# ASX Announcement

28 August 2014

## LIFEHEALTHCARE GROUP LIMITED ACHIEVES FULL YEAR PROSPECTUS FORECAST WITH 13.4% RISE IN FULL YEAR REVENUE

LifeHealthcare Group Limited (ASX:LHC), one of Australia's leading independent distributors of high end medical devices, is pleased to announce its first full year results following its listing on the ASX in December 2013.

### Financial and Operational Highlights

| $m | Pro forma FY14 (3) | Pro forma Prospectus FY14 | Pro forma FY13 (4) | Difference to FY13 | Statutory FY14 |
|---|---|---|---|---|---|
| Revenue | 87.2 | 82.6 | 76.9 | 13.4% | 87.2 |
| Gross Margin | 46.7 | 46.1 | 43.2 | 8.0% | 46.7 |
| EBITDA | 15.3 | 15.3 | 14.1 | 8.4% | 10.8 |
| NPATA(1) | 7.5 | 7.5 | 7.0 | 7.2% | 20.8 |
| EPS (cps)(2) | 17.6 | 17.7 | 16.4 | 7.2% | 53.0 |
| Final Div (¢) | 7.5 | 6.7 | – | 0.8¢ | 7.5 |

Note:

1. NPATA is defined as net profit after tax excluding amortisation of specifically identifiable intangibles.
2. Pro forma earnings per share (EPS) has been calculated based on NPATA.
3. Pro forma FY14 represent the statutory numbers excluding IPO Offer costs (tax effected) and income tax credit resulting from ACA inventory uplift.
4. Proforma FY13 represents the statutory numbers adjusted for transaction costs and debt re-structure in line with the 2014 position.

- Revenue of $87.2 million, a 13.4% increase on prior year and 5.7% ahead of prospectus forecast.
- $15.3 million EBITDA, 8.4% growth on prior year and in line with prospectus forecasts.
- Additional costs above prospectus forecast reflect investment in 6 new employee positions and additional marketing spend in the second half of FY14 to take advantage of future growth opportunities.
- 8 new product launches and associated investment in FY14 showing strong momentum in late FY14.

- Mazor Robotic Spine system launched.
- Imaging business launched with introduction of BodyTom intra operative CT scanner.
- In April 2014, LifeHealthcare entered the new market of Interventional Cardiology providing immediate exposure and growth opportunity in the $100m Percutaneous Coronary Intervention (PCI) market in Australia.

LifeHealthcare's Chief Executive Officer Daren McKennay said "As expected, the business achieved its FY14 prospectus forecasts. What makes the result even more pleasing is we met our forecast while also bringing forward investment in people, working capital and marketing that is already showing a positive result in early FY15."

"The execution of our growth strategy is tracking well and our FY14 year provides a solid platform for FY15 and beyond. In particular, FY14 was strategically a successful year with our entry into the new growth segment of Interventional Cardiology with a number of other opportunities still developing in our growth pipeline. I am looking forward to another successful year in FY15."

**Full Year Result**

Sales revenue of $87.2 million (FY13: $76.9 million) was up by 13.4% on the prior year. The medical devices market experienced favourable trading conditions throughout the year, and this coupled with a number of product introductions, new customers and channel expansions, resulted in LifeHealthcare increasing its market penetration in key segments of the market.

Specifically, revenue growth of $10.3 million was driven by:

- Growth in sales of implantable devices as a result of a number of new product introductions, 10.7% growth in the average revenue per active surgeon as well as new customer growth; and
- Growth in sales of capital equipment from the launch of the EPIQ cardiac ultrasound platform and the proAxis specialised operating theatre table.

Gross Profit was up by 8.0% on the prior year with Gross Profit margin of 54% (FY13: 56%). The change in Gross Profit margin from FY13 reflected the increased mix of capital equipment sales (at lower average margins relative to implants) and one-off lower margins during introduction of new capital equipment products. The promotion around the new product introductions drove new sales however the gross margin impact of this (on a like for like percentage margin basis) in FY14 was approx. $0.75 million.

Specifically the changeover in Ultrasound technology is an 8 – 10 year cycle and therefore we are not expecting this impact to recur in FY15 and for some time beyond. Post the introductory phase of these new products, margins have now returned to normal levels. Gross margin on implants was in line with forecast levels with no impact from the lower A$, due to hedging and other mitigation strategies in place.

