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Healthscope announces interim results for period 12 October 2010 to 31 December 2010

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Healthscope Notes today announced interim results for the Healthscope Group for the period 12 October 2010 (being the date on which Healthscope Ltd and its subsidiaries were acquired by funds advised and managed by Carlyle and TPG) to 31 December 2010.

Financial results for the interim period include:

- Revenue of $435.1 million;
- EBITDA before non-recurring items of $63.2 million;
- Non-recurring items (NRIs) of $77.2 million;
- Net loss after tax and NRIs of $57.3 million;
- Cash flows from operations (before NRIs) of $50.7 million.

These results reflect a solid operating performance after allowing for significant non-recurring items incurred in relation to the acquisition of Healthscope Ltd.

In November 2010, Robert Cooke commenced as Managing Director and Executive Chairman of Healthscope. In commenting on the results, Mr Cooke said "Our results for the interim period under new ownership were in line with expectations."

In relation to his first few months at Healthscope, Mr Cooke said "The new management team has really hit the ground running, starting with a thorough review of all aspects of Healthscope's business.

"A review of corporate functions is almost complete, with a particular emphasis on how the corporate office can better support our hospitals, pathology and medical centre operations.

"We have started to build on the existing high quality Healthscope team, with six key senior management appointments already completed."

In commenting on priorities for the Hospitals business, Mr Cooke said "Health funding is critical to our business, and we have begun the process of building stronger, more collaborative relationships with health funds as well as the Government.

"With many of our hospitals operating at close to capacity, there is a necessity to expand our existing facilities and look to new facilities in order to meet the strong demand for private hospital services. A detailed assessment of all brownfield and greenfield opportunities is underway, with the objective of prioritising, and where possible, fast-tracking, projects."

In relation to the Pathology division, Mr Cooke said "Much time has been spent on developing the strategy for the Australian Pathology division given the current funding pressures and competitive landscape. The best way to grow the pathology business is to concentrate on a quality value proposition, rather than growth for growth's sake.

"The acquisition of Australian Diagnostics Group (ADG) in January is consistent with this strategy. This business brings high quality senior executives, marketing staff, as well a number of the nation's leading pathologists, which when combined with the existing Healthscope team will create a stronger platform to move forward."

Divisional results

In considering the results of both the Hospitals and Pathology divisions it is important to note the reported trading period (12 October 2010 to 31 December 2010) includes the seasonally weaker month of December, which each year is impacted by the Christmas and holiday period.

Revenue in the Hospitals division was driven by continued strong demand and the completion of a number of brownfield projects. Since 1 July 2010, brownfield projects at Knox, Nepean, Prince of Wales, Pine Rivers, the Geelong Clinic and Geelong Private, have delivered 93 new beds and four new operating theatres. Profitability was underpinned by revenue growth and continued emphasis on cost control.

Pathology Australia revenue was driven by volume from new collection centres opened following deregulation, and organic growth. The margin is skewed in the reported trading period due to the inclusion of December, a month where margins are traditionally in the low single digit range. Margins were further impacted by the fee cut implemented in November 2009 and the increase in costs associated with opening new collection centres.

The International Pathology businesses in New Zealand, Singapore and Malaysia performed strongly during the period.

Non-recurring items

Non-recurring items of $77.2 million (before tax) consist of acquisition costs of $71.9 million and restructuring and legal costs of $5.3 million (also largely acquisition related). The acquisition costs relate to the acquisition of Healthscope Ltd, and largely comprise adviser and other associated costs.

Cashflow and balance sheet

Cash flows from operations (before NRIs) was $50.7 million during the reported trading period. Cash flows from operations (after NRIs) was an outflow of $26.4 million due to the cash outflows associated with the non-recurring items referred to above.

Healthscope Group had net debt of $1,435.3 million as at 31 December 2010.[1]

As at 31 December 2010 the Healthscope Group was meeting all of its banking covenants.

Further enquiries:

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Note 1: Background

Healthscope Notes Limited was incorporated on 8 November 2010 as a special purpose vehicle to issue publicly listed debt instruments and on-lend the net proceeds raised from the issue of the debt instruments to Healthscope Finance Pty Ltd, a member of the Healthscope Group. As a result of its listing on the ASX, Healthscope Notes Limited is required to lodge annual and half yearly financial reports in accordance with the ASX Listing Rules and the Corporations Act. In addition, it will lodge with the ASX annual and half yearly financial reports for the Healthscope Group, which aggregate the financial performance, the financial position and the cash flows of:

- APHG Holdings 2 Pty. Ltd ACN 146 342 832 and its controlled entities;
- APHG No 2 Holdings 2 Pty Ltd ACN 146 342 832 and its controlled entities; and
- CT HSP Holdings (Dutch) B.V. registration no. 34308383 and its controlled entities;

(together the 'Healthscope Group') to provide the holders of Healthscope Notes with an understanding of the financial position of the Healthscope Group, which was referred to in Healthscope Notes Ltd's prospectus dated 24 November 2010 as the 'Security Group'.

[1] Net debt calculation excludes unsecured loans from related parties and securitised receivables (which are off balance sheet). The loan establishment fees paid are also excluded