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Healthscope announces results for year ended 30 June 2014

27 August 2014

Healthscope Limited (Healthscope) today announced the results of the Healthscope Group for the year ended 30 June 2014. The FY14 Operating Results of the Healthscope Group were in line with the FY14 Statutory Forecast presented in the Prospectus of Healthscope Limited dated 30 June 2014.

FY14 financial results of the Healthscope Group include:

- Revenue of $2,326.1 million, an increase of 5.1% on FY13;
- Operating EBITDA of $357.3 million(1), an increase of 9.0% on FY13;
- Operating EBIT of $262.3 million(1), an increase of 11.2% on FY13;
- Cash inflows from operations of $365.6 million, an increase of 17.6% on FY13;
- EBITDA cash conversion of 102%;
- Strong results from all divisions.

(1) Excludes other expenses (non-operating) of $31.7 million

In commenting on Healthscope's FY14 results, Healthscope's Managing Director and Chief Executive Officer, Mr Robert Cooke, said "I am pleased to announce that Healthscope has reported a strong FY14, with all divisions performing strongly. The FY14 operating result is in line with the forecast that was outlined in the prospectus"

In reflecting on Healthscope's positioning in the Australian market Mr Cooke said "As Australia's second largest private hospital operator and a leading pathology and medical centres provider, Healthscope is exposed to the favourable dynamics of the Australian healthcare industry including the growing and ageing population and increasing medical treatment capabilities. In addition, Healthscope's private hospital business is supported by high levels of private health insurance coverage and supportive Federal and State Government policies designed to increase utilisation of private healthcare services."

In reviewing the performance of the Hospitals division which comprises 79% of Healthscope's EBITDA, Mr Cooke said "The Hospitals division continued the trend of translating revenue growth into strong earnings growth, with EBITDA increasing 7.7% and margin increasing by 30 basis points. This result was almost predominantly driven by organic growth, with limited impact from brownfield projects during the year.

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"Healthscope's Hospitals EBITDA margin has consistently tracked upwards in recent years, partly due to progress on labour and procurement initiatives, with further upside expected. We continue to invest in our nursing workforce through training, placements and graduate programs, and staff satisfaction is increasing with a corresponding decrease in nursing turnover."

In relation to an exciting procurement development, Mr Cooke said "After careful consultation and testing by clinical staff, the first shipment of selected low end supplies sourced directly from Asia arrived into our hospitals last month, with the early response from users being positive."

In commenting on the strengthening link between quality and funding Mr Cooke said "Healthscope continues to outperform the industry on all major quality benchmarks and is transparent in publishing these results. The confidence in our quality standards is reflected by Healthscope's desire to enter into pay for quality initiatives with health funds, as demonstrated by the launch of Healthscope and Bupa's Pay for Quality initiative in June 2014. Healthscope expects similar initiatives with other health funds as they look to reward industry leading quality and clinical outcomes."

Moving to the strong growth opportunities for the Hospitals division, Mr Cooke said "There has been significant activity around hospital expansion projects in recent months, as we start to execute on the strong growth pipeline. Four projects are currently under construction including the new Gold Coast Private Hospital and a major expansion at National Capital Private Hospital. Development Approvals have recently been received for major brownfield projects at Norwest and Knox Private Hospital with construction on these projects expected to commence in the near future. Further preliminary work has been completed on a number of brownfields under consideration, with planning for these projects progressing well."

Turning to the International Pathology division, Mr Cooke said "Healthscope's International Pathology business continues to build on its track record of excellent performance. This business contributed 14% of Healthscope's EBITDA in FY14, with the New Zealand business providing a stable and attractive revenue stream, and the Malaysian and Singaporean businesses providing a platform for growth in the highly attractive South East Asian region."

In relation to the Australian Pathology division, Mr Cooke said "The Australian Pathology division delivered EBITDA growth of over 30% in FY14 and contributed 7% of Healthscope's Group EBITDA. The successful restructuring of the Australian Pathology business and the growing links between medical centres and health funds, provides a sustainable business model going forward."

