



FY16 half-year results

For the period ending 31 December 2015

Robert Cooke
Managing Director
& Chief Executive Officer

Michael Sammells
Chief Financial Officer

23 February 2016



Highlights



Financial

Statutory NPAT up 64% to \$95.9m

Continuing operations¹

- Group revenue up 5.5% to \$1.15bn
- Group Operating EBITDA up 8.0% to \$206.4m
- Group Operating EBIT up 9.0% to \$159.8m
- Hospital Operating EBITDA up 10.0% to \$182.7m with margin expansion of 90bp
- New Zealand Pathology² Operating EBITDA up 17.4% to \$23.2m
- Interim dividend of 3.5cps



Operational

- Case mix, labour and procurement initiatives continued to deliver
- Hospital expansion program remains on track
- Expanded hospital portfolio to include Hunter Valley and LaTrobe private hospitals
- Successful integration of new Wellington pathology contract in New Zealand
- Continued market leadership in quality and clinical outcomes
- Continued to successfully renew long-term contracts with health funds
- Completed divestment of underperforming non-core Australian Pathology operations

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

Profit and loss

Results underpinned by strong performance of Hospital and New Zealand Pathology divisions

Continuing operations profit and loss

	1HFY16 (\$m)	1HFY15 (\$m)	Movement
Revenue	1,147.0	1,086.8	5.5%
Operating EBITDA	206.4	191.1	8.0%
Operating EBIT	159.8	146.6	9.0%
Operating profit / (loss) before tax	140.0	98.1	42.7%
Operating net profit / (loss) after tax	100.4	64.8	54.9%
Non-operating expenses after tax	(3.0)	(0.8)	(289.7)%
Net profit/(loss) after tax	97.4	64.0	52.1%
<i>Operating EBITDA margin (%)¹</i>	<i>18.0%</i>	<i>17.6%</i>	<i>40bp</i>
<i>Operating EBIT margin (%)¹</i>	<i>13.9%</i>	<i>13.5%</i>	<i>40bp</i>
Operating cash flow	179.4	192.9	(7.0)%
Operating cash conversion	86.9%	100.9%	(14.0)%

1. Includes prosthetics revenue and costs

8.0% ↑

Operating EBITDA

\$206.4m

54.9% ↑

Operating NPAT

\$100.4m

- Operating cash conversion of 86.9%, lower than pcp due to timing of payroll and one DHB payment – expected to normalise on a full year basis
- Increase in corporate costs largely reflecting investment in new employee equity scheme and costs associated with being publicly listed
- Non-operating expenses of \$3.0m predominately relate to Hunter Valley Private Hospital acquisition costs – refer Appendix 2 for further detail

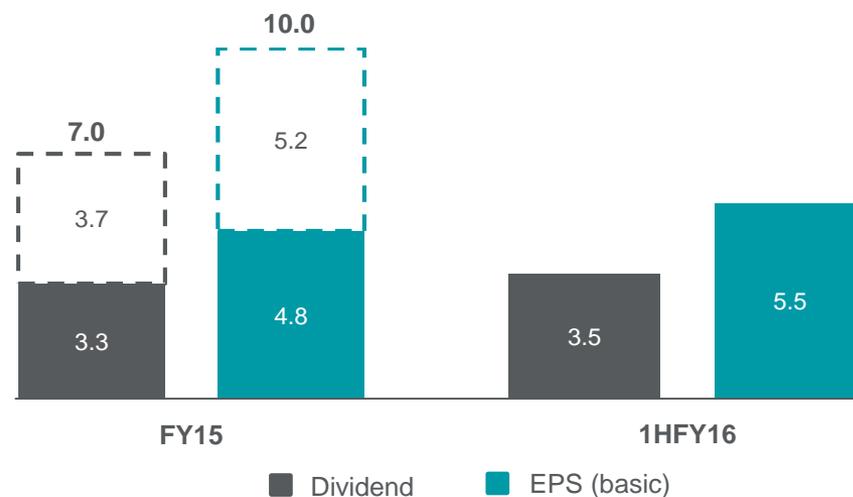
EPS and dividend growth

EPS growth of 14.6% and interim unfranked dividend of 3.5 cents per share

	1HFY16	1HFY15
NPAT (\$m)	97.4	82.7¹
EPS (basic) (cents)	5.5	4.8
Dividend per share (cents)	3.5	3.3
Franking ²	0%	0%
Key dividend dates		
Ex-dividend date	9 March 2016	
Record date	10 March 2016	
Payment date	24 March 2016	

