# LifeHealthcare Group Limited
## Financial Results Briefing
## Full Year Ended 30 June 2015

LifeHealthcare

> Not your typical multinational

# Agenda

# Performance Scorecard

**Strong organic growth in the year across implantable devices and capital equipment with improved margin, with acquisitions providing additional opportunity for growth.**

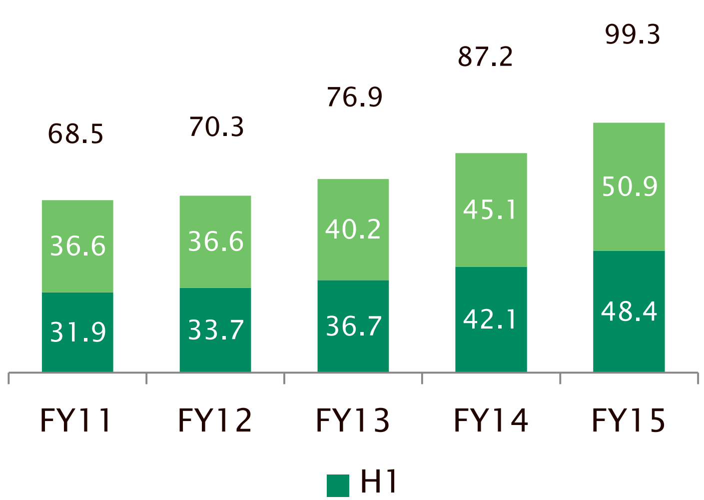
- ✓ In line with guidance provided to the market, FY15 exceeded prior corresponding period in revenue and Core EBITDA by 13.8% and 14.0% respectively.
- ✓ Organic growth strategy continues to deliver strong growth for the core segments of Spine/Neuro, Orthopaedics and Cardiology as a result of the impact of new product introductions and growth in new customers throughout FY15.
- ✓ Successful completion and integration of M4 Healthcare acquisition on 27 May 2015 providing an extension into the growing Point of Care Ultrasound market.
- ✓ Consistent with our focussed growth strategy, LifeHealthcare has also entered into a conditional agreement to acquire 100% of Medical Vision Australia Cardiology & Thoracic Pty Limited (MVA) for upfront consideration of approximately $9.0m.
- ✓ Margin was maintained through proactive management strategies including price increases, improved trading terms and management of reimbursed products.
- ✓ Improved operating cash flow increasing 54.5% from FY14 and strong conversion rate on EBITDA of 99%;
- ✓ Declaration of a final dividend of 7.5 cents per share (unfranked), giving total dividends for FY15 of 15.0 cents, representing 73% of NPATA.

# Full Year Results

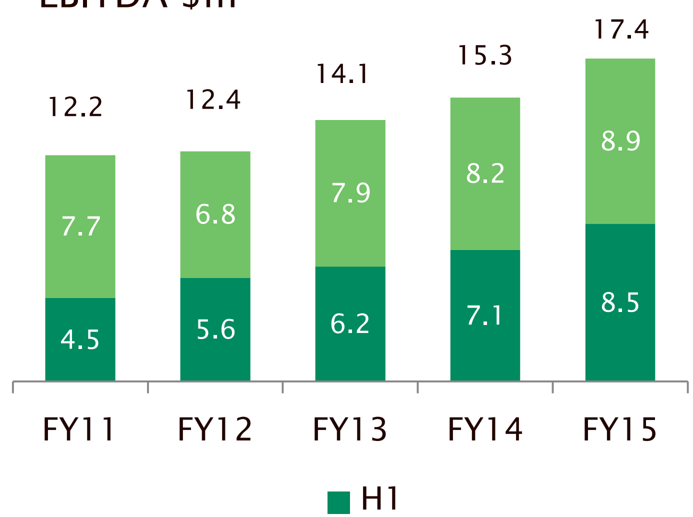
| $m | Core FY15 | Pro forma FY14 | Difference to FY14 | Statutory FY15 |
|---|---|---|---|---|
| Revenue | 99.3 | 87.2 | 13.8% | 99.3 |
| Gross margin | 53.9 | 48.4 | 15.3% | 53.9 |
| EBITDA[(2)] | 17.4 | 15.3 | 14.0% | 17.1 |
| NPATA [(2)] | 8.8 | 7.5 | 17.3% | 4.3 |
| EPS (cps) | 20.6 | 17.6 | 17.3% | 10.0 |
| Final dividend (¢) | 7.5 | 7.5 | – | 7.5 |
| Total dividends paid (¢) | 15.0 | 15.0 | – | 15.0 |

- Strong top line growth across both implantable devices and capital equipment
- M4 acquisition completed on 27 May 2015 and therefore has only one month impact on FY15.
- Final dividend declared of 7.5 cents per share (unfranked), on back of 7.5 cent dividend paid in March 2015 (73% franked)
- Total dividends for FY15 of 15.0 cents representing payout ratio of 73% of Core NPATA.

