

MARKET RELEASE

Orion Health Updates on Strategic Review, Delivers FY18 Results, Restructures for a Return to Growth

All figures in NZD

Executing on ongoing strategic review

- The Group has continued to make solid progress executing on options that have come out of the strategic review which began last year. Work on due diligence and structure is now substantially complete and documentation is well advanced. However, until any final agreement has been reached, there is no certainty that any transaction will result, or the terms of any such transactions that might transpire.

Restructure business to realign cost structure and improve operating performance

- The culmination of significant R&D investments over the last three years and the current sales activity has moved Orion Health to realign the operational cost structure of the Company and reorganise its operations into three main business units - Rhapsody™, Population Health and Hospitals.
- The Group identified and executed on removing \$10 million of costs from across the business in FY 2018. As part of the significant redesign of the operating model and the reorganisation into the three main business units in early April 2018, an additional \$30 million of costs is being removed. The majority of these cost reductions came from the Population Health business unit. The restructuring into business units is expected to significantly improve Orion Health's customer focus and speed of execution.

Financial Year 2018 performance highlights

- Operating revenue of \$170 million was at the bottom end of the FY 2018 revised guidance range of \$170 - \$173 million due to timing of a major contract near year end.
- Annualised recurring revenue increased from 46% in FY 2017 to 50% in FY 2018 as a percentage of operating revenue.
- While there was a slight increase in FY 2018 operating losses to \$40.4 million, H2 2018 was the lowest half yearly operating loss in four years at \$15.4 million.
- The Company completed the year at a record high level of accounts receivable, and combined with its bank facility, the sale of the carpark and the significant cost reduction implemented during April 2018, the Company has sufficient capital available to continue to execute on its business plan.

Auckland - Tuesday 29 May 2018 - Orion Health (NZX:OHE) today delivered its Financial Year 2018 Results, an update on the strategic review and outlined the reorganisation of the Company to focus on three business units.

The Group has continued to make solid progress executing on options that have come out of the strategic review which began last year. Work on due diligence and structure is now substantially complete and documentation is well advanced. However, until any final agreement has been reached, there is no certainty that any transaction will result, or the terms of any such transactions that might transpire.

Operating revenue of \$170 million was at the low end of the FY 2018 revised guidance range of \$170 million to \$173 million, due to timing of a major contract near year end. Annualised recurring revenue continued to increase from 46% in FY 2017 to 50% in FY 2018 reflecting a shift amongst the healthcare sector to migrate their systems to the cloud.

There was a slight increase in FY 2018 operating losses to \$40.4 million, however the second half of the 2018 financial year was the lowest half yearly operating loss in four years, consistent with the Company's ongoing focus on driving a long term sustainable, profitable business model. Operating expenses have continued to trend downward three years running, with an 8% reduction from FY 2017.

The projected revenue pipeline, a material reduction in the Group's costs, the return of receivables to a normalised level, a contracted sale of surplus land, and a renewed working capital facility of \$20 million with ASB, provide the Company with sufficient liquidity to execute on its business plan in the forthcoming period.

Following strong invoicing towards the end of the financial year the accounts receivable balance was at an all-time high for year ending 31 March 2018 which is expected to be collected during the first half of FY 2019.

The culmination of significant R&D investments over the last three years and the current sales activity has moved Orion Health to realign the operational cost structure of the Company and reorganise its operations into three main business units - Rhapsody™, Population Health and Hospitals.

The Company has aligned its solutions to its greatest market opportunities and leveraged the recent product investments in its cloud platform and newly completed solutions and services. Orion Health strongly believes this reorganisation will allow it to better work with customers and increase accountability of its global and regional teams and subsequent performance. The Group will report by the three business units in FY 2019.

The Group removed \$10 million of costs in FY 2018 as part of the significant redesign of the operating model. With the reorganisation into the three main business units in early April 2018, an additional \$30 million of costs has been removed. The Company now provides

higher levels of customer service and support, at significantly lower operational costs and improving operating margins, while not jeopardising delivery capability or future scale.

“Building a world-class product and a foundation of loyal customers in a complex sector, Orion Health has significant opportunity in a global market,” said Ian McCrae, Founder and Chief Executive Officer. “It took 20 years to achieve \$100 million in revenue and four subsequent years to double it. The resulting material growth in R&D and selling costs, which has impacted Orion Health’s operating performance over the last few years is now abating, and we are well positioned for FY 2019 and beyond.”

Each of the three business units represent significant potential for the Group and are set up for growth in FY 2019 with a dedicated and focused management team. Profitable as a standalone business, Rhapsody is an established integration engine with significant upside in the U.S., and recent growth in the EMEA and APAC regions. While still in an investment phase, the Population Health business unit continues to represent a sizeable growth opportunity for the Company using data analytics and machine learning models to drive precision medicine. The Hospitals business unit is approaching profitability and focuses on markets outside of the U.S. with proven solutions which provide clinicians and administrators with the best single view of a patient’s record.