1. Pro-forma NPAT
2. Dividends are unfranked

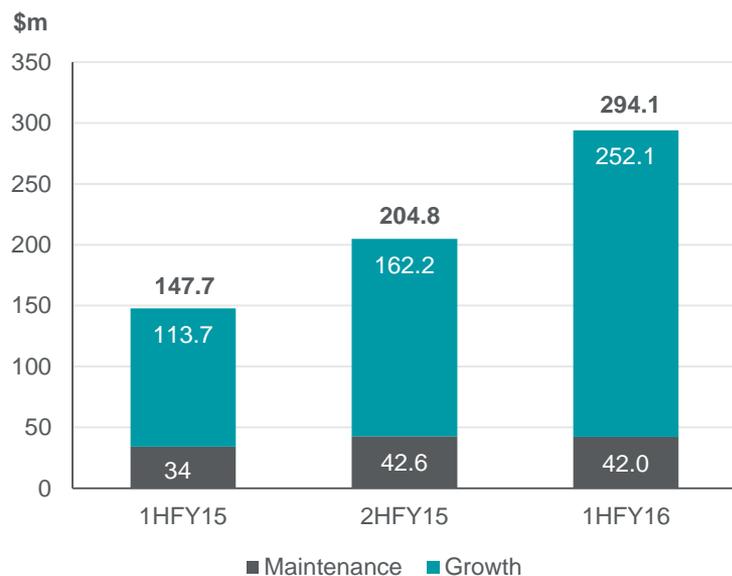
Dividend and EPS (cps)



Capital expenditure and gearing

Increasing investment in hospital expansion projects funded by strong balance sheet

Capital expenditure^{1,2}



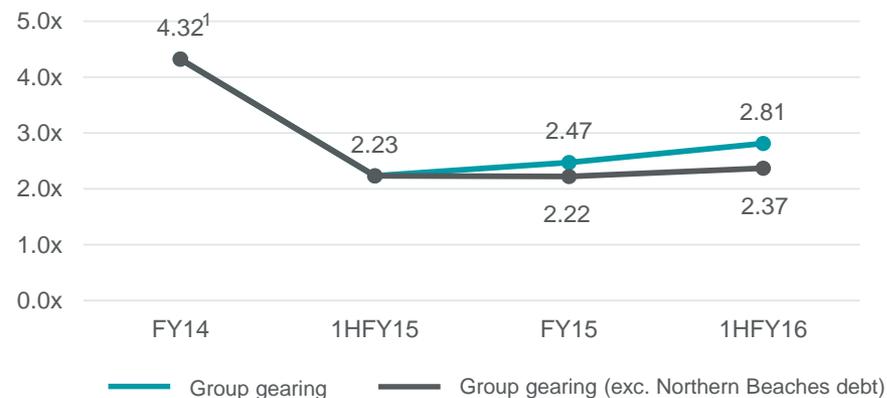
1. Total capital expenditure includes investment across the Group
2. Includes capital expenditure for continuing operations only

Gearing – comfortable headroom on all covenants

	1HFY16	30 June 2015
Net debt (\$m)	1,120.7	958.8
Net debt / net debt + equity	32.3%	29.4%
Net debt / LTM EBITDA	2.81x	2.47x
ICR (LTM EBITDA / LTM net interest expense)	10.10x	8.55x ¹

