



FY17 half-year results

For the period ended 31 December 2016

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Managing Director
& Chief Executive Officer

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Chief Financial Officer

22 February 2017



1HFY17 overview



Financial

Continuing operations

- Statutory NPAT down 7.0% to \$90.5m (1HFY16: \$97.4m)
- Group revenue up 3.9% to \$1,192.0m (1HFY16: \$1,147.0m)
- Group Operating EBITDA up 5.1% to \$216.8m (1HFY16: \$206.4m)
- Group Operating EBIT up 1.0% to \$161.4m (1HFY16: \$159.8m)
- Group Operating NPAT down 4.2% to \$96.1m (1HFY16: \$100.4m)
- Hospital Operating EBITDA up 2.2% to \$186.7m (1HFY16: \$182.7m)
- New Zealand Pathology Operating EBITDA up 31.5% to \$30.5m (1HFY16: \$23.2m)
- Depreciation and interest up as hospital expansion program is delivered
- Interim dividend 3.5 cps (1HFY16: 3.5 cps)



Operational

- Continued growth in Operating EBITDA
 - Hospitals Operating EBITDA growth of 2.2% reflecting softer operating environment
 - Supported by strong growth in New Zealand pathology
 - Action taken to increase flexibility in the Hospitals cost base in light of ongoing market variability
- Securing long-dated contracts
 - Renegotiated multi-year contracts with NIB and the Australian Health Service Alliance
 - Successfully renewed three DHB contracts in New Zealand in advance of maturity
- Investment in growth
 - Ongoing commitment to hospital expansion strategy based on strong fundamentals of chosen markets and performance to date relative to the market and underlying portfolio
 - Invested \$247m in growth projects during the period, including Northern Beaches Hospital development

Note: On this slide "Operating" results represent Statutory results from continuing operations before non-operating expenses – refer Appendix 1

Financial performance

Continuing operations profit and loss

	1HFY17 (\$m)	1HFY16 (\$m)	Movement
Revenue	1,192.0	1,147.0	3.9%
Operating EBITDA	216.8	206.4	5.1%
Depreciation and amortisation	(55.4)	(46.6)	18.9%
Operating EBIT	161.4	159.8	1.0%
Net interest expense	(26.9)	(19.7)	36.5%
Operating profit before tax	134.5	140.1	(3.9%)
Operating net profit after tax	96.1	100.4	(4.2%)
Non-operating expenses after tax	(5.6)	(3.0)	86.7%
Statutory net profit after tax	90.5	97.4	(7.0%)
<i>Operating EBITDA margin (%)</i>	<i>18.2%</i>	<i>18.0%</i>	20bp
<i>Operating EBIT margin (%)</i>	<i>13.5%</i>	<i>13.9%</i>	(40bp)
Operating cash flow	224.5	179.4	25.2%
Operating cash flow conversion	103.5%	86.9%	16.6%

Notes - Results include prostheses revenue and costs

- "Operating" results represent Statutory results from continuing operations before non-operating expenses – refer Appendix 1

1. Refer Appendix 2 for further details

\$216.8m

Operating EBITDA

↑ 5.1%

\$96.1m

Operating NPAT

↓ 4.2%

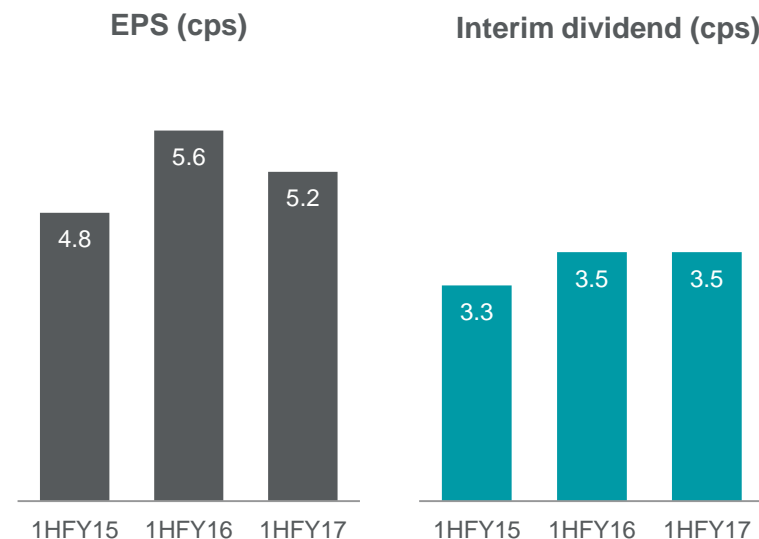
- Increase in depreciation due to completion of three major hospital expansion projects in 2HFY16, increased investment in New Zealand pathology and investment in theatre technology
- Increase in net interest expense primarily driven by Gold Coast Private project finance converting to senior debt post-completion
- Non-operating expenses relate to appointment of liquidators for a supplier group, corporate restructuring and commissioning costs¹

