Healthscope

Healthscope Limited
ACN 144 840 639
Level 1, 312 St Kilda Road
Melbourne Victoria 3004
Tel: (03) 9926 7500
Fax: (03) 9926 7533
www.healthscope.com.au

HEALTHSCOPE 2017 FULL YEAR RESULTS

23 AUGUST 2017

Healthscope Limited (Healthscope) today announced its results for the twelve months ended 30 June 2017 (FY17). Statutory NPAT for the period was down 38.8% to $110.9 million (FY16: $181.1 million). The result was adversely impacted by an impairment loss of $54.7 million in relation to the sale of the Group's standalone Medical Centres and non-operating expenses after tax of $17.4 million.

Summary of Performance (continuing operations)

- Group revenue up 3.8% to $2,318m (FY16: $2,233m)
- Group Operating EBITDA up 3.5% to $411.4m (FY16: $397.4m)
- Group Operating EBIT down 0.7% to $302.5m (FY16: $304.6m)
- Group Operating NPAT down 5.6% to $180.0m (FY16: $190.8m)
- Hospital Operating EBITDA up 1.3% to $359.4m (FY16: $354.9m)
- New Zealand Pathology Operating EBITDA up 17.7% to $59.7m (FY16: $50.7m)
- Depreciation and interest have increased as hospital expansion program is delivered
- EPS down 9.2% to 9.4 cps (FY16: 10.3 cps)
- Full year dividend of 7.0 cps, includes a final unfranked dividend of 3.5 cps (FY16: Full year 7.4 cps)

Managing Director and CEO commentary

Healthscope Managing Director and Chief Executive Officer, Gordon Ballantyne, said:

"Since joining Healthscope in May, my focus has been on getting to know the business and its people, spending time in all our major operational sites and engaging with key partners and industry stakeholders. My early observations are of a great company, with good assets, a strong financial position and above all, a great team of passionate people dedicated to delivering quality clinical outcomes and exceptional patient care. However, in the short term there are some challenges that I am focused on addressing.

"The Hospitals division, our largest business, delivered Operating EBITDA growth of 1.3%. This reflected softer private hospital market conditions and variability in patient case mix, combined with margin pressure, where costs have increased greater than health fund price increases in some areas of the business. The performance of our Victorian portfolio was also impacted by a number of specific business challenges.

"Pleasingly, our major hospital expansion projects delivered positive results, recording revenue growth of 8.4% over the prior year, outperforming the rest of the portfolio and the broader Australian private hospital market. This gives us confidence that capital is being deployed in the right catchments and while it is early days for some of these facilities, over the next few years we expect these, and future expansion projects, to drive strong earnings growth and shareholder value.

"Our New Zealand Pathology division delivered another strong result. Expanding the scope of our commercial, veterinary and analytical businesses contributed to strong growth in revenue, and the business enjoyed efficiency gains as a result of increased investment in technology.

"Last week we announced an agreement to divest our standalone medical centre portfolio, following a strategic review. This divestment will allow our management team to focus on our core hospitals and pathology businesses.

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"Across each of our 45 hospitals and 63 pathology laboratories, our focus remains on providing the highest quality care to our patients and being a partner of choice to clinicians. 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 high quality clinical outcomes and exceptional patient care."

Segment results (continuing operations)

$m	Hospitals	Change on pcp	NZ Pathology	Change on pcp	Other	Change on pcp	Corp	Change on pcp	Group	Change on pcp
Revenue	**2,014.0**	3.4%	**242.5**	8.9%	**61.7**	(1.3%)			**2,318.2**	3.8%
Operating EBITDA	**359.4**	1.3%	**59.7**	17.7%	**18.2**	(0.4%)	**(25.9)**	(2.3%)	**411.4**	3.5%
Operating EBIT	**272.6**	(3.1%)	**46.6**	16.2%	**14.0**	(1.5%)	**(30.7)**	(1.3%)	**302.5**	(0.7%)
Operating net profit after tax									**180.0**	(5.6%)
Non-operating expenses after tax									**(17.4)**	(47.7%)
Net profit after tax									**162.6**	(9.2%)
Op EBITDA margin	**17.8%**	(40bp)	**24.6%**	180bp	**29.5%**	30bp			**17.7%**	(10bp)
Op EBIT margin	**13.5%**	(90bp)	**19.2%**	120bp	**22.7%**	(10bp)			**13.0%**	(60bp)

Hospitals

The Hospitals division is the major contributor to Group earnings, representing approximately 82% of Group Operating EBITDA in FY17.

Hospitals delivered revenue of $2,014.0 million, up 3.4%, and Operating EBITDA of $359.4 million, up 1.3%.

The result reflects softer private hospital market conditions and variability in patient case mix, combined with margin pressure, where costs have increased greater than health fund price increases in some areas of the business. Some sites were also impacted by competitor actions and planned brownfield disruption where internal works are in progress.

Despite these challenges, most States delivered Operating EBITDA growth as a result of strong performances at a number of hospital expansion sites. However, Operating EBITDA for the Victoria and Tasmania portfolio, which is the second largest contributor to divisional earnings, declined by 8.7%. The primary drivers of the underperformance were increased competition in the Geelong Private and Victorian Rehabilitation Centre catchments, a slower than expected ramp up of volumes within the Holmesglen Private and Frankston Private "relocate and grow" projects and wage inflation, partially offset by health fund price increases and operating efficiencies.

