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Healthscope announces interim results for six months ending 31 December 2011

Friday, 24 February 2012

Healthscope Notes today announced interim results for the Healthscope Group for the six month period ending 31 December 2011.

Financial results for the period include:

- Revenue of $1,058.3 million;
- EBITDA before restructure and acquisition costs of $151.4 million;
- Restructure and acquisition costs totalled $4.4 million;
- Net profit after tax of $10.0 million;[(1)]
- Cash flows from operations of $155.9 million;
- EBITDA cash conversion of 103%.

(1) Including restructure and acquisition costs.

The Group result was driven by strong results from the Hospitals, International Pathology and Medical Centre divisions. The Australian Pathology division results reflect the challenged Australian Pathology market over the past 12 months.

In commenting on the interim result, Healthscope's Managing Director, Mr Robert Cooke, said "Healthscope has today announced a solid result. Within the portfolio, the strong momentum in the Hospitals and International Pathology divisions continued and Medical Centres delivered a much improved result. The Australian Pathology division continues to be impacted by significant cost pressures following deregulation.

In reflecting on the industry fundamentals, Mr Cooke said "Private hospitals continue to enjoy strong trading conditions due to favourable demographics, stable private health insurance membership, and a public hospital system operating at capacity. The recent support for legislation to means test the private health insurance rebate is a disappointing development which will serve to create uncertainty in the sector.

In commenting on the performance of Healthscope's Hospitals during the period, Mr Cooke said "In terms of revenue, Healthscope's hospitals have continued to benefit from the strong demand and the recent renewal of major health fund contracts. Margins continue to grow with good progress being made on labour controls, KPI reporting and benchmarking.

"A number of brownfield projects were successfully completed during the period and Healthscope's future brownfield pipeline remains strong with new opportunities constantly being identified and assessed. Recognising the importance of expanding bed and theatre capacity, we have accelerated the master plans at a number of major sites and have also increased the size of our brownfields team.

"On 22 February 2012, Healthscope and Queensland Health announced they had finalised negotiations for a new large-scale private hospital to be co-located with the new public hospital on the Gold Coast. This exciting new greenfield development is expected to open in

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2015, and will have over 230 beds, with the capacity to increase to 350 beds based on future demand.

Turning to Australian Pathology, Mr Cooke said "Whilst industry growth has started to stablise and the new agreement with the Government provides some pricing certainty, the industry continues to experience cost base issues following the significant expansion in collection centre numbers following deregulation.

"Healthscope's Australian Pathology division continued to grow revenue but this was more than offset by the significant costs associated with new collection centres opened in response to deregulation and increased competition. Healthscope only intends to pursue profitable growth and as such has closed 58 collection centres during the period, and also divested its small Tasmanian pathology operations. Healthscope will continue to work to ensure that this business improves its profitability and continues to provide high quality services to its patients," Mr Cooke said.

In relation to Healthscope's other businesses, Mr Cooke said "Healthscope's Medical Centres division continued to grow and improve margins during the period. We consolidated and expanded a number of centres and are broadening the services offered at our medical centres so we can provide a complete medical solution.

"The International Pathology division delivered another strong result, particularly in New Zealand and Singapore. We have been particularly pleased with the progress of our Asian pathology business in recent years, and this now provides a strong platform to explore other healthcare opportunities in Asia.

In commenting on corporate initiatives during the period, Mr Cooke said "Reflecting our commitment to a market leading position in relation to quality and clinical outcomes, we now report key clinical KPIs through the My Healthscope website. This move was an industry first and has been very well received by clinicians and is just one example of Healthscope building better relationships with our patients and the medical community."

Divisional results

Hospitals

Hospitals revenue was underpinned by increasing demand and the impact of brownfield projects completed in recent periods. Whilst global macro uncertainty has seen a slight softening in self-pay and truly elective procedures, demand for private hospital services remains strong.

Since 30 June 2011, brownfield projects at Brisbane Waters, Norwest, Pine Rivers, The Melbourne Clinic and Northpark were completed, delivering 112 new beds and 2 operating theatres to Healthscope's portfolio with the benefits from these projects to flow through in coming periods.

The benefits of a strengthened management team are delivering margin improvement driven by tight cost control in particular around labour management and consumables, and the benefits of scale. In addition, new procurement arrangements are currently being rolled out in relation to major expenditure items.

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Australian Pathology

Revenue growth was delivered through a return to more normalised market growth, spread across the increased number of collection centres following deregulation. However, the expanded collection centre footprint increased the cost base in particularly in relation to rent and labour, impacting margins and profitability.

Medical Centres

Medical Centres reported pleasing revenue and margin uplift during the period, as the division continues to reposition itself to focus on larger centres with greater service offering. During the period three medical centres were expanded / relocated in line with this business model. New services such as travel medicine and chronic disease management are being rolled out at a number of centres, providing a one stop healthcare solution for local communities.

International Pathology

International Pathology reported another strong result, in particularly in New Zealand and Singapore. In New Zealand, operational efficiencies continued to be realised in Auckland, and during the period Healthscope was awarded a new pathology contract in the Canterbury region, which will commence in 2012 and add to our already strong presence in New Zealand.

A new laboratory was opened in Singapore in May 2011, which is already leading to operational efficiencies.

Cashflow and balance sheet

Cash flows from operations was $155.9 million during the reported trading period. EBITDA to cash flow conversion for the period was 103% (after adjusting for acquisition and restucture costs).

Healthscope Group had net debt of $1,574.4 million as at 31 December 2011.[1]

As at 31 December 2011 the Healthscope Group continued to meet all of its banking covenants.

Further enquiries:

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[1] Net debt calculation excludes capitalised loan establishment fees.

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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'.

NOTE 2: RECONCILIATION TO NET PROFIT / LOSS

The following table reconciles the net profit/loss for the period to EBITDA before restructure and acquisition costs.

	Half year ended 31 December 2011 $'000	Half year ended 31 December 2010 $'000(1)
Net profit/(loss) for the period	**10,021**	**(55,661)**
Add back:		
Income tax expense/(benefit)	3,468	(17,115)
Net finance cost	92,118	43,287
Depreciation and amortisation	41,406	15,496
Earnings before finance costs, income tax depreciation and amortisation, (EBITDA)	**147,013**	**(13,993)**
Add back:		
Acquisition costs	923	71,851
Restructure and other costs	3,479	5,319
	4,402	77,170
EBITDA before restructure and acquisition costs	**151,415**	**63,177**

(1) Healthscope Limited (ACN. 006 405 152), and its controlled entities were acquired by funds advised and managed by TPG & Carlyle on 12 October 2010, hence the trading results of the former Healthscope Limited are included in the comparative from the period 12 October 2010 to 31 December 2010.

The acquisition costs largely relate to the acquisition of Healthscope Limited, and comprise adviser and other associated costs. Restructure costs relate primarily to the post-acquisition restructure of Healthscope Limited and its subsidiaries.