# Healius Limited

**ACN 064 530 516**

**Appendix 4D – Half-Year Report**

Results for announcement to the market

*For the Half-Year ended 31 December 2018*



This half-year report should be read in conjunction with the 30 June 2018 annual financial report of Healius Limited.

# Healius Limited

## ACN 064 530 516

## Appendix 4D – Half-Year Report

Results for announcement to the market

*For the Half-Year ended 31 December 2018*

| $m | % Change | 31 December 2018 Total | Restated 31 December 2017 Total |
|---|---|---|---|
| Revenue | **+4.7%** | **871.6** | 832.7 |
| Profit for the period after tax | **-6.3%** | **20.7** | 22.1 |
| Profit attributable to members of the parent entity | **-6.3%** | **20.7** | 22.1 |
| Underlying profit for the period after tax [1] | **-10.5%** | **39.4** | 44.0 |

| **Earnings per share** | **2018 ¢ per share** | 2017 ¢ per share |
|---|---|---|
| Basic and diluted earnings per share | **3.5** | 4.2 |
| Underlying basic and diluted earnings per share | **6.7** | 8.4 |
| Interim dividend [2, 3] | **3.8** | 5.1 |

[1] Underlying profit excludes the impact of restructuring and strategic initiatives and non-recurring items. A full reconciliation between statutory profit and underlying profit is contained in the segment information note on pages 26-28 of the Healius Limited interim financial report for the period ended 31 December 2018.
[2] The 31 December 2018 Interim Dividend will be 100% franked at the corporate income tax rate (2017:100% franked at the corporate income tax rate).
[3] The record date for determining entitlement to the interim dividend is 18 March 2019 and the dividend is payable on 26 March 2019

# Healius Limited

## ACN 064 530 516

## Appendix 4D – Half-Year Report

**Attachment A – Interim Financial Report**
For the Half-Year ended 31 December 2018

**CONTENTS** **PAGE**

Your Directors present their report on the consolidated entity consisting of Healius Limited and the entities it controlled (referred to as "Healius", "the Company", or "the Group") at the end of, or during, the half-year ended 31 December 2018.

**Directors**

The Directors of Healius during the half-year ended 31 December 2018 and up to the date of this report were:

- Mr Robert Hubbard
- Mr Robert Ferguson (until 24 July 2018)
- Mr Gordon Davis
- Ms Sally Evans (appointed 21 August 2018)
- Dr Paul Jones
- Dr Errol Katz
- Dr Malcolm Parmenter
- Ms Arlene Tansey

**Review of operations**

A review of operations of the Group during the half-year ended 31 December 2018, and the results of those operations, can be found on pages 3 to 13 of this Report.

**Subsequent event**

In January 2019, Healius received and rejected a non-binding indicative proposal from Jangho Hong Kong Limited (Jangho), a wholly owned subsidiary of the Jangho Group, to acquire all the shares in Healius that it does not already own by way of a Scheme of Arrangement.

Other than the above, there has not been any other matter or circumstance that has arisen since the end of the period that has significantly affected, the operations of the Group, the results of those operations, or the state of the affairs of the Group's future financial periods.

**Dividend**

In respect of the half-year ended 31 December 2018, an interim dividend of 3.8 cents per share has been declared, 100% franked (31 December 2017: 5.1 cents per share, 100% franked).

**Non-IFRS Financial Information**

The review of operations attached to and forming part of this Directors' Report includes a number of non-IFRS financial measures. These non-IFRS financial measures are used internally by management to assess the performance of Healius' business and make decisions on the allocation of resources.

The Directors have included the additional line items EBITDA (earnings before interest, tax, depreciation and amortisation) and EBIT (earnings before interest and tax) within the Financial Report as such presentation is necessary, in the Directors' view, to be relevant to a full understanding of the Group's financial performance.

**Rounding off of amounts**

Healius is an entity of the kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the Directors' Report and the half-year financial report are rounded off to the nearest hundred thousand dollars, unless otherwise indicated.

**Auditor's independence declaration**

The Auditor's Independence Declaration is set out on page 14 and forms part of this report.

Signed in accordance with a resolution of the Directors made pursuant to s.306(3) of the *Corporations Act 2001*.

On behalf of the Directors

Malcolm Parmenter
Managing Director & Chief Executive Officer

Sydney 15 February 2019

The results for Healius Limited ("Healius") for the six months ended 31 December 2018 ("1H 2019") are set out in this review of operations compared to the six months ended 31 December 2017 ("1H 2018").

| Year ended<br>$M | **31 December 2018** | 31 December 2017 | **31 December 2018** | 31 December 2017 |
|---|---|---|---|---|
| **Performance** | **Underlying [1]** | | **Reported** | |
| Revenue | **870.6** | 832.7 | 871.6 | 832.7 |
| EBIT | **73.1** | 81.3 | 51.4 | 61.6 |
| **NPAT** | **39.4** | 44.0 | 20.7 | 22.1 |

**Healius group**

- Healius has three main businesses – pathology, medical centres and imaging – and three emerging businesses – dental, IVF and day hospitals. Together, they represent a unique market position across the Australian medical environment.
- With over eight million patient consultations, a third of all private pathology tests and over three million diagnostic imaging examinations each year, Healius provides care every day at more than 2,500 sites around Australia.

**Strategy**

- The company is substantially shifting its value proposition to place the company at the forefront of healthcare service delivery.
- The new brand, Healius, has been created as a signal of change, especially to the GPs who are considering partnering with Healius.
- Healius has a unique portfolio of large-scale medical centres with competitive advantages in size, range of services and patient flow opportunities. Through Project Leapfrog, Healius aims to develop new ways to deliver care when, where and how consumers need it, supported by technology that makes accessing care simple and easy.
- A re-platforming of the core technology in all divisions including Pathology (LIS) and Imaging (iCAR) will develop modern, efficient infrastructure to support future growth. Healius is also modernising its corporate support functions.
- The successful capital raise in 1H 2019 enables Healius to maintain momentum in its change programs.
- While the realisation of benefits from these programs takes time and requires investment ahead of returns, Healius expects them to deliver material benefits to shareholders.

**Transformation in progress**

- The results today reflect a transformation in progress with early signs of traction on the change agenda.
  - Medical Centres saw a 50% growth in EBIT from the lows of 2H 2018. Progress on the Leapfrog initiatives delivered:
    - ✓ 48% increase in recruitment of GPs in 1H 2019
    - ✓ Gross billing up, with an average of $234 per hour by January 2019
    - ✓ Appointment roll-out to all 39 Medical Director 3 (MD3) centres and 7 MedTech centres, which were also converted to the MD3 practice management system (PMS)
    - ✓ All centres will be on a single PMS within six months
    - ✓ Property expansion in Maroubra with 15 to complete in the second half of the year
  - Imaging EBIT continued to increase, up 13% on prior period. Achievements included:
    - ✓ Winning the imaging services contract for ADF Health Services, as partner to BUPA
    - ✓ Successfully opening the Northern Beaches Hospital (NBH) facility with a new fully-licenced MRI
    - ✓ Continuing the ICAR roll-out with 30 sites live, 50% of radiologists trained and over $11 million of annualised benefits identified
- However, the results are not reflective of the future:
  - While improving, Medical Centres is not yet delivering the strong leverage expected in the future
  - Soft market conditions have been experienced in all divisions, impacting 1H 2019 performance
  - Known HR legacy matters have been addressed
- Pleasingly, 2H 2019 is expected to deliver an increase in contribution:
  - Market conditions to improve throughout remainder of 2H 2019 and to normalise to long-term averages
  - Net GP recruitment to be strong with 32 GPs / 22 FTEs in January and a good pipeline
  - $10 million in EBIT uplift targeted from the productivity programs in Pathology and Imaging

[1] Underlying results for the six months ended 31 December 2018 exclude the impact of non-underlying items relating to restructuring and strategic initiatives. Refer section titled "Reconciliation of reported and underlying performance".

**1H 2019 performance**

- Underlying EBIT was $73.1 million with a stronger contribution from Imaging and a good performance from Medical Centres partially offsetting the decline in Pathology impacted by well-documented headwinds:
  - Medical Centres was up 48% from its lows in 2H 2018
  - The market softness across all divisions is expected to improve throughout the remainder of 2H 2019 and to normalise to long-term averages
  - EBIT carried a $7.7million investment in greenfield sites opened in the last three years[2.]
- Reported EBIT included $21.7 million investment in Leapfrog, LIS, iCAR, and corporate support modernisation, together with set-up costs and redundancies.
- The accounting adjustment for upfront HCP payments under AASB 15 led to a $20 million reduction in revenue and EBITDA, but a nil effect on EBIT and NPAT in the period[3].
- One-off payments for employee back-pay and tax reduced free cash flow, together with lower operating EBITDA.
- Capital investment was at a near-term peak including investment in Montserrat and in strategic initiatives which will deliver future cash flows.
- A final dividend of 3.8 cps, 100% franked, has been approved, on a payout ratio of 60% of Underlying NPAT.