1. Based on annualized interest from IPO to 31 December 2015

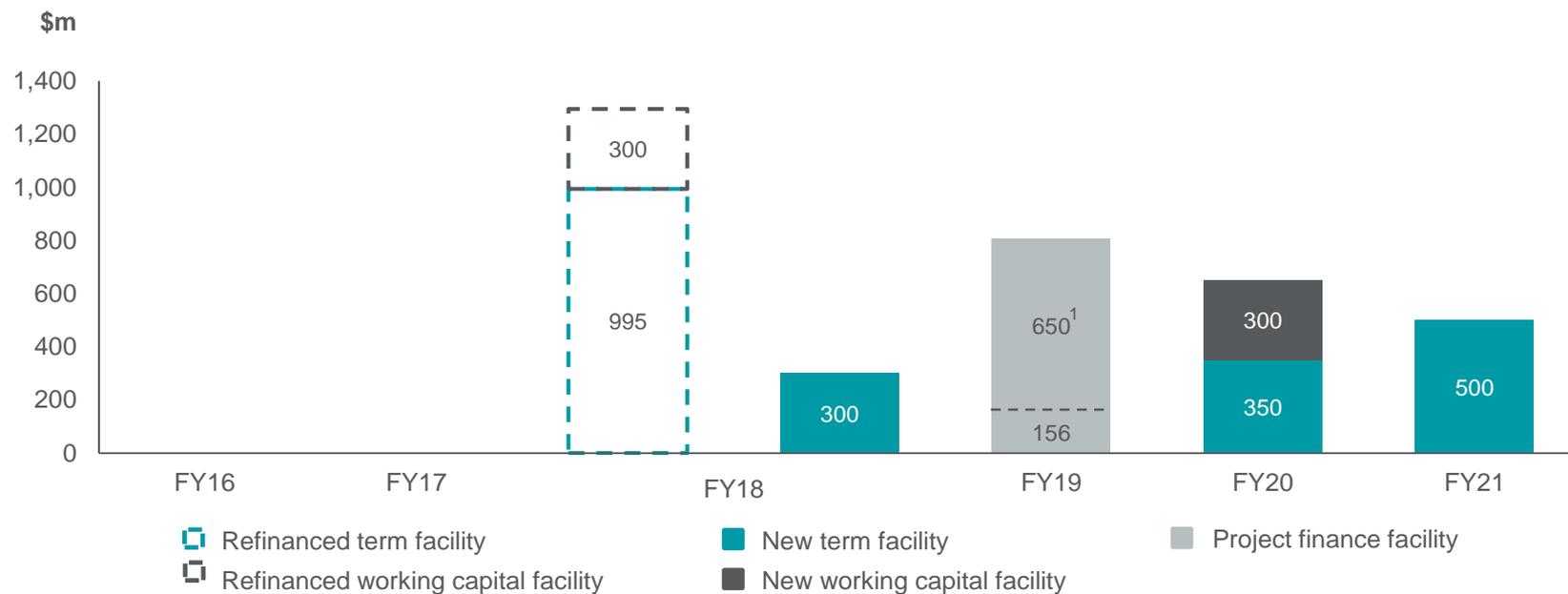
Historical gearing position



1. Reflects pre-IPO gearing structure under private equity ownership

Debt maturity profile

Improved maturity profile



1. Northern Beaches Hospital project finance facility will be refinanced by a combination of the receipt of the State Capital Payment and an already established term facility

- Senior debt facility refinanced in November 2015 to improve maturity profile

Divisional performance



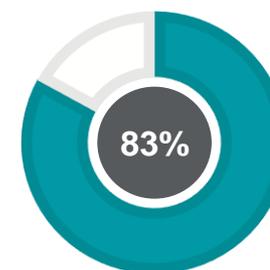
Hospitals

Strong Operating EBITDA growth of 10.0%

	1HFY16 (\$m)	1HFY15 (\$m)	Movement
Revenue	981.3	938.9	4.5%
Operating EBITDA	182.7	166.1	10.0%
Operating EBIT	147.9	134.3	10.1%
<i>Operating EBITDA margin¹</i>	<i>18.6%</i>	<i>17.7%</i>	90bp
<i>Operating EBIT margin¹</i>	<i>15.1%</i>	<i>14.3%</i>	80bp

1. Includes prosthetics revenue and costs

1HFY16 Operating EBITDA contribution to continuing operations



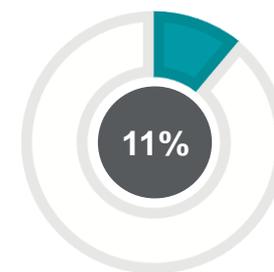
- Revenue growth of 4.5% largely organic, reflecting admissions growth, case mix changes and rate increases
 - Limited brownfield bed openings and capacity constraints at key sites restricted admissions growth
 - Additional capacity expected in 2HFY16 as a number of major brownfield projects are completed
- Labour, procurement and revenue initiatives continued to deliver further margin expansion
 - Direct sourcing strategy progressing with product range expanded to over 290 product lines
- Hospital expansion program remains on track with construction proceeding as planned and further projects added to the pipeline
- Continued close collaboration with major health fund partners
 - Renewed multi-year contracts with Medibank Private and HCF in 1HFY16
 - Recently signed a MOU with our largest health fund provider, BUPA, to extend our partnership and contracting arrangements for a further two years

