LifeHealthcare Group Limited

Financial Results Briefing

Half Year Ended 31 December 2015

Agenda

LifeHealthcare

Performance Overview

Performance in the half reflected growth across capital equipment and implantable devices with strong margins maintained and strategic acquisitions delivered

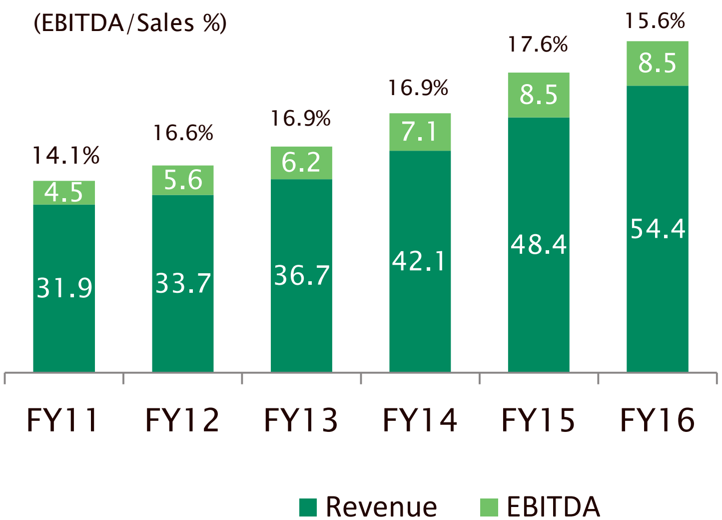
- FY16 revenue exceeded prior corresponding period by 12.3%.
- Capital equipment revenue growth of 21.6% was driven by the acquisition of M4 Healthcare with organic growth impacted by phasing differences in tenders and large capital sales in the corresponding period.
- Growth of 5.8% in implants reflects above-market growth with momentum from accelerated new active surgeons partially offset by reduced procedural volumes across top 15 surgeons and product launch delays.
- Gross Margin improvement against headwind of AUD FX deterioration.
- EBITDA to sales ratio was negatively impacted by 2.0% due to operating expense increase.
- Investments in new product platforms, expansion of customer base and fully consolidated acquisitions provides a strong pathway for growth in H2 and FY17.
- Transitioned executive leadership team in place with changes in CEO, CFO and appointments of GM – People & Culture and GM – Corporate Development.

Financial Performance Overview

$m	1HFY16	1HFY15	Difference to 1HFY15
Revenue	**54.4**	**48.4**	**12.3%**
Gross Margin $	30.5	26.8	13.8%
Gross margin %	56.1%	55.4%	70bps
Operating EBITDA (1)	8.5	8.5	–

Half Year Financial Performance $m

(EBITDA/Sales %)



Revenue growth of 12.3% | Margin growth 13.8%

- Revenue growth of 12.3% across all operating segments with an underlying organic growth of 3.5%
- Implant growth of 5.8% driven by accelerated new active surgeons, partially offset by a $0.9m impact in procedural volume decline of the top 15 surgeon group and delayed launch of Everest XT (MIS Spine)
- Capital growth of 21.6 % driven by M4 acquisition with underlying organic growth of -3.6% impacted by a negative variance of $3.1M in phasing of tenders and large capital sales from H1FY15
- Gross margin to sales ratio improved by 70bps against corresponding period as a result of procurement, pricing and product mix strategies.
- Operating expenses increased by 20.2% on the corresponding period with $0.8m of un-budgeted expenses, $1.1m relating to acquisitions and $1.4m in organic investment across sales & marketing.
- EBITDA to sales ratio was negatively impacted by 2.0% due to operating expense increase.

Note:
1. Operating EBITDA excludes transaction expenses (refer reconciliation in Appendix)

Earnings Performance Overview

$m	HY16	FY15	HY15
Operating EBITDA (1)	**8.5**	**17.4**	**8.5**
Depreciation	(1.8)	(3.0)	(1.5)
Amortisation	(0.8)	(0.8)	(0.3)
Operating EBIT	**5.9**	**13.6**	**6.7**
Net Interest Expense	(1.1)	(1.6)	(0.8)
Operating Profit before tax	**4.8**	**12.1**	**5.9**
Income tax expense	(1.4)	(3.6)	(1.7)
NPAT	**3.4**	**8.5**	**4.2**
Operating NPATA (2)	**3.8**	**8.8**	**4.3**
Statutory NPATA	3.1	3.7	4.2
Operating EPS (Basic)	8.9	20.6	10.2
Statutory EPS (Basic)	7.2	8.8	9.8
Dividend (¢)	**5.0**	**15.0**	**7.5**
Payout % to Statutory EPS	69%	170%	77%
Payout guidance	*50% to 70% of Statutory NPATA*		

Earnings quality reduced on half year comparative but expected to strengthen on full year basis.

