Healthscope

Healthscope Announces Strong Half-Year Results

Healthscope Limited has announced a Net Profit after tax, before Non-Recurring Items (NRI's) of $40.3 million, up 9 % over HY Dec 2007.

Strong operational performance across all divisions with double-digit revenue and EBITDA growth on last year.

1. Financials

- Total Revenue of $827.2 million, up 14% over HY Dec 2007.
- EBITDA of $111.5 million, an increase of 16%.
- Cashflow from operations of $68.6 million, up 12%, with gross operating cash flow equal to 100% of EBITDA.
- Net profit after tax before NRI's of $40.3 million up 9% on. HY Dec 2007.
- Net profit after tax after NRI's of $38.4 million ($15.7 million in HY Dec 2007).
- Committed undrawn debt capacity of $251 million available as of 31 December 2008.
- Bank Debt facility of $850 million not due to be refinanced until June 2011.
- EPS pre NRI's of 16.4 cents, an increase of 5%.
- A fully franked interim dividend of 10.5 cents per share, an increase of 10.5% on HY Dec 2007.

Operational

- Strong revenue growth across all divisions underpinned by the growth in the core hospitals segment, and significantly above market growth.
- Hospital margins up 70bps driven by strong demand and improved margins from larger metropolitan hospitals and hospitals acquired in FY2007.
- Australian Pathology operations increased market share with a growth in revenue of 15% over HY Dec 2007.
- Labtests contract for pathology in New Zealand confirmed and on track for commencement from August 2009.
- Malaysia and Singapore continue to improve margins and leverage high revenue growth.
- Hospital infrastructure projects on track with development approvals received for 4 of the projects with construction either underway or to commence shortly.

2. PERFORMANCE OVERVIEW

2.1 Group Profit and Loss

The table below summarises the group result:

	Year Half Ended 31 Dec 2008 $Millions	Half Year Ended 31 Dec 2007 $Millions	Variance %
Revenue*	827.2	726.2	13.9
EBITDA	**111.5**	**96.1**	**16.0**
Depreciation & amortisation	(24.6)	(20.9)	17.7
EBIT	86.9	75.2	15.6
Interest	(29.5)	(24.4)	20.9
Net profit before tax	57.4	50.8	13.0
Income tax expense	(17.1)	(13.7)	24.8
Net profit after tax from Continuing operations– before Non-Recurring Items	**40.3**	**37.1**	**8.6**
Non-Recurring Items after tax	(1.9)	(21.4)	-
Net profit after tax	**38.4**	**15.7**	**144.6**

***Includes Prosthetics revenue of $94.7 million (FY2007 - $83.2 m)*

2.2 Group Results – Continuing Operations - before Non-Recurring Items

The 9% improvement in the net profit after tax before NRI's resulted from strong revenue growth across all divisions and margin improvement particularly from the hospitals division.

Interest costs increased on last year as a result of the increased borrowing margins following re-financing of the Company's debt facility to June 2011.

The table below provides an analysis of the growth in EBITDA achieved in HY Dec 2008 compared with the previous year. A more detailed analysis is contained in the Review of Operations.

EBITDA – Continuing Operations	HY Dec 2008 $ Millions	HY Dec 2007 Millions	Variation %
Hospitals	91.3	79.9	14.3
Pathology	27.0	21.7	24.4
Corporate	(6.8)	(5.5)	23.6
Total-before Non-Recurring Items	**111.5**	**96.1**	**16.0**

2.3 Group Results – after Non-Recurring Items

The Net Profit after tax attributable to shareholders of $38.4 million (HYDec 2007 $15.7m) was impacted by a small number of NRI's, which cumulatively reduced the Group result by $1.9 million (net of tax). These items related to business restructure costs ($1.3m), and failed acquisition costs ($0.6m).

The prior year was impacted by a number of NRI's primarily related to costs incurred in the proposed acquisition of Symbion Health ($10.8m net of tax) and the holding costs of Healthscope's 11.9% interest in Symbion Health held under an equity swap with Goldman Sachs JBWere ($8.3m net of tax).