In summarising Healthscope's current positioning, Mr Cooke said "All our businesses are performing strongly and positioned well for the future, supported by experienced and stable management teams. The clear strategies that are in place, the strong growth pipeline and the attractive industry fundamentals together provide a favourable outlook for the company, both in FY15 and beyond," Mr Cooke said.

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Healthscope Group results compared to prior year

	FY14 $m	FY13 $m	Movement %
Revenue	2,326.1	2,212.5	5.1%
EBITDA (1)	357.3	327.9	9.0%
Depreciation	(95.0)	(92.0)	3.3%
EBIT (1)	262.3	235.9	11.2%
Other expenses (refer note 1 below)	(31.7)	(165.6)	80.8%
Net finance costs	(254.6)	(185.3)	(37.5%)
Profit / (loss) before tax	(24.1)	(114.9)	79.0%
Tax	4.8	(2.4)	(304.5%)
Net profit / (loss) after tax	(19.3)	(117.3)	83.6%
EBITDA margin %	*15.4%*	*14.8%*	+60bp
EBIT margin %	*11.3%*	*10.7%*	+60bp

(1) Operating EBITDA and Operating EBIT excludes other expenses (non-operating) of $31.7 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

Healthscope recorded revenue growth of 5.1% to $2,326.1 million in FY14, driven by the Hospitals and International Pathology divisions. EBITDA increased by 9.0% to $357.3 million, driven by solid growth in earnings across all divisions.

Note 1: Other expenses (non-operating)

	FY14 $m	FY13 $m
Restructure and other costs	22.6	11.6
Acquisition costs	1.4	0.8
Impairment of assets	3.9	-
Impairment of goodwill - Australian Pathology (1)	-	120.0
(Profit) / loss on sale of operations		(4.6)
Onerous leases and related costs	(2.5)	37.8
Tender costs	6.3	-
Total	**31.7**	**165.6**

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

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Healthscope Group reported results compared to FY14 Statutory Forecast presented in the Prospectus of Healthscope Limited

The FY14 Operating Results of the Healthscope Group were in line with the FY14 Statutory Forecast presented in the Prospectus of Healthscope Limited dated 30 June 2014.

	FY14 Reported $m	FY14 Statutory Forecast $m	Movement %
Revenue	2,326.1	2,314.6	0.5%
EBITDA	357.3	357.1	0.1%
Depreciation	(95.0)	(97.3)	-2.4%
EBIT	262.3	259.8	1.0%
EBITDA margin %	*15.4%*	*15.4%*	-0bp
EBIT margin %	*11.3%*	*11.2%*	+10bp

The reported results of the Healthscope Group below Operating EBIT are not directly comparable to the FY14 Statutory Forecast of Healthscope Limited as presented in the Prospectus due to the exclusion of certain non-operating entities from the Healthscope Group that form part of the FY14 Statutory Forecast of Healthscope Limited as presented in the Prospectus date 30 June 2014. This is consistent with the historical reporting of the Healthscope Group.

A comparison of the reported results of the Healthscope Group to the FY14 Statutory Forecast of Healthscope Limited as presented in the Prospectus is included as Appendix 1.

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Divisional results

Hospitals

	FY14 $m	FY13 $m	Movement %
Revenue	1,753.0	1,661.5	5.5%
EBITDA	296.9	275.6	7.7%
EBITDA margin %(1)	*16.9%*	*16.6%*	+30bp

(1)EBITDA margin includes prosthetics revenue and costs

The Hospitals division FY14 revenue growth of 5.5% was driven by a combination of volume growth, agreed rate increases from private health insurance funds and case mix. Revenue growth was largely organic with only modest brownfield activity with a total of 17 new beds and three new operating theatres completed during FY14, with projects completed at Norwest, The Hills and Brisbane Private.