New Zealand Pathology

Successful integration of new Wellington contract delivered strong growth

	1HFY16 (\$m)	1HFY15 (\$m)	Movement
Revenue	106.0	88.0	20.5%
Operating EBITDA	23.2	19.7	17.4%
Operating EBIT	18.2	14.8	22.5%
<i>Operating EBITDA margin</i>	21.9%	22.4%	(50)bp
<i>Operating EBIT margin</i>	17.1%	16.8%	30bp

1HFY16 Operating EBITDA contribution to continuing operations



- Commenced providing services to the greater Wellington region in July, moving to the new contract in November 2015
 - New state-of-the-art laboratory in Wellington was a major development project – delivered on time and on budget
- Continued to deliver high quality services while achieving improved laboratory efficiencies and contracted procurement efficiencies across existing operations

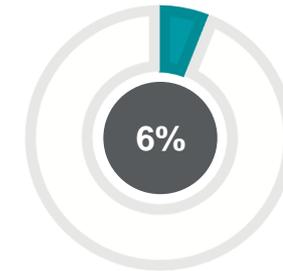
1. As a result of the divestment of the Australian Pathology operations, reportable segments have been revised to Hospitals, New Zealand Pathology and Other

Other

Operations provide platform for growth but face short term headwinds

	1HFY16 (\$m)	1HFY15 (\$m)	Movement
Revenue	59.7	59.9	(0.3)%
Operating EBITDA	13.8	16.0	(14.0)%
Operating EBIT	9.3	10.7	(13.2)%
<i>Operating EBITDA margin</i>	23.1%	26.7%	(360)bp
<i>Operating EBIT margin</i>	15.6%	17.9%	(230)bp

1HFY16 Operating EBITDA contribution to continuing operations



- **Malaysia (revenue decline 6.7%; EBITDA decline 13.8%)¹**
 - Earnings continued to be impacted by the reduction in health screening for foreign workers and general market softening following implementation of GST
- **Singapore (revenue growth 5.9%; EBITDA decline 2.5%)¹**
 - Strong revenue growth resulted from further penetration in specialist and commercial markets
 - Offset by investment in relocation of Paragon Laboratory – relocation provides increased volume capacity, improved workflow and a broader scope of testing
- **Medical centres (revenue decline 4.0%; EBITDA decline 24.6%)**
 - Impacted by softness in volumes and the continued impact of MBS fee freeze
 - Divestment of six skin clinics as part of Australian Pathology operations divestment

