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HEALTHSCOPE DELIVERS STRONG FULL YEAR RESULT

23 August 2016

Healthscope Limited (Healthscope) today announced its results for the full year period ended 30 June 2016 (FY16).

Highlights (continuing operations)

- Statutory NPAT up 18.9% to $182.8 million (FY15: $153.7 million)
- Group revenue up 6.2% to $2,291 million (FY15: $2,157 million)
- Group Operating EBITDA up 7.1% to $407.9 million[1] (FY15: $380.8 million)
- Group Operating NPAT up 25.1% to $194.6 million[1] (FY15: $155.6 million)
- Hospitals Operating EBITDA up 8.3% to $354.9 million[1] (FY15: $327.6 million) with margin expansion of 50 basis points
- New Zealand Pathology[2] Operating EBITDA up 21.8% to $50.7 million[1] (FY15: $41.6 million)
- Final unfranked dividend of 3.9 cents per share taking total FY16 dividends to 7.4 cents per share (up 5.7% on FY15 full year dividend of 7.0 cents per share)
- Hospital expansion program on track with three major brownfield projects completed in 2HFY16

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 have delivered an Operating NPAT of $194.6 million, a 25.1% increase on the prior corresponding period. This strong result was underpinned by the robust performance of our Hospitals and New Zealand Pathology divisions and a reduction in interest expense as a result of our post-IPO capital structure having been in place for the full financial year."

"Our Hospitals division delivered good earnings growth and margin improvement from underlying operations and successfully renewed multi-year contracts with our largest health fund partners, Bupa, Medibank and HCF, providing funding certainty for future periods."

[1] "Operating" results represent Statutory results from continuing operations adjusted for items of other income and expense of $11.8 million (net of tax) (FY15: $1.9 million) – 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 also invested capital of $440 million in growth projects, including successfully completing the first major projects within our current hospital expansion pipeline – the new state-of-the-art 284 bed Gold Coast Private Hospital (QLD) and brownfield expansions at Knox Private (VIC) and National Capital Private (ACT). These projects have alleviated some of the capacity constraints we have been experiencing in recent years and will contribute to earnings growth in FY17 and beyond as volume and case mix from the new capacity are optimised."

"Our major hospital development, Northern Beaches Hospital (NSW), is progressing extremely well and remains on schedule to open in late 2018."

"FY17 will continue to be a year of significant capital investment in our hospitals with ten construction projects currently underway and we look forward to reporting on progress throughout the period."

"The New Zealand Pathology division delivered another very strong performance with the successful implementation of a new contract that extends services to the greater Wellington region."

"Across all our businesses, growth and continuous operational improvement is a priority and I'm pleased that we were able to make further progress this year."

Segment results – Continuing operations

$m	Hospitals	Change on pcp	NZ Pathology	Change on pcp	Other	Change on pcp	Group[3]	Change on pcp
Revenue	**1,947.7**	5.1%	**222.7**	22.2%	**120.5**	(1.2)%	**2,290.9**	6.2%
Operating EBITDA	**354.9**	8.3%	**50.7**	21.8%	**28.8**	(13.7)%	**407.9**	7.1%
Operating EBIT	**281.4**	6.9%	**40.1**	28.9%	**20.0**	(13.8)%	**310.4**	6.8%
Operating net profit / (loss) after tax							**194.6**	25.1%
Non-operating expenses after tax							**(11.8)**	-
Net profit / (loss) after tax							**182.8**	18.9%
Operating EBITDA margin	**18.2%**	50bp	**22.8%**	(10)bp	**23.9%**	(350)bp	**17.8%**	10bp
Operating EBIT margin	**14.4%**	20bp	**18.0%**	90bp	**16.6%**	(240)bp	**13.5%**	10bp

Hospitals

The Hospitals division is the major contributor to Group earnings, representing 82% of Group Operating EBITDA.

Revenue growth of 5.1% was largely organic, driven by an increase in admissions, case mix changes and health fund rate increases.

Operating EBITDA increased 8.3% to $354.9 million (FY15: $327.6 million) with margin expansion of 50 basis points, reflecting on-going progress in relation to labour, procurement and revenue initiatives.

[3] Group results include corporate costs of $26.5 million

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The Company's hospital expansion program remains on track with seven projects completed during the year delivering 163 additional beds and nine additional operating theatres. A further ten projects across Victoria, New South Wales, Queensland and the Northern Territory are currently under construction and are expected to deliver 762 beds and 43 operating theatres by the end of FY19.