EPS and dividends

	1H FY17	1H FY16
Statutory NPAT¹ (\$m)	90.5	97.4
EPS ¹ (basic) (cents)	5.2	5.6
Dividend per share (cents)		
Interim	3.5	3.5
Franking ²	0%	0%
Key dividend dates		
Ex-dividend date	8 March 2017	
Record date	9 March 2017	
DRP election date	10 March 2017	
Payment date	23 March 2017	
DRP issue date	23 March 2017	

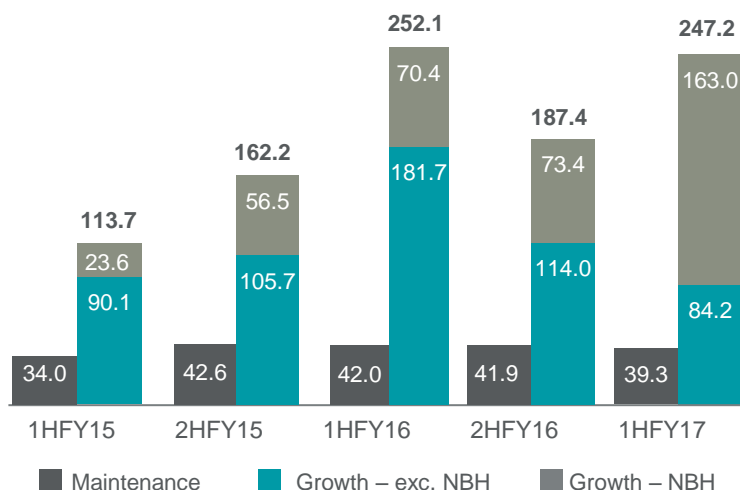
1. Continuing operations
2. Dividends are unfranked

- Interim dividend of 3.5 cents per share, equal to 1H FY16 dividend
- A dividend reinvestment plan was activated during the period



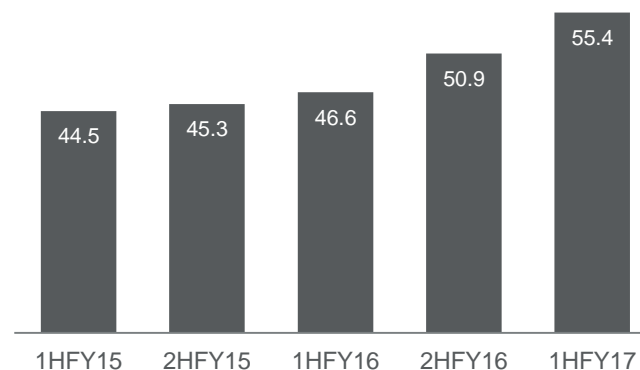
Capital investment

Capital expenditure (\$m)



- Continued disciplined investment in growth projects with \$247.2m invested over the period
- Projects under construction proceeding as planned, including Northern Beaches Hospital
- Two projects completed in 1HFY17 – Darwin Private (two theatres) and Northpark Private (emergency department)
- Targeted investment in state-of-the-art equipment and technology (theatre technology and robotics)

Depreciation and amortisation (\$m)



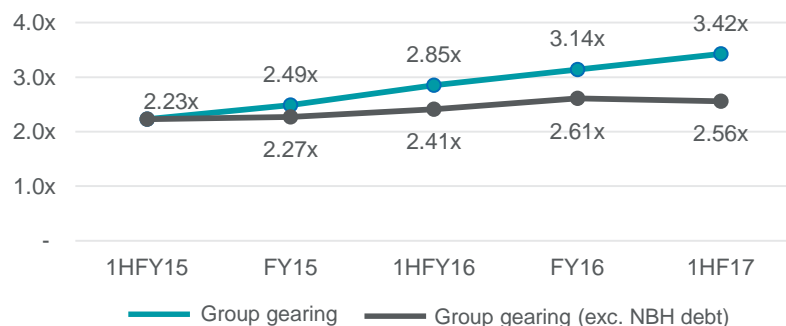
- Continued step up in depreciation reflecting impact of hospital expansion projects completed in FY16, growth in New Zealand pathology business (i.e. Wellington laboratory) and investment in new capital equipment and theatre technology
- FY17 depreciation and amortisation expected to be \$113 – 115m

