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HEALTHSCOPE DELIVERS STRONG RESULT WITH GROUP OPERATING EBITDA UP 8.0% TO $206.4 MILLION

23 February 2016

Healthscope Limited (Healthscope) today announced its results for the six month period ended 31 December 2015 (1HFY16).

Healthscope delivered Statutory NPAT of $95.9 million, a 64% increase on the prior corresponding period. The significant increase reflects strong results from core operations, divestment of the loss-making Australian Pathology operations and the change in capital structure that occurred in conjunction with the Company's listing on the ASX in July 2014.

Highlights (continuing operations)[1]

- Group revenue up 5.5% to $1.15 billion
- Group Operating EBITDA up 8.0% to $206.4 million
- Group Operating EBIT up 9.0% to $159.8 million
- Hospitals Operating EBITDA up 10.0% to $182.7 million with margin expansion of 90 basis points
- New Zealand Pathology[2] Operating EBITDA growth of 17.4% to $23.2 million
- Interim unfranked dividend of 3.5 cents per share

Managing Director and CEO commentary

Commenting on the result, Healthscope's Managing Director and Chief Executive Officer, Mr Robert Cooke, said;

"We are pleased to report a strong Group result which was underpinned by the performance of our Hospitals and New Zealand Pathology businesses."

"We continued our track record of delivering consistent earnings and margin growth in our Hospitals division and our leadership in promoting the quality agenda and close collaboration with major health fund partners is delivering positive commercial outcomes. As part of these arrangements, we renewed multi-year contracts with both Medibank Private and HCF in late CY15 and we are pleased to announce that we recently signed a memorandum of understanding with our largest health fund provider, BUPA, to extend our partnership and contracting arrangements for a further two years."

[1] "Operating" results represent Statutory results from continuing operations adjusted for other items of income and expense – refer Appendix 1

[2] As a result of the divestment of the Australian Pathology operations, reportable segments have been revised to Hospitals, New Zealand Pathology and Other

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"We are also looking forward to the completion of three major building projects by the end of March. The opening of our Gold Coast Private Hospital will enable us to expand our presence in the growing Gold Coast region and its co-location with the Gold Coast University Public Hospital will allow our doctors to work across both the state-of-the-art public and private facilities. In addition, our brownfield expansions at Knox Private and National Capital Private will alleviate some of the capacity constraints we have been experiencing in recent years. We are very excited about this additional capacity and the major growth phase ahead of us with further projects due for completion in FY17 and beyond."

"In New Zealand, it was also pleasing to see the integration of the new Wellington contract result in a strong uplift in earnings. This was a great contract win for us and we hope to benefit further as we increase penetration of the local community pathology market and deliver additional operational efficiencies."

"The attractive fundamentals of our industry and sector have not changed. The growing and ageing population, coupled with a public hospital system which is under increasing pressure, will continue to drive increased demand for our services. We believe the current Government healthcare reviews are necessary and are likely to lead to positive healthcare reform, endorsing the role and efficiency of the private sector. We will continue to actively contribute to these reviews and will ensure that we are well positioned to respond to opportunities as they arise."

Segment results – Continuing operations[3]

$m	Hospitals	Change on pcp	NZ Pathology	Change on pcp	Other	Change on pcp	Group[4]	Change on pcp
Revenue	**981.3**	4.5%	**106.0**	20.5%	**59.7**	(0.3)%	**1,147.0**	5.5%
Operating EBITDA	**182.7**	10.0%	**23.2**	17.4%	**13.8**	(14.0)%	**206.4**	8.0%
Operating EBIT	**147.9**	10.1%	**18.2**	22.5%	**9.3**	(13.2)%	**159.8**	9.0%
Operating net profit/(loss) after tax							**100.4**	54.9%
Non-operating expenses after tax							**(3.0)**	(289.7)%
Net profit/(loss) after tax							**97.4**	52.1%
Operating EBITDA margin	***18.6%***	90bp	***21.9%***	(50)bp	***23.1%***	(360)bp	***18.0%***	40bp
Operating EBIT margin	***15.1%***	80bp	***17.1%***	30bp	***15.6%***	(230)bp	***13.9%***	40bp

Hospitals

The Hospitals division is the major contributor to Group earnings, representing 83% of Group Operating EBITDA.