- Operating NPATA reduced from prior year due to lower organic EBITDA resulting from unbudgeted commission expense and higher sales and marketing costs. Acquisition operating NPATA was positive.
- Interim Dividend has been reduced to 5.0cps, in line with top end of payout guidance of 50-70% of Statutory EPS reflecting prudent approach to cash position.

Note:
1. Operating EBITDA excludes transaction expenses (refer reconciliation in Appendix)
2. Operating NPATA excludes amortisation of specifically identifiable intangibles and transaction expenses (net of tax effect)
3. FY15 Operating NPATA adjusted also for DTA adjustment.

Balance Sheet Overview (extract)

$m	December 2015	June 2015	December 2014
Working Capital			
Inventory	35,734	30,454	28,637
Trade Receivables	18,592	17,132	12,988
Trade Payables	(16,663)	(18,623)	(11,849)
Net Working Capital	**37,663**	**28,963**	**29,776**
% to sales (LTM)	35.8%	29.2%	31.8%
CAPEX	**$2.4m**	**$1.7m**	**$2.5m**
Operating cash-flow after investing activities.	($2.1m)	$8.6m	$4.5m

Working Capital increased by $8.7m since June.

- Inventory increase of $5.3m from June including additional stock holding from acquisitions (MVA $0.7m), new product launch's in spine ($0.8m) and balance to support stronger second half pipeline.
- Trade Receivables increased from June with addition of MVA acquisition ($1.1m) and organic growth of existing business.
- Operating cash-flow after investing activities impacted from increase in working capital since June.

$m	December 2015	June 2015	December 2014
Debt			
Borrowings	39,517	29,646	20,825
- Current	4,277	-	-
- Non current	35,240	29,646	20,825
Leverage Ratio	**2.16x**	**1.59x**	**1.26x**
Debt % to sales (LTM)	37.5%	29.8%	22.3%

Debt increased due to acquisitions.

- Additional drawings were made for acquisition of MVA.
- Repayment of $1.0m made in December 2015, with further amortisation in June 2016.
- Multi-option facility is renewable in October 2016, with discussions commencing.
- Cash Advance facility is repayable in October 2018.

Note:
1. Full Balance sheet detail in Appendix
2. Borrowings are inclusive of utilised overdraft facility
3. Leverage Ratio is inclusive of off balance sheet bank guarantees.

Operating Highlights

Acquisition of Medical Vision Australia Cardiology & Thoracic Pty Ltd ('MVA")

- Acquisition of MVA completed in October 2015, extending the cardiology channel in percutaneous coronary intervention.

Launch of Everest XT

- First cases completed with co-developed minimally invasive spine product in December providing access to high growth $25mill market segment.

Capital Equipment Synergies

- Continued momentum in Cardiac Ultrasound and additional full period growth from M4 providing synergistic opportunities in H2 FY16.

Regenerative Biologics

- Long term partnership established with RTI Surgical providing the foundation Allograft portfolio for an advanced Regenerative Biologics channel