“We are realigning the business for stronger future growth, focusing on the three business units where we see the most potential. Fundamentally, this focus sets up a better organisational structure moving forward and will achieve greater agility, accountability and performance,” said McCrae.

The last financial year saw Rhapsody generate \$55 million in operating revenue and \$27 million operating profit before corporate overhead, with 46% recurring revenue. The other two business units, Population Health and Hospitals combined have total operating revenues of \$115 million with 52% recurring revenue and an operating loss of \$45 million in FY 2018 as a result of the substantial investment in R&D. In FY 2019, the two businesses will report separately when exact allocations and contributions have been finalised.

FY 2018 Estimated Revenue and Operating Profit/(Loss) Allocation by Business Unit

	Rhapsody	Population Health & Hospitals	Unallocated Corporate Overhead (1)	Total per Financial Statements
Operating Revenue	55	115		170
Operating Profit/(Loss)	27	(45)	(22)	(40)

Rhapsody, Population Health, Hospitals and Corporate Overhead are unaudited

(1) R&D allocated to the business units and corporate overhead (including Finance, Legal, HR, Board) unallocated

Highlights from the Rhapsody business include:

- Striking an important relationship with the Department of Health and Human Services (DHHS) in Victoria Australia to run across the DHHS and 15 of its public health agencies
- Deploying Rhapsody for Integrated Health Information Systems (IHIS), the health technology agency for the Singapore Ministry of Health to support over 50,000 users across eight public hospitals and 18 polyclinics
- Successfully completing a complex project for Nottingham University Hospitals NHS Trust in the U.K to switch integration engines on budget, and with no disruption to services
- Rhapsody-as-a-Service (RaaS), as a cloud offering launched following a migration to Amazon Web Services (AWS) with the first go-live deployed at University of Louisville Hospital in Kentucky, U.S.

The Population Health business represents the largest growth opportunity for the Group and has had the majority of R&D investment over the last few years. Despite significant setbacks in the last year with the attrition of customers in the U.S. who have lost government funding, Population Health continues to represent a sizeable growth opportunity for Orion Health. Recently completing a considerable R&D milestone to migrate its Population Health suite to the cloud, the Population Health business unit is beginning to improve operating margins.

The restructure of the global business has helped to reposition Population Health and align revenue opportunity with costs to the business. A majority of the \$30 million annual cost reduction associated with the restructure impacted the Population Health business as a result of the completion of a number of customer R&D commitments and the migration of customers to AWS, allowing the business to deliver higher levels of customer service at lower operational costs.

Responsive to the changes in the U.S. and capitalising on the global growth potential, the Population Health business unit is regaining momentum, striking important deals with top healthcare organisations. Highlights include:

- Horizon Blue Shield of New Jersey, a major Payer organisation in the U.S., has achieved 'go-live' status
- Coordinate solution being deployed in St. Vincent's HealthCare in Florida, with a network of acute-care hospitals, nursing facilities, 30+ primary care centres, medical laboratories, and other services
- A key strategic partnership with The Koble Group, a Minnesota organisation, for the Iowa Health Information Network helping to create a multi-state Health Information Exchange using Orion Health's Amadeus platform

- A significant increase in operating revenue in Canada as a result of deals in the Population Health business.

The Hospitals business unit showed strong potential in FY 2018 with the APAC region generating \$23 million in operating revenue for the business. The UK and Ireland are also a core focus for the Hospitals business unit. Highlights include:

- Deployments in both the North and West of Scotland bringing Orion Health's solutions to 10 of 14 Boards, which serve millions of patients across Scotland
- In a first of its kind for New Zealand, a region-wide patient information system pioneered by the South Island Patient Information Care System (SI PICS) which shares records across District Health Boards
- The development of an integrated digital care record between NHS Doncaster CCG and Orion Health to support people at home, preventing unnecessary visits to hospital. In just seven months hundreds of patients were diverted from hospital admissions helping to ease pressure on the hospital system
- Asian Hospital and Medical Center in the Philippines delivered further clinical functionality and improved patient experience across 145 clinics and 1000 medical professionals.

Ends

Documents released today related to the FY 2018 Results:

- OHE Market Release
- OHE FY 2018 Financial Statements
- OHE FY 2018 Investor Presentation
- OHE Appendix 1

About Orion Health

Orion Health (NZX:OHE) is a health technology company that provides solutions which enable healthcare to over 110 million patients globally. Its open technology platform, Orion Health Amadeus, seamlessly integrates all forms of relevant data to enable population and personalised healthcare around the world. The company is committed to continual innovation to cement its position at the forefront of precision medicine. For more information visit www.orionhealth.com.

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