



Healthscope 1H14 results presentation

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Financial highlights

- Strong 1H14 result with Group EBITDA growth of 13.7%¹
- Strong Hospitals performance with EBITDA increasing by 9.8% and EBITDA margin uplift of 60bp
- International Pathology produced another excellent performance with EBITDA growth of 16.3%
- Australian Pathology much improved with EBITDA increasing by \$7.1m (or 142%)
- Very strong cashflow conversion of 109%
- Momentum is building with all businesses performing well
- Operational initiatives and strategies delivering with significant further upside
- Positioned for growth including strong brownfields project pipeline

1. Before other non-operating expenses

Operational highlights

Hospitals

- Solid organic volume growth
- Pioneering link between quality and funding by building private health fund partnerships:
 - Successful renegotiation of a number of health fund contracts - contracts and pricing agreed until September 2015 for over 80% of revenue base
- Achieving cost savings from improvements in labour management and centralised approach to procurement
- Significant growth opportunities progressing
 - Gold Coast Private Hospital (284 beds to open April 2016) under construction
 - Major brownfield projects: development applications progressing well
 - Northern Beaches Hospital: one of two short-listed parties (428 beds to open 2018)
 - Agreement to purchase Brunswick Private Hospital (128 bed rehabilitation and general medical facility¹)

Australian Pathology

- NSW restructure delivering sustainable improvement
- Other States tracking well

International Pathology

- Strong growth in New Zealand and Singapore
- Recovery in volumes in Malaysia
- Diagnostic Medlab acquisition from Sonic in NZ – October 2013
- Extension of Auckland pathology contract for an additional three years to 2020

Medical Centres

- Stable performance
- Strengthening links to other divisions and PHI funds
- Sydney Breast Clinic acquisition – December 2013

1. Subject to ACCC and other regulatory approvals

Industry highlights

- Compelling industry fundamentals continue to underpin demand for private healthcare services
- Attractive demographics – growing and ageing population
- Federal Government encouraging of private health industry
- Increasing expenditure on health goods and services – 8.3% CAGR since 2001
- Private hospitals play a key role in delivery of healthcare, accounting for approximately 66% of elective surgery in Australia
- Secure funding environment with private health insurance membership growing by number and coverage stable at 47% of population
- Negotiating power between health funds and private hospitals is balanced for large hospital groups
- Increased appetite of State Governments to work with private sector for the delivery of public health services

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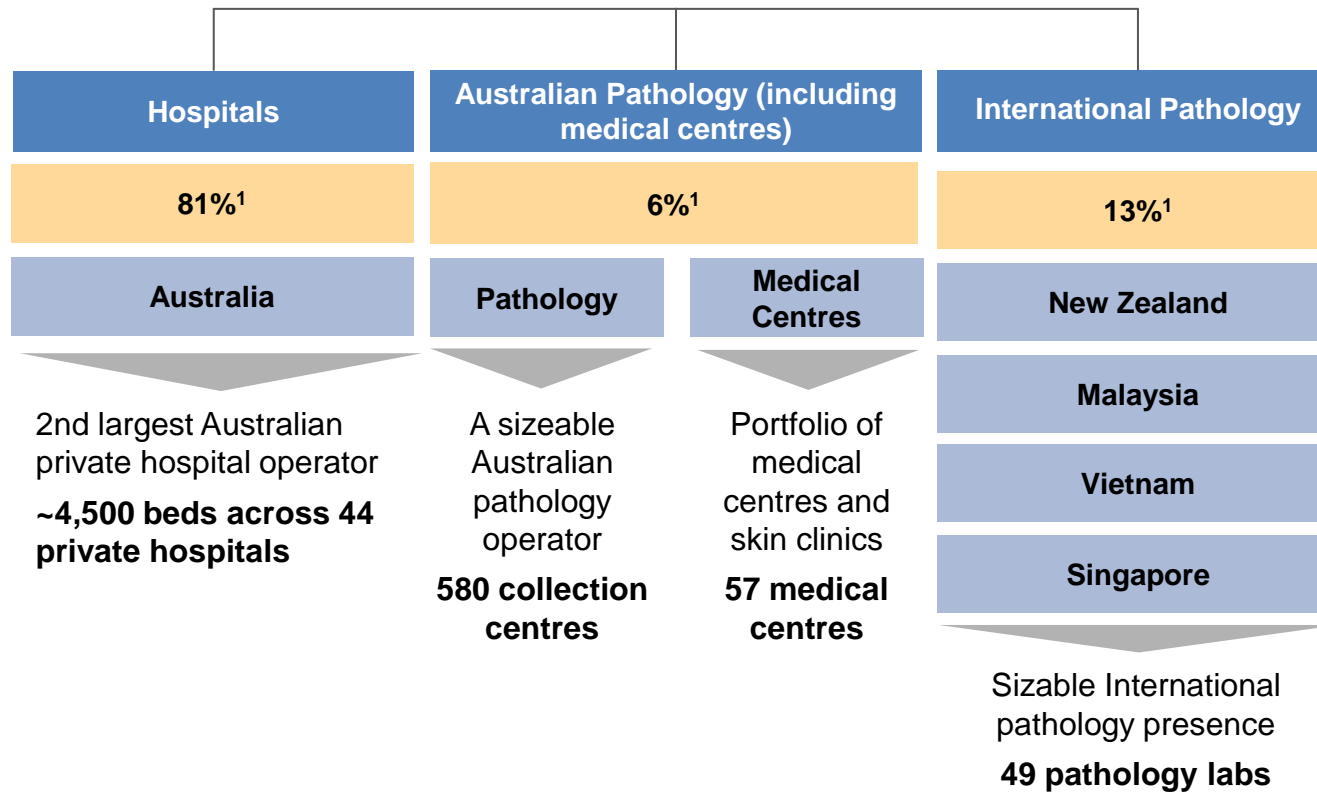
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1. Introduction