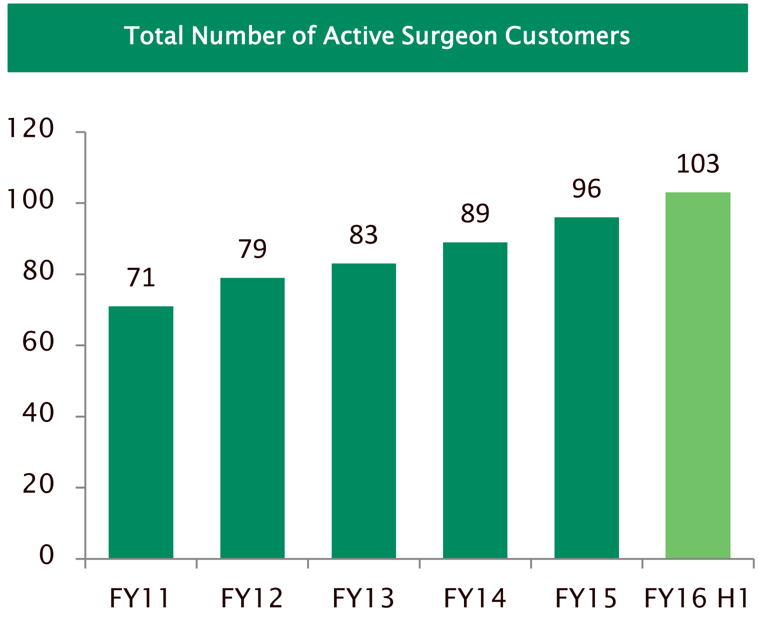
Accelerated Growth in New Surgeons

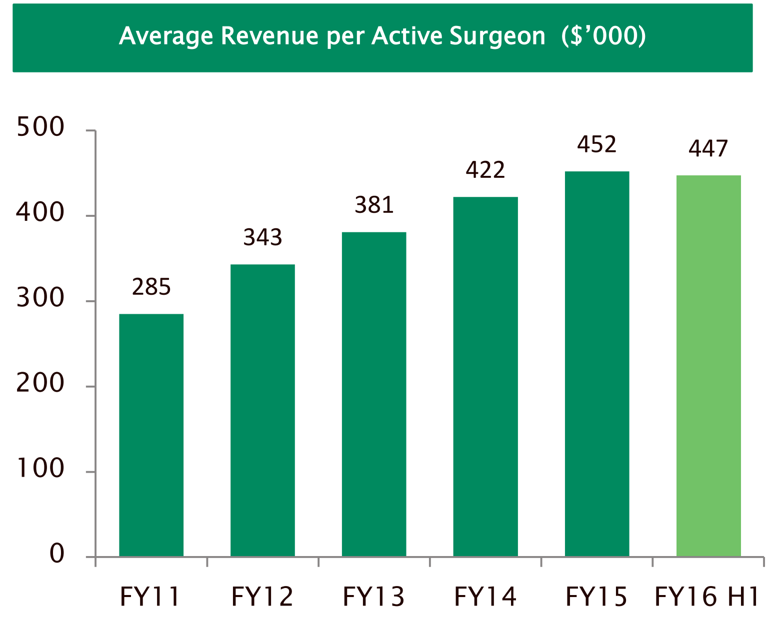
- Net increase of 7 new active surgeons in H1provides strong pipeline for sustained growth.

Strengthened Management

- Appointment of key senior management ensuring investments and management practices are aligned with strategic growth plan.

Double digit annual growth rates in active surgeons





- Accelerated new surgeon acquisition of 7.3% for the half year (LTM:12.0%) provides foundation for sustained growth and reduced reliance on maturing accounts.
- Average revenue per surgeon diluted by strong growth in active surgeons and reduced procedural volume across top 15 accounts.

Notes:

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

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Growth Strategy: FY15 to FY19

Within 5 years, grow the business to circa $200m in revenue through channel expansion and inorganic investments, ensuring sustained competitive advantage and quality of earnings

	Spine/Neuro	Cardiology	Orthopedics	Regenerative Biologics	New Channel(s)
Strategic Objective	Market Penetration	Market Penetration / Portfolio Development	Portfolio Development	Diversification	Diversification
Growth Strategy	• Continued focus on new surgeon expansion • Penetrate MIS segment • Strengthen spine capital enablers (Robotics) • Optimise procedural revenue with Biologics portfolio development	• Maintain #1 in Cardiac Ultrasound • Expand POC Ultrasound applications in sub-specialities • Convert competitor FFR share with Volcano IFR • Broaden PCI portfolio	• Penetrate Complex Revision segment • Broaden Complex portfolio • Enter new segments (Extremities, Sports, Primary Joint) • Explore acquisition opportunities to extend footprint	• Build Biologics expertise in Sales & Marketing • Penetrate existing adjacent segments (Spine, Ortho, Lapro) • Develop Plastics and Wound Healing Market • Identify advanced regenerative technologies	• Identify acquisition targets in attractive segments • Make strategic investments in technology & channel infrastructure • Implement LHC model to enhance growth
Internal Drivers	People and Culture | Market Orientation | Operating Effectiveness				

LifeHealthcare
Leading through partnerships in health

Channel Diversification into Regenerative Biologics

Long term agreement with RTI Surgical and other partnerships nearing completion will see a significant expansion of Regenerative Biologics presence into human tissue allograft and wound healing technologies