Revenue growth from the major hospital expansion projects completed in FY16 and FY17 increased 8.4% outpacing market revenue growth. In FY17, five hospital expansion projects were completed, at a total capital cost of $184 million, adding 214 beds, 13 operating theatres and two new emergency departments to the portfolio. These projects included developments at Norwest Private in New South Wales, Darwin Private in the Northern Territory and Holmesglen Private, Frankston Private and Northpark Private in Victoria.

New Zealand Pathology

The New Zealand Pathology division delivered a strong result, with revenue increasing to $242.5 million, up 8.9%, and Operating EBITDA increasing to $59.7m, up 17.7%.

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This result was driven by the full year impact of the Wellington contract which commenced in FY16, expanding the scope of commercial, veterinary and analytical services and continued economies of scale being achieved through investment in new technology.

Other

Healthscope's pathology operations in Singapore and Malaysia contributed 4% of Group Operating EBITDA. These businesses generated revenue and Operating EBITDA growth on a local currency basis with results reflecting adverse foreign exchange movements on translation to Australian dollars. As a result, Operating EBITDA for the division was $18.2 million, down 0.4%, for the period.

Medical Centres – Discontinued Operations

The Company decided to exit the standalone Medical Centres business to provide management with the opportunity to focus on Healthscope's core hospitals and pathology businesses. Agreement has been reached with Fullerton Primary Care Pty Ltd to divest the business for $55.0 million, subject to standard completion adjustments.[1] Completion is expected to take place by the end of September 2017. Results for the Medical Centres business have been classified and presented as Discontinued Operations in FY17 and an impairment loss of $54.7 million has been recorded.

Capital expenditure and depreciation

The Group invested $485.4 million (FY16: $439.5 million) in growth projects during the period, of which $318.3 million relates to the Northern Beaches Hospital development. Seven hospital expansion projects are currently under construction.

FY17 depreciation and amortisation expense from continuing operations was $108.9 million (FY16: $92.8 million) reflecting the impact of hospital expansion projects completed in FY16 and FY17, increased investment in the New Zealand Pathology business and investment in new capital equipment and theatre technology. FY18 depreciation and amortisation is expected to be in the range of $112 million to $116 million.

Cash flow and balance sheet

Operating cash flow increased to $418.2 million (FY16: $391.7 million) representing an Operating EBITDA to cash flow conversion ratio of 101.6%.

Net debt increased by $363.2 million over the period to $1,645.3 million (30 June 2016: $1,282.1 million), primarily as a result of the Northern Beaches Hospital development program. As at 30 June 2017, the Group's total gearing ratio was 3.92 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 2.66 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 debt facilities and operating cash flows are considered to be sufficient to fund the current expansion program.

Net interest expense increased to $52.7 million (FY16: $43.8 million), with the increase 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.

[1] Refer ASX release dated 18 August 2017

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Final dividend

Healthscope has announced a final unfranked dividend of 3.5 cents per share bringing the total dividend for the year to 7.0 cents per share (FY16: 7.4 cents per share). On 20 December 2016, Healthscope implemented a Dividend Reinvestment Plan (DRP).

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

Ex-dividend date:	6 September 2017
Record date:	7 September 2017
DRP election date:	8 September 2017
Dividend payment date:	28 September 2017
DRP issue date:	28 September 2017

Conclusion and outlook

Demand for healthcare services is expected to grow across each of the markets and countries in which Healthscope operates.

The Company's medium to long term growth expectations for the Hospitals division continue to be supported by strong industry fundamentals. However, Healthscope expects ongoing market volatility and cost pressures in the Australian private hospital market to continue in the short term and has established four "Must Win" imperatives to drive FY18 performance improvement across its hospital portfolio. These are:

- Accelerating profitable topline growth,
- Driving greater operational efficiency,
- Optimising the portfolio, and
- Continuing to successfully execute on the hospital expansion program

Subject to there being no material change to external market conditions and barring unforeseen circumstances, FY18 Operating EBITDA for the Company's Hospitals division is expected to be broadly similar to FY17.

Mr Gordon Ballantyne said: "Healthscope is a business with strong foundations and based on the underlying demand for healthcare services, and investments in our hospital network, we remain confident in our ability to deliver future growth."

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Further enquiries:

Healthscope Investor Relations

Anita Healy
General Manager Business Development & Investor Relations
Phone: +61 3 9926 7766 / +61 411 109 108

Conference call:

Gordon Ballantyne, Managing Director and CEO, and Michael Sammells, Chief Financial Officer, will host a conference call on Wednesday 23 August 2017 at 10.00am (Melbourne time).

Analysts and investors who wish to participate in the conference call should dial 1800 268 560 (Australia) or +61 2 7200 9400 (international) and enter participant code 934071#.

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

	FY17 ($m)	**FY16 ($m)**
Net profit after tax	**110.9**	**181.1**
Less		
Discontinued operations	**(51.7)**	**2.1**
Statutory net profit after tax from continuing operations	**162.6**	**179.0**
Add back		
Non-operating expenses after tax	17.4	11.8
Operating NPAT (Operating net profit after tax)	**180.0**	**190.8**
Income tax expense	69.8	70.0
Net finance costs	52.7	43.8
Operating EBIT (Operating earnings before finance costs and income tax)	**302.5**	**304.6**
Add back		
Depreciation and amortisation	108.9	92.8
Operating EBITDA (Operating earnings before finance costs, income tax, depreciation and amortisation)	**411.4**	**397.4**