1. Based on results in local currency

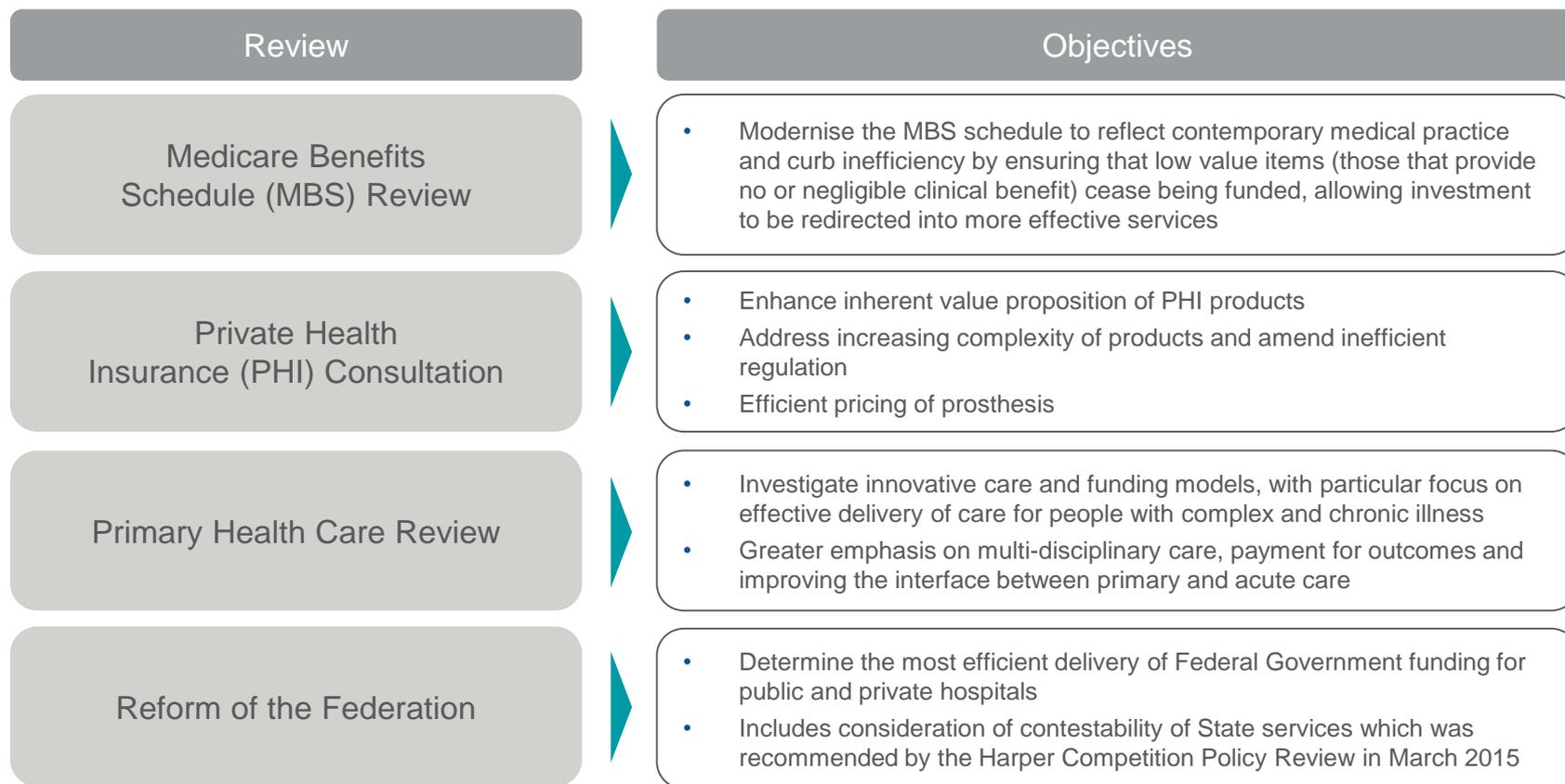
2. As a result of the divestment of the Australian pathology operations, reportable segments have been revised to Hospitals, New Zealand Pathology and Other

Industry update and growth outlook



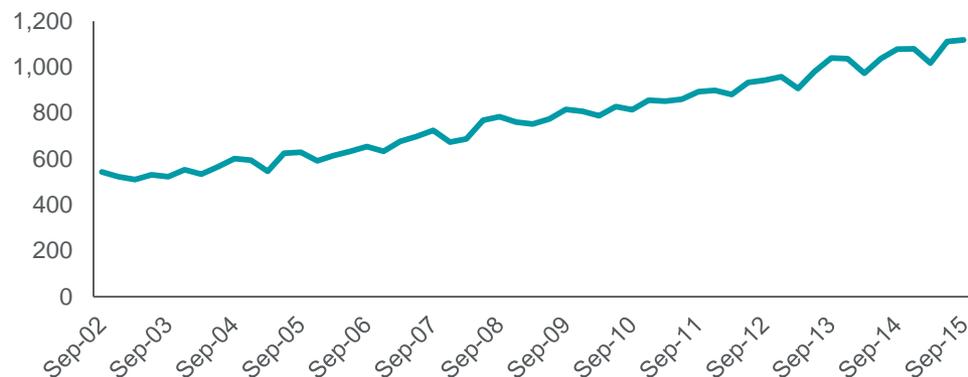
Regulatory reviews

- Focused on growing pressure within public health system, public and private healthcare affordability and efficient delivery of healthcare services
- We are actively involved in these reviews and expect them to lead to positive healthcare reform, endorsing the role and efficiency of the private sector in delivery of services



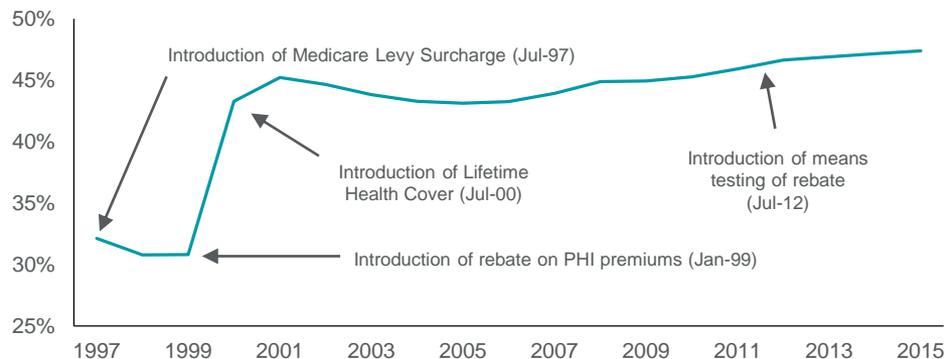
Attractive industry fundamentals remain unchanged

