



## **Healthscope Delivers 18% Increase in Net Profit After Tax and Announces \$140m Capital Raising**

**Healthscope Limited has announced a Net Profit after tax, before Non-Recurring Items (NRI's) of \$88.2 million, up 18% over previous year.**

**Revenue in FY2009 has increased ahead of market growth and margins have been improved in both the hospital and pathology divisions.**

**Capital raising of \$140 million via a fully underwritten institutional placement to fund hospital expansion, acquisitions and future growth opportunities.**

### **1. OVERVIEW**

#### **1.1 Financials**

- Total Revenue of \$1654m, up 11.2% over FY2008.
- EBITDA of \$228.3m, an increase of 15.4%.
- Cashflow from operations of \$150.5m, up 21%, with gross operating cash flow equal to 102% of EBITDA.
- Net profit after tax before NRI's of \$88.2m (\$74.9m in FY2008)
- Net profit after tax after NRI's of \$72.3m (\$64.4m in FY 2008).
- EPS pre NRI's of 35.2 cents, an increase of 12.8%.
- A fully franked interim dividend of 11.0 cents per share, resulting in total dividends for FY2009 of 21.5 cents, an increase of 10% on last year.

#### **1.2 Operational**

- Market share increased in both hospitals and pathology/medical centres
- Strong underlying demand for health services provided by the Healthscope network has underpinned continued growth in revenue and margins across all divisions.
- Hospital margins have improved by 70bps to 16.4% (from 15.7% in FY2008) as a result of leveraging volume growth, with all hospitals focusing on improving both the quality and efficiency of hospital operations. Expansion of the Campbelltown Private Hospital was completed in May and 4 projects to expand hospital capacity are now in construction and will be completed within the next 6 months.

- Australian Pathology (including medical centres) grew revenue by 10.6% and improved margins in the second half to finish the year with margins in line with last year.
- International operations increased revenue by 45% over last year to \$104.6m and with the addition of the Labtests New Zealand contract are expected to grow by in excess of 35% in FY2010.
- Labtests in New Zealand has commenced transition operations from its state of the art laboratory facility in Auckland. Transition arrangements are progressing well, with the full transition of pathology services from the current provider to be completed on 7 September 2009.
- Hospitals expansion projects currently under development are on track to deliver an additional 224 beds by November 2010.

### **1.3 Acquisition**

- Healthscope is pleased to announce the acquisition today of Healthcare of Australia Holdings Pty Ltd. Healthcare of Australia Holdings Pty Ltd has annual revenue of approximately \$30m and operates Analytical Reference Laboratories (ARL) a Victorian based pathology provider, as well as a network of skin clinics and medical centres. Healthscope expects significant cost synergies in relation to the acquisition to be delivered in FY2010.
- Consistent with its growth strategy, Healthscope will also continue to consider other “bolt-on” potential acquisition opportunities from time to time.

### **1.4 Capital Management**

- Healthscope is today launching a capital raising of \$140m via a fully underwritten institutional placement of new Healthscope ordinary shares (**Placement**).
- New ordinary shares issued under the Placement will rank equally with other Healthscope ordinary shares on issue, including in respect of the FY2009 final dividend.
- The Placement has been fully underwritten by Goldman Sachs JBWere Pty Ltd, with the issue price to be determined by a Bookbuild.
- Following the Placement, Healthscope will offer retail shareholders the opportunity to participate in a non-underwritten share purchase plan (**SPP**).
- The purpose of the Placement and SPP raising is to provide funding for the expansion of hospitals, funding for recent acquisitions of pathology and medical centres, including ARL, and to provide flexibility to pursue future acquisition opportunities.

- The SPP will provide eligible retail shareholders in Australia and New Zealand on the register at 7.00 pm on 28 August 2009 with the opportunity to subscribe for up to \$15,000 of new Healthscope ordinary shares per shareholder.<sup>1</sup>
- New ordinary shares issued under the SPP will rank equally with other Healthscope ordinary shares on issue, but will not be entitled to the FY2009 final dividend.
- Further details of the SPP will be provided to eligible shareholders in due course.
- Healthscope's Dividend Reinvestment Plan will remain active but will not be underwritten in relation to the FY2009 final dividend.