The Healthscope Group

A leading private healthcare services provider

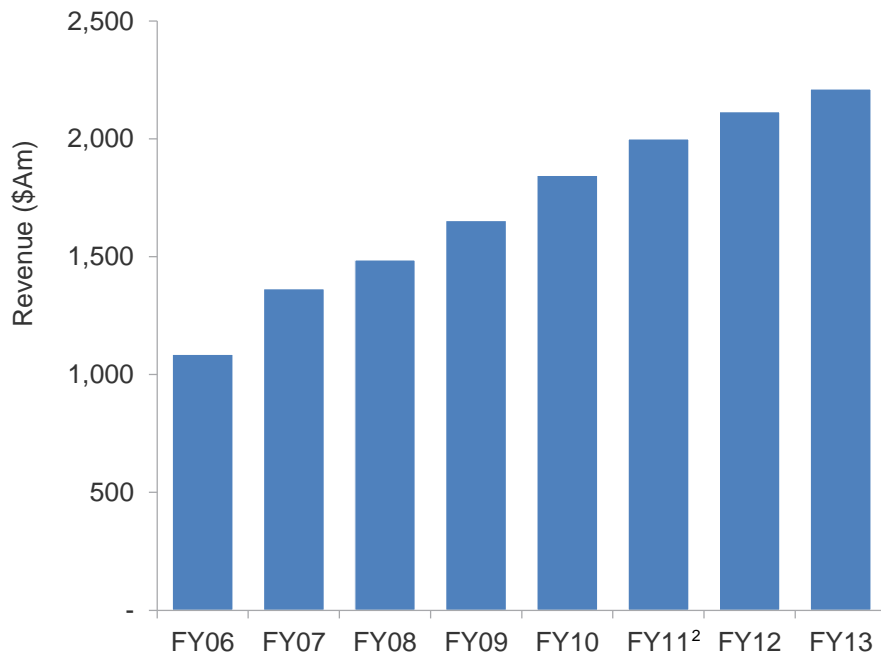


1. Based on FY13 Group Reported EBITDA

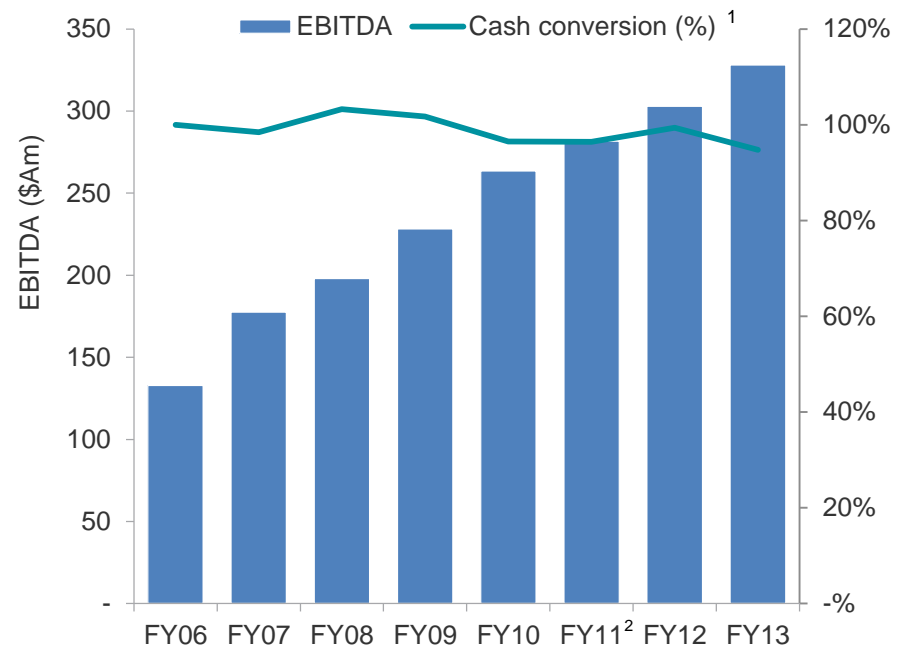
Strong track record of growth

- Strong financial performance driven by operational improvements and brownfield expansions
- Cash conversion has remained consistently at 95 per cent

FY06–FY13 revenue CAGR of 11%



FY06–FY13 EBITDA CAGR of 14%



1. Cash conversion is calculated as cash flow from operations divided by adjusted EBITDA

2. FY11 Statutory accounts reflect trading from 12 October 2010 to 30 June 2011. FY11 financials displayed are management accounts for the full 12 months for comparability

Significant progress since 2010

- Established a stable, high quality management team at corporate and operational level
- Significant progress with labour and procurement initiatives
- Greater collaboration with health funds and successful negotiation of major health fund contracts
- Launch of MyHealthscope website, making Healthscope the first Australian private hospital group to publicly disclose quality indicators at hospital level
- Delivery of 26 brownfield projects, with 304 new beds and 18 new operating theatres since October 2010
- Master plans and permits in progress for further brownfield projects
- Further development of international pathology business as a platform for expansion in Asia
- Actively exploring Asian hospital opportunities

2. 1H14 Group results