**FY 2019 Guidance**

- Healius expects underlying NPAT in FY 2019 to be between $93 million and $98 million, with underlying market conditions to improve throughout the remainder of FY 2019 and to normalise to long-term averages.

**Outlook**

- The long-term drivers for healthcare remain positive.
- Australia is at an important juncture in the delivery of healthcare services. Increasingly, the drivers of cost, convenience and technology will see a shift in consumer demands for better ways to access care.
- Healthcare delivery in the future will occur more in the home and community facilities rather than in expensive overnight hospital facilities.
- The unique footprint and the services Healius provides as a major corporate player in the sector are becoming increasingly important.
- The change agenda will put Healius at the forefront of the industry.
- On completion, Healius considers its initiatives will deliver material clinical, operational and financial benefits.

[2] This adjusts for three-year ramp-up investment in greenfield sites. Refer section titled “Business as Usual”.
[3] Healius adopted AASB 15 from 1 July 2018. A reconciliation is set out in the section titled “Accounting for AASB 15”.

**GROUP PERFORMANCE**

This review of operations focuses on the 1H 2019 underlying results and adjusts for several items which Healius considers do not form part of the core trading performance of the relevant divisions and/or are not expected to occur frequently. A reconciliation is set out in the section titled "Reconciliation of reported and underlying performance".

**31 December 2018**

| $M | Pathology | Medical Centres | Imaging | Corporate | Group |
|---|---|---|---|---|---|
| Revenue [4] | 551.5 | 149.6 | 192.0 | - | 870.6 |
| EBITDA | 59.0 | 29.6 | 26.4 | (6.2) | 108.8 |
| Depreciation | (10.0) | (9.9) | (6.7) | (1.5) | (28.1) |
| Amortisation | (3.8) | (1.8) | (1.2) | (0.8) | (7.6) |
| EBIT | 45.2 | 17.9 | 18.5 | (8.5) | 73.1 |
| Finance Costs | | | | | (16.8) |
| PBT | | | | | 56.3 |
| Tax | | | | | (16.9) |
| UNPAT | | | | | 39.4 |

**31 December 2017**

| $M | Pathology | Medical Centres | Imaging | Corporate | Group |
|---|---|---|---|---|---|
| Revenue [4] | 534.0 | 140.9 | 176.6 | - | 832.7 |
| EBITDA | 67.0 | 30.7 | 26.0 | (5.5) | 118.2 |
| Depreciation | (9.7) | (8.7) | (7.0) | (1.3) | (26.7) |
| Amortisation | (4.4) | (2.5) | (2.6) | (0.7) | (10.2) |
| EBIT | 52.9 | 19.5 | 16.4 | (7.5) | 81.3 |
| Finance Costs | | | | | (18.5) |
| PBT | | | | | 62.8 |
| Tax | | | | | (18.8) |
| UNPAT | | | | | 44.0 |

**DIVISIONAL PERFORMANCE**

The underlying EBIT performance of each operating division is set out in the following section together with the strategies and initiatives which underpin this performance.

**PATHOLOGY**

| | **31 December 2018 $M** | 31 December 2017 $M | Better/(worse) % |
|---|---|---|---|
| Revenue | 551.5 | 534.0 | 3.3 |
| EBITDA | 59.0 | 67.0 | (11.9) |
| Depreciation | (10.0) | (9.7) | (3.1) |
| Amortisation | (3.8) | (4.4) | 13.6 |
| EBIT | 45.2 | 52.9 | (14.6) |
| Capital expenditure | 16.7 | 7.9 | n.a. |

The Pathology division is Healius' largest business. It provides leading medical laboratory and pathology services covering key diagnostic activities of anatomical pathology (histopathology and cytology), clinical pathology (chemistry, haematology, immunology, and microbiology), genomic diagnostics and veterinary pathology.

The strength of Healius' pathology division is well known, including the long-term underlying drivers, market share, network and scale. It is a well-run business, with strong state-based brands which are all number one or two in their markets.

The Pathology division grew 3.3% in revenue in 1H 2019 with volumes up 2.1%. Soft volume growth was due to a number of external factors including an unusually benign flu season. Market conditions are expected to improve throughout the remainder of 2H 2019 and to normalise to long-term averages of around 4% to 5%, underpinned by a growing and ageing population, increasing numbers of people living for longer with chronic illness, rising patient expectations and expanding wealth per capita.

[4] 22.5m of inter-company revenue/expenses have been eliminated at the Group level (1H 2018 $18.8m).

Good average fee per episode growth and increases in specialties such as genetics supported the overall revenue increase. Non-invasive pre-natal testing (NIPT) revenue was up 32% in the period (and 46% in EBIT).

The division's EBIT result was also impacted by the loss of the national bowel screening contract, which will cycle out in 2H 2019, and increased labour costs at Dorevitch. Normalised for these two impacts, EBIT grew in 1H 2019 above revenue growth.

Pleasingly, consumables costs reduced in the period despite the growth in high-value tests such as the aforementioned NIPT increase, reflecting a management drive to reduce costs.

Importantly, the business has responded to the soft market conditions and changes to its cost structure with productivity initiatives underway which will deliver savings in the second half and into FY 2020. In total $7.5 million in savings are targeted in the second half, with fully-implemented savings of $20 million-plus per annum.

Cash flow: Pathology continued to contribute strongly to the Group's cash position but increased its investment in growth capital expenditure.

***Strategy***

*Modern, efficient infrastructure*
Optimisation of the footprint of collection centres and laboratories is a key deliverable, with a range of tactical initiatives underway. Total ACC numbers reduced in the six months to 31 December 2018, with closures of some lower margin centres as the division continues to aim for lower rents as a percentage of revenue.

The division is also developing a modern infrastructure platform that will provide significant clinical, operational and financial benefits to support future growth:

- An upgrade to the core chemistry, immunoassay and serology testing instrumentation, known as the Serum Work Area ("SWA"), which cover around 60% of all pathology testing. This will increase automation and deliver leading-edge clinical methodologies while also being at a lower cost per reportable. Contracts have been signed and building works have commenced in Laverty, with other states to follow.

- New core Laboratory Information System ("LIS") to be implemented by staged deployment by 2022. In the final stages of contract negotiation, the preferred system has already been used by high-quality international pathology providers for a number of years.

- The LIS program will revolutionise processes, reporting and service delivery. It will enable Healius to lead the way in consumer-centred pathology with a new integrated system replacing four versions of a 25 year-old system, increasing functionality and digital results for referrers and consumers. The capabilities of the new LIS will also put Healius at the forefront of innovation, genetics and big data analytics.

- LIS will enable standardisation and automation in the pre-analytical processes before the specimen reaches the analysers, including in collection, courier, data entry, and specimen reception areas.

- LIS is expected to deliver significant benefits, including cost savings and efficiencies, with net savings of approximately $20 million per year once embedded in the business. Furthermore, an improved ability to meet referrers' needs will enable Healius to increase its market share in higher-margin and fast growth complex tests.

*Stakeholder engagement*
Pathology is focusing on ongoing improvements to employee engagement, in particular with front-line staff at Dorevitch and elsewhere. Healius, together with the other major providers, has established an industry body to negotiate with one voice with the Government.

**MEDICAL CENTRES**

Medical Centres are central to Healius' integrated health services strategy and drive value to the rest of the Group, with GPs being the gatekeepers of referrals throughout the healthcare system.

The Medical Centres division is the second largest corporate medical centres business in Australia with an unrivalled footprint of large scale centres. Growth in dental, IVF, and day hospitals is diversifying revenue away from a reliance on the Medicare Benefits Schedule and delivering unprecedented patient flow opportunities from a 'one-stop shop' within the community care setting.

The division has 75 Healius Medical Centres, 13 Health & Co clinics and 8 stand-alone Montserrat Day Hospitals. Of the 75 Healius Medical Centres, 61 have dental facilities, five day hospitals and four IVF clinics.

There are approximately 1,200 GPs in the group, representing over 1,000 FTEs, together with 153 dentists, 11 IVF specialists and an array of other specialists and surgeons operating out of both Healius Medical Centres and Day Hospitals.

The trend in contribution from Medical Centres over the last three half-years can be seen below:

| EBIT | **31 December 2018 $M** | 30 June 2018 $M | 31 December 2017 $M |
|---|---|---|---|
| Healius Medical Centres | 17.0 | 13.8 | 22.0 |
| Health & Co | 0.9 | (1.7) | (2.5) |
| **Total Medical Centres** | **17.9** | **12.1** | **19.5** |
| **Total Medical Centres BaU** | **24.7** | **20.2** | **24.4** |

Importantly, the division's total contribution grew from a low of $12.1 million in the second half of last year to $17.9 million this half, a sign of the turnaround in the core Healius Medical Centres performance together with an improvement in Health & Co. $6.8 million of ramp-up costs in new centres is included in the current period result which, when normalised, would have delivered a growth in EBIT over both of the last two periods.

