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Healthscope announces results for year ended 30 June 2013

28 August 2013

Healthscope Notes today announced full year results for the Healthscope Group for the period ended 30 June 2013.

Financial results for the period include:

- Revenue of $2,211.3 million, an increase of 4.5%;
- Operating EBITDA of $328.1 million[(1)], an increase of 8.3%;
- Other expenses (non-operating) of $165.6 million, comprising largely of an impairment charge in relation to Australian Pathology of $120.0 million and onerous lease charges of $37.8 million;
- Net loss after tax of $117.1 million;
- Cash inflows from operations of $311.0 million;
- EBITDA cash conversion of 95%.

(1) Excludes other expenses (non-operating) of $165.6 million

The Group result was driven by strong results from the Hospitals and International Pathology businesses, and together these two divisions represent 94% of Healthscope's EBITDA. The Australian Pathology division reported a much improved second half, reflecting the successful restructure of the Australian Pathology business.

In reflecting on the annual results, Healthscope's Executive Chairman, Mr Robert Cooke, said "The FY13 EBITDA growth of 8.3% reflects strong performances from Hospitals and International Pathology. Momentum is building across the business with all divisions recording double digit EBITDA growth in the second half compared to the prior corresponding period."

In commenting on the performance of the Hospitals division, Mr Cooke said "The Hospitals division recorded EBITDA growth of 9.2%, reflecting volume growth in line with market, and excellent progress on labour and procurement efficiencies."

"We are very excited by the strong pipeline of brownfield projects at a number of our large hospitals. Given the attractiveness and number of opportunities, investment in brownfield projects will increase in coming years. A key focus in recent months has been progressing the Development Application process for a number of key facilities."

"Healthscope's commitment to quality and safety continues to be recognised by key stakeholders. Healthscope remains the only private hospital to report key quality and safety KPIs by individual hospital, and such information is highly valued by doctors, patients and health funds alike. Healthscope has expanded the quality performance data reported on the MyHealthscope website, with four additional

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indicators added. National aggregated data shows that Healthscope's quality performance is exceptional relative to industry benchmarks," Mr Cooke said.

In commenting on the growth prospects for the private hospital industry, Mr Cooke said "Industry fundamentals remain strong, underpinned by an ageing population. We are also very encouraged by the continuing strong levels of private health insurance membership despite the changes to the Government rebate, and the increasing support of State Governments for private sector involvement in the delivery of public hospital services."

In relation to the International Pathology division, Mr Cooke said "Healthscope's International Pathology business continued its recent track record of delivering double digit revenue and earnings growth, and provides a platform for further expansion into South East Asia."

Turning to Australian Pathology, Mr Cooke said "Whilst on face value the result is disappointing, this business has now turned the corner and we are pleased with the progress that has been made. The results of the successful restructure of the Australian Pathology business became evident in the second half, and was the key driver of the improved earnings performance in 2H13."

"Medical Centres also reported an improved second half, to deliver solid revenue and earnings growth for the year."

In summarising Healthscope's recent performance, Mr Cooke said "I am very pleased with the progress that has been made across Healthscope's businesses since the change in ownership in October 2010. The FY13 result clearly demonstrates financial performance is gaining momentum, and a strong and tangible growth pipeline is in place."

"Furthermore, healthcare is all about relationships, and significant effort has gone into assembling a stable and experienced management team, and building value-adding relationships with doctors, staff, health funds and other key stakeholders, which provides a very strong platform moving forward," Mr Cooke said.