Launch Highlights

- ✓ Extensive primary allograph portfolio including bone chips, demineralized bone matrix, stem cell enhanced allogenic bone graft, porcine dermis, tendon, cartilage, and amniotic material for wound healing
- ✓ TGA process underway with anticipated approvals from late 2016
- ✓ Initial go-to-market via existing channels leveraging sales footprint in Spine, Orthopaedics, Neurosurgery and General Surgery, extending into Wound Healing with dedicated salesforce
- ✓ Future applications extending from stem cell technology into early intervention regenerative medicine and 3D bio-fabrication
- ✓ Estimated addressable market in Australia / New Zealand of $150m.

Private Health Insurance (PHI) Review

As underlying demographics provide a tailwind for the healthcare sector, the current government has commenced work to manage healthcare spending including containment of Private Health Insurance premiums

- Recent media reports of prosthesis costs driving Private Health insurance premiums have misrepresented implant price inflation and overestimated public / private price variation
- An Industry Working Group on Prosthesis has been established to deliver competitive pricing of devices, whilst ensuring patient access to technology, with the report due Aug 2016
- Approximately 35% of forward projected revenue for LHC is derived from the Prosthesis List (PL) across Spine, Orthopaedics, Neurosurgery, Biologics and Bariatric devices
- LHC does not currently compete in Cardiac Rhythm Management (CRM), Intraocular Lenses or Primary Knee Replacement and does not supply Primary Hip Replacement, or Cardiac Stents on a material basis.
- Analysis of LHC pricing for all PL products indicates a 4% variation between private and public markets on a weighted average basis
- Strategic management of any potential pricing impact will be achieved through the balancing of the variable cost base, supplier trading terms and exploitation of new opportunities arising from market disruption

Outlook

LifeHealthcare anticipates that full year revenue growth will be in the range of $113m to $116m. EBITDA margins remaining consistent with historical performance.

- Revenue guidance range dependant on capital equipment tender success. Capital equipment pipeline for H2 significantly strengthened with major tender and large capital opportunities in addition to the full half contribution of MVA.
- Improved organic growth across implants through the full half contribution of new product introductions, leverage of expanded new active surgeons and increased (from H1) volumes across top 15 surgeon accounts
- Sustained focus on gross margin through ongoing management on product mix and FX strategies.
- Stable expense profile following H1 investments across people and working capital, providing leverage for improved EBITDA quality.
- Strengthened cash conversion through reduced phasing of incremental inventory investment and improved debtors position.

QUESTIONS

Appendix

Appendix – Reconciliation of Operating to Statutory Results

$m	1HFY16	1HFY15
Operating EBITDA	**8.5**	**8.5**
Transaction Costs	(0.3)	–
Statutory EBITDA	**8.2**	**8.5**
Depreciation and Amortisation	(2.6)	(1.8)
Net Interest Expense	(1.1)	(0.8)
Statutory Profit Before Tax	**4.5**	**5.9**
Income Tax Credit	–	–
Income Tax Expense	(1.4)	(1.7)
Statutory NPAT	**3.1**	**4.2**

Commentary

- Transaction costs in FY15 relate to the MVA Acquisition completed in October 2015.
- Amortisation expense has increased due to acquisition of M4 and MVA amortisation of Identifiable Intangible Assets.
- Interest expense has increased due to additional debt levels from acquisitions (note that Banking facility requires 50% of the floating interest rate exposure to be hedged).

Appendix – Summary Income Statement

$m	1HFY16 (1)(2)	HFY15 (1)(2)	Difference to FY15
Revenue	54.4	48.4	12.3%
Gross Profit	30.5	26.8	13.8%
Gross Profit Margin	56.1%	55.4%	0.7%
Operating EBITDA	**8.5**	**8.5**	**–**
Depreciation	(1.8)	(1.5)	20.0%
Amortisation	(0.8)	(0.3)	166.6%
Operating EBIT	**5.9**	**6.7**	**(11.9%)**
Net Interest Expense	(1.1)	(0.8)	50.0%
Operating Profit before tax	**4.8**	**5.9**	**(20.3%)**
Income Tax Expense	(1.4)	(1.7)	(17.6%)
Operating NPAT	**3.4**	**4.2**	**(21.4%)**
Operating NPATA	**3.8**	**4.3**	**(11.6%)**