While the division has started to improve, performance today is not representative of the expected future state of the division as management is implementing a series of strategic initiatives under the Leapfrog program to deliver a comprehensive renewal of the business, with growth in returns expected from FY 2020 onwards and an overall target of $1m in EBIT per centre.

| | **31 December 2018 $M** | 31 December 2017 $M | Better/(worse) % |
|---|---|---|---|
| Revenue | 149.6 | 140.9 | 6.2 |
| EBITDA | 29.6 | 30.7 | (3.6) |
| Depreciation | (9.9) | (8.7) | (13.8) |
| Amortisation | (1.8) | (2.5) | 28.0 |
| EBIT | 17.9 | 19.5 | (8.2) |
| HCP capital expenditure | 15.5 | 16.1 | 3.7 |
| Total capital expenditure[5] | 46.0 | 38.0 | (21.1) |

*GPs*

In 1H 2019 for the Healius Medical Centre GP division headwinds continued from both GP revenue share reduction, as GPs transition off the old 5-year contracts, and investment in the business ahead of returns through the Leapfrog program.

Importantly, contract transition is nearing the end, with less than 20% of GPs left on old contracts. Flexible, capital-light contracts are appealing to a wider cohort of GPs and are delivering a more capital efficient recruitment process. To balance the value proposition, the revenue sharing arrangements have increased in favour of the GP, with Healius' share currently at 38.3%[6].

Pleasingly, recruitment was at a record 99 GPs representing 68 FTEs. 81 GPs were recruited from normal channels, one registrar was converted and 17 joined through the Leapfrog M&A activity. Total GP recruitment represented a 48% growth on 1H 2018. Confidence in the pipeline is also strong with 32 new GPs, or 22 FTEs, having joined Healius in January.

Departures of GPs were higher than anticipated in quarter one with a large number of retirees. By recruiting younger GPs the average age of the GP cohort has reduced to around 54 years. Importantly the departures stabilised in quarter two and 2H 2019 is expected to deliver a greater net growth in GPs. At the end of the period, there were a total of 1,066 GPs or 925 FTEs at Healius Medical Centres.

*Cash flow*

The substantial reduction in capital expenditure as a result of contract transition continues with expenditure in the normal channels under half the levels before contracts were changed, freeing up cash for investment elsewhere.

In 1H 2019 $15.5 million was spent on GP recruitment. Of the GP cohort, 24% of new FTE GPs elected for 'upfront' contracts in 1H 2019, utilising $6.3 million of capital, and a further $6.0 million was spent on upfronts for re-signing of existing GPs.

$4.7 million was invested in the roll in of small GP-clinics near to Healius Medical Centres via the Leapfrog M&A initiative.

[5] Excludes $67.3 million Montserrat acquisition
[6] Share is quoted before AASB 15 adjustment of $16.3 million on Healius GP revenue

*Health & Co*
The Health & Co network comprises 13 clinics, with practices in NSW, VIC, QLD, SA. With 29 GPs recruited to the network (24 through acquisitions and 5 new recruits), by 31 December 2018 there were 127 GPs or 92 FTEs. GP retention was at 98% and new patient numbers continued to grow.

Overall Health & Co recorded its first EBIT of $0.9 million in 1H 2019 on $8.8 million in revenue. It invested a further $14.8 million on M&A.

**Emerging businesses**

*Dental*
The Dental business is one of the top four dental operations in the country, with 153 dentists or 130 FTEs working at 61 of Healius' Medical Centres. The division performed strongly in the period with a revenue increase of 5.4% to $17.5 million and an EBIT increase of 14.8% to $3.1 million.

*IVF*
The IVF business model has disrupted the sector and opened up the opportunity for more Australians to have a family. Achievements in the period included the successful licensing and opening of the Craigie clinic in Perth, WA in tandem with the new day hospital. In Melbourne, the cap on patient numbers lifted with the move of the IVF operations to the new Greensborough day hospital.

Overall cycles grew 14% and revenue was up 18% to $6.6 million in 1H 2019, while the division recorded a small loss of $0.8 million. Importantly, on a whole-of-business view and normalised for start-up costs, IVF contributed approximately $1.5 million in EBIT to the group.

*Day Hospitals*
The five Day Hospitals facilities within the Healius Medical Centres delivered $6.3 million of revenue in 1H 2019 but operated at a small loss, carrying the start-up investment in new facilities. IVF volumes continue to support the Day Hospitals in Sydney, Melbourne and Perth.

*Montserrat Day Hospitals*
Complementing these facilities, Healius acquired Montserrat an operator of day hospitals and haematology/oncology clinics in October 2018, for an initial outlay of $67.3 million. In the first two months as part of the group, Montserrat performed ahead of budget. Two new hospitals opened and exceeded early expectations, taking total facilities within Montserrat to eight.

Montserrat is in a sector where improving technology and on-going cost pressures will move patients away from high-cost overnight hospitals into day hospitals. In the USA, Ambulatory Surgical Centers which perform same-day outpatient surgical care have grown to well over 5,000 and have become an integral part of the healthcare system. Cancer treatments, cardiology, and orthopaedic procedures are all projected to grow strongly in the outpatient setting, with declining or minimal growth rates in the inpatient setting. There are similar cost drivers and procedural innovation in Australia. The interest from private health insurers in potential new models of care is a strong indication that this country will follow overseas counterparts.

Monserrat's experienced management team now has responsibility for the combined operations of the Healius and Montserrat day hospitals. Proven processes should generate enhanced results in the Healius facilities adopting Montserrat's approach to business development, health fund negotiations, list scheduling and labour management, with a targeted annual EBIT improvement of $4-5 million.

The acquisition provides Healius with a substantial platform to grow, facilitating diversification away from bulk-billed MBS revenue and providing synergies with IVF and Pathology.

***Strategy: Project Leapfrog***

Healius has a unique portfolio of large-scale clinics with competitive advantages in terms of size, accessibility and range of services. Through these clinics, Healius aims to develop new ways to deliver care when, where and how consumers need it, supported by technology that makes accessing care and managing health simpler and easier. Growth will also come from a better integration of services to optimise value under a whole-of-Healius approach.

The Project Leapfrog program will deliver this change program, underpinned by initiatives around people, processes and property. Leapfrog is targeting to deliver an average of $1 million EBIT per centre.

*People*: Recruitment of significantly larger numbers of GPs is a key part of Leapfrog through a multi-channel approach. Healius is targeting a 45% increase in GP FTE numbers, net of normal attrition.

As set out above, in 1H 2019 a record 99 GPs representing 68 FTEs joined the Medical Centres with an additional 32 new GPs, or 22 FTEs, joining in January. 50-plus FTEs are in the pipeline with contracts signed and 10-plus with terms agreed. Importantly, with the stabilisation of departures in quarter two, 2H 2019 is expected to deliver a greater net growth in GPs.

As Healius seeks to increase both GP and patient numbers the M&A team has been focusing on acquiring local clinics to roll into the existing centres, which the introduction of appointments has made possible.

Healius' thriving Clinical Institute has helped to create a valuable pipeline of young GPs who want opportunities to build their business supported by up-to-date technology, build a patient base and achieve a work-life balance.

Healius has also developed a pipeline from its Barefoot GP initiative which offers GPs a 15-month rotating working program in Australia undertaking the evening and weekend shifts which are more challenging to fill with local GPs.

*Processes:* Through significantly increasing operational efficiency, Project Leapfrog is transforming the way things are done in the medical centres. Digitisation and re-engineering of workflows, including online appointment availability and a single practice management system, will underpin these improvements.

The introduction of online appointments is enabling GPs to deliver continuity of care and improve clinical outcomes. It is creating a more consistent patient flow throughout the day and paving the way for selected private billing where a GP can demonstrate sufficient demand for his or her services.

At 31 December 2018 appointment capability had been rolled out to all 39 Medical Director 3 sites (MD3) and to 7 MedTech centres which were also converted to the MD3 practice management system (PMS). All centres are expected to have this capability within the next six months.

An enhanced consumer experience as well as comfortable and modern facilities, will attract and retain patients. Pilot sites are trialling e-recalls and self-check in kiosks with early indications of good acceptance. The new 'remote walk in' online service has been developed, enabling patients to join the queue from home and wait for a message when the appointment is near, substantially reducing wait times within clinics.

Importantly, Healius Medical Centres that have introduced appointments and other Leapfrog process improvements continue to outperform "non-Leapfrog" centres with increased gross billings per hour. The latest statistics show total gross billings per hour at $234 overall.

*Property:* Project Leapfrog aims to substantially improve both the utilisation and the experience within Healius' footprint of medical centres through space optimisation, facilities improvements and the introduction of expanded and new services where the local demand is evident.

65 centres will undergo facilities uplift in a phased approach to investment strategy. Of these, 52 centres will receive additional investment in the modernisation and expansion of services through better utilisation of the centre footprint, creating 90+ new consultation rooms, 40+ new dental surgeries and the expansion and relocation of 40+ pathology collection centres, as well as treatment rooms, urgent care facilities, theatres and staff rooms. This program will deliver equivalent to four new large-scale centres with little or no incremental rent overhead.

The improvements are expected to capture an increased proportion of pathology, imaging and dental flows and to allow for expansion of services, such as IVF, occupational health and urgent care.