The Hospitals division FY14 EBITDA growth of 7.7% was driven by the revenue growth referred to above, and further cost efficiencies. Labour initiatives continued to deliver efficiencies and consumables initiatives continued to progress. The Hospitals division continued its trend of margin uplift with EBITDA margin increasing by 30 basis points to 16.9%.

In June 2014, the ACCC announced that it would not approve Healthscope's acquisition of Brunswick Private Hospital. However, the divestment of Healthscope's Brisbane Waters Private Hospital to Healthe Care was completed on 21 July 2014.

In July 2014, Healthscope acquired the businesses of Frankston Private Day Hospital and the Peninsula Oncology Centre, which together consist of 30 day beds. The site comes with an approved Development Approval to grow the facility into an overnight acute hospital with an expansion of up to 100 beds over the next 18-24 months, with the facility to be renamed Frankston Private Hospital.

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International Pathology

	FY14 $m	FY13 $m	Movement %
Revenue	224.2	190.6	17.6%
EBITDA	52.8	44.5	18.5%
EBITDA margin %	*23.5%*	*23.4%*	10bp

The International Pathology division recorded revenue growth of 17.6% in FY14 and EBITDA growth of 18.5%.

New Zealand

The New Zealand business achieved revenue growth of 6.3%[1] in FY14 driven by an increase in revenue under existing contracts and 8.5 months contribution from the Diagnostic Medlab (DML) acquisition which was completed in October 2013.

New Zealand recorded EBITDA growth of 33.9%[1] in FY14 driven by revenue growth and further cost efficiencies from the integration of the pathology workload acquired from the DML business in Auckland and the restructure of laboratory operations in the South Island.

Singapore

Singapore recorded revenue growth of 6.1%[1,2] in FY14, principally driven by organic volume growth and a favourable revenue yield from an increase in specialised testing. EBITDA increased by 12.1%[1,2] due to revenue growth and cost efficiencies.

*Mal*aysia

Malaysia recorded revenue growth of 4.5%[1] in FY14, largely reflecting market growth and greater penetration of the hospital outsourcing segment through new contracts. However, despite the revenue growth and strong cost control, Malaysia EBITDA decreased by 8.5%[1] due to the negative impact of an increase in the doubtful debts provision in 1H14 as a result of adopting a more conservative approach towards fully provisioning a number of longer term doubtful debts.

(1) Based on results in local currency
(2) Excludes impact of legal settlement in FY13

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Australian Pathology

	FY14 $m	FY13 $m	Movement %
Revenue	348.9	360.5	-3.2%
EBITDA	26.1	20.0	30.7%
EBITDA margin %	*7.5%*	*5.5%*	+200bp

The Australian Pathology division revenue decreased by 3.2% in FY14 driven by a decrease in revenue from the Australian Pathology business, partly offset by an increase in revenue from the Medical Centres business.

Revenue in the Australian Pathology business decreased due to the divestment of the Western Australian pathology business and the restructure and downsizing of the New South Wales pathology business undertaken in the previous year. Revenue growth on a like for basis for the Australian Pathology business (excluding divestments and closures) was approximately 4%.

The Australian Pathology division recorded a 30.7% increase in EBITDA in FY14 and an increase in EBITDA Margin of 200 basis points, with both Australian Pathology and Medical Centres contributing to the strong result.

The New South Wales Pathology business reported a significant increase in EBITDA in FY14, reflecting the restructure of this business which included the closure of collection centres and several laboratories. Rationalisation of underperforming collection centres and an increase in centralisation of tests continued to deliver labour efficiencies across all states.

The Medical Centres business delivered earnings growth in the year ending 30 June 2014, largely through cost management.

Cashflow and balance sheet

Healthscope recorded a 17.6% increase in cashflow to $365.6 million in FY14, compared to $311.0 million in FY13. The Group continued its track record of strong cashflow generation with EBITDA to cashflow conversion of 102% in FY14.