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Group results

	FY13 $m	FY12 $m	Movement %
Revenue	2,211.3	2,115.8	4.5%
EBITDA (1)	328.1	303.0	8.3%
Depreciation	(92.0)	(84.7)	-8.6%
EBIT (1)	236.1	218.3	8.1%
Other expenses (refer note 1)	(165.6)	(10.6)	n/a
Net finance costs	(185.2)	(185.6)	0.2%
Profit / (loss) before tax	(114.7)	22.1	n/a
Tax	(2.4)	(6.6)	63.6%
Net profit / (loss) after tax	(117.1)	15.5	n/a
EBITDA margin %	*14.8%*	*14.3%*	*+50bp*
EBIT margin %	*10.7%*	*10.3%*	*+40bp*

(1) Operating EBITDA and Operating EBIT excludes other expenses (non-operating) of $165.6 million. EBITDA and EBIT excluding operating expenses (Operating EBITDA and Operating EBIT) is presented as it provides an understanding of the underlying trading performance of the business

The Healthscope Group recorded revenue growth of 4.5% to $2,211.3 million in FY13, driven by the Hospitals and International Pathology divisions. EBITDA increased by 8.3% to $328.1 million, driven by solid growth in earnings from the Hospitals and Pathology International divisions, partly offset by a decrease in EBITDA from Australian Pathology.

Note 1: Other expenses (non-operating)

	FY13 $m	FY12 $m
Profit on sale of operations	4.6	-
Onerous leases and related costs	(37.8)	-
Restructure and other costs	(12.4)	(10.6)
Impairment of goodwill - Australian Pathology	(120.0)	-
Total other expenses	**(165.6)**	**(10.6)**

Impairment of Goodwill – Australian Pathology

As reported in the 1H13 results, in line with AASB 136 Impairment of Assets, the Healthscope Group recorded an impairment charge of $120.0 million in 1H13 in respect to Australian Pathology. As at 30 June 2012, the NSW, QLD and WA pathology assets were subject to sale agreements with Sonic Healthcare, and as such impairment testing was completed using the fair value less costs to sell method based on the expected proceeds from the divestments. However, given the sale of the NSW and QLD assets did not proceed as at 31 December 2012 these assets were assessed using the 'value in use' method for the purposes of impairment testing. The carrying value of Australian Pathology's assets as at 31 December 2012 exceeded its value in use by $120.0 million, which was recognised as an impairment of goodwill. This impairment charge is a non cash item and has no impact on the Group's syndicated debt facility or banking covenant ratios.

Onerous lease and related costs

Due to the planned re-location to the Gold Coast Private Hospital, the Group recognised certain property lease contracts as having contractual obligations greater than the economic benefits expected to be received from the contracts. The restructuring of the Australian Pathology business has also given rise to additional onerous contracts resulting from excess capacity.

Divisional results

Hospitals

	FY13 $m	FY12 $m	Movement %
Revenue	1,660.3	1,584.2	4.8%
EBITDA	275.8	252.5	9.2%
EBITDA margin %(1)	*16.6%*	*15.9%*	*+70bp*

(1)EBITDA margin includes prosthetics revenue and costs

The Hospitals division recorded solid revenue growth through a combination of volume and casemix. Excluding the impact of the discontinued diagnostic imaging businesses, revenue growth in FY13 was 5.5%. Acute hospitals delivered strong growth in FY13, with the majority of large acute hospitals delivering double digit earnings growth. Psychiatric hospitals also delivered strong revenue growth, partly reflecting the recently completed brownfield projects.

Labour and procurement initiatives continued to deliver efficiencies, with significant improvement in key KPIs achieved in recent years.

55 new overnight beds were opened in FY13, predominantly at psychiatric and rehabilitation hospitals. A number of other refurbishment projects were completed, and expansion at Norwest continued, with new day surgery theatres and additional ICU beds opened in FY13.

The strong brownfields pipeline that has been developed over the last three years includes a number of significant projects at large acute hospitals. Progress continues to be made on securing Development Applications (DAs) for these projects.

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Australian Pathology

	FY13 $m	FY12 $m	Movement %
Revenue	360.5	364.6	-1.1%
EBITDA	20.0	23.4	-14.5%
EBITDA margin %	*5.5%*	*6.4%*	*-90bp*

Australian Pathology revenue decreased in FY13, largely as a result of divested operations. Divestments included the human pathology operations in Western Australia, ACT and Wollongong (New South Wales) and the veterinary pathology operations in New South Wales and Queensland. Excluding revenue from divested operations, Australian Pathology revenue growth was ~4% in FY13.