Private hospital volumes have consistently trended upward



Source: APRA

Proportion of population with private health insurance steady at 47.3%



Source: APRA

- Ageing population
- Growing number of lifestyle and degenerative diseases
- Developments in medical technology and capabilities
- Public hospital system under ongoing pressure
- Government policy incentives to use private healthcare

Hospital growth strategy

Consistent and proven strategy provides foundations for sustainable growth

ORGANIC



Labour, occupancy and utilisation improvements

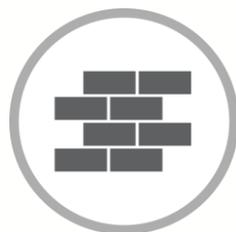
Acuity mix optimisation

Pay-for-quality initiatives

Direct sourcing opportunities

Collaborate with health funds

BROWNFIELDS



Focus on large, acute hospitals which are capacity constrained

Typically located in high growth corridors and/or are co-located

RELOCATE AND GROW



Construct newer, larger facility close to an existing facility and relocate services

PPPs / GOVERNMENT OUTSOURCING



Further opportunities for private sector participation in delivery of public hospital services

INTERNATIONAL GROWTH



Hospital management opportunities

Hospital expansion program

- Capacity constraints continue to restrict growth at a number of larger sites
- Strong forecast local population growth driving further capacity requirements
- Four projects completed since FY15 have delivered 58 beds and 3 operating theatres
- Nine projects under construction will deliver 838 beds and 43 operating theatres by the end of 2018¹
 - Total capital expenditure of approximately \$1.3bn
 - First phase of major expansion projects due for completion by the end of March
 - Major projects at Frankston Private (60 beds and 2 operating theatres) and Newcastle Private (16 beds and 2 operating theatres) have commenced construction
- Four approved projects in final stages of planning will deliver 71 additional beds and 6 operating theatres¹
 - Total capital expenditure of approximately \$140m

1. Refer to Appendix 5 for further detail

Hospital expansion program

Projects due for completion in FY16 – 163 beds and 9 operating theatres (net)

- All projects are scheduled to complete on time and on budget
- Three projects completed in 1HFY16
 - **Nepean Private** (NSW) – new hybrid catheter lab
 - **Geelong Private** (VIC) – new six-bed intensive care unit
 - **Mount** (WA) – theatre refurbishments
- Three major projects will be completed in 2HFY16

Knox Private – February



60 beds and infrastructure upgrade

Gold Coast Private - March



Net 64 beds & 3 operating theatres

National Capital Private - March



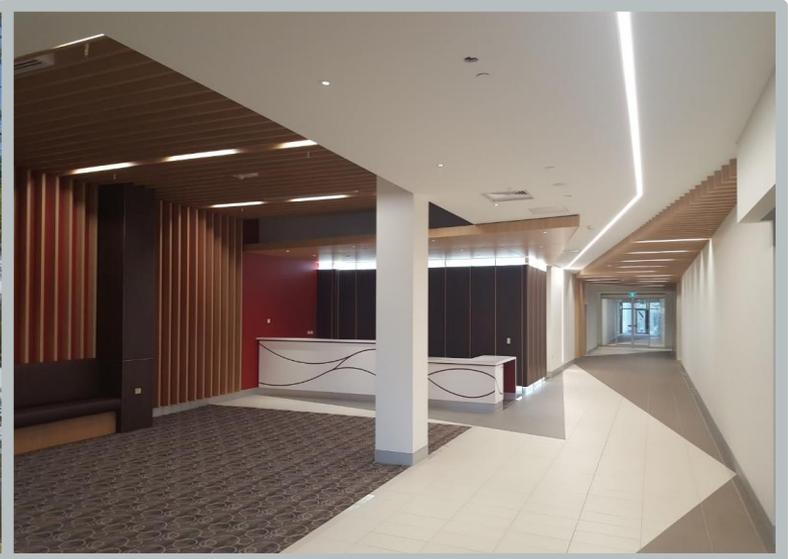
41 beds & 3 operating theatres

- John Fawcner day surgery and emergency department also scheduled for completion this half