Hunter Valley Private Hospital and La Trobe Private Hospital were also added to Healthscope's portfolio in FY16 expanding the Company's footprint in Australia.

New Zealand Pathology

The New Zealand Pathology division contributed 12% of Operating EBITDA and continued its track record of strong growth, with revenue increasing 22.2% to $222.7 million (FY15: $182.2 million) and Operating EBITDA increasing 21.8% to $50.7m (FY15: $41.6 million). This growth was largely driven by the successful implementation of a new pathology services contract in the greater Wellington region with Healthscope providing services to the region from July 2015.

Other

Healthscope's pathology operations in Malaysia and Singapore and medical centre operations in Australia collectively contributed 6% of Group Operating EBITDA. The performance of the Malaysian pathology and medical centre operations continued to be impacted by challenging market conditions however the Singapore pathology operations delivered strong organic growth, resulting from further penetration of the specialist and commercial markets.

Capital expenditure

Capital expenditure increased to $523.4 million for the year (FY15: $352.5 million) with $440 million invested in growth projects, including nine major hospital expansion developments.

The FY16 depreciation and amortisation expense increased to $97.5 million (FY15: $89.8 million) largely reflecting the three major hospital development projects which were completed during the second half of the year.

Cash flow and balance sheet

Operating cash flow remained robust at $391.7 million (FY15: $377.6 million) and represented an Operating EBITDA to cash flow conversion ratio of 96.0%.

During the financial year, Healthscope successfully completed a refinancing of its senior debt facilities and a 10 year US$300 million US private placement note issuance to extend the Group's debt maturity profile, enhance future funding flexibility and provide further support for the Company's ongoing hospital expansion program.

As at 30 June 2016, the Group recorded a gearing ratio of 3.14 times Net Debt to Group Operating EBITDA (FY15: 2.49 times).

Final dividend

A final unfranked dividend of 3.9 cents per share will be paid on 28 September 2016 to shareholders registered on 14 September 2016. The full year dividend is 7.4 cents per share, unfranked, up 5.7% on the prior corresponding period (FY15: 7.0 cents per share).

Conclusion and outlook

In FY16, Healthscope delivered sustained growth with brownfield projects being delivered on time and operational strategies continuing to deliver margin improvements.

Whilst the industry volume growth rate moderated slightly, the location of Healthscope's brownfield capital investments in catchments of growing and ageing populations continue to lay the foundation for strong growth over the medium term.

FY17 will be another year of significant investment with ten projects under construction ensuring Healthscope is well positioned to meet future demand. Continuous improvement in the underlying operations will also remain a key focus.

Further enquiries:

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

	FY16 ($m)	FY15 ($m)
Net profit / (loss) after tax	**181.1**	**140.9**
Add back		
Discontinued operations	1.7	12.9
Net profit / (loss) after tax from continuing operations	**182.8**	**153.7**
Add back		
Non-operating expenses after tax	11.8	1.9
Operating NPAT (Operating net profit after tax)	**194.6**	**155.6**
Income tax expense	71.9	65.1
Net finance costs	43.8	70.3
Operating EBIT (Operating earnings before finance costs and income tax)	**310.4**	**291.0**
Add back		
Depreciation and amortisation	97.5	89.8
Operating EBITDA (Operating earnings before finance costs, income tax, depreciation and amortisation)	**407.9**	**380.8**

Appendix 2: Bridge of continuing operations to Group results

	FY16 statutory continuing operations ($m)	FY16 statutory discontinued operations ($m)	FY16 Group ($m)
Revenue	**2,290.9**	**3.0**	**2,293,9**
Operating EBITDA	**407.9**	**(2.4)**	**405.5**
Depreciation & amortisation	(97.5)	0.0	(97.5)
Operating EBIT	**310.4**	**(2.4)**	**308.0**
Net finance costs	(43.8)	0.0	(43.8)
Operating profit / (loss) before tax	**266.6**	**(2.4)**	**264.1**
Tax (expense) / benefit	(71.9)	0.7	(71.2)
Operating net profit / (loss) after tax	**194.6**	**(1.7)**	**192.9**
Non-operating expenses after tax	(11.8)	0.0	(11.8)
Net profit / (loss) after tax	**182.8**	**(1.7)**	**181.1**