Gearing

Funding summary

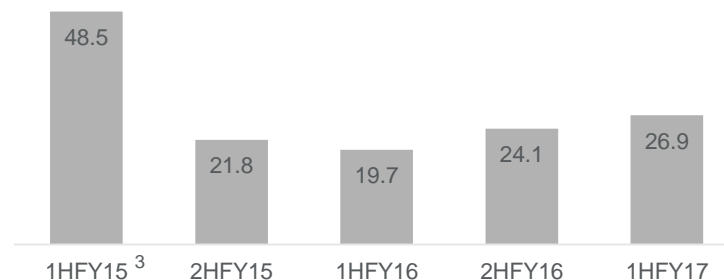
	31 Dec 16	30 June 16
Senior debt facilities (\$m)	850.0	850.0
US private placement (\$m) ¹	398.4	404.0
Northern Beaches project finance (\$m)	447.3	296.0
Other debt facilities (\$m)	11.7	10.9
Total debt (\$m)²	1,707.4	1,560.9
Cash (\$m)	274.8	278.8
Net debt (\$m)	1,432.6	1,282.1
Net debt / net debt + equity	37.3%	35.1%
Net debt / LTM EBITDA (Group)	3.42x	3.14x
Net debt / LTM EBITDA (exc. NBH debt)	2.56x	2.61x
ICR (LTM EBITDA / LTM net int exp)	8.19x	9.31x

Net debt / LTM EBITDA



- Hospital expansion program continues to be funded through a combination of cash reserves, operating cash flow and available debt facilities
- Existing facilities sufficient to fund current hospital expansion program
- Gold Coast Private project finance debt converted to senior debt in 2HFY16 following project completion
- 1HFY17 increase in net debt predominantly relates to Northern Beaches Hospital project financing (which is excluded from all bank covenants)
 - Capital payment for public portion of hospital and shared facilities to be received from NSW Government post transfer of patients from existing hospitals
- Net interest expense increasing in FY17 following completion of Gold Coast Private with interest incurred on increased senior debt expensed (previously capitalised)
- FY17 net interest expense estimated to be \$55 – 57m

Net interest expense (\$m)



- Represents draw down of US\$300 million which has been translated at spot rate and adjusted for the net impact of hedge accounting
- Excludes capitalised facility costs
- Includes interest on pre-IPO debt structure for the period prior to 28 July 2014

Divisional performance



	1HFY17 (\$m)	1HFY16 (\$m)	Movement
Revenue	1,010.6	981.3	3.0%
Operating EBITDA	186.7	182.7	2.2%
Operating EBIT	144.4	147.9	(2.4%)
<i>Operating EBITDA margin</i>	<i>18.5%</i>	<i>18.6%</i>	<i>(10bp)</i>
<i>Operating EBIT margin</i>	<i>14.3%</i>	<i>15.1%</i>	<i>(80bp)</i>

Note: Results on this slide include prostheses revenue and costs

- Sound result despite lower volume growth and increased volatility in case mix compared to historical long term trends
- Several initiatives implemented to enhance marketing and business development activities and increase the flexibility of our cost base to better respond to ongoing market variability (refer slide 16)
- Increased focus on information technology in strengthening referrals, expanding services and driving more efficient business processes
 - Continued investment to increase scope of robotic surgery offered at key sites
 - Pilot of digitised medical records commenced
 - Enhanced Healthscope Assist application to improve specialist search functionality

1. Contribution to Group Operating EBITDA

UNDERLYING PORTFOLIO PERFORMANCE²

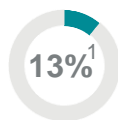
- Slower revenue growth and reduced Operating EBITDA margin across portfolio driven by lower volume growth and increased volatility in case mix
- Most states and territories experiencing similar conditions
- Site by site review undertaken to develop action plans to improve responsiveness to more variable market conditions
- Successfully renegotiated multi-year contracts with health fund partners – NIB and the Australian Health Service Alliance

