments. Without this support, further reductions in services and other measures would have been undertaken.

With the reopening of the economy in May and June, Healius saw an improvement in its volumes, however with differing recovery rates by business and by state.

Overall in FY20, Healius achieved revenue growth of 2.2% while underlying EBIT was down 18%, to \$55.4 million, underpinned by a strong trading performance in Pathology and Montserrat outside of the COVID-related lock-down in combination with management initiatives.

FY21 trading update

Healius has commenced FY21 very strongly.

In Pathology revenues were up by 25% in July on pcp, with further significant increases in community COVID testing. In addition, Pathology has commercial contracts for COVID screening with, for example, the Federal Government and the AFL, with growth expected as organisations endeavour to operate in a safe environment while COVID-19 remains in the community.

In Imaging, revenues were down by 4% in July on pcp with further declines into August, in particular impacted by the Victorian Stage 4 lock-down and cessation of elective surgery in that state.

The combined Day Hospital division has started this financial year significantly ahead of 2020, contributing positively to the Group's results. Montserrat's revenue was up 27% in July on pcp while Adora Fertility was up over 50%, with strong demand continuing and the Victorian Government's exemptions for IVF activities proving valuable.

In Healius Primary Care, July revenues were up 7.5% on pcp and costs have been well managed. Importantly, the Dental business has now recorded two months of results above the level required to receive the earn-out on completion of the sale of Healius Primary Care.

Balance sheet management

FY20 operating cash flow of \$153.4 million (adjusted for AASB16) exceeded FY19, despite the significant trading disruptions from COVID-19, through cash management. Combined with the strong trading outside of the COVID-19 period, this delivered an improved net debt position in FY20 at \$666 million, with the bank gearing ratio at 2.7x and comfortably below the covenant ceiling of 3.5x.

Capital investment in FY20 was \$122 million, down from \$160 million in FY19 (excluding the acquisition of Montserrat Day Hospitals). Going forward, capital expenditure will further reduce following the sale of the Healius Primary Care business.

In addition, Healius' available liquidity position increased to \$424 million following the successful refinancing of its syndicated bank debt facility of \$500 million. The facility has been increased by \$70 million to \$570 million and its maturity extended to January 2024, with covenants remaining unchanged.

Streamlined portfolio positioned for growth

The sale of Healius Primary Care is expected to complete this calendar year and will deliver significant balance sheet flexibility and improved free cash flow. Reflecting the simplified structure, the Group will complete the right-sizing of its support function cost base, with targeted savings of approximately \$15 million by the end of FY22.

Going forward, Healius will have a streamlined portfolio and is well placed to grow in Pathology and Imaging with its leading market positions and scalable platforms and to further invest in Day Hospitals, a sector with economic, technological and regulatory tailwinds as alternative to traditional overnight hospital care.

Sustainable Improvement Program to deliver margin expansion

Healius introduced the Sustainable Improvement Program at the end of FY19 to systematically reduce costs and improve efficiencies across the Group, with a target of \$70 million in savings, representing 4-5% of the cost base. In FY20, the Group delivered in-year savings of \$37 million across more than 150 initiatives in labour, property, and consumables with an annualised run rate of \$54 million. These savings have served to partially offset cost inflation throughout the Group.

In FY21, the program aims to deliver margin expansion, with a focus on addressing more complex but higher value structural improvements including digitisation and automation, network optimisation, workforce management and more competitive external contracting. In addition, non-underlying adjustments will be significantly reduced with the Laboratory platforms the only non-underlying project going forward.

Dividend

On 26 February 2020, Healius' Board determined that an interim dividend of 2.6 cents per share, fully franked, would be payable. On 14 April 2020, due to the negative impacts of COVID-19 on the business at that time, the Board determined to defer payment of this dividend for six months. This dividend is expected to be paid as rescheduled on 15 October 2020.

Notwithstanding its relatively strong FY20 result, the Board does not consider it appropriate to pay a final dividend for FY20 because it has received the benefit of assistance and, in some cases, personal sacrifices from its stakeholders including its people, landlords and Government throughout a challenging second half of FY20.

Given the strong outlook for FY21, the Board expects regular dividends to re-commence in the first half of 2021. Moreover, following the receipt of approximately \$470 million³ on completion of the sale of Healius Primary Care, the Board intends to review its capital structure including consideration of an out-of-cycle dividend and other capital uses. The Board hopes to provide an update on this capital management review at its Annual General Meeting on 22 October 2020.

Market leader in frontline healthcare

In conclusion, Dr Parmenter stated: "We remain committed to our critical frontline role in the fight against COVID-19 and our overriding priority is the health and safety of our people, healthcare practitioners and our patients.

"I would like to publicly thank our people and healthcare practitioners for their dedication, caring, and professionalism over the past few months during the demands of the COVID-19 pandemic. I am enormously proud of the way they have responded and our success in these results and our current trading is in no small way due to them.

"While uncertainty remains around the extent and timing of the COVID-19 pandemic in Australia and the consequent impact on us, we are encouraged by the current strong trading levels in Pathology, our largest business. We expect Pathology's contribution to grow significantly this year, assuming the current volumes continue. The contribution from the other divisions will vary depending on COVID impacts but we have the benefit of the learnings from the lock-down in mid-March and April to continue to proactively manage our cost base while the foundations for margin growth through the Sustainable Improvement Program are well set.

"Looking to the future, Healius is in a strong position as we deliver critical and largely non-discretionary health services at scale, whether for COVID-19 or for other frontline healthcare matters. As the second and third largest player respectively in Pathology and Imaging in Australia, we will continue to build on our strong brands, clinical leadership and established positions while investing further in Day Hospitals, with a sound balance sheet."

"Given the dynamic nature of COVID-19 and its impact, Healius expects to provide a further trading update to the market at its AGM on 22 October 2020, at which time it also intends to update on its capital structure and related initiatives."

ENDS

The release of this announcement has been authorised by the Board.

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For over 30 years Healius has been one of Australia's leading healthcare companies with a commitment to supporting quality, affordable and accessible healthcare for all Australians. Today Healius has three main businesses – pathology, medical centres and imaging - and three emerging businesses – dental, IVF and day hospitals. Through its unique footprint of centres and 13,000 employees, Healius provides diagnostic services to consumers and their referring practitioners, as well as enabling a range of independent healthcare professionals to deliver patient care in partnership with Healius' nurses and support staff.