Major project updates

Gold Coast Private Hospital (VIC) – 284 beds and 13 operating theatres (net increase of 64 beds and 3 operating theatres)

- Project delivered on time and on budget
- Relocation of patients from Allamanda Private scheduled for Easter weekend



Major project updates

Northern Beaches Hospital (NSW) – 450¹ beds and 20 operating theatres

- Project on track
- Great community engagement
- Excellent working relationships with key stakeholders, including doctor partners



1. 488 beds if inclusive of day beds

Major project updates

**Holmesglen Private Hospital (VIC) –
147 beds and 8 operating theatres**

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



Launch of Hospital Project Tracker

Healthscope

Hospitals

Medical Centres

Independence Services

International



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Welcome to Healthscope Hospitals Project Tracker

This tracker allows you to view photographic updates of the exciting progress being made at a number of our major brownfield project sites. Please note given the large number of projects we have underway, this tracker is not designed to be exhaustive.

[▶ Northern Beaches Hospital \(NSW\)](#)

[▶ Gold Coast Private Hospital \(QLD\)](#)

New Zealand Pathology

- Continue to deliver high quality services and operational efficiencies to DHBs – driving long-term relationships
- Continue to drive greater operational efficiencies by focussing on
 - integration of regional laboratory infrastructure
 - rationalisation of equipment platforms
 - increased centralisation
- Leverage existing network to grow non-DHB funded revenue streams



Other operations

These operations provide platforms for future growth

Malaysia, Singapore and Vietnam pathology operations

- Continue to invest in laboratories to deliver further cost efficiencies
- Improve revenue case mix through targeted value-added service offerings and increased penetration of specialist, commercial and hospital markets
- Explore opportunities to centralise more testing through hub and spoke models
- Continue to assess potential bolt-on acquisition opportunities

Medical centres

- Position portfolio to respond to opportunities arising from the Federal Government's review of primary health care
- Strengthen links to hospitals and private health insurers
- Continue to maximise throughput of existing centres, labour management and benchmarking



Summary and outlook



Summary

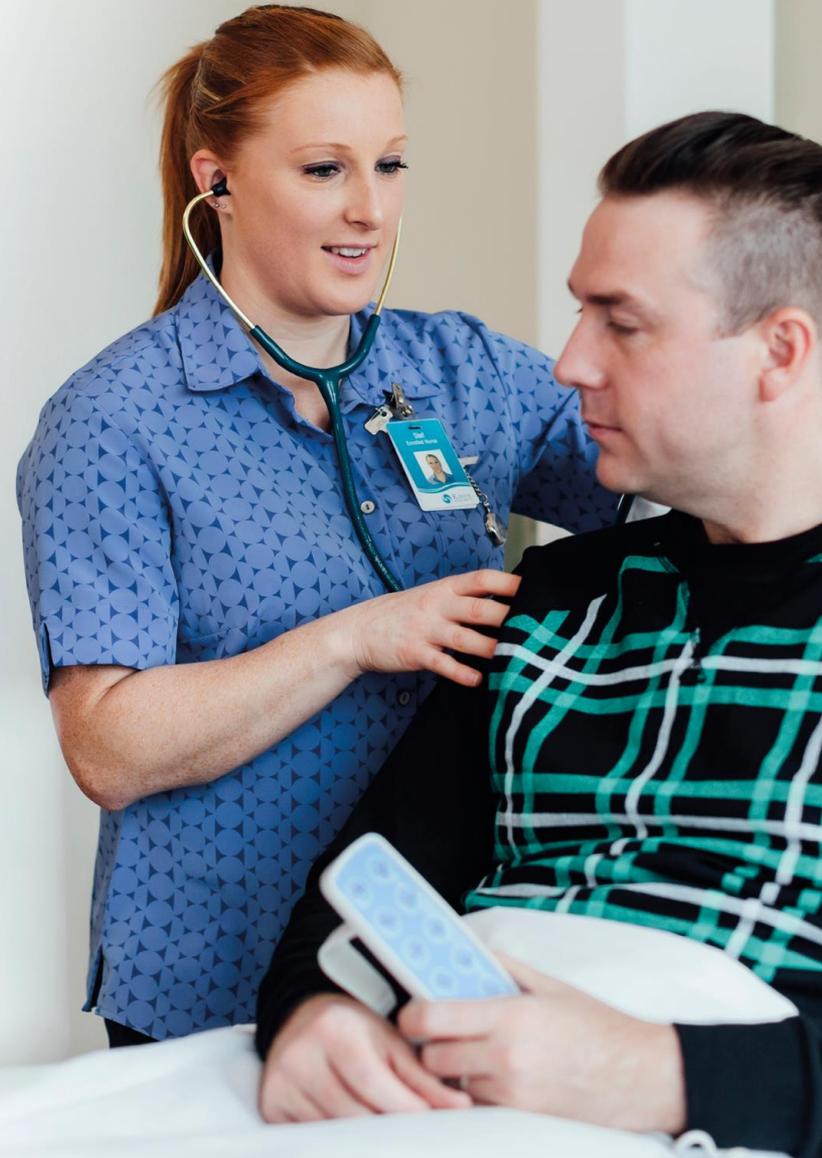
- Strong 1HFY16 result underpinned by continued growth in Hospital and New Zealand Pathology divisions
- Hospital expansion program remains on track, with additional projects added to the pipeline
- Well positioned to leverage existing platforms for future growth opportunities
- Strong balance sheet to fund pipeline of growth opportunities
- Continue to be recognised as a leader in quality and clinical outcomes
- Continue to actively contribute to Government healthcare review processes and respond to opportunities as they arise