MAJOR HOSPITAL EXPANSION PORTFOLIO PERFORMANCE

- Demonstrated outperformance versus market and underlying HSO portfolio during the period with strong revenue growth and higher Operating EBITDA margin
- Hospital expansion projects expected to increase volume and optimise case mix by year three following completion of each project
- Major expansion projects completed in 2HFY16 – Gold Coast Private (QLD), National Capital Private (ACT) and Knox Private (VIC)

1. Contribution to Group Operating EBITDA

2. Includes all Healthscope hospitals except hospitals where major hospital expansions were completed in 2HFY16 (i.e. excludes Gold Coast Private, Knox Private and National Capital Private)



New Zealand Pathology

	1HFY17 (\$m)	1HFY16 (\$m)	Movement
Revenue	122.9	106.0	15.9%
Operating EBITDA	30.5	23.2	31.5%
Operating EBIT	23.8	18.2	30.9%
<i>Operating EBITDA margin</i>	24.8%	21.9%	290bp
<i>Operating EBIT margin</i>	19.3%	17.1%	220bp

- New Zealand pathology continues to deliver strong revenue and Operating EBITDA growth with stronger than expected non-government community pathology revenues in Wellington following the commencement of new DHB services in the region, greater penetration of the veterinary market and continued economies of scale being achieved with investment in new technology and new services
- World Anti-Doping Agency (WADA) testing commenced following successful accreditation in 2HFY16
- Commenced rollout of electronic doctor ordering system to improve data collection and increase efficiencies
- Successfully renewed three DHB contracts in advance of maturity
- Focus remains on maintaining strong relationships with government; delivery of efficiency improvements benefiting both Healthscope and our DHB partners, as well as expanding commercial revenue streams

1. Contribution to Group Operating EBITDA



	1HFY17 (\$m)	1HFY16 (\$m)	Movement
Revenue	58.5	59.7	(1.9%)
Operating EBITDA	13.5	13.8	(1.9%)
Operating EBIT	9.4	9.3	1.4%
<i>Operating EBITDA margin</i>	23.1%	23.1%	-
<i>Operating EBIT margin</i>	16.1%	15.6%	50bp

- Singapore pathology (revenue growth 4.7%, EBITDA growth 6.6%)²
 - Robust revenue growth with continued growth in specialist and commercial contract markets
 - Investing in next-generation technology and tracking system to drive further automation and efficiencies
- Malaysia pathology (revenue growth 6.8%, EBITDA growth 6.8%)²
 - Volume growth recovered in 1HFY17 following an 18-month period of subdued activity
 - Established three new laboratories in private hospitals, in line with strategic priority of increasing penetration of hospital and specialist markets
- Medical centres (revenue decline 5.7%, EBITDA decline 13.5%)
 - Ongoing impact of Medicare fee freeze continues to negatively impact performance
 - Review of increased private billing model and alignment of cost base to activity levels

1. Contribution to Group Operating EBITDA

2. Based on results in local currency

Industry update



Industry update

Key long term drivers remain unchanged

- ✓ Population growth and ageing
- ✓ Increase in chronic and lifestyle diseases
- ✓ Advancements in medical technology and treatments
- ✓ Public hospital system under pressure
- ✓ PHI participation supported by government policy

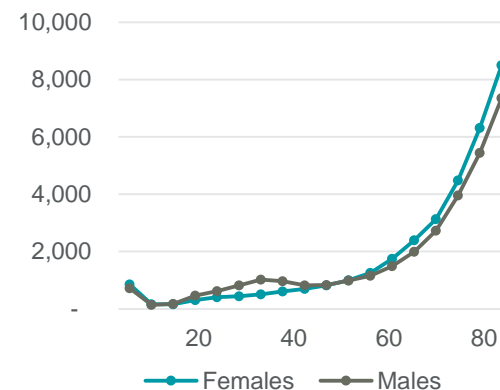
Short term environment

- Ongoing market volatility
- Weaker consumer sentiment toward PHI
- Decrease in PHI participation rate and increasing exclusions
- Patients seeking improved transparency over clinical outcomes and out of pocket costs
- Proactive collaboration with government and industry to develop positive structural solutions to growing healthcare burden
- Government healthcare reform expected to lead to positive change however timeframe unclear

