ASX Release

21 February 2017

LifeHealthcare Group Limited Announces Half Year FY17 Results

LifeHealthcare Group Limited (ASX: LHC) announces its results for the half year ending 31 December 2016.

Financial Results

LifeHealthcare delivered a solid underlying performance for the first half of FY17 with 13.4% revenue growth on the prior comparable period to $61.7 million and underlying EBITDA growth of 7.3% on prior comparable period to $9.1 million.

The key contributors to these results were:

- Above market implant growth with new surgeon growth of 7% in the 1st half;
- Further spinal robotics penetration following the placement of two Mazor Renaissance spinal robotic units bringing the installed base to six;
- High growth in complex lower limb reconstruction including penetration from existing biologics products; and
- The continued growth in interventional cardiology and respiratory, following the acquisition of Medical Vision Australia in October of 2015.

Prudent balance sheet management was maintained which has resulted in continued improvements in working capital, net debt and cash conversion. The net working capital ratio of 30.8% has improved by 60 basis points since the full year FY16 and there has been strong cash conversion of EBITDA to operating cash flows in the half of 80.2%. Net debt leverage has remained flat at 1.69x underlying EBITDA.

Key Highlights

- Continued high penetration of the Everest XT minimally invasive spine system since being launched in December 2015 with 195 cases performed across 26 surgeons to date.
- Further two spinal robotics units installed at strategically valuable sites of Wollongong Private (Ramsay Health Care) and Epworth Richmond bringing total install base across Australia to six.
- Strong growth in orthopaedics, focusing on the complex lower limb market segment where it is the leader in the internal limb lengthening sub segment.
- Increased penetration in imaging with a CereTom mobile CT scanner installed in the first stroke ambulance in Australia.
- Strong momentum in interventional cardiology and respiratory on the back of the Medical Vision Australia acquisition in October 2015 with an earn out associated with the purchase payable in quarter three of this financial year.

Outlook

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

There have been a number of government reforms announced in the healthcare industry including the Private Health Insurance review, which remain in progress. However, the cuts to pricing on the Prostheses List announced for cardiac devices, orthopaedics and intraocular lenses to come into effect on the 28th of March this year do not materially impact LifeHealthcare. Furthermore, LifeHealthcare has only a public private price variation of 1.6% on a weighted average annualised basis for Prostheses Listed items.

The business continues to be well positioned for growth through expansion of active surgeons, new product introductions and penetration of high-end capital products.

LifeHealthcare reaffirms its guidance for financial year 2017 with revenue growth to be in the mid to high single digits, representing a sustained above market performance, with low to mid single digit EBITDA growth.

Dividend

An interim dividend of 6.25 cents per share unfranked has been declared. This represents a payout ratio of 89% of statutory NPAT (70% of NPATA).

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

The Board has approved the following minor amendments to the DRP rules and a complete copy of the amended DRP rules has been lodged with the ASX:

- A provision allowing any residual amounts left over after an issue of shares as a result of rounding to be held over by the Company and applied to subscribe for Shares under the next dividend. This does not affect the amount of cash a shareholder will receive in respect of the shares they elect not to have participate in the DRP;
- Additional wording to allow the Company to provide shareholders with the option to make elections through an online election platform in addition to the option of providing a hard-copy election form; and
- Wording changes in relation to notice periods to ensure compliance with ASX's Listing Rules.

Financial Highlights

($m)	H1 FY17	H1 FY16	Change on pcp
Revenue	**61.7**	**54.4**	**13.4%**
Gross Margin	31.5	30.5	3.3%
Gross Margin %	*51.1%*	*56.1%*	*(5.0%)*
Underlying EBITDA(1)	**9.1**	**8.5**	**7.3%**
EBITDA %	*14.8%*	*15.6%*	*(0.8%)*
Transaction Costs	(0.5)	(0.3)	53.6%
EBITDA	**8.7**	**8.2**	**5.8%**
Depreciation	2.2	1.8	25.0%
Amortisation	0.8	0.8	-
EBIT	**5.7**	**5.6**	**0.6%**
Interest Expense	1.3	1.1	9.1%
Income Tax Expense	1.4	1.4	(0.1%)
NPAT	**3.0**	**3.1**	**(2.7%)**
Underlying NPATA(2)	**3.8**	**3.8**	**0.4%**
Underlying NPATA EPS (c)	9.0	8.9	
Payout % of Statutory NPAT	*89%*	*69%*	
Payout % of Underlying NPATA	*70%*	*56%*	

Notes:

1. H1 FY17 and H1 FY16 underlying results exclude $0.5 million and $0.3 million of acquisition transaction costs respectively.
2. Underlying NPATA adds back to NPAT amortisation of acquisition identifiable intangibles.

Ends