Maroubra, the first medical centre undergoing a major property uplift, is operating with expanded capacity of two GP consultation rooms, three dental chairs, a procedure room, a skin surgery theatre, and a staff room. In addition to Maroubra, expanded capacity in two dental sites has delivered strong growth in billings. Overall, Healius expects to work on 19 Medical Centres this financial year and complete 15.

**IMAGING**

| | **31 December 2018 $M** | 31 December 2017 $M | Better/(worse) % |
|---|---|---|---|
| Revenue | 192.0 | 176.6 | 8.7 |
| EBITDA | 26.4 | 26.0 | 1.5 |
| Depreciation | (6.7) | (7.0) | 4.3 |
| Amortisation | (1.2) | (2.6) | 53.8 |
| EBIT | 18.5 | 16.4 | 12.8 |
| HCP capital expenditure | 0.1 | 1.5 | 93.3 |
| Capital expenditure | 11.4 | 10.4 | (9.6) |

Healius' Imaging division, Healthcare Imaging Services, partners with 111 independent radiologists to undertake a full range of medical imaging services including cardiac, neurological, vascular, musculoskeletal and dental imaging. The division, operating a network of 146 sites, is the number three national provider with three million examinations nationally.

In the six months ended 31 December 2018, Imaging grew revenue by 8.7% and EBIT by 12.8% with continued strength in CT and MRI modalities, notwithstanding softer market growth overall. The Northern Beaches Hospital contract in New South Wales commenced in October 2018 and successfully obtained a full MRI licence. It has experienced good volumes from day one.

The division opened a new large-scale imaging centre at Highfields in Port Macquarie, NSW, also with a fully-licenced MRI facility and PET/CT services, and redeveloped St Vincent's Private Hospital Northside in Queensland. It also partnered with BUPA to secure the Imaging portion of the ADF Health Services contract, due to commence in July 2019.

While unadjusted EBITDA growth was 1.5%, normalised for the impact of additional equipment operating leases and AASB 15 adoption, it grew by approximately 8% on 1H 2018.

Importantly, a productivity program is underway which will deliver savings in the second half and into FY 2020. In total the division is targeting $2.5 million in savings in the second half, with fully-implemented savings of $10 million per annum.

Cash flow: Imaging continued to invest in new sites and technology with growth capital expenditure on Northern Beaches Hospital, Port Macquarie, the St Vincent's Private Hospital Northside expansion and the IT platform iCAR.

***Strategy***

*Brand and community sites:* Imaging will rebrand this year as part of its transformation and will look to revitalise its community sites in an increasingly consumer-savvy environment. The division has strengthened senior capabilities in order to focus on developing best-practice operating models and improve its returns.

*Efficient, modern infrastructure:* iCAR is bringing a new radiology information system ("RIS") and a new picture archiving and communication solution ("PACS") to the division. 30 sites are currently live with around 50% of radiologists trained to use the system and its voice recognition technology. Together, these platforms will deliver substantial efficiencies and drive revenue uplift by enhancing the way the division interacts with referrers and their patients. Net annual benefits are currently estimated at $11 million.

**CORPORATE**

| | **31 December 2018 $M** | 31 December 2017 $M | Better/(worse) % |
|---|---|---|---|
| EBITDA | (6.2) | (5.5) | (12.7) |
| Depreciation | (1.5) | (1.3) | (15.4) |
| Amortisation | (0.8) | (0.7) | (14.3) |
| EBIT | (8.5) | (7.5) | (13.3) |

1H 2019 corporate overheads have grown by $1.0 million with Group IT and insurance premiums increasing. Healius is focused on the modernisation of its support functions to deliver best-in-class services in IT, Finance, Property and HR including the outsourcing of routine processes such as property maintenance and lease management, the centralisation and automation of the purchasing process, and importantly the establishment of a strong, central IT platform for the group. These programs will deliver cost savings, efficiencies and risk mitigation.

**BUSINESS AS USUAL**

Underlying results incorporate investment in five new Healius Medical Centres, two IVF clinics and two imaging sites, where a three-year ramp-up period is assumed. With Health & Co generating a profit for the first time in this period, it is no longer included in the analysis. Underlying EBIT included $7.7 million of investment in the six months as follows:

| $M | 31 December 2018 | 31 December 2017 |
|---|---|---|
| **EBIT** | **73.1** | **81.3** |
| New centres | 7.7 | 5.8 |
| **Normalised EBIT** | **80.8** | **87.1** |

**RECONCILIATION OF REPORTED AND UNDERLYING PERFORMANCE**

This review of operations focuses on the 1H 2019 underlying results and adjusts for several items which Healius considers do not form part of the core trading performance of the relevant divisions and/or are not expected to occur frequently. The adjustments are as follows:

| $M | 31 December 2018 | 31 December 2017 |
|---|---|---|
| **Reported EBIT** | **51.4** | **61.6** |
| Restructuring and strategic initiatives | 21.7 | 17.7 |
| Non-recurring items | - | 2.0 |
| **Underlying EBIT** | **73.1** | **81.3** |

Restructuring and strategic initiatives in 1H 2019 relate to the major projects of Leapfrog in Healius Medical Centres ($5.2 million), technology platforms in Pathology ($3.6 million) and Imaging ($2.1 million), and the modernisation programs in corporate support functions ($4.3 million). The balance of $6.4 million relates to business set-up, primarily Montserrat, and redundancies.

**ACCOUNTING FOR AASB 15**

Healius has adopted AASB 15 from 1 July 2018, which establishes a single model of accounting for revenue from contracts with customers whereby consideration payable to a customer is accounted for as a reduction to the transaction price. Previous upfront payments made to HCPs on entering into contractual relationships were accounted for as intangible assets and amortised over the term of the relevant contract. From 1 July, 2018, upfront payments to HCPs are recognised as contract assets and as a reduction to revenue over the term of the relevant contract. There is no net impact on EBIT or NPAT.

**31 December 2018**

| $M | Pathology | Medical Centres | Imaging | Corporate | Group |
|---|---|---|---|---|---|
| Pre AASB 15 Revenue [7] | 551.5 | 167.6 | 194.1 | - | 890.7 |
| Pre AASB 15 EBITDA | 59.0 | 47.6 | 28.5 | (6.2) | 128.9 |
| Amortisation Reclass | - | (18.0) | (2.1) | - | (20.1) |
| Post AASB 15 Revenue [7] | 551.5 | 149.6 | 192.0 | - | 870.6 |
| Post AASB 15 EBITDA | 59.0 | 29.6 | 26.4 | (6.2) | 108.8 |

**31 December 2017**

| $M | Pathology | Medical Centres | Imaging | Corporate | Group |
|---|---|---|---|---|---|
| Pre AASB 15 Revenue [7] | 534.0 | 162.0 | 179.3 | - | 856.5 |
| Pre AASB 15 EBITDA | 67.0 | 51.8 | 28.7 | (5.5) | 142.0 |
| Amortisation Reclass | - | (21.1) | (2.7) | - | (23.8) |
| Post AASB 15 Revenue [7] | 534.0 | 140.9 | 176.6 | - | 832.7 |
| Post AASB 15 EBITDA | 67.0 | 30.7 | 26.0 | (5.5) | 118.2 |

[7] 22.5m of inter-company revenue/expenses have been eliminated at the Group level (1H 2018 $18.8m).

## OTHER P&L ITEMS

### *FINANCE COSTS*

Total finance costs in 1H 2019 were $16.8 million, down 9.2% from $18.5 million in 1H 2018. The savings were predominantly due to a lower average debt balance and the write-off of refinance fees in 1H 2018.

### *TAX EXPENSE*

The Group reported an income tax expense for 1H 2019 of $13.9 million, which equated to an overall effective tax rate of 40.2% and was $3.5 million above a prima facie tax expense calculated at 30% of profit before tax. The difference was primarily due to the $2.8 million permanent tax difference associated with amortisation of healthcare practice acquisitions prior to 30 June 2015. There will be additional accounting tax expense while these acquisitions continue to be amortised until FY 2020, as follows:

| **$M** | **1H 2019** | **2H 2019** | **FY 2020** |
|---|---|---|---|
| Additional accounting tax expense | 2.8 | 2.2 | 2.1 |

Healius' expectation is that the Group's effective tax rate will revert to 30% in the long term once the above amortisation is fully charged, assuming the current structure and nature of the business. As a result, an effective tax rate of 30% has been adopted for underlying results.

### *DIVIDENDS*

The directors have approved an interim dividend of 3.8 cps 100% franked (1H 2018: 5.1 cps 100% franked). The interim dividend equates to a payout ratio of 60% of UNPAT. This ratio was set to reflect the company's growth strategy.

## CASH FLOW

In 1H 2019 cash usage is at a near-term peak as the company funds its strategic growth initiatives in advance of them delivering operating cash flow. The expenditure on projects is gated and monitored to ensure the delivery of returns. The focus continues to be on balancing the competing demands of dividends, investment in strategic initiatives and optimal gearing.