## Revenue $m




## EBITDA $m




**Note:**

1. Refer to reconciliation of pro forma to statutory results for details of pro forma adjustments.
2. Core EBITDA excludes M4 transaction expenses of $0.3m, Core NPATA excludes amortisation of specifically identifiable intangibles (net of tax effect) and the income tax expense of $4.5m arising from the reduction in the deferred tax asset.
3. Graphs are based on core or pro forma revenue and EBITDA.

# Operational Highlights

**Continued Growth in Implants**

- Net annual increase of 7 new active surgeons and 7.1% growth in average revenue per surgeon, resulting in 15.5% annual growth in revenue from implantable devices.

**Ultrasound New Product and Sector Development**

- Launched new Affiniti ultrasound driving market share gain in the mid range private Cardiac ultrasound segment and strong performance for this segment.

**Minimally Invasive Surgery (MIS) Product**

- Co-developing Minimally Invasive Spine product with key supplier to address +$25M growth segment. Alpha launch on track for late CY15.

**Acquisition of M4 Healthcare**

- Acquired M4 Healthcare Pty Ltd on 27 May 2015, specialising in Point of Care Ultrasound, an adjacent channel to Cardiac Ultrasound.
- Successful completion of M4 integration into LHC by June.

**Launch of 3D Printed Implantable Devices**

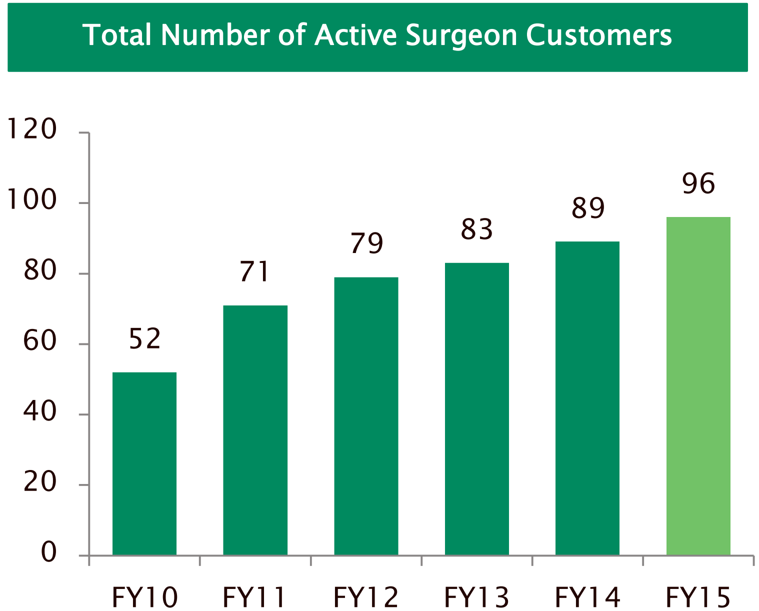
- First implantation of 3D printed Spine devices and patient specific Orthopaedic prosthesis.
- Provides the business with strong market positioning.