The Victorian and South Australian pathology operations performed steadily with FY13 results largely in line with the prior year.

The overall performance of Australian Pathology was impacted by the underperformance of the Queensland and New South Wales operations in the first half of FY13. Following a major restructure of the New South Wales operations to focus on providing a high quality service to Sydney and major regional areas, a significantly improved performance was delivered in 2H13.

In Queensland, a new executive and business development team are now in place, with a focus on growing market share.

Medical Centres recorded revenue growth in line with market. Focus on filling capacity at existing centres and cost management continued.

International Pathology

	FY13 $m	FY12 $m	Movement %
Revenue	190.6	167.0	14.1%
EBITDA	44.5	38.7	15.0%
EBITDA margin %	*23.3%*	*23.1%*	*+20bp*

International Pathology reported another strong result driven by New Zealand and Singapore.

In New Zealand, strong revenue growth, which was partly driven by the annualisation of the Christchurch contract and Medlab South acquisition, combined with further cost efficiencies, delivered strong earnings growth.

Solid revenue growth in Singapore was driven by volume and casemix.

The Malaysian business was impacted by a softening in market volumes due to a reduction in foreign worker screening following completion of the Government amnesty program, but costs were well contained.

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Cashflow and balance sheet

Healthscope recorded cash flows from operations in FY13 of $311.0 million, which compares to $301.4 million in the prior year. The Group continued its strong cash generation performance with EBITDA to cash flow conversion for the period at 95%.

In March 2013, Healthscope completed the successful issue of Healthscope Subordinated Notes II, raising $305 million, with a maturity date of 25 March 2018.

The Healthscope Group had a net debt position of $1,575.6 million as at 30 June 2013, with a gearing ratio (net debt / net debt + equity) of 62%.[1]

The Total Leverage Ratio as at 30 June 2013 is 4.7.

Covenants

As at 30 June 2013 the Healthscope Group continued to meet all of its covenants.

Banking covenants June 2013:

Covenant	Actual Covenant Jun-13	Covenant limit Jun-13 quarter
Senior Gearing Ratio (Debt / EBITDA)	3.20X	<4.45X
Debt Service Cover Ratio	1.25X	>1.05X
Interest Cover Ratio (EBITDA / Net Interest Expense)	1.89X	>1.65X

Healthscope Notes I and II - FY14 Interest Payment Dates

Interest Payments	Ex Date	Record Date	Actual Payment Date*
September 2013	11 September 2013	17 September 2013	25 September 2013
December 2013	11 December 2013	17 December 2013	27 December 2013
March 2014	11 March 2014	17 March 2014	25 March 2014
June 2014	11 June 2014	17 June 2014	25 June 2014

* 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. Interest payments will be made in accordance with the relevant Terms of Issue.

Further enquiries:

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[1] Net debt calculation excludes capitalised loan establishment fees in accordance with the definition of net debt in the Group's syndicated banking facility.

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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:

- Healthscope Hospital Holdings No. 2 Pty. Ltd ACN 145 126 094 and its controlled entities;
- Healthscope Pathology Holdings No. 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 as the 'Security Group' in Healthscope Notes Ltd's prospectuses dated 24 November 2010 and 12 March 2013.

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.

	Year ended 30 June 2013 $'000	Year ended 30 June 2012 $'000
Net profit/(loss) for the period	**(117,076)**	**15,492**
Add back:		
Income tax expense	2,366	6,643
Net finance cost	185,253	185,614
Depreciation and amortisation	91,954	84,705
Earnings before finance costs, income tax depreciation and amortisation, (EBITDA)	**162,497**	**292,454**
Add back:		
Restructure and other costs	12,415	10,592
Impairment of goodwill	120,000	-
Profit on sale of operations	(4,633)	-
Onerous leases and related costs	37,810	-
	165,592	10,592
EBITDA before other expenses (non-operational)	**328,089**	**303,046**