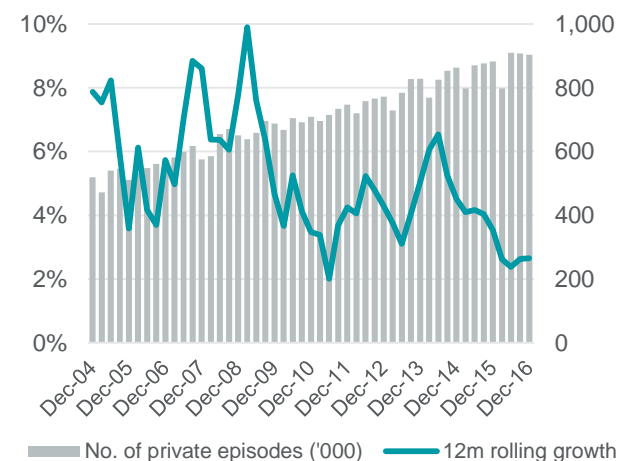
Contributing to a sustainable healthcare system

- Rising healthcare costs are a growing concern for individuals and governments
- Requires industry collaboration to improve the value proposition of private healthcare
- Need to refocus attention on the basic drivers of a sustainable healthcare system and the intent behind current government policy
- Equal access to high quality care and the best clinical outcomes are a fundamental right of all Australians
- Supportive of measures to reduce industry healthcare costs e.g. appropriate prostheses reform
- Healthscope is actively working to deliver better healthcare outcomes for all Australians by:
 - Partnering with government to deliver innovative hospital models i.e. Northern Beaches Hospital
 - Advocating for transparency via *MyHealthscope* website
 - Working closely with doctors to equip them with the training and development to provide excellent clinical outcomes for all patients
 - Investing in state-of-the-art equipment and technology

Patient days by age group (per 1,000 population)¹



Private episode growth²



1. AIHW: Admitted Patient Care 2014-15 and ABS: Australian Demographic Statistics, June 2015

2. APRA: Private Health Insurance Quarterly Statistics

Hospital operations update



Key focus areas



Enhanced marketing and business development activities at key sites

- Further step up in engagement with local community GPs, including through CPD point programs
- Continued focus on targeted investment in capital equipment and technology in theatres



Labour

- Actively reviewing staff mix at selected sites to support workforce flexibility and better align staffing levels to increased variability in patient demand
- Improving mobility of staff across local hospital network



Work flow planning

- More disciplined and nuanced approach to doctor leave periods
- Strong focus on forecasting ward and bed demand during Christmas / New Year
- Plans for Easter under review



Procurement

- Refreshed and refocused procurement team
- Consolidated procurement arrangements with key suppliers

Hospital expansion program

- Confidence in program remains unchanged – continued focus on growth corridors
- Two projects completed in 1HFY17
 - Darwin Private (NT) – 2 operating theatres
 - Northpark Private (VIC) – emergency department
- Two major projects completing in 2HFY17
 - Holmesglen Private (VIC) – ‘relocate and grow’, 147 beds and 8 operating theatres, opened early February 2017
 - Norwest Private (NSW) – 60 beds and 3 operating theatres
- Nine projects under construction will deliver a further 792 beds and 49 operating theatres by the end of FY19^{1,2}
 - Total capital expenditure of approximately \$1.2 billion³
- Project at John Fawcner Private (VIC) approved and in the final stages of planning and will deliver 41 additional beds and 2 operating theatres¹

1. Refer Appendix 4 for further detail

2. Inclusive of Holmesglen Private and Norwest Private

3. Inclusive of capital invested in prior periods

Construction pipeline

Nine projects currently under construction

- Shaded area indicates completion during the relevant period and white area reflects first full half of operation
- Table does not include Board approved projects not yet under construction – refer Appendix 4 for further details
- Current opportunities under review which will result in further projects being added to the pipeline in future periods

Financial year			FY17	FY18		FY19	
Project	Beds	OTs	2H	1H	2H	1H	2H
Holmesglen Private (VIC)	147	8					
Norwest Private (NSW)	60	3					
Newcastle Private (NSW)	16	2					
Frankston Private (VIC)	60	2					
Gold Coast Private – Stage 2 (QLD)	30	8					
Sydney Southwest Private (NSW)	-	2					
Sunnybank Private (QLD)	-	2					
Northern Beaches (NSW)	450	20					
Brisbane Private (QLD)	29	2					
Total	792	49					