Outlook

- Outlook statement unchanged
- Revenue strategies, combined with cost strategies around labour and procurement, will continue to deliver further improvements throughout the full 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



Questions



Appendices



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
<i>Add back</i>		
Discontinued operations	1.5	5.4
Net profit / (loss) after tax from continuing operations	97.4	64.0
<i>Add back</i>		
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
<i>Add back</i>		
Depreciation and amortisation	46.6	44.5
Operating EBITDA (Operating earnings before finance costs, income tax, depreciation and amortisation)	206.4	191.1

Appendix 2: Non-operating expenses

Continuing operations

	1HFY16 (\$m)	1HFY15 (\$m)
Restructure and other costs	0.8	0.3
Onerous leases and related costs	0.8	0.0
Acquisition and tender costs	2.6	0.8
Total pre tax	4.3	1.1
Tax	(1.3)	(0.3)
Total post tax	3.0	0.8

Appendix 3: Restatement of FY15 divisional reporting

Continuing operations

	FY15 (\$m)
Revenue	
Hospitals	1,852.5
New Zealand Pathology	182.2
Other	121.9
Total	2,156.6
Operating EBITDA	
Hospitals	327.6
New Zealand Pathology	41.6
Other	33.4
Total	402.6
Operating EBIT	
Hospitals	263.3
New Zealand Pathology	31.1
Other	23.1
Total	317.6

Appendix 4: Weighted average number of shares

	1HFY16	1HFY15
No. of shares	1,732,779,309	1,563,299,268
Performance rights	2,240,306	1,446,758
Total	1,735,019,615	1,564,746,026

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

Appendix 5: Hospital expansion program

Projects under construction

	Beds	Operating theatres	Other
Northern Beaches (NSW)	450 ¹	20	ED, consulting suites, radiology, GP clinic
Holmesglen Private (VIC)	147	8	Consulting suites, oncology bays, ICU, ED
Gold Coast Private (QLD)	284 (net 64)	13 (net 3)	ED, consulting suites, radiology
Norwest Private (NSW)	60	3	Consulting suites
Frankston Private (VIC)	60	2	Oncology department, car parking
National Capital Private (ACT)	41	3	Consulting suites
Newcastle Private (NSW)	16	2	Car parking, consulting suites
Darwin Private (NT)	-	2	CSSD relocation
John Fawkner (VIC)	-	-	Day surgery, ED

Approved projects

	Beds	Operating theatres	Other
John Fawkner Private (VIC)	42	2	Expand CCU, car parking
Brisbane Private (QLD)	29	2	Consulting suites, car parking, retail
Sunnybank Private (QLD)	-	2	Consulting suites, car parking
Northpark Private (VIC)	-	-	ED

1. 488 beds if inclusive of day beds

Glossary

Cash flow conversion	Group Operating EBITDA to cash flow
Continuing operations	Excludes Australian pathology operations which were divested on 6 July 2015
DHB	District Health Board (New Zealand)
EPS	Earnings per share
ICR	Interest coverage ratio
LTM	Last twelve months
MOU	Memorandum of understanding
Operating	Excludes non-operating expenses of \$3.0m (tax effected)
Pcp	Prior corresponding period

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