1H14 Group performance

	1H14 \$m	1H13 \$m	Movement %
Revenue	1,163.6	1,114.8	4.4%
EBITDA (1)	177.1	155.8	13.7%
Depreciation	(47.2)	(46.7)	(1.1)%
EBIT (1)	129.8	109.1	19.0%
Other expenses (refer next slide)	(6.8)	(123.3)	n/a
Net finance costs	(94.4)	(92.3)	(2.3)%
Profit / (loss) before tax	28.6	(106.5)	n/a
Tax	(7.9)	(2.9)	n/a
Net profit / (loss) after tax	20.7	(109.4)	n/a
<i>EBITDA margin %</i>	15.2%	14.0%	+120bp
<i>EBIT margin %</i>	11.2%	9.8%	+140bp

- Strong Group result driven by strong performance from Hospitals and International Pathology, and a much improved Australian Pathology result
- Revenue growth translating into strong earnings growth
- Group EBITDA margin up a further 120bp to 15.2%

1. Operating EBITDA and operating EBIT excludes other expenses (non-operating) of \$6.8 million in 1H14 and \$123.3 million in 1H13

Other expenses (non operating)

	1H14 \$m	1H13 \$m
Restructure and other costs	(6.7)	(7.5)
Onerous leases and related costs	3.8	-
Impairment of assets	(3.9)	-
Impairment of goodwill – Australian Pathology	-	(120.0) ¹
Profit on sale of operations	-	4.2
Total other expenses	(6.8)	(123.3)

- Restructure and other costs relate predominantly to Australian Pathology
- Impairment of assets relates to Brisbane Waters Private Hospital, which is subject to a sale agreement with Healthscope, conditional on ACCC and other regulatory approvals
- Onerous lease movement results from a re-assessment of the provision as a consequence of re-negotiated lease terms