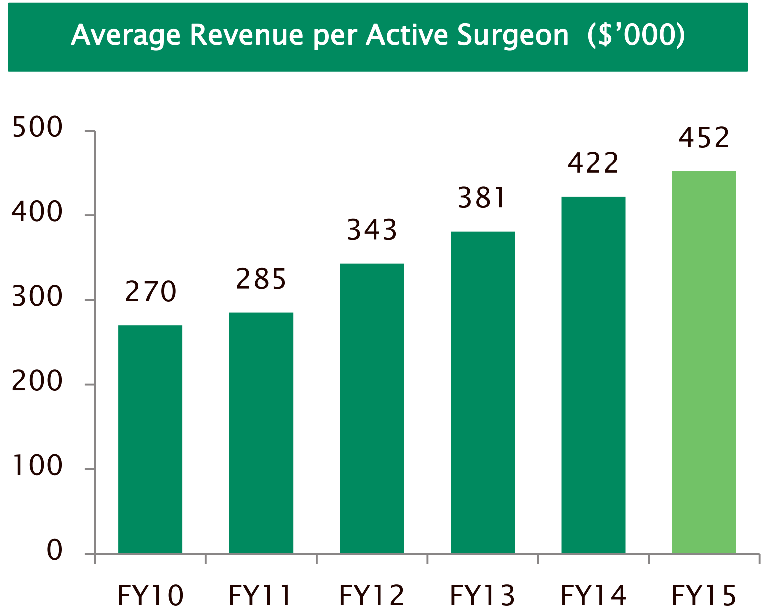
**Margin Management**

- Gross margin maintained in spite of FX headwind through price increases, trading terms, mix and reimbursement optimisation.

# Strong Underlying Operational Performance

**Increase in active surgeons and strong growth in average revenue per active surgeon resulting in 15.5% annual growth in revenue from implantable devices**




- Total revenue from implantable devices grew 15.5% in the year with an increase in active surgeons of 7.9% and strong growth in revenue per active surgeon at 7.1%, reflecting continued growth from more recent active surgeons.

**Notes:**

1. Active Surgeons are surgeons who generate $50,000 or more of revenue in that period for LifeHealthcare

# Agenda

# Summary Income Statement

| $m | Core FY15 | Pro forma FY14 (1) | Difference to FY14 |
|---|---|---|---|
| Revenue | 99.3 | 87.2 | 13.8% |
| Gross Profit | 53.9 | 46.7 | 15.3% |
| Gross Profit Margin | 54.2% | 53.5% | 0.8% |
| **EBITDA[2]** | **17.4** | **15.3** | **14.3%** |
| Depreciation | (3.0) | (2.5) | 20.0% |
| Amortisation | (0.8) | (0.7) | 12.1% |
| **EBIT** | **13.6** | **12.1** | **12.9%** |
| Net Interest Expense | (1.6) | (1.7) | (9.6)% |
| **Profit before tax** | **12.1** | **10.4** | **16.6%** |
| Income Tax Expense[2] | (3.6) | (3.2) | 15.5% |
| **NPAT[2]** | **8.5** | **7.2** | **17.1%** |
| **NPATA[2]** | **8.8** | **7.5** | **17.3%** |

## Commentary

- Revenue growth of 13.8% from FY14 across both implantable devices and capital equipment.
- Growth in implantable revenue (15.5% YOY) through increase in number of surgeons and increasing penetration of products to new and existing surgeons.
- Strong performance in capital products achieved through existing portfolio as well as the introduction of the Affiniti Cardiac Ultrasound system in November 2014.
- Gross profit margin and EBITDA margin improvement relative to FY14 reflects the strong growth in the higher margin implant business, higher margin capital product mix and other margin management strategies.
- Investment in human resources and marketing in existing and new growth segments ahead of revenue to drive FY15 growth. Reflected in strong results in FY15.
- Amortisation includes $0.5 million of amortisation of separately identifiable intangibles (relating to acquisitions) and balance is amortisation of software development costs. $0.38 million of amortisation relates to 2010 acquisition that will be fully amortised by end of Q1 FY16. Balance ($82K) is one month of amortisation of intangibles relating to M4 Healthcare acquisition.

**Notes:**

1. Refer to reconciliation of pro forma to statutory results for details of pro forma adjustments
2. Core EBITDA excludes M4 transaction expenses of $0.3m, Core NPAT and NPATA excludes amortisation of specifically identifiable intangibles (net of tax effect) and the income tax expense of $4.5m arising from the reduction in the deferred tax asset.