EBITDA grew by 8.4% to $15.3 million, reflecting the higher levels of sales. In the second half of FY2014, the business invested in human resources and marketing spend in existing and new growth market segments ahead of revenue. The company added 6 new positions above the prospectus forecast focussed on the key growth areas of Imaging, Spine, Ultrasound, Interventional Cardiology and Capital. In addition, the company continued to strengthen its execution capability through development of its senior management team.

While this investment increased LifeHealthcare's costs in 2HFY2014, it has already shown early positive revenue and EBITDA results in the first quarter of FY15 and will support the Company's future growth. While absolute costs increased over forecast, operating costs as a percentage of revenue (36.0%) were lower than forecast (37.2%) and same period last year (37.8%).

Interest expense was slightly higher ($0.07 million) than prospectus forecast primarily due to the cash flow impact of timing of capital sales in late FY14. This cash flow timing effect has reversed itself in early FY15 and is expected to be a one off impact on interest expense with stronger cash flow expected in FY15.

Tax Expense as a percentage of Net Profit before Tax (30.5%) was $0.037 million higher than forecast in the prospectus due to the tax accounting impact of share based payments. While these payments have a small near term cost, the longer term impact of options and other share based payments for key management and employees is a strong element of our retention and development strategy. Given the reset of the tax cost base of inventory on IPO, future cash tax paid will be materially lower than the Tax Expense contained in the Income Statement.

Underlying NPATA (excluding IPO offer costs and the benefit from the tax cost base reset on inventory) of $7.5 million (2013 $7.0 million) was up by 7.2% on FY13. The statutory income tax credit for the year includes $16.5 million relating to the tax cost base reset and $1.3 million relating to IPO offer costs.

Statutory Net Profit after Tax (NPAT) was $20.5 million (2013: $6.3 million).

**Financial Position and Cash Flows**

LifeHealthcare's net debt position of $20.3 million has improved on the position at 30 June 2013 of $24.0 million. LifeHealthcare's existing facilities were paid down following the listing in December 2013 with new term facilities totalling $29 million, including a $4 million working capital facility available, of which $23.4 million is drawn, providing headroom of $5.6 million as at fiscal year-end.

Operating cash flow was $11.2 million a reduction from the prior year of $14.2 million. This resulted from increased working capital investment in growth channels and timing impacts in customer receipts at fiscal year-end.

**Dividend**

The Directors are pleased to announce a fully-franked dividend of 7.5c per share above our stated dividend guidance to shareholders. This represents a pay-out ratio of 78% of NPATA for the period from 1 January 2014 to 30 June 2014.

Depending on financial profits and working capital requirements of the business, the directors are targeting a future dividend pay-out ratio of 50-70% of statutory NPATA.

Due to the tax asset generated at the time of IPO, it is not expected that the company will be paying tax or generating franking credits in the near term. As a result, dividends paid relating to periods after 30 June 2014 are not expected to be fully franked prior to 30 June 2016.

**New Product Introductions**

During the year, LifeHealthcare was able to launch a number of new strategic products into the Australian market including;

- **Aleutian Lordotic Spine Cage.** Co-developed by LifeHealthcare with our partners at K2M specifically to address the needs of Australian surgeons and patients, we successfully launched this product into the Australian and New Zealand market in FY14. When matched with our Everest pedicle screw system, this combination provided a strong solution to surgeons addressing degenerative spine conditions.

- **EPIQ 5 & EQIQ 7 Cardiac Ultrasound.** After a successful nine years with the ie33 Cardiac Ultrasound system, our partners at Philips launched a new platform through the EPIQ range. This system adds to our existing portfolio of products and provides new opportunity for growth and market share expansion in Australia and New Zealand. This product was successfully introduced in late Q2 FY14 and the company looks forward to our first full year in FY15.

- **Mazor Renaissance Spine Robot.** Renaissance™ is a state-of-the-art surgical robotic system that enables surgeons to conduct spine surgeries in a more accurate and secure manner. Since launch in Q3 FY14, 20 cases have been performed in 2014 transforming patient outcomes and creating a new strategic product category for the business. Following the successful launch, this product provides a new source of strategic growth for the company

- **proAxis Spine Table.** A new generation of Spine Table was launched by LifeHealthcare and has provided a source of strong growth in the high end capital business in FY14.

## Outlook

LifeHealthcare remains confident in meeting its 1H FY15 prospectus forecast.

Sales momentum, new product launches and the investment in people in H2 FY14 has provided a strong platform for continued growth in FY15. As already mentioned, the investment made in H2 FY14 has shown early signs of success in Q1FY15.

LifeHealthcare remains focussed on achieving growth in earnings over the long term through the continued execution of our growth strategy including entry into new market segments and other step out growth opportunities.

For more information please contact

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