## 2. PERFORMANCE OVERVIEW

### 2.1 Group Profit and Loss

The table below summarises the group result:

	<b>FY2009 \$Millions</b>	<b>FY2008 \$Millions</b>	<b>Variance %</b>
Revenue*	1654.0	1487.1	11.2
<b>EBITDA</b>	<b>228.3</b>	<b>197.9</b>	<b>15.4</b>
Depreciation & amortisation	(53.3)	(43.3)	23.1
EBIT	175.0	154.6	13.2
Interest	(54.0)	(50.1)	7.8
Net profit before tax	121.0	104.5	15.8
Income tax expense	(32.8)	(29.6)	10.8
<b>Net profit after tax from continuing operations– before non-recurring items</b>	<b>88.2</b>	<b>74.9</b>	<b>17.8</b>
<b>Non-recurring items after tax</b>	<b>(15.9)</b>	<b>(10.5)</b>	<b>-</b>
<b>Net profit after tax</b>	<b>72.3</b>	<b>64.4</b>	<b>12.3</b>

\*Includes Prosthetics revenue of \$186.9m (FY2008 - \$169.7 m)

<sup>1</sup>The offer price under the SPP will be the lesser of:

- the institutional placement price adjusted downwards for the final FY2009 dividend of 11 cents to which shares issued under the SPP will not be entitled; and
- the Volume Weighted Average Price of Healthscope ordinary shares traded on the ASX during the 5 trading days ending on (and including) the closing date of the SPP offer, rounded down to the nearest cent.

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

The 18% improvement in the net profit after tax before NRI's reflects the continued leverage of volume growth across the Healthscope network and the recovery in margins in the Pathology business in the second half of the year.

The table below provides an analysis of the growth in EBITDA achieved in FY2009 compared with the previous year. A more detailed analysis is contained in the Review of Operations.

<b>EBITDA – Continuing Operations</b>	<b>FY 2009 \$Millions</b>	<b>FY2008 \$Millions</b>	<b>Variance %</b>
Hospitals	178.7	156.5	14.2
Pathology	61.8	51.2	20.7
Corporate	(12.2)	(9.8)	(24.5)
<b>Total-before non-recurring items</b>	<b>228.3</b>	<b>197.9</b>	<b>15.4</b>

## 2.3 **Group Results – after Non-Recurring Items**

The net profit after tax attributable to shareholders of \$72.3m (FY2008 \$64.4m) was impacted by a number of NRI's, which cumulatively reduced the Group result by \$15.9m (net of tax). These items related to the write off of the break fee from the Symbion transaction (\$12.0m), and restructure costs associated with acquired businesses (\$3.9m).

## 2.4 **Earnings per Share**

Earnings per share before NRI's for the year were 35.2 cents (FY2008 31.2 cents), a 12.8% increase over the previous corresponding period. After taking into account the non-recurring items, earnings per share were 28.9 cents (FY2008 26.8 cents).

## 2.5 **Dividends**

A final dividend of 11.0 cents per share will be paid on 12 October 2009 to shareholders registered on 7 September 2009. This brings the total dividend in respect of FY2009 to 21.5 cents. The Dividend Re-investment Plan (DRP) will be retained with shares issued under the DRP at a 2.5% discount. The DRP for the final dividend will not be underwritten.

## 2.6 Cash Flow

Cash flow from operating activities increased to \$150.5m (FY2008 \$124.2m). The operational cash inflows (revenue receipts less payments to suppliers and employees) were up by 12.3% on the prior year. Improved processes particularly in cash collection within hospitals have contributed to this result.

<b>Gross Operating Cash to EBITDA</b>	<b>\$Millions</b>
Cashflow from operating activities	150.5
Add back	
- Net interest paid	48.5
- Income tax paid	27.7
- NRI cash Items	5.6
<b>Total – gross operating cash</b>	<b>232.3</b>
<b>EBITDA before NRI's</b>	<b>228.3</b>
<b>Ratio of gross operating cash to EBITDA</b>	<b>102%</b>

## 2.7 Capital Expenditure FY 2009

### 2.7.1 Hospital Infrastructure

During the financial year \$45.3m has been invested in the expansion of hospital capacity at Campbelltown Private, Knox Private, The Melbourne Clinic, The Vic Rehab Centre, and Brisbane Private.