Group cash flow for 1H 2019 is set out below in comparison to 1H 2018:

| $M | **31 December 2018** | 31 December 2017 | Movement $ |
|---|---|---|---|
| Gross operating cash flows | **91.8** | 127.0 | (35.2) |
| Interest | **(14.8)** | (15.8) | 1.0 |
| Tax | **(21.4)** | (6.0) | (15.4) |
| Operating cash flows | **55.6** | 105.2 | (49.6) |
| Maintenance capex | **(29.5)** | (26.4) | (3.1) |
| Free cash flow | **26.1** | 78.8 | (52.7) |
| Growth capex | **(115.6)** | (32.1) | n.a. |
| Cash flow after growth capex | **(89.5)** | 46.7 | n.a. |
| Dividends | **(28.7)** | (30.2) | 1.5 |
| Debt reduction / finance costs | **(105.3)** | (4.0) | n.a. |
| Proceeds from issuing shares | **244.6** | - | n.a. |
| Net increase in cash held | **21.1** | 12.5 | 8.6 |
| Opening cash | **84.0** | 95.5 | (11.5) |
| F/X | **-** | - | - |
| Closing cash | **105.1** | 108.0 | (2.9) |

Gross operating cash flow in 1H 2019 was weaker than historical levels with lower EBITDA contribution. This was compounded by one-offs cash outflows for:

- $14 million back payments for the Healius Medical Centres modern awards adjustment and Dorevitch pay determination, and
- $4 million tax back payment compared to $10 million tax benefit in 1H 2018, a swing of $14 million.

Maintenance capex was slightly above 1H 2018 run-rate while growth capex of $115.6 million represented investment in strategic initiatives including:

- $67 million Montserrat Day Hospitals acquisition,
- $20 million new clinics in Health & Co and Healius Medical Centres,
- $4 million Leapfrog property initiatives, and
- $7 million investment in Imaging sites, Northern Beaches Hospital, Port Macquarie and St Vincent's Private Hospital Northside and iCAR

## BALANCE SHEET AND NET DEBT

The Group had $3.3 billion in assets, including $2.5 billion in goodwill, and $2.1 billion of shareholders equity as at 31 December 2018. The Group has a net current asset deficiency of $57.1 million (1H 2018 $88.1 million). However, the Group generates significant operating cash flows and has access to unused financing facilities which can be drawn on.

Group net debt at 31 December 2018 was $652.4 million compared to $776.8 million 30 June 2018, analysed as follows:

| $M | **31 December 2018** | 30 June 2018 |
|---|---|---|
| Bank and finance debt | **757.5** | **860.8** |
| Cash | **(105.1)** | **(84.0)** |
| Net debt | **652.4** | **776.8** |
| Bank gearing ratio (covenant <3.5x) | **2.4x** | **2.7x** |
| Bank interest ratio (covenant >3.0x) | **9.2x** | **9.0x** |
| Gearing (net debt: net debt + equity) | **24.1%** | **29.9%** |

In FY 2018 Healius renegotiated its syndicated bank debt facility. The first tranche of $500 million is due to mature in January 2021 and the second of $625 million in January 2023.

In 1H 2019 Healius successfully undertook a $250 million capital raise with net proceeds of $244.6 million reducing debt and funding capital requirements.

The bank gearing ratio for the syndicated bank facility at 31 December 2018 was 2.4 compared to a ceiling covenant requirement of 3.5x[8]. The bank interest ratio was at 9.2, well above the floor of 3.0x.

## FORECAST

The 1H 2019 result was below the normal run-rate, with soft market conditions experienced in the divisions, driven in part by a benign winter flu season. Modest recovery was evidenced in October and November but subsequent months have seen inconsistent growth rates across the divisions.

Healius expects underlying market conditions to improve throughout the remainder of the second half of FY 2019 and to normalise to long-term averages. Trends in population growth and ageing, advancements in technology and cancer survival rates, and rising patient expectations all support strong long-term market growth.

In response to the short-term market conditions and the changed cost structure in pathology, Healius is also undertaking productivity programs which are expected to deliver savings in 2H 2019, with a $10 million EBIT uplift targeted.

Taking these factors into account, Underlying NPAT is expected to be between $93 million and $98 million for FY 2019.

## OUTLOOK

A year into the transformation, the result for 1H 2019 contains early proof of traction on the strategic initiatives. The change agenda requires investment ahead of returns and the benefits inevitably take time to be fully realised. Nevertheless Healius remains confident in its ability to deliver on this agenda and in the uniqueness of the opportunity in front of it.

- The long-term drivers for healthcare remain positive.
- Australia is at an important juncture in the delivery of healthcare services. Increasingly, the drivers of cost, convenience and technology will see a shift in consumer demands for better ways to access care.
- Healthcare delivery in the future will occur more in the home and community facilities rather than in expensive overnight hospital facilities.
- The unique footprint and the services Healius provides as a major corporate player in the sector are becoming increasingly important.
- The change agenda will reformulate the value proposition and put Healius at the forefront of the industry.
- On completion, Healius considers these initiatives will deliver material clinical, operational and financial benefits.

[8] The bank gearing ratio is calculated based on underlying EBITDA before the impact of AASB 15.

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## Auditor's Independence Declaration to the Directors of Healius Limited

As lead auditor for the review of Healius Limited for the half-year ended 31 December 2018, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review*;* and

b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Healius Limited and the entities it controlled during the financial period.

Ernst & Young

Douglas Bain
Partner
Sydney
15 February 2019

Building a better
working world

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# Independent Auditor's Review Report to the Members of Healius Limited

## Report on the Half-Year Financial Report

### Conclusion

We have reviewed the accompanying half-year financial report of Healius Limited (the Company) and its subsidiaries (collectively the Group), which comprises the condensed statement of financial position as at 31 December 2018, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

### Directors Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2018 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Ernst & Young

Douglas Bain
Engagement Partner
Sydney
15 February 2019

Vida Virgo
Engagement Partner
Sydney
15 February 2019

The Directors declare that:

(a) in the Directors' opinion, the attached financial statements and notes are in accordance with the *Corporations Act 2001*, including section 304 (compliance with Accounting Standards) and section 305 (true and fair view); and

(b) in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors made pursuant to section 303(5) of the *Corporations Act 2001*.

On behalf of the Directors

Malcolm Parmenter
Managing Director & Chief Executive Officer

Sydney, 15 February 2019

## ***Condensed statement of profit or loss*** *for the half-year ended 31 December 2018*

| | | CONSOLIDATED | |
|---|---|---|---|
| | | | Restated |
| | Note | **31 December 2018 $M** | 31 December 2017 $M |
| Revenue | | **871.6** | 832.7 |
| Employee benefits expense | | **438.5** | 409.2 |
| Property expenses | | **139.6** | 127.1 |
| Consumables | | **97.5** | 96.5 |
| Other expenses | | **108.9** | 101.4 |
| Depreciation | | **28.1** | 26.7 |
| Amortisation of intangibles | | **7.6** | 10.2 |
| **Earnings before interest and tax** | | **51.4** | 61.6 |
| Finance costs | 3 | **16.8** | 18.5 |
| **Profit before tax** | | **34.6** | 43.1 |
| Income tax expense | 4 | **13.9** | 21.0 |
| **Profit for the period** | | **20.7** | 22.1 |
| Attributable to: | | | |
| Equity holders of Healius Limited | | **20.7** | 22.1 |
| **Profit for the period** | | **20.7** | 22.1 |

| **Earnings per share** | **2018 Cents per share** | 2017 Cents per share |
|---|---|---|
| Basic and diluted earnings per share | **3.5** | 4.2 |

Refer to note 1 for details of the Group's adoption of new accounting standards during the period.

Notes to the financial statements are included on pages 23 to 34

| | CONSOLIDATED | |
|---|---|---|
| | **31 December 2018 $M** | 31 December 2017 $M |
| **Profit for the period** | **20.7** | 22.1 |
| **Other comprehensive income** | | |
| **Items that may be reclassified subsequently to profit or loss** | | |
| Fair value (loss) on cash flow hedges | **(5.5)** | (1.5) |
| Reclassification adjustments relating to cash flow hedges for amounts recognised in profit or loss | **0.7** | 1.8 |
| Income tax relating to items that may be reclassified subsequently to profit and loss | **1.5** | (0.1) |
| **Other comprehensive (loss)/income for the period, net of income tax** | **(3.3)** | 0.2 |
| **Total comprehensive income for the period** | **17.4** | 22.3 |
| Attributable to: | | |
| Equity holders of Healius Limited | **17.4** | 22.3 |