Revenue growth of 4.5% to $981.3 million was largely organic, reflecting an increase in admissions, case mix changes and health fund rate increases.

[3] "Operating" results represent Statutory results from continuing operations adjusted for other items of income and expense – refer Appendix 1
[4] Group results include corporate costs of $13.2 million

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Operating EBITDA increased 10.0% to $182.7 million with margin expansion of 90 basis points. The strong margin uplift was driven by continued progress in relation to labour, procurement and revenue initiatives.

The Company's hospital expansion program remains on track. Seven projects will be completed by the end of this financial year, with three major projects being delivered in the second half. A further six projects are under construction and due for completion by the end of CY18.

The Hunter Valley Private Hospital and LaTrobe Private Hospital were also added to Healthscope's portfolio in 1HFY16 expanding the Company's footprint to 46 hospitals throughout Australia.

New Zealand Pathology

The New Zealand Pathology division continued to deliver strong growth with revenue increasing 20.5% to $106.0 million, resulting from the successful integration of a new contract in the greater Wellington region.

Ongoing improvements in laboratory and contracted procurement efficiencies across existing operations also contributed to Operating EBITDA increasing 17.4% to $23.2 million.

The delivery of high quality services and greater operational efficiencies to District Health Boards remains a key focus for the division and will drive long-term relationships.

Other

Healthscope's pathology operations in Malaysia and Singapore and medical centre operations in Australia collectively contributed 6% of Group Operating EBITDA. Challenging market conditions resulted in these businesses underperforming during the period. However, the Company remains confident they will provide opportunities for growth over the medium term.

Capital expenditure

Capital expenditure increased to $294.1 million during the period as Healthscope continued to increase investment in its hospital expansion program.

Cash flow and balance sheet

Operating cash flow remained robust at $179.4 million. Whilst operating cash flow conversion of 86.9% was lower than the prior corresponding period, this was the result of an additional payroll cycle during December and the timing of one District Health Board payment for pathology services in New Zealand. The impact of these events is expected to normalise on a full year basis.

Healthscope's senior debt facility was refinanced in November 2015 and improved the Group's debt maturity profile, further strengthening the Company's balance sheet and providing support for the on-going hospital expansion program.

As at 31 December 2015, Healthscope's gearing was 2.81x net debt to Group Operating EBITDA.

Interim dividend

An interim unfranked dividend of 3.5 cents per share will be paid on 24 March 2016 to shareholders registered on 10 March 2016.

Outlook

Healthscope's outlook for FY16 remains unchanged. The Company's revenue strategies, combined with cost strategies around labour and procurement, will continue to deliver further improvements throughout the year. Gold Coast Private, Knox Private and National Capital Private are on track for commissioning by the end of March 2016 and will lay the foundation for accelerated growth in FY17 and beyond.

Further enquiries:

Healthscope Investor Relations

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Appendix 1: Reconciliation of net profit / (loss) to Operating EBIT and Operating EBITDA

	1HFY16 ($m)	1HFY15 ($m)
Net profit / (loss) after tax	**95.9**	**58.6**
Add back		
Discontinued operations	1.5	5.4
Net profit / (loss) after tax from continuing operations	**97.4**	**64.0**
Add back		
Income tax expense	39.7	33.3
Net finance costs	19.7	48.5
Significant non-operating expenses after tax	3.0	0.8
Operating EBIT (Operating earnings before finance costs and income tax)	**159.8**	**146.6**
Add back		
Depreciation and amortisation	46.6	44.5
Operating EBITDA (Operating earnings before finance costs, income tax, depreciation and amortisation)	**206.4**	**191.1**