Campbelltown Private was completed in May 2009 and with the exception of Knox, which will be completed in late 2010 the other projects will be completed within the next 6 months. These hospitals will provide an additional 224 beds and 5 operating theatres to support the growing demand in these areas.

A further \$7.7m was invested in the development of the new Norwest private hospital, which opens in September 2009 and will provide a state of the art facility with 169 beds and 10 operating theatres.

Capital expenditure on PP&E was abnormally high in FY2009 due to 6 Cath Labs being replaced, and a significant upgrade of the emergency department and fire services at Knox Private. In addition during the year there have been a large number of minor upgrades to facilities and equipment at several hospitals and 4 community houses have been developed to increase facilities for acute rehab patients.

Capital expenditure for hospitals maintenance is expected to be in line with depreciation expense in FY2010.

### 2.7.2 Labtests New Zealand

During the financial year, \$9.7m has been invested in the development of a new laboratory, establishing 56 collection centres and a courier network to service the Auckland Region District Health Boards from 7 September 2009. A further \$9.2m will be invested during FY2010 to complete the project bringing the total cost of this investment to \$37.3m.

### **2.7.3 Pathology and Medical Centre's**

During the financial year 5 pathology businesses and 5 medical centres have been acquired by the group for a cash outlay of \$25.9m. Most of these were acquired in the second half of the financial year.

A further \$23.3m was spent on expanding laboratories, fitting out medical centres and equipment to support the growth in pathology and medical centres.

### **2.7.4 Technology**

Capital expenditure in FY2009 of \$11.1m for IT investments has been focused upon enabling more efficient and effective business processes across the divisions. An upgraded Web Based Patient Administration System was implemented in 10 hospitals during the year. The system will be rolled out to all hospitals by December 2010. Standardised Practice Management Software has been implemented across the medical centres and the rollout of Financial and Supply Chain systems has streamlined processes and enabled the retirement of legacy applications.

## **2.8 *Balance Sheet and Debt***

Net assets at 30 June 2009 of \$905.3m represents a 6.7% increase over the June 2008 level of \$848.1m. The Company's asset backing per share has increased to \$3.52 per share up from \$3.47 per share at 30 June 2008.

Interest bearing liabilities net of cash (net debt) have increased to \$656.7m from the level at 30 June 2008 of \$597.2m. The ratio of net debt to net debt plus equity stands at 42.0% (41.3% at 30 June 2008). The interest cover ratio (EBITDA/interest expense) for FY2009 stands at 3.9 times, rising to 4.2 times based on EBITDA before NRI's. The cost of funding under the receivables securitisation facility is included in interest expense. As at 30 June 2009, the outstanding drawings of the securitisation facility stand at \$95.0m.

The Company has an \$850m, 3 year revolving debt facility with a syndicate of 8 banks. The facility will mature in July 2011. Fixed interest rate swaps totalling \$395m were in place at 30 June 2009 to partly hedge the Company's interest rate exposures.

As at 30 June 2009, the Company had \$225m available in undrawn committed debt facilities.

### 3. REVIEW OF OPERATIONS

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

#### 3.1 Hospitals

	FY2009	FY2008	Variance %
Revenue*	\$1090.0m	\$998.0 m	9.2 %
EBITDA	\$178.7m.	\$156.5m	14.2 %
EBITDA margin	16.4%	15.7%	70 bps

\*Excludes prosthetics revenue of \$186.9m (FY2008 - \$169.7 m)

The growth in revenue was consistent throughout the twelve months of FY2009 and across the entire hospital portfolio. All hospitals have had solid growth in patient admissions, which has contributed to organic growth above market growth, (there being no acquisitions or new hospitals during FY2009). Despite the changes to the Medicare Surcharge Levy and the challenging economic environment of FY2009, membership of private health insurance has continued to grow and there has been no change in the underlying trends in growth for Healthscope hospitals.

EBITDA margins increased by 70bps on last year as hospitals have been able to leverage increased volumes and to find further efficiency improvements. In FY2009 the management fee from the contract with the Adelaide Community Healthcare Alliance was higher than usual due to adjustments for higher capex spent in previous years.