Notes to the financial statements are included on pages 23 to 34

# ***Condensed statement of financial position*** *as at 31 December 2018*

| | | CONSOLIDATED | |
|---|---|---|---|
| **As at** | Note | **31 December 2018 $M** | Restated 30 June 2018 $M |
| **Current assets** | | | |
| Cash | | **105.1** | 84.0 |
| Receivables | | **147.9** | 146.5 |
| Consumables | | **24.6** | 22.2 |
| Contract assets | | **32.3** | 34.1 |
| **Total current assets** | | **309.9** | 286.8 |
| **Non-current assets** | | | |
| Receivables | | **3.3** | 3.9 |
| Goodwill | 5 | **2,493.7** | 2,348.7 |
| Property, plant and equipment | 6 | **304.4** | 297.5 |
| Other intangible assets | 7 | **65.7** | 63.6 |
| Contract assets | | **44.1** | 50.7 |
| Other financial assets | | **10.3** | 10.5 |
| Deferred tax asset | | **70.3** | 64.6 |
| **Total non-current assets** | | **2,991.8** | 2,839.5 |
| **Total assets** | | **3,301.7** | 3,126.3 |
| **Current liabilities** | | | |
| Payables | | **235.1** | 227.1 |
| Tax liabilities | | **4.5** | 7.9 |
| Provisions | | **125.3** | 138.6 |
| Other financial liabilities | | **1.5** | 0.5 |
| Interest bearing liabilities | | **0.6** | 0.8 |
| **Total current liabilities** | | **367.0** | 374.9 |
| **Non-current liabilities** | | | |
| Payables | | **63.3** | 14.1 |
| Provisions | | **55.5** | 55.8 |
| Other financial liabilities | | **6.4** | 2.6 |
| Interest bearing liabilities | 8 | **756.9** | 860.0 |
| **Total non-current liabilities** | | **882.1** | 932.5 |
| **Total liabilities** | | **1,249.1** | 1,307.4 |
| **Net assets** | | **2,052.6** | 1,818.9 |
| **Equity** | | | |
| Issued capital | 11 | **2,671.2** | 2,424.2 |
| Reserves | | **7.8** | 12.9 |
| Accumulated losses | | **(626.4)** | (618.2) |
| **Total equity** | | **2,052.6** | 1,818.9 |

Refer to note 1 for details of the Group's adoption of new accounting standards during the period.

Notes to the financial statements are included on pages 23 to 34

## ***Condensed statement of changes in equity*** *for the half-year ended 31 December 2018*

| **CONSOLIDATED $M** | **Issued capital** | **Financial assets fair value reserve** | **Cash flow hedge reserve** | **Foreign currency translation reserve** | **Share-based payments reserve** | **Other reserves** | **Accumulated losses** | **Total** |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 July 2018** | **2,424.2** | **6.4** | **(2.1)** | **(0.9)** | **8.3** | **1.2** | **(618.2)** | **1,818.9** |
| Impact of AASB9 adoption | **–** | **–** | **–** | **–** | **–** | **–** | **(2.2)** | **(2.2)** |
| **Balance at 1 July 2018 (Restated)** | **2,424.2** | **6.4** | **(2.1)** | **(0.9)** | **8.3** | **1.2** | **(620.4)** | **1,816.7** |
| Profit for the period | **–** | **–** | **–** | **–** | **–** | **–** | **20.7** | **20.7** |
| Fair value gain/(loss) on cash flow hedges | **–** | **–** | **(5.5)** | **–** | **–** | **–** | **–** | **(5.5)** |
| Reclassification adjustments relating to cash flow hedges recognised in profit or loss | **–** | **–** | **0.7** | **–** | **–** | **–** | **–** | **0.7** |
| Income tax relating to components of other comprehensive income | **–** | **–** | **1.5** | **–** | **–** | **–** | **–** | **1.5** |
| **Total comprehensive income for the period** | **–** | **–** | **(3.3)** | **–** | **–** | **–** | **20.7** | **17.4** |
| Entitlement offer | **250.5** | **–** | **–** | **–** | **–** | **–** | **–** | **250.5** |
| Entitlement offer – fees and transaction costs | **(6.4)** | **–** | **–** | **–** | **–** | **–** | **–** | **(6.4)** |
| Entitlement offer – equity tax | **1.9** | **–** | **–** | **–** | **–** | **–** | **–** | **1.9** |
| Payment of dividends | **–** | **–** | **–** | **–** | **–** | **–** | **(28.7)** | **(28.7)** |
| Share based payments | **–** | **–** | **–** | **–** | **1.2** | **–** | **–** | **1.2** |
| Transfers | **–** | **–** | **–** | **–** | **(2.0)** | **–** | **2.0** | **–** |
| Share issued via Short Term Incentive Plan | **0.8** | **–** | **–** | **–** | **(0.8)** | **–** | **–** | **–** |
| Share issued via Sign On Arrangement | **0.2** | **–** | **–** | **–** | **(0.2)** | **–** | **–** | **–** |
| **Balance at 31 December 2018** | **2,671.2** | **6.4** | **(5.4)** | **(0.9)** | **6.5** | **1.2** | **(626.4)** | **2,052.6** |

| **CONSOLDATED $M** | **Issued capital** | **Financial assets fair value reserve** | **Cash flow hedge reserve** | **Foreign currency translation reserve** | **Share-based payments reserve** | **Other reserves** | **Accumulated losses** | **Attributable to owners of the parent** | **Non-controlling interest** | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 July 2017** | **2,422.8** | **7.5** | **(0.6)** | **(1.0)** | **4.6** | **–** | **(565.7)** | **1,867.6** | **1.5** | **1,869.1** |
| Profit for the period | **–** | **–** | **–** | **–** | **–** | **–** | **22.1** | **22.1** | **–** | **22.1** |
| Fair value gain/(loss) on cash flow hedges | **–** | **–** | **(1.5)** | **–** | **–** | **–** | **–** | **(1.5)** | **–** | **(1.5)** |
| Reclassification adjustments relating to cash flow hedges recognised in profit or loss | **–** | **–** | **1.8** | **–** | **–** | **–** | **–** | **1.8** | **–** | **1.8** |
| Income tax relating to components of other comprehensive income | **–** | **–** | **(0.1)** | **–** | **–** | **–** | **–** | **(0.1)** | **–** | **(0.1)** |
| **Total comprehensive income for the period** | **–** | **–** | **0.2** | **–** | **–** | **–** | **22.1** | **22.3** | **–** | **22.3** |
| Payment of dividends | **–** | **–** | **–** | **–** | **–** | **–** | **(30.2)** | **(30.2)** | **–** | **(30.2)** |
| Share based payments | **–** | **–** | **–** | **–** | **2.6** | **–** | **–** | **2.6** | **–** | **2.6** |
| Transfers | **–** | **–** | **–** | **–** | **(0.1)** | **–** | **0.1** | **–** | **–** | **–** |
| Acquisition of non-controlling interest | **–** | **–** | **–** | **–** | **–** | **1.2** | **–** | **1.2** | **(1.5)** | **(0.3)** |
| Share issued via Short Term Incentive Plan | **0.4** | **–** | **–** | **–** | **(0.4)** | **–** | **–** | **–** | **–** | **–** |
| **Balance at 31 December 2017** | **2,423.2** | **7.5** | **(0.4)** | **(1.0)** | **6.7** | **1.2** | **(573.7)** | **1,863.5** | **–** | **1,863.5** |

Notes to the financial statements are included on pages 23 to 34

## ***Condensed consolidated cash flow statement*** *for the half-year ended 31 December 2018*

| | Note | CONSOLIDATED<br>**31 December 2018 $M** | <br>31 December 2017 $M |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | **932.7** | 889.2 |
| Payments to suppliers and employees | | **(840.9)** | (762.2) |
| Gross cash flows from operating activities | | **91.8** | 127.0 |
| Interest paid | | **(15.5)** | (16.3) |
| Net income tax paid | | **(21.4)** | (6.0) |
| Interest received | | **0.7** | 0.5 |
| **Net cash provided by operating activities** | 13(b) | **55.6** | 105.2 |
| **Cash flows from investing activities** | | | |
| Payment for Day Hospital practices and subsidiaries | | **(67.3)** | – |
| Payments for property plant and equipment | | **(34.2)** | (31.1) |
| Payment for Medical Centre healthcare practitioners | | **(15.5)** | (16.1) |
| Payment for Medical Centre practices and subsidiaries | | **(19.5)** | (3.1) |
| Payment for Imaging healthcare practitioners | | **(0.1)** | (1.5) |
| Payment for Imaging practices and subsidiaries | | **(0.5)** | – |
| Payments for other intangibles | | **(8.5)** | (7.4) |
| Proceeds from the sale of property, plant and equipment | | **–** | 1.0 |
| Proceeds from intangibles | | **0.5** | – |
| Net payments for other subsidiaries acquired | | **–** | (0.3) |
| **Net cash used in investing activities** | | **(145.1)** | (58.5) |
| **Cash flows from financing activities** | | | |
| Proceeds from issuing shares, net of transaction costs | | **244.6** | – |
| Repayment of borrowings and finance lease liabilities | | **(105.3)** | (0.2) |
| Dividends paid | 12 | **(28.7)** | (30.2) |
| Other finance costs paid | | **–** | (3.8) |
| **Net cash used in financing activities** | | **110.6** | (34.2) |
| **Net increase in cash held** | | **21.1** | 12.5 |
| **Cash at the beginning of the period** | | **84.0** | 95.5 |
| Effect of exchange rate movements on cash held in foreign currencies | | **–** | – |
| **Cash at the end of the period** | 13(a) | **105.1** | 108.0 |

Notes to the financial statements are included on pages 23 to 34

## 1. Significant accounting policies

Healius Limited ("Healius"), formerly known as Primary Health Care Limited, is a for-profit entity domiciled in Australia. These financial statements represent the condensed consolidated financial statements of Healius for the half-year ended 31 December 2018 and comprises Healius and its subsidiaries (together referred to as "the consolidated entity" or "the Group").

