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# HEALTHSCOPE 2017 FIRST HALF RESULTS

**22 February 2017**

Healthscope Limited (Healthscope) today announced its results for the six months ended 31 December 2016 (1HFY17). Statutory NPAT for the period was down 7.0% to $90.5 million (1HFY16: $97.4 million).

## Highlights (continuing operations)

- Group revenue up 3.9% to $1,192.0 million (1HFY16: $1,147.0 million)
- Group Operating EBITDA up 5.1% to $216.8 million (1HFY16: $206.4 million)
- Group Operating EBIT up 1.0% to $161.4 million (1HFY16: $159.8 million)
- Group Operating NPAT down 4.2% to $96.1 million (1HFY16: $100.4 million)
- Hospitals Operating EBITDA up 2.2% to $186.7 million (1HFY16: $182.7 million)
- New Zealand Pathology Operating EBITDA up 31.5% to $30.5 million (1HFY16: $23.2 million)
- Depreciation and interest up as hospital expansion program is delivered
- Interim unfranked dividend of 3.5 cents per share (1HFY16: 3.5 cents per share)

## Managing Director and CEO commentary

Healthscope Managing Director and Chief Executive Officer Robert Cooke said Group Operating EBITDA growth of 5.1% was a sound result in light of continuing market volatility.

“The Hospitals division delivered Operating EBITDA growth of 2.2% in the face of increased volatility in volumes and case mix. The result was underpinned by strong growth at our recently completed major hospital developments – Gold Coast Private, Knox Private and National Capital Private. Following our first quarter market update, we also implemented several new initiatives to adjust our cost base to better respond to ongoing market variability which we expect to continue in the near term.

“Investment in our hospital expansion program continued and we remain confident that our execution track record and the strong fundamentals of the growth corridors where we are investing will ensure we deliver long term value to shareholders. In particular, we made excellent progress at Northern Beaches Hospital, with construction of the external physical structure completed in December 2016, three months ahead of schedule. The Northern Beaches Hospital follows an innovative model that sees us partnering with the NSW Government to deliver high quality care to residents in the northern coastal suburbs of Sydney.

In this announcement “Operating” results represent Statutory results from continuing operations before non-operating expenses of $5.6 million (net of tax) (1HFY16: $3.0 million) – refer Appendix 1

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"Our New Zealand Pathology division delivered another exceptional result. Greater penetration of non-government community pathology and veterinary markets contributed to strong growth in revenue and increased investment in technology has driven further efficiency benefits. In addition, we continued to strengthen our ongoing relationships with our District Health Board partners, successfully renewing three District Health Board contracts prior to their expiry dates.

"Across each of our businesses our absolute focus remains on providing the highest quality care to our patients and clinicians. During the period we continued to make significant investments in the Company's infrastructure and technology, as well as in the training and education of our people, to ensure we maintain the highest standards of care."

## Segment results (continuing operations)

| $m | Hospitals | Change on pcp | NZ Pathology | Change on pcp | Other | Change on pcp | Group[2] | Change on pcp |
|---|---|---|---|---|---|---|---|---|
| **Revenue** | **1,010.6** | 3.0% | **122.9** | 15.9% | **58.5** | (1.9%) | **1,192.0** | 3.9% |
| **Operating EBITDA** | **186.7** | 2.2% | **30.5** | 31.5% | **13.5** | (1.9%) | **216.8** | 5.1% |
| **Operating EBIT** | **144.4** | (2.4%) | **23.8** | 30.9% | **9.4** | 1.4% | **161.4** | 1.0% |
| **Operating net profit after tax** | | | | | | | **96.1** | (4.2%) |
| **Non-operating expenses after tax** | | | | | | | **(5.6)** | 86.7% |
| **Net profit) after tax** | | | | | | | **90.5** | (7.0%) |
| ***Operating EBITDA margin*** | **18.5%** | (10bp) | **24.8%** | 290bp | **23.1%** | - | **18.2%** | 20bp |
| ***Operating EBIT margin*** | **14.3%** | (80bp) | **19.3%** | 220bp | **16.1%** | 50bp | **13.5%** | (40bp) |

## Hospitals

The Hospitals division is the major contributor to Group earnings, representing 81% of Group Operating EBITDA.

Hospitals delivered revenue of $1,010.6 million, up 3.0%, and Operating EBITDA of $186.7 million, up 2.2%.

Slower sector growth translated to lower volume growth and increased volatility in case mix compared with historical trends. Most states and territories experienced similar conditions, with a site by site review undertaken to develop action plans to improve the business' responsiveness to more variable market conditions.

The three major hospital developments completed in 2HFY16 – Gold Coast Private (QLD), Knox Private (VIC) and National Capital Private (ACT) – delivered above market growth, supporting the half year result and the Company's continued confidence in the strength of its hospital expansion program.