2.4 Earnings per Share

Earnings per share before NRI's for the half the year was 16.4 cents (15.6 cents HY Dec 2007), this being a 5% increase over the previous corresponding period. After taking to account the Non-Recurring Items the EPS was 15.6 cents (6.6 cents Dec HY2007).

2.5 Dividends

An interim dividend of 10.5 cents per share will be paid on 6 April 2009 to shareholders registered on 2 March 2009. This is a 10.5% increase over the interim dividend for HY Dec 2007. The Dividend Re-Investment Programme will be retained with shares issued under the DRP at a 2.5% discount and will be fully underwritten.

2.6 Cash Flow

Cash flow from operating activities increased to $68.6 million(last year $61.2 million). The operational cash inflows (revenue receipts less payments to suppliers and employees) were up by 11% on the prior year with continued emphasis on cash and working capital management.

Gross Operating Cash to EBITDA	$Millions
Cashflow from Operating Activities	68.6
Add back	
- Net Interest paid	23.8
- Income Tax paid	15.7
- NRI Cash Items	2.7
Total – Gross Operating Cash	**110.8**
EBITDA before NRI's	**111.5**
Ratio of Gross Operating Cash to EBITDA	**99.4%**

2.7 Capital Expenditure HY Dec 2009

Capital Expenditure PP&E	$Millions
Hospitals	33.4
Pathology	8.3
Corporate	5.2
Total	**46.9**

Capital Expenditure on property, plant and equipment of $46.9 million was $15.4 million above last year. Approximately 20% of capex related to additional beds, community houses and equipment that contributed to additional revenue with the remainder related to replacement equipment. In the half there were 3 cath labs replaced ($3m) and an upgrade of the emergency department and fire services at Knox Private ($3.5m). A further 2 cath labs will be replaced in the second half.
A further $15.5 million was outlaid on hospital expansion projects.

In addition, $5.3 million was outlaid on new developments during the year, namely the Norwest Private Hospital ($3.4m) and development expenditures relating to Labtests Auckland ($1.9m).

The cash outflows relating to acquisitions totalled $11.6 million. These primarily related to the acquisition of various medical centres.

2.7.1 Capital Expenditure for FY2009

Capital expenditure for the year on property, plant and equipment is expected to be approximately $75 million. In addition to this, capital expenditure, it is anticipated that approximately NZ$22million will be spent on Labtests New Zealand and approximately $66 million will be spent on hospital infrastructure expansion for FY2009.

2.8 Funding

In June 2008, the Company replaced its banking debt facility with a new $850 million, 3-year revolving debt facility with a syndicate of 8 banks. This facility, which will mature in July 2011, will provide sufficient debt capacity to meet proposed brownfield development expenditures as well as minor bolt-on acquisition opportunities. Fixed interest rate swaps totalling $330 million were in place at 30 June 2008 to partly hedge the Company's interest rate exposures. These swaps expired on 3 November 2008 and were replaced with deferred start swaps totalling $315 million entered into at the time of signing the new facility in June 2008 at significantly higher rates.

2.9 Balance Sheet

Net Assets at 31 December 2008 of $871.1 million represents a 3% increase over the June 2008 level of $848.1 million. The Company's asset backing per share has increased to $3.48 per share up from $3.47 per share at 30 June 2008.

Interest bearing liabilities net of cash (net debt) have increased to $601.2 million from the level at 30 June 2008 of $597.2 million. The ratio of net debt to net debt plus equity stands at 40.8% (41.3% at 30 June 2008). The interest cover ratio (EBITDA/interest expense) for HY Dec 2008 stands at 3.7 times and 3.8 times based on EBITDA before NRI's. The cost of funding under the receivables securitisation facility is included in interest expense. As at 31 December 2008, the outstanding drawings of the securitisation facility stand at $104.6 million.

As at 31 December 2008, the Company had $251 million available in undrawn committed debt facilities.

2.10 Review of Operations

The Company has achieved significant revenue and earnings growth across both its hospitals and pathology businesses.