Nurse turnover has been reduced by 12.9% and hospitals have also been able to adjust the proportion of staff being deployed from nursing agencies to an optimal level in many sites. The Campbelltown Private Hospital opened an additional level in May 2009 providing 47 new beds and has experienced strong demand and occupancy levels ahead of expectations. This is reflective of the opportunities for the 4 hospitals that have commenced construction to expand and for a number of other hospitals which are now at the planning approval stage.

The Norwest Private Hospital consisting of 169 beds and 10 theatres will open on 7 September 2009 and work is on track to convert The Hills Private Hospital to a facility that will primarily service mental health and rehabilitation patients. Stage 1 of a project to expand the Allamanda Private Hospital on the Gold Coast has also begun and will be completed by January 2010.

### 3.2 Pathology and Medical Centres

	<b>FY2009</b>	<b>FY2008</b>	<b>Variance %</b>
Revenue	\$377.1 m	\$318.4m	18.4 %
EBITDA	\$61.8m	\$51.2m	20.7%
EBITDA margin	16.4%	16.1%	30 bps

The composition of the revenue growth of the Pathology & Medical Centres business is detailed in the table below:

<b>Revenue</b>	<b>FY2009 \$Millions</b>	<b>FY2008 \$Millions</b>	<b>Variance %</b>
Australia	272.5	246.4	10.6
New Zealand	58.6	37.9	54.6
Malaysia and Singapore	46.0	34.1	34.9
<b>Total</b>	<b>377.1</b>	<b>318.4</b>	<b>18.4</b>

The Pathology and Medical Centres business has contributed strongly to EBITDA growth in FY2009 with an increase of 20.7% over the prior year. In the Australian Pathology business EBITDA margins in the first half of the year were impacted by the government's reduction to pathology fees, which took effect from 1 July 2008. Increased volumes and a marginal increase in the proportion of private billing has enabled margins in Australia to improve during the second half of the year.

Australian Pathology revenue excluding acquisitions and medical centres have grown by approximately 8%, which is well above market growth of 4.8%. Growth in NSW, and QLD was particularly strong.

### 3.3 International Operations

During the year the pathology operations in Malaysia and Singapore continued to deliver excellent revenue growth and margin improvements. The increase in New Zealand pathology revenue is largely due to a full year contribution from Southern Communities Laboratories, which was acquired in December 2007. The business has performed well and overall margins are improving as cost efficiencies are being achieved.

Labtests in New Zealand has commenced transition operations from its state of the art laboratory facility in Auckland. Transition arrangements are progressing well, with the full transition of pathology services from the current provider to be completed on 7 September 2009. This contract will add NZ\$70m in revenue from the first full year of operation and is for a term of 8 years.

#### **4. ACQUISITION OF HEALTHCARE OF AUSTRALIA HOLDINGS**

Healthscope is pleased to announce that it has today acquired 100% of the shareholding in Healthcare of Australia Holdings Pty Ltd. Healthcare of Australia Holdings has annual revenues of approximately \$30m and operates Analytical Reference Laboratories (ARL) a Victorian private pathology provider. It also operates under the brand name of Molescan Australia, which is comprised of a national network of 26 skin cancer clinics. Three medical centres in the Melbourne metropolitan area are also part of the business.

The acquisition is consistent with Healthscope's growth strategy and will deliver significant cost synergies through consolidation of the laboratory operations, courier network and administrative overheads. The acquisition is being funded through the underwritten Placement announced today and is expected to be EPS accretive to Healthscope in FY2010, the first year of operation.

#### **5. MANAGING DIRECTOR EMPLOYMENT CONTRACT**

Effective from 26 August 2009 the Managing Director's employment contract has been amended to be an ongoing contract term with a Company notice period of 12 months and an executive notice period of 6 months.

#### **6. OUTLOOK**

The underlying growth in demand for health services has proven to be resilient in FY2009 despite very difficult economic conditions and government regulatory changes. The significant investments that are being made in our hospitals infrastructure together with the developments in New Zealand and the plans being implemented in response to the changing environment in the pathology sector, give the Company confidence to expect that it will continue to grow market share and improve margins in FY2010.

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