Recently completed development

Holmesglen Private Hospital (VIC)



- State-of-the-art 147 bed facility with 8 operating theatres and an emergency department
- 'Relocate and grow' from Como Private
- Opened in early February 2017
- Situated within Holmesglen Institute's Moorabbin campus, directly adjacent to Victoria's largest nursing TAFE
- Co-location provides integrated cross campus education and training opportunities for students and enhanced workforce recruitment and planning for Healthscope
- 100% integrated operating theatres, critical care and intensive care units and a cardiac catheter laboratory
- Extensive range of medical specialty services includes cardiology, urology, orthopaedics and emergency department
- Master plan in place to facilitate future expansion
- Reviewing options for Como Private site following the relocation

Major project updates

**Norwest Private Hospital (NSW) –
60 beds and 3 operating theatres**



**Frankston Private Hospital (VIC) –
60 beds and 2 operating theatres**



Major project updates

Northern Beaches Hospital (NSW) – 450 beds and 20 operating theatres

- Project remains on time and budget
- External physical structure completed in December 2016, three months ahead of schedule
- Workforce planning and engagement progressing
- A range of third party service providers selected
- Strong expressions of interest continue to be received from doctors
- Scheduled to open in December 2018



Summary and outlook



Summary and outlook

RECENT PERFORMANCE

- Hospital Operating EBITDA up slightly despite slower sector growth compared with historical long term trends
- Continued strong growth in New Zealand Pathology

OUTLOOK

- Expect market variability to continue in the short term
- If current trends continue, expect Hospital Operating EBITDA growth in 2HFY17 to be similar to 1HFY17
- Medium to long term fundamentals remain unchanged

CONTINUED INVESTMENT

- Hospital expansion program remains a key area of focus with continued investment over the next two years
- Investing in areas where doctors and patients see value – state-of-the-art facilities and equipment and high quality people

Questions



Appendices



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
<i>Add back</i>		
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
<i>Add back</i>		
Depreciation and amortisation	55.4	46.6
Operating EBITDA (Operating earnings before finance costs, income tax, depreciation and amortisation)	216.8	206.4

Appendix 2: Non-operating expenses

Continuing operations

	1HFY17 (\$m)	1HFY16 (\$m)
Restructure and other costs	1.7	0.8
Onerous leases and related costs	-	0.8
Acquisition and tender costs	-	2.7
Hospital commissioning costs	0.8	-
Loss relating to appointment of liquidators for a supplier group	5.5	-
Total pre tax	8.0	4.3
Tax	(2.4)	(1.3)
Total post tax	5.6	3.0

Appendix 3: Weighted average number of shares

	1HFY17	1HFY16
No. of shares	1,735,093,472	1,732,779,309
Performance rights	6,226,099	2,240,306
Total	1,741,319,572	1,735,019,615

- Weighted average number of shares used as basis for determining EPS

Appendix 4: Hospital expansion program

Projects under construction

	Beds	Operating theatres	Other
Northern Beaches (NSW)	450	20	ED ¹ , consulting suites, radiology, GP clinic
Holmesglen Private (VIC)	147	8	Consulting suites, oncology bays, ICU, ED ¹
Norwest Private (NSW)	60	3	Consulting suites
Frankston Private (VIC)	60	2	Oncology department, car parking
Gold Coast Private (QLD)	30	8	-
Brisbane Private (QLD)	29	2	Consulting suites, car parking, rehab gym, retail
Newcastle Private (NSW)	16	2	Consulting suites, car parking
Sunnybank Private (QLD)	-	2	Consulting suites, car parking, day surgery expansion
Sydney Southwest Private (NSW)	-	2	Consulting suites, car parking
Total	792	49	

Approved projects

	Beds	Operating theatres	Other
John Fawcner Private (VIC)	41	2	Expand CCU, car parking

1. Emergency department

Glossary

Cash flow conversion	Group Operating EBITDA to cash flow
Continuing operations	Excludes Australian pathology operations which were divested on 6 July 2015
CPD	Continuing professional development
DHB	District Health Board (New Zealand)
EPS	Earnings per share
GP	General practitioner
ICR	Interest coverage ratio
LTM	Last twelve months
NBH	Northern Beaches Hospital
Operating	Excludes non-operating expenses
PHI	Private health insurance
TAFE	Technical and further education

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