1. The carrying value of Australian Pathology assets at 31 December 2012 exceeded its value in use by \$120 million

Capital structure and cash flow

Balance sheet	31-Dec-13 \$m	31-Dec-12 \$m
Total assets	3,469	3,323
Net debt		
Cash	(132)	(84)
Senior debt	1,143	1,392
Notes 1	200	200
Notes 2	305	0
Other debt	24	35
Total net debt	1,540	1,543
Net debt / net debt + equity	65%	67%

- Debt and gearing levels relatively constant
- 1H14 cashflow from operations of \$192.1 million, up from \$175.8 million in 1H13
- Very strong cashflow result with EBITDA to cash flow conversion increasing to 109%, predominately due to continued strong focus on working capital requirements

Covenants	Actual Covenant Dec-13	Covenant limit Dec-13 quarter
Senior Gearing Ratio (Debt / EBITDA)	3.20X	<4.15X
Debt Service Cover Ratio	1.40X	>1.05X
Interest Cover Ratio (EBITDA / Net Interest Expense)	1.97X	>1.80X

- As at 31 December 2013, Healthscope continued to comply with all of its banking covenants

3. 1H14 Divisional results



Hospitals 1H14 performance

	1H14 \$m	1H13 \$m	Movement %
Revenue	883.1	837.4	5.5%
EBITDA	149.5	136.2	9.8%
EBITDA margin % ¹	16.9%	16.3%	+60bp

- Strong 1H14 result with EBITDA increasing 9.8%
- Revenue growth of 5.5% largely organic with limited brownfields impact
- Solid growth across acute, psychiatric and rehabilitation
- Labour and procurement initiatives delivering with key KPIs tracking favourably
- Strong pipeline of brownfield projects for FY15 and beyond

1. EBITDA margin includes prosthetics revenue and costs

International pathology 1H14 performance

	1H14 A\$m	1H13 A\$m	Movement %
Revenue	108.0	93.7	15.2%
EBITDA	24.4	21.0	16.3%
EBITDA margin %	22.6%	22.4%	+20bp

- Strong performance predominantly driven by New Zealand and Singapore
- New Zealand
 - Revenue growth 2.9%, EBITDA growth 5.3%¹
 - Revenue growth reflective of DHB contracts – continuing to outsource pathology
 - Further cost efficiencies
 - Diagnostic Medlab acquisition – October 2013
- Singapore
 - Revenue growth 6.3%; EBITDA growth 12.3%¹
 - Robust revenue growth – volume and casemix
 - Strong cost management
- Malaysia
 - Revenue growth 2.2%; EBITDA growth -9.1%¹
 - Volume growth recovery and strong cost management
 - Result impacted by doubtful debts provision

1. Based on results in local currency

Australian Pathology 1H14 performance

	1H14 \$m	1H13 \$m	Movement %
Revenue	172.5	183.7	(6.1%)
EBITDA	12.1	5.0	142.0%
EBITDA margin %	7.0%	2.7%	+430bp

- Much improved result with 430bp improvement in EBITDA margin
- Excluding impact of divestments/closures, Australian Pathology revenue growth was 4.8%
- Cost out initiatives and focus on profitable growth is driving performance
- Restructure of NSW delivering sustainable turnaround in this state
- Medical centres growth solid with good cost management
- Government and industry representatives in discussion on tightening the regulations on commercial market rentals for collection centres
- Additional public sector outsourcing opportunities expected

4. Strategy update



Hospital strategy update

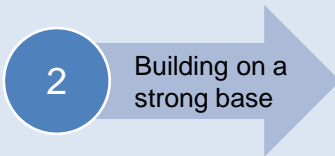
Continued opportunity for growth both operationally and through expansion

Organic



- Favourable underlying demographic trends
- Organic growth from:
 - attracting new medical professionals
 - targeting specialty growth
- Leveraging health fund partnerships
- Labour management and procurement initiatives
- Quality and stable site management teams

Brownfields



- Incremental beds and operating theatres
- Completed 26 projects since October 2010
- Strong brownfield pipeline including:
 - Knox
 - Norwest
 - National Capital
 - John Fawkner

Relocate and grow



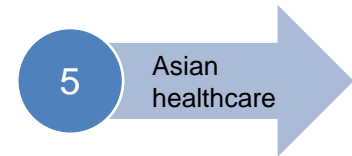
- Gold Coast Private Hospital
- Conditional agreement with Holmesglen TAFE

PPPs/Government outsourcing



- More public hospitals built, owned and operated by the private sector in the coming years (eg Northern Beaches Hospital)
- Increasing focus by government on outsourcing
- Victorian Government announced \$420m funding for public patients in private hospitals