# Summary Balance Sheet

| $m | FY15 | FY14 |
|---|---|---|
| Cash | 6.0 | 2.8 |
| Trade and Other Receivables | 17.1 | 14.3 |
| Inventories | 30.5 | 27.5 |
| Derivative Financial Assets | 2.0 | – |
| Investment in Joint Venture | 0.4 | 0.4 |
| PP&E | 9.6 | 8.4 |
| Deferred Tax Assets | 8.3 | 17.2 |
| Intangible Assets | 21.6 | 13.1 |
| **Total Assets** | **95.4** | **83.6** |
| Trade and Other Payables | 18.6 | 13.9 |
| Borrowings | 29.6 | 23.1 |
| Provisions | 2.4 | 1.8 |
| Current Tax Liabilities | 0.9 | 0.1 |
| Deferred Income | 0.4 | – |
| Derivative Financial Liabilities | 0.6 | 1.1 |
| **Total Liabilities** | **52.4** | **39.9** |
| **Net Assets** | **43.0** | **43.7** |

## Commentary

- Increase in trade and other receivables reflects seasonality and timing of capital sales in the month of June.
- Investment in inventory relates to implant kits for Spine and Orthopaedics.
- Derivative financial assets of $2.0 million relates to market valuation on foreign exchange contracts.
- Intangible assets includes $7.4 million in goodwill and $1.66 million in specifically identifiable intangibles (net of one month amortisation of $0.08 million) relating to acquisition of M4 Healthcare Pty Ltd.
- Increase in borrowings of $6.5million reflects $9.0 million drawn for M4 acquisition, net of repayments of $2.5 million.
- Derivative financial liabilities (FY15) of $0.6 million relates to market valuation of interest rate hedges.
- Current tax liability is the current year tax payable in respect of NZ earnings and a $0.7m tax liability relating to M4 Healthcare Pty Ltd prior to acquisition by LHC on 27 May 2015. This liability was covered by cash in M4 on acquisition.
- The company has revised the basis upon which the market value of inventory for the purposes of the tax cost base reset has been estimated. The net effect of the revision in FY15 was an increase in tax expense of $4.5 million and a reduction in deferred tax asset of $4.5 million. No impact on historical cash tax payable.

# Summary Cash Flow Statement

| $m | FY15 | FY14 | Variance |
|---|---|---|---|
| **Pro Forma EBITDA** | **17.4** | **15.3** | |
| Non Cash Items | 0.2 | 0.3 | |
| Change in Working Capital | (0.3) | (4.4) | |
| **Operating Cash Flow Before Investing Activities** | **17.3** | **11.2** | **54.5%** |
| Cash Conversion | 99.4% | 73.2% | 26.2% |
| **Investing Activities** | | | |
| Capital Expenditure | (4.2) | (2.3) | |
| **Operating Cash Flow After Investing Activities** | **13.1** | **8.9** | **47.2%** |

## Commentary

- Improved operating cash flow conversion after investing activities increased 47.2% from prior year, supporting dividend payments of $6.4 million, and interest and debt amortisation of $3.9 million.
- Operating cash flows before investing of $17.3 million in FY15, increased from $11.2 million in FY14 (up 54.5%).
- Working capital was stable, with growth in receivables and inventory being offset by growth in accounts payable when compared to FY14.
- Capital expenditure of $4.2 million largely relates to investment in implant instrument kits in Spine and Orthopaedics to support new product introductions and volume growth.
- Operating cash flow was utilised for debt amortisation of $2.3 million as well as payment of a $6.4 million dividend.
- No cash tax is expected be payable in Australia for a number of years due to the tax cost base reset on IPO.
- As at June 2015 the leverage ratio (Net Debt/EBITDA) was 1.26x, with sufficient headroom for further investments in working capital and acquisitions to support growth strategy.

**Notes:**

1. Refer to reconciliation of pro forma to statutory results for details of pro forma adjustments

# Agenda

# Growth Strategy

**Within 5 years, grow the business to circa $200m in revenue through the three existing growth channels of Spine/Neuro, Orthopaedics and Cardiology and by developing new channels**