2. 10.1 Hospitals

	Half-Year Dec 2008	Half-Year Dec 2007	Variation
Revenue*	$549.0m	$502.5 m	9.3 %
EBITDA	$91.3m	$79.9m	14.3 %
EBITDA Margin	16.6%	15.9%	70 bps

*Excluding prosthetics revenue of $94.7million (HY Dec 2007 - $83.2 m)

The hospitals business contributes approximately 78% of the Company's gross revenue and 83% of EBITDA.

The significant growth in revenue for the period was driven by a combination of growth in admissions, improved patient management and strong growth from several of the larger high acquity hospitals. Brisbane Private, Sunnybank Private, and Melbourne Private achieved double-digit revenue growth over the prior year.

EBITDA margins increased by 70bps on last year as a result of further efficiencies and volume leverage particularly from the acute hospitals. The Campbelltown Private hospital commissioned in June 2007 is performing well and with strong revenue growth in the last 6 months, is achieving significantly improved margin compared to the start up phase of last year.

The management contract with the Adelaide Community Healthcare Alliance delivered a management fee of $7.8 million for the half year compared to $5.0 million for the same period last year.

The construction of the Norwest Private Hospital is running ahead of schedule and will be commissioned in the first quarter of FY 2010.Work is also progressing on the development of an additional level at the Campbelltown Private Hospital, which is expected to be completed in May 2009. Planning approvals have been received for developments at Knox Private, The Melbourne Clinic, Campbelltown Private and Victoria Rehabilitation Centre. Although planning approval has not yet been received for the development of Brisbane Private (Stage 1), but this project is anticipated to be completed by November 2009.

2.10.2 Pathology

	Half-Year Dec 2008	Half-Year Dec 2007	Variation
Revenue	$184.9 m	$141.6m	30.6 %
EBITDA	$27.0m	$21.7m	24.4 %
EBITDA Margin	14.6%	15.3%	-70 bps
EBITDA Margin – like for like[1]	15.0%	15.3%	-30 bps

The composition of the revenue growth of the Pathology Group is detailed in the table below:

Revenue	Half-Year Dec 2008 $Millions	Half-Year Dec 2007 $Millions	Variation %
Australia	132.5	115.2	15.0
New Zealand	30.2	9.1	231.9
Malaysia & Singapore	22.2	17.3	28.3
Total	**184.9**	**141.6**	**30.6**

The Pathology business recorded EBITDA of $27.0 m an increase of $5.3 m from that reported for the previous half year. The results included $21m of revenue from the NZDG business in New Zealand which was acquired in December 2007. NZDG is a lower margin business and excluding NZDG the like for like EBITDA margin of 15.0% was 30 bps below last year.

The reduction in EBITDA margins was a result of the impact of the government fee changes introduced in July 2008, affecting margins in the Australian operations in the early months of the half. Revenue and margins were improved in the latter months of the half though an increase in the proportion of co-payments billed to patients.

Australian Pathology revenues increased 15%, which was significantly above market growth. Revenue growth was in line with or above market growth in all states. Growth in the NSW operation market was particularly strong.

The pathology operations in Malaysia and Singapore continued to deliver excellent revenue growth and margin improvements. The movement in the A$ had a favourable impact on revenue of $2.4 million.

The New Zealand pathology business has performed well and although the margins compared to the prior year are impacted by the acquisition of NZDG, overall margins are improving as cost efficiencies are being achieved.

In September 2008, the Court of Appeal found in favour of Healthscope owned Labtests reinstating Labtests' eight-year contract with the Auckland region's three District Health Boards (DHB's). The incumbent service provider DML, sought leave to appeal this decision. The Supreme Court denied leave to appeal in a decision announced on 12 February, 2009. The Supreme Court decision now provides certainty as to the future of the contract, and Labtests will be in a position to commence providing services in August 2009.

This contract will add NZ$70m in revenue from the first full year of operation and is for a term of 8 years.

[1] EBITDA margin like for like excludes NZDG

Outlook

The strong first-half result gives the Company confidence that the revenue growth experienced in both hospitals and pathology will continue in the second half. Focus will remain on gaining market share whilst maintaining margins, in both sectors. Continued strong cash generation is anticipated and the Company is on track to deliver a strong full-year result.

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