International growth



- Platform established to facilitate Asian expansion
- Long term plan to capitalise on favourable demographics – rising middle class and growing population
- Disciplined approach to assessment of Asian expansion opportunities

Brownfields strategy - Hospitals

- Master plans in place for all facilities covering expansion plans for next 10 years
- Major developments planned at key hospitals
 - Portfolio is underdeveloped – key sites have significant growth potential
 - Close to securing permits– permits last 4 years and can be extended for further 4 years
 - Applying for maximum number of beds required under master plans
 - Will allow beds to be delivered in staged approach with no further permit applications delivering significant flexibility
- Lead time from project conception to project completion is between 2 – 4 years (Planning permit process: 6 – 12 months, Design and tender: 3 – 6 months, Construction: 6+ months)



Knox Private Hospital

Relocate and grow strategy - Hospitals

- Relocate existing facilities to new, expanded premises
- Existing doctors transfer their business to new facility and new doctors are attracted to state of the art facilities
- Low risk profile similar to brownfields

Norwest Private Hospital

- State of the art, acute hospital
- Opened in September 2009, in Sydney's north-western suburbs
- Existing operations at Hills Private Hospital seamlessly transferred
- Excellent performance: already expanded by 43 beds and further expansion planned



Gold Coast Private Hospital

- Construction commenced October 2013, scheduled to open in early 2016
- Co-located with 750 bed Gold Coast University Hospital (public)
- Will open initially with 284 beds and 13 theatres with the ability to expand to 400 beds and 20 theatres



Holmesglen Private Hospital

- In principle agreement for a new 166 bed hospital
- Partnership with Victoria's largest TAFE
- Conversion of existing conference facility, resulting in a low capital cost
- Construction expected to commence during 2015 (subject to approvals)



Expansion pipeline - Hospitals

- The strong pipeline of brownfield and 'relocate and grow' expansion projects includes (amongst others):

Site	New beds	New OT
Brownfields in progress		
The Hills	15	
Campbelltown		2
National Capital	46	2
Mount		2
Brisbane Private		1
Brownfields awaiting permits		
John Fawkner	33	2
Knox	60	
Norwest	52	5
Relocate and grow		
Gold Coast (construction commenced)	284	13
Holmesglen (conditional agreement)	166	8

Norwest



John Fawkner



International pathology strategy update

New Zealand

Continue to enhance value proposition to the District Health Boards with high quality and superior operational efficiencies

- New contract tender opportunities
- New revenue from commercial (non Government) funded revenue streams
- Further cost synergies through the operational integration of the expanded laboratory network

Singapore, Malaysia, and Vietnam

Cement market positions through enhanced service offering and greater segmental market penetration; leverage existing high quality platform for Asian expansion

- Pursue additional hospital outsourcing contracts and new screening packages for community patients
- Greater laboratory labour efficiencies through benchmarking and automation
- Procurement savings through leveraging Healthscope buying power
- Using existing knowledge and experience to actively explore Asian growth opportunities

Australian pathology and medical centres strategy update

- Continue to realise operating efficiencies across labour, automation and procurement
- Continue to deliver and improve high quality service offering
- Focus on increasing throughput at existing medical centres
- Increase number of multi-disciplinary medical centres through expansion or merger of existing centres
- Positive link to private health fund contract negotiations

5. Conclusions



FY14 key deliverables

Hospitals

- Volume growth in targeted specialties
- Further labour and procurement efficiencies
- Further leverage quality differentiator with health funds
- Secure DAs for key sites
- Progress Northern Beaches and other public opportunities

International Pathology

- Organic growth, new contracts and operating efficiencies

Australian Pathology

- Growth in line with market
- Continue tight cost control

Medical Centres

- Maximising returns from existing facilities – doctor recruitment, cost control
- Value add to health fund relationships

Conclusion

- Strong portfolio of businesses with all divisions performing well
- Industry fundamentals remain strong
- Strong 1H14 result with momentum continuing to build across all divisions
- Hospitals delivered excellent result with EBITDA margin up 60bp
- International Pathology continued its strong track record of growth
- Turnaround of Australian Pathology delivering sustained improvements and financial results
- Operational strategies are delivering, supported by strong and stable management team
- Significant and tangible growth pipeline, including brownfields