| | Spine/Neuro | Orthopedics | Cardiology | New Channel(s) |
|---|---|---|---|---|
| Strategic Objective | • Leverage our strong existing market position<br>• Continue to penetrate the market through new customers and new product introductions<br>• Move from the current #3 position into #2 aiming for #1 | • Extend our presence in revision surgery into limb lengthening, oncology and patient specific solutions<br>• Implement the same business model adopted in Spine to grow market share | • Leverage #1 position in Cardiac Ultrasound to enter the Percutaneous Coronary Intervention (PCI) space<br>• Enter the PCI space with Stents and then extend into other related products | • To add a 4th or 5th growth channel to the LifeHealthcare business<br>• Target segments with similar characteristics to the existing three growth channels |
| Market Size | • ~ $230m (Total)<br>• ~ $60m (Deformity)<br>• ~ $170m (Degenerative) | • ~ $1.1bn (Total)<br>• ~ $650m (Hip & Knee)<br>• ~ $350m (SET)<br>• ~$130m (Other) | • ~ $500m (Total)<br>• ~ $200m (Interventional Cardiology) | • Biologics ~$250m<br>• IVD ~ $1.0bn<br>• Ophthalmology ~$450m<br>• Imaging ~$720m |
| Key Growth Strategy | • Predominately organic growth strategy<br>• Consolidate leading position in Deformity and Motion Preservation segments<br>• Accelerate growth in Degenerative Spine through new product introductions and investment in sales force | • Initial focus on complex revision customer base<br>• Recruit 1st class sales team to implement new strategy<br>• Identify acquisition opportunities in Hip/Knee and SET | • Enter PCI market through agreement with Biosensors International and acquisition of Medical Vision Australia (MVA)<br>• Build on high calibre sales team<br>• Extend product range into related innovative PCI technologies. | • Identify acquisition targets with good existing product range and sales team<br>• Implement the LifeHealthcare business model to enhance and grow the business<br>• Execute specific growth opportunities in innovative, reimbursed therapeutic specialities |

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> Leading through partnerships in health

# Expansion of presence in Implantable Growth Technology

**LHC partnering to relaunch innovative Magnetic Growth Technology in Orthopaedic fields of Spine and Limb Lengthening**

**Launch Highlights**

- ✓ Ellipse Technologies will supply innovative implantable solutions through LHC to address growing Spine pathologies (Magec™) and limb length deficiencies (Precise™)
- ✓ Whilst first launched in 2011through Special Access Scheme, under LHC from late FY15 both technologies have obtained TGA approval and Magec™ will be approved on the Prosthesis List from Sept 2015
- ✓ Ellipse Technologies portfolio will strengthen our high share position in Spinal Deformity and provide valuable access for the developing Complex Orthopaedic solutions business

# Outlook

**With the full impact of the M4 acquisition in FY16 and before any potential impact of MVA, LifeHealthcare anticipates that revenue growth for the full year will be in the mid to high teens, with underlying organic growth rates of low double digit and EBITDA margins consistent with historical performance.**

1. The business is experiencing strong organic sales momentum as result of initiatives taken over the last 12 months, including new product launches and recruitment of experienced sales personnel.
2. Pipeline of new product introductions across a number of channels to support continued organic growth.
3. The business continues to invest in people and inventory ahead of existing revenue line to fuel forward organic growth potential. Investments made in FY15 to drive growth in FY16.
4. Q1 FY16 has started in line with expectations, with strong opportunities for further growth into balance of FY16 through new product launches and growth in new surgeons.
5. Full year benefit of revenue and EBITDA of M4 acquisition completed on 27 May 2015.
6. Anticipated completion of Medical Vision Australia (MVA) acquisition in mid to late September 2015 adding further run rate revenue of $5.8m with potential further acquisitions in the pipeline.

# Appendix – Reconciliation of Pro Forma to Statutory Results

| $m | FY15 | FY14 |
|---|---|---|
| **Core/Pro forma EBITDA** | **17.4** | **15.3** |
| Transaction Costs | (0.3) | (4.5) |
| **Statutory EBITDA** | **17.1** | **10.8** |
| Depreciation and Amortisation | (3.9) | (3.2) |
| Net Interest Expense | (1.6) | (1.7) |
| **Statutory Profit Before Tax** | **11.8** | **5.9** |
| Income Tax Credit | – | 17.8 |
| Income Tax Expense | (3.6) | (3.2) |
| Income Tax Expense (DTA) | (4.5) | – |
| **Statutory NPAT** | **3.7** | **20.5** |

## Commentary

- Transaction costs in FY15 relate to the M4 Acquisition completed in May 2015.
- FY14 transaction costs relate to the IPO.
- Income tax credit for FY14 includes $16.5 million relating to tax cost base reset.
- Income tax expense (DTA) for FY15 arising from a revision to the basis upon which the market value of inventory for the purposes of the tax cost base reset.

# Agenda

Operational and Financial Highlights

Half Year Results Detail

Growth Strategy Update & Outlook

**Questions**

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