Commentary

- Revenue growth of 12.3% across all operating segments with an underlying organic growth of 3.5%
- Implant growth of 5.8% driven by accelerated new active surgeons, partially offset by a $0.9m impact in procedural volume decline of the top 15 surgeon group and delayed launch of Everest XT (MIS Spine)
- Capital equipment revenue growth of 21.6% was driven by the acquisition of M4 Healthcare with organic growth impacted by phasing differences in tenders and large capital sales in the corresponding period.
- Gross margin to sales ratio improved by 70bps against corresponding period as a result of procurement, pricing and product mix strategies.
- Operating expenses increased by 20.2% on the corresponding period with $0.8m of un-budgeted expenses, $1.1m relating to acquisitions and $1.4m in organic investment across sales & marketing.
- EBITDA to sales ratio was negatively impacted by 2.0% due to operating expense increase.
- Interest costs and amortisation increased due to acquisitions of M4 and MVA.
- Income tax expense offset against Deferred Tax Asset in balance sheet.

Notes:
1. Refer to reconciliation of pro forma to statutory results for details of pro forma adjustments
2. NPAT excludes transactions costs (tax adjusted)
3. NPATA excludes amortisation of specifically identifiable intangibles and transaction expenses (tax adjusted)

Appendix – Summary Balance Sheet

$m	Dec 15	Jun 15	Dec 14
Cash	0.5	6.0	0.8
Trade and Other Receivables	18.6	17.1	13.0
Inventories	35.7	30.4	28.4
Derivative Financial Assets	0.7	2.0	1.7
Investment in Joint Venture	0.4	0.4	0.4
PP&E	10.5	9.6	9.5
Deferred Tax Assets	7.0	8.3	15.0
Intangible Assets	29.1	21.6	12.7
Total Assets	**102.5**	**95.4**	**81.5**
Trade and Other Payables	16.7	18.6	11.8
Borrowings	39.5	29.6	20.8
Provisions	2.2	2.4	1.9
Current Tax Liabilities	0.9	0.9	0.1
Deferred Income	0.3	0.3	–
Derivative Financial Liabilities	0.6	0.6	0.7
Total Liabilities	**60.2**	**52.4**	**35.3**
Net Assets	**42.3**	**43.0**	**46.2**

Commentary (in comparison to June 15)

- Increase in trade and other receivables reflects the revenue growth and acquisition of MVA.
- Investment in inventory relates to implant kits for Spine and Orthopaedics.
- Derivative financial assets of $0.7m relates to market valuation on foreign exchange contracts.
- Intangible assets includes $26.1m in goodwill and $2.6m in specifically identifiable intangibles relating to acquisition of M4 and MVA.
- Increase in borrowings of $9.9m reflects $9.0 million drawn for MVA acquisition, overdraft of $1.9m at end of period and repayments of $1.0m made during the period.
- Derivative financial liabilities of $0.6 million relates to market valuation of interest rate hedges.
- Current tax liability is the current year tax payable estimate in respect of NZ earnings ($0.2m) and a tax liability relating to M4 ($0.7m) prior to acquisition. This liability was covered by cash in M4 on acquisition.

Appendix – Summary Cash Flow Statement

$m	H1FY16	H1FY15	Variance
Operating EBITDA	**8.5**	**8.5**	
Non Cash Items	0.2	0.1	
Change in Working Capital	(8.4)	(1.6)	
Operating Cash Flow Before Investing Activities	**0.3**	**7.0**	**(95%)**
Investing Activities			
Capital Expenditure	(2.4)	(2.5)	
Operating Cash Flow After Investing Activities	**(2.1)**	**4.5**	**(147%)**

Commentary

- Working capital increased as a result of:
  - Investment in inventories to support new products and growth targets for second half.
  - Increases in Accounts Receivable from growth and MVA acquisition.
  - Reduction in Accounts Payables from June 2015 peak.
- Capital expenditure of $2.4m 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 $1.0m as well as payment of a $3.2m dividend.
- No cash tax is expected be payable in Australia until sometime FY19 due to the tax cost base reset on IPO.
- As at December 2015 the ANZ facility leverage ratio (Gross Debt/EBITDA) was 2.16x.

Notes:

1. Refer to reconciliation of pro forma to statutory results for details of pro forma adjustments
2. Operating Cash Flow after Investing Activities excludes transactions costs, tax payments, borrowings, interest, and dividend payments.

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