[2] Group results include corporate costs of $13.9 million

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## New Zealand Pathology

The New Zealand Pathology division contributed 13% of Operating EBITDA and continued its track record of strong growth, with revenue increasing to $122.9 million, up 15.9%, and Operating EBITDA increasing to $30.5m, up 31.5%.

This result was driven by growth in non-government community pathology revenues in Wellington following the commencement of new District Health Board services in the region, greater penetration of the veterinary market and economies of scale achieved through investment in new technology and services in major centres.

## Other

Healthscope's pathology operations in Singapore and Malaysia and medical centre operations in Australia collectively contributed 6% of Group Operating EBITDA. Operating EBITDA for the division was $13.5 million, down 1.9%, for the period. Strong earnings growth in Singapore and Malaysia was offset by a decline in medical centre earnings.

## Capital expenditure and depreciation

Capital expenditure for the period was $286.5 million (1HFY16: $294.1 million) with $247.2 million invested in growth projects, including nine hospital expansion projects currently under construction.

1HFY17 depreciation and amortisation expense increased to $55.4 million (1HFY16: $46.6 million) primarily due to the completion of Gold Coast Private and the expansion of Knox Private and National Capital Private in 2HFY16, increased investment in the New Zealand Pathology business and investment in new capital equipment and theatre technology. FY17 depreciation and amortisation is expected to be in the range of $113 million to $115 million.

## Cash flow and balance sheet

Operating cash flow increased to $224.5 million (1HFY16: $179.4 million) representing an Operating EBITDA to cash flow conversion ratio of 103.5%.

Net debt increased by $150.5 million over the period to $1,432.6 million (30 June 2016: $1,282.1 million), primarily as a result of the Northern Beaches Hospital development program. As at 31 December 2016, the Group recorded a total gearing ratio of 3.42 times Net Debt to Group Operating EBITDA (30 June 2016: 3.14 times). The Group's gearing ratio excluding the Northern Beaches project finance facility, which is excluded from all bank covenants, was 2.56 times Net Debt to Group Operating EBITDA (30 June 2016: 2.61 times).

The hospital expansion program continues to be funded through a combination of cash reserves, operating cash flow and available debt facilities. Existing bank facilities are sufficient to fund the current expansion program.

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Net interest expense increased to $26.9 million (1HFY16: $19.7 million). This was driven primarily by the completion of the Gold Coast Private Hospital development in 2HFY16, which resulted in the Gold Coast Private project finance facility converting to senior debt and interest being expensed, whereas it had been capitalised during project construction. FY17 net interest expense is estimated to be in the range of $55 million to $57 million.

**Interim dividend**

An interim unfranked dividend of 3.5 cents per share will be paid on 23 March 2017 to shareholders registered on 9 March 2017 (1HFY16: 3.5 cents per share). On 20 December 2016, the Healthscope Board implemented a Dividend Reinvestment Plan (DRP) to provide shareholders with the opportunity to reinvest dividends in additional Healthscope shares.

Key dates in relation to the interim dividend are listed below.

| | |
|---|---|
| Ex-dividend date: | 8 March 2017 |
| Record date: | 9 March 2017 |
| DRP election date: | 10 March 2017 |
| Dividend payment date: | 23 March 2017 |
| DRP issue date: | 23 March 2017 |

**Conclusion and outlook**

“Healthscope remains confident in both the underlying fundamentals of the markets in which we operate, and the strength of our hospital expansion pipeline. The full year performance of our business will be driven by a combination of market conditions and the success of the initiatives we have implemented to increase flexibility in our cost base.

“At this stage, we expect ongoing variability in the hospitals sector to continue in the near term. If current trends continue, we expect the rate of growth in Hospitals Operating EBITDA in the second half to be similar to the first half,” Mr Cooke said.

Further enquiries:

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## Appendix 1: Reconciliation of Statutory net profit to Operating EBIT and Operating EBITDA

| | 1HFY17 ($m) | 1HFY16 ($m) |
|---|---|---|
| **Statutory net profit after tax from continuing operations** | **90.5** | **97.4** |
| *Add back* | | |
| Non-operating expenses after tax | 5.6 | 3.0 |
| **Operating NPAT (Operating net profit after tax)** | **96.1** | **100.4** |
| Income tax expense | 38.4 | 39.7 |
| Net finance costs | 26.9 | 19.7 |
| **Operating EBIT (Operating earnings before finance costs and income tax)** | **161.4** | **159.8** |
| *Add back* | | |
| Depreciation and amortisation | 55.4 | 46.6 |
| **Operating EBITDA (Operating earnings before finance costs, income tax, depreciation and amortisation)** | **216.8** | **206.4** |