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Healthscope Notes announces results for statutory period 12 October 2010 to 30 June 2011

Healthscope Notes today announced results for the Healthscope Group for the statutory period 12 October 2010 to 30 June 2011 (12 October 2010 being the date on which Healthscope Ltd and its subsidiaries were acquired by funds advised and managed by Carlyle and TPG).

Financial results for the statutory period include:

- Revenue of $1,429.3 million;
- EBITDA before non-recurring items of $201.9 million;
- Non-recurring items (NRIs) of $116.3 million;
- Net loss after tax and NRIs of $64.4 million;
- Cash flows from operations (before NRIs) of $190.9 million.
- EBITDA cash conversion of 94.6%

The overall solid operating result reflects good performances from the Hospitals and International Pathology divisions, and a disappointing result from Australian Pathology due to the challenging industry conditions impacting this business.

In commenting on the operating results for the period, the Managing Director and Executive Chairman of Healthscope, Mr Robert Cooke, said “After allowing for the significant non-recurring items, the underlying operating results were robust with Hospitals and International Pathology delivering pleasing results.

In commenting on the Hospitals division, Mr Cooke said “the positive industry dynamics and the completion of a number of brownfield projects underpinned revenue during the period. Margins have improved reflecting the higher incremental margins from brownfield projects.

“A key focus in the hospitals division has been reviewing and prioritising brownfield and greenfield opportunities to ensure we are optimally positioned to meet the increasing demand for private hospital services that is expected going forward,” Mr Cooke said.

“In relation to the Australian Pathology division, Mr Cooke said “The results for Australian Pathology reflect the significant cost pressures facing this business from the expanded collection centre footprint and competitive forces. This division was restructured during the period to better reflect the changed operating environment, whilst ensuring the highest levels of service and quality are maintained.”

“Following the restructure, the Australian Pathology division is better positioned to compete effectively, and combined with the greater funding certainty provided by the new funding agreement, we should start to see some stability return to this business," Mr Cooke commented.

In reflecting on other areas of focus during the period Mr Cooke said, "The strengthening of the management team is largely complete with a number of further key appointments and movements taking place in recent months. I am now very confident the management team has the experience, skill and motivation to drive the business to the next level.

"The review of corporate functions has been very successful, with feedback from the sites indicating that the corporate office is now working more closely and effectively with the sites in providing critical support functions.

"The importance of relationships in healthcare cannot be overstated and significant time and effort has gone into strengthening relationships with key stakeholders such as doctors, as well as the Government and health funds. We are already starting to see tangible benefits from working collaboratively with these parties," Mr Cooke said.

Divisional results

Revenue in the Hospitals division was driven by favourable industry dynamics supporting organic growth, and the contribution from a number of recently completed brownfield projects. Since 1 July 2010, brownfield projects at Knox, Nepean, Prince of Wales, Pine Rivers, the Geelong Clinic, Geelong Private, Newcastle, Hobart and Norwest have delivered 173 new beds and 11 new operating theatres.

Profitability was underpinned by the solid revenue result at site level. The incremental contribution from brownfield projects also positively contributed to margin.

Pathology Australia continued its trend of revenue growth driven by the increased number of collection centres, and indications of a return to more normalised levels of market growth. However, profitability and margins were negatively impacted by the higher cost base following the collection centre rollout and the aggressive competitive landscape which has significantly increased rents and labour costs.

In light of the changed industry environment, a restructure of the Australian Pathology division has recently been completed to better position this business for the longer term. This involved the consolidation of some sites to allow resources to be focussed on providing quality services at larger and more efficient sites. Investment in the business is continuing reflecting Healthscope's commitment to quality and service, with a new purpose built laboratory to open in Bella Vista (New South Wales) in October 2011, and an upgrade to systems across the business is currently underway.

Medical Centres (reported as part of Pathology Australia) is implementing its strategy to focus on larger centres. An example of this is the new centre opened at Bundall on the Gold Coast during the period, which was the amalgamation of 4 smaller centres.

International Pathology's strong performance continued, in particularly the New Zealand and Singapore businesses which posted very strong results.

Non-recurring items

Non-recurring items of $116.3 million (before tax) consist of acquisition costs of $81.6 million and restructuring and legal costs of $34.7 million (relating primarily to the restructure of Healthscope and its subsidiaries and including the recent pathology restructure). The acquisition costs comprise largely of adviser and other associated costs.

Cashflow and balance sheet

Cash flows from operations (before NRIs) was $190.9 million for the statutory period. Cash flows from operations (after NRIs) was an outflow of $2.0 million due to the cash outflows associated with the non-recurring items referred to above and interest and tax payments. EBITDA to cash flow conversion for the statutory period (after adjusting for NRIs) was 94.6%.

Healthscope Group had net debt of $1,554.7 million as at 30 June 2011.[1]

As at 30 June 2011 the Healthscope Group was in full compliance with all of its banking covenants.

Healthscope Notes FY12 Interest Payment Dates

Healthscope Notes advises the following dates relevant to interest payments for FY12.

Interest Payments	Ex Date	Record Date	Actual Payment Date*
September 2011	12 September 2011	16 September 2011	26 September 2011
December 2011	12 December 2011	16 December 2011	28 December 2011
March 2012	9 March 2012	16 March 2012	26 March 2012
June 2012	8 June 2012	15 June 2012	25 June 2012

* Actual interest payment dates are provided which take into account where the Interest Payment Date prescribed in the Terms of Issue falls on a day when Victorian banks are not open for business, in which case interest payments will be made on the next day on which those banks are open for business.

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-lent 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