**Statement of compliance**

This half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134 *Interim Financial Reporting*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting.* This financial report does not include all of the notes normally included within the annual financial report and should be read in conjunction with the 30 June 2018 annual financial report of Healius Limited.

**Basis of preparation**

This half-year financial report has been prepared on the basis of historical cost, except for the revaluation of certain financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Group's annual report for the financial year ended 30 June 2018, except for the new and amended standards adopted and set out below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

**New and Amended Standards Adopted**

New and amended accounting standards relevant to the Group that are effective for the period are as follows:

<u>AASB 15 Revenue from Contracts with Customers</u>

AASB 15 establishes a single comprehensive model for entities to use in accounting for revenue from contracts with customers and replaces previous revenue recognition guidelines.

The Group has adopted AASB 15 from 1 July 2018. Other than the treatment of up-front payments to doctors discussed below the adoption of this standard did not have a material impact on the financial statements.

Previously payments made by the Group to healthcare professionals on entering into contractual relationships were accounted for as intangible assets and amortised over the life of the relevant contract. Under AASB 15 consideration payable to a customer is accounted for as a reduction of the transaction price unless the payment is made in exchange for a distinct good or service that the customer transfers to the entity. As no distinct good or service is received by the Group from the healthcare professional in exchange for the payment made the adoption of AASB 15 has resulted in a classification adjustment on transition in regards to these payments.

Payments made by the Group to healthcare professionals are now recognised as a Contract Asset and are recognised as a reduction to the revenue recognised over the term of the relevant contract. The Group has elected to apply AASB 15 on a full retrospective basis and accordingly has restated the consolidated statement of profit or loss for the half-year ended 31 December 2017 and the consolidated statement of financial position as at 30 June 2018. As this change in accounting policy impacts the classification of certain items but not the timing of recognition in the income statement there is no adjustment to opening retained earnings for the Group on adoption of AASB 15.

**Impact on the Income Statement for the half-year ended 31 December 2017**

| | **Restated 31 December 2017 $M** | Restatement Increase (Decrease) $M | As Reported 31 December 2017 $M |
|---|---|---|---|
| Revenue | **832.7** | (23.8) | 856.5 |
| Amortisation | **10.2** | 23.8 | 34.0 |
| **Earnings before interest and tax** | **61.6** | - | 61.6 |
| **Profit for the period** | **22.1** | - | 22.1 |

**Impact on the Balance Sheet as at 30 June 2018**

| | **Restated 30 June 2018 $M** | Restatement Increase (Decrease) $M | As Reported 30 June 2018 $M |
|---|---|---|---|
| Contract assets – current | **34.1** | 34.1 | - |
| **Total current assets** | **286.8** | 34.1 | 252.7 |
| Other intangible assets | **63.6** | (84.8) | 148.4 |
| Contract assets | **50.7** | 50.7 | - |
| **Total non-current assets** | **2,839.5** | (34.1) | 2,873.6 |
| **Total assets** | **3,126.3** | - | 3,126.3 |

*Accounting Policies – Revenue*

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer. The Group recognises revenue when it transfers control of a good or service to a customer.

The Group recognises revenue from the following major sources:
- Provision of facilities and services to healthcare professionals;
- Provision of pathology services; and
- Provision of imaging and scanning services.

(a) Provision of facilities and services to healthcare professionals

Revenue from the provision of facilities and services to healthcare professionals (HCPs) is recognised as the performance obligation is satisfied over time. Revenue is recognised based on the services provided as at the reporting date.

An up-front payment may be made to a HCP when a facilities and services agreements is entered into. The payment is not made in exchange for a distinct good or service and accordingly the up-front payment is initially recognised as a contract asset. The contract asset is recognised as a reduction to the revenue recognised on a straight-line basis over the term of the relevant contract.

(b) Provision of pathology services and provision of imaging services

Revenue from the provision of pathology services and the provision of imaging services is recognised at the point in time when the relevant test has been completed.

AASB 9 Financial Instruments

AASB 9 introduces new guidance for the classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

The Group has adopted AASB 9 from 1 July 2018. In adopting this standard the following adjustments have been recognised:

- The measurement of the allowance for doubtful debts in relation to trade receivables has moved from an incurred credit loss approach to an expected credit loss approach under AASB 9. On adoption of the new standard the allowance for doubtful debts has increased by $1.7 million, deferred tax assets have increased by $0.5 million and the net adjustment of $1.2 million has been recognised as an increase in accumulated losses of $1.2 million as at 1 July 2018. Comparative balances have not been restated.
- The refinancing of the second tranche of the Syndicated Facility Agreement in December 2017 did not represent a significant modification and accordingly no amount of gain or loss was recognised in the income statement at the time. On adoption of AASB 9 the carrying amount of the facility is required to be remeasured and any adjustment recognised to accumulated losses. As at 1 July 2018 non-current interest bearing liabilities have increased by $1.5 million, deferred tax assets have increased by $0.5 million and accumulated losses have increased by $1.0 million. This amount will be recognised as a reduction to finance costs over the remaining term of the facility. Comparative balances have not been restated.
- The Group's investment in equity instruments that were previously classified as available-for-sale financial assets and were measured at fair value at each reporting date have been designated as at fair value through other comprehensive income. The change in fair value on these equity instruments continues to be accumulated in reserves and will now not subsequently be reclassified to profit or loss on derecognition. No adjustment was required to be recognised on adoption of AASB 9 for these equity instruments.

Other new and amended accounting standards

A number of accounting standards and interpretations have been published that are not yet effective as at the interim 31 December 2018 reporting period. The Group has elected not to early adopt these new standards or amendments in the financial report the most significant of which is AASB 16 *Leases*.

The Group continues to assess the impact of AASB 16 on the financial report. Please refer to the Group's annual report for the financial year ended 30 June 2018 for further details.

**Net current liability position**

The Group has a net current asset deficiency of $57.1 million (30 June 2018: $88.1 million). The Group generates significant operating cash flows and had access to $365.0 million of unused financing facilities at the end of the reporting period which can be drawn if required.

**Rounding of amounts**

Healius is an entity of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Report) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the financial report are rounded off to the nearest hundred thousand dollars, unless otherwise indicated.

**Comparative information**

Where necessary, comparative amounts have been reclassified and repositioned for consistency with current period disclosures.

## 2. Segment information

Operating segments are identified based on the way that the Chief Executive Officer and Board of Directors (also known as the chief operating decision makers) regularly review the financial performance of the business to assess performance and determine the allocation of resources. For internal management reporting purposes, the Group is organised into the following three divisions or operating segments:

| Operating segment | Activity |
|---|---|
| Pathology | This division provides pathology services. |
| Medical Centres | This division provides a range of services and facilities to general practitioners, specialists, dentists, IVF specialists and other health care providers operating in the bulk billing and private billing sectors. |
| Imaging | This division provides imaging and scanning services from stand-alone imaging sites, hospitals and from within the consolidated entity's medical centres. |

The other category comprises corporate functions.

The Group operates predominantly in Australia.

**Intersegment**

The Medical Centres division charges the Group's Imaging and Pathology divisions a fee for use of its facilities and services. These charges are eliminated on consolidation.

**Presentation of segment revenue and results**

Segment revenues and segment results are presented on an underlying basis.

Underlying results for the six months ended 31 December 2018 and 31 December 2017 exclude the impact of non-underlying items relating to:

- Items associated with restructuring and strategic initiatives;
- Fair value gains; and
- Non-recurring items.

## 2. Segment information (continued)

### Underlying

| 31 December 2018 | Pathology $M | Medical Centres $M | Imaging $M | Other $M | Total $M |
|---|---|---|---|---|---|
| **Segment Revenue** | **551.5** | **149.6** | **192.0** | – | **893.1** |
| Intersegment sales | | | | | **(22.5)** |
| **Total Revenue** [5] | | | | | **870.6** |
| **EBITDA** [1] | **59.0** | **29.6** | **26.4** | **(6.2)** | **108.8** |
| Depreciation | **10.0** | **9.9** | **6.7** | **1.5** | **28.1** |
| Amortisation of intangibles | **3.8** | **1.8** | **1.2** | **0.8** | **7.6** |
| **EBIT** [2] | **45.2** | **17.9** | **18.5** | **(8.5)** | **73.1** |
| Finance costs | | | | | **16.8** |
| **Profit before tax** | | | | | **56.3** |
| Income tax expense [3] | | | | | **16.9** |
| **Profit for the period** | | | | | **39.4** |

| 31 December 2017 | Pathology $M | Medical Centres $M | Imaging $M | Other $M | Total $M |
|---|---|---|---|---|---|
| **Segment Revenue** [4] | 534.0 | 140.9 | 176.6 | – | 851.5 |
| Intersegment sales | | | | | (18.8) |
| **Total Revenue** | | | | | 832.7 |
| **EBITDA** [1] | 67.0 | 30.7 | 26.0 | (5.5) | 118.2 |
| Depreciation | 9.7 | 8.7 | 7.0 | 1.3 | 26.7 |
| Amortisation of intangibles | 4.4 | 2.5 | 2.6 | 0.7 | 10.2 |
| **EBIT** [2] | 52.9 | 19.5 | 16.4 | (7.5) | 81.3 |
| Finance costs | | | | | 18.5 |
| **Profit before tax** | | | | | 62.8 |
| Income tax expense [3] | | | | | 18.8 |
| **Profit for the period** | | | | | 44.0 |

1. EBITDA is a non-statutory profit representing earnings before interest, tax, depreciation and amortisation.
2. EBIT is a non-statutory profit representing earnings before interest and tax.
3. Underlying income tax is calculated as 30% of underlying profit before tax.
4. Segment revenue has been restated to align with AASB15 and ensure comparability.
5. Statutory revenue includes $1.0m of non-underlying revenue.