The post-IPO capital structure on listing (31 July 2014) reflected gearing (Net Debt / EBITDA) of 2.5x.

Outlook

Based on current information, the Healthscope Group is on track to deliver the FY15 financial forecasts included in the Prospectus of Healthscope Limited dated 30 June 2014 which include an FY15 Operating EBITDA of $387.3 million and FY15 Operating EBIT of $284.7 million.

Further enquiries:

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Appendix 1: Comparison to the FY14 Statutory Forecast of Healthscope Limited

The FY14 Operating Results of the Healthscope Group were in line with the FY14 Statutory Forecast presented in the Prospectus of Healthscope Limited dated 30 June 2014.

Operating Results	FY14 Reported $m	FY14 Statutory Forecast $m	Variance %
Revenue	2,326.1	2,314.6	0.5%
Operating EBITDA	357.3	357.1	0.1%
Operating EBIT	262.3	259.8	1.0%

A summary of performance by segment is presented below.

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	FY14 Reported $m	FY14 Statutory Forecast $m	Variance $m
Segment revenue			
Hospitals	1,753.0	1,743.6	9.4
Pathology Australia	348.9	347.9	1.0
Pathology International	224.2	223.1	1.1
Total all segments	**2,326.1**	**2,314.6**	**11.5**
Operating EBITDA			
Hospitals	296.9	297.2	(0.3)
Pathology Australia	26.1	25.3	0.8
Pathology International	52.7	52.6	0.1
Total all segments	**375.7**	**375.1**	0.6
Corporate	(18.4)	(18.0)	(0.4)
Total all segments after corporate costs	**357.3**	**357.1**	**0.2**
Operating EBIT			
Hospitals	238.1	236.3	1.8
Pathology Australia	7.6	6.7	0.9
Pathology International	40.1	40.0	0.1
Total all segments	**285.8**	**283.0**	**2.8**
Corporate	(23.5)	(23.2)	(0.3)
Total all segments after corporate costs	**262.3**	**259.8**	**2.5**

Comparison of operating results to the FY14 Statutory Forecast presented in the Healthscope Limited prospectus

The Healthscope Group excludes certain non-operating entities that formed part of the IPO structure of Healthscope Limited. These non-operating entities hold shareholder loans, related finance costs, other expenses and tax balances which were reflected in the FY14 Statutory Forecast of Healthscope Limited within the Prospectus that are not reflected in the reported results of the Healthscope Group. As a consequence, the reported results of the Healthscope Group below Operating EBIT are not directly comparable to the FY14 Statutory Forecast of Healthscope Limited as presented in the Prospectus.

A reconciliation of the net profit / loss to Operating EBITDA and Operating EBIT is presented below for both the Reported results and FY14 Statutory Forecast.

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	FY14 Reported $m	FY14 Statutory Forecast $m
Net profit/(loss) for the year	**(19.3)**	**(145.1)**
Add back		
Income tax expense 1	(4.8)	(61.5)
Net finance cost 1	254.7	404.9
Other income and expense items 2	31.7	61.5
Depreciation and amortisation	95.0	97.3
Operating earnings before finance costs, income tax, depreciation and amortisation (Operating EBITDA)	**357.3**	**357.1**
Subtract		
Depreciation and amortisation (excluding Corporate)	(95.0)	(97.3)
Operating earnings before finance costs, income tax (Operating EBIT)	**262.3**	**259.8**

1 The difference between FY 14 reported and FY14 Statutory Forecast is due to finance costs and related tax benefit arising from shareholder loans held by non-operating entities outside of the Healthscope Group. The shareholder loans were repaid in conjunction with the IPO in July 2014.

2 The difference between FY14 reported and FY14 Statutory Forecast for other items of income and expense items relates to certain costs arising from the IPO of Healthscope Limited that were expensed by non-operating entities outside of the Healthscope Group.