**2. Segment information (continued)**

Reconciliation of underlying segment revenue to statutory revenue:

| | Segment Result | |
|---|---|---|
| | **31 December 2018 $M** | Restated 31 December 2017 $M |
| Total underlying revenue | **870.6** | 832.7 |
| Fair value gains | **1.0** | – |
| **Total statutory revenue** | **871.6** | 832.7 |

Reconciliation of underlying result to statutory profit before tax:

| | Segment Result | |
|---|---|---|
| | **31 December 2018 $M** | 31 December 2017 $M |
| Total underlying profit before tax | **56.3** | 62.8 |
| Restructuring and strategic initiatives | **(22.7)** | (17.7) |
| Fair value gains | **1.0** | – |
| Non-recurring items | **–** | (2.0) |
| **Total statutory profit before tax** | **34.6** | 43.1 |

Further information on the reconciliation between reported and underlying performance can be found in the review of operations on pages 3 to 13.

| 3. Finance costs | 31 December 2018 $M | 31 December 2017 $M |
|---|---|---|
| Interest expense | **16.0** | 15.7 |
| Amortisation of borrowing costs | **0.8** | 2.8 |
| | **16.8** | 18.5 |

The first tranche of the facility of $500.0 million is due to mature in January 2021 and the second of $625.0 million in January 2023.

| 4. Income tax expense | 31 December 2018 $M | 31 December 2017 $M |
|---|---|---|
| The prima facie income tax expense on the pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows: | | |
| Profit before tax | **34.6** | 43.1 |
| Income tax calculated at 30% (2017: 30%) | **10.4** | 12.9 |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | | |
| Amortisation of healthcare practitioner contractual relationships | **2.8** | 4.2 |
| Other items | **1.2** | 2.9 |
| | **4.0** | 7.1 |
| (Over)/under provision in prior years | **(0.5)** | 1.0 |
| Income tax expense | **13.9** | 21.0 |

**ATO objection decisions – years 2003-2007**

The Commissioner of Taxation disallowed Healius' objections for the years ended 30 June 2003 to 2007 (Objections) in relation to medical practice acquisitions after Healius received favourable decisions in both the Administrative Appeals Tribunal and Full Federal Court of Australia to treat the Objections as if they had been lodged within the required time period. Healius has filed an appeal to the Federal Court of Australia and is awaiting the hearing date. No amounts have been recognised in relation to this matter in either the current or comparative periods.

| 5. Goodwill | 31 December 2018 $M | 30 June 2018 $M |
|---|---|---|
| Opening balance – beginning of financial year | **2,348.7** | 2,315.5 |
| Acquisition of businesses and subsidiaries | **145.0** | 33.2 |
| | **2,493.7** | 2,348.7 |

## 6. Property, plant and equipment

| 31 December 2018 $M | Plant and Equipment | Leasehold Improvement | Asset under construction | Total |
|---|---|---|---|---|
| **Net book value** | | | | |
| **Opening balance** | **101.6** | **169.0** | **26.9** | **297.5** |
| **Additions** | **13.0** | **1.3** | **13.3** | **27.6** |
| **Business acquisitions** | **5.3** | **2.3** | **0.1** | **7.7** |
| **Capitalisation of assets under construction** | **19.5** | **10.3** | **(29.8)** | **–** |
| **Disposals** | **(0.3)** | **–** | **–** | **(0.3)** |
| **Depreciation expense** | **(12.4)** | **(15.7)** | **–** | **(28.1)** |
| **Closing balance** | **126.7** | **167.2** | **10.5** | **304.4** |
| | | | | |
| **Cost** | **338.3** | **366.9** | **10.5** | **715.7** |
| **Accumulated depreciation** | **(211.6)** | **(199.7)** | **-** | **(411.3)** |
| **Closing balance** | **126.7** | **167.2** | **10.5** | **304.4** |

| 31 December 2017 [1] $M | Plant and Equipment | Leasehold Improvement | Asset under construction | Total |
|---|---|---|---|---|
| Net book value | | | | |
| Opening balance | 96.2 | 172.3 | 30.5 | 299.0 |
| Additions | 5.8 | 2.2 | 16.0 | 24.0 |
| Capitalisation of assets under construction | 2.4 | 6.8 | (9.2) | – |
| Disposals | (0.5) | (0.1) | – | (0.6) |
| Depreciation expense | (13.6) | (13.1) | – | (26.7) |
| Closing balance | 90.3 | 168.1 | 37.3 | 295.7 |
| | | | | |
| Cost | 415.9 | 409.1 | 37.3 | 862.3 |
| Accumulated depreciation | (325.6) | (241.0) | – | (566.6) |
| Closing balance | 90.3 | 168.1 | 37.3 | 295.7 |

1. Comparative information has been provided for the 6 months ended 31 December 2017 in order to provide a meaningful comparison for movements in property, plant and equipment during the 6 month period. Comparative information for the 12 months ended 30 June 2018 can be found in the Group's 2018 annual report.

## 7. Other intangible assets

| **31 December 2018 $M** | **IT Software** | **Licences** | **Other** | **Intangible Under Construction** | **Total** |
|---|---|---|---|---|---|
| **Net book value** | | | | | |
| **Opening balance** | **33.0** | **11.4** | **3.5** | **15.7** | **63.6** |
| **Additions** | **0.6** | **–** | **2.1** | **7.0** | **9.7** |
| **Capitalisation of intangible assets under construction** | **15.9** | **–** | **–** | **(15.9)** | **–** |
| **Amortisation expense** | **(5.4)** | **(0.4)** | **(1.8)** | **–** | **(7.6)** |
| **Closing balance** | **44.1** | **11.0** | **3.8** | **6.8** | **65.7** |
| | | | | | |
| **Cost** | **111.4** | **40.3** | **8.0** | **6.8** | **166.5** |
| **Accumulated amortisation** | **(67.3)** | **(29.3)** | **(4.2)** | **-** | **(100.8)** |
| **Closing balance** | **44.1** | **11.0** | **3.8** | **6.8** | **65.7** |

| 31 December 2017 [1] $M | IT Software | Licences | Other | Intangible Under Construction | Total |
|---|---|---|---|---|---|
| Net book value | | | | | |
| Opening balance | 35.9 | 7.4 | 3.6 | 7.9 | 54.8 |
| Additions | 0.9 | – | 2.0 | 6.1 | 9.0 |
| Capitalisation of intangible assets under construction | 5.6 | – | – | (5.6) | – |
| Amortisation expense | (7.7) | (0.3) | (2.2) | – | (10.2) |
| Closing balance | 34.7 | 7.1 | 3.4 | 8.4 | 53.6 |
| | | | | | |
| Cost | 126.2 | 35.5 | 7.2 | 8.4 | 177.3 |
| Accumulated amortisation | (91.5) | (28.4) | (3.8) | – | (123.7) |
| Closing balance | 34.7 | 7.1 | 3.4 | 8.4 | 53.6 |

1. Comparative information has been provided for the 6 months ended 31 December 2017 in order to provide a meaningful comparison for movements in intangibles during the 6 month period. Comparative information for the 12 months ended 30 June 2018 can be found in the Group's 2018 annual report.

| 8. Interest-bearing liabilities | 31 December 2018 $M | 30 June 2018 $M |
|---|---|---|
| **Non-current** | | |
| Finance lease liabilities | **0.5** | 0.9 |
| Gross bank loans | **761.5** | 865.0 |
| Unamortised borrowing costs | **(5.1)** | (5.9) |
| | **756.9** | 860.0 |

The fair value of the non-current interest bearing liabilities approximates the carrying amount of gross bank loans disclosed above.

| 9. Net tangible asset backing | 31 December 2018 $ | 30 June 2018 $ |
|---|---|---|
| Net tangible (liability)/asset backing per share | **(1.05)** | (1.42) |

## 10. Contingent liabilities

There were no material changes in contingent liabilities since 30 June 2018.

| 11. Issued capital | No. of Shares 31 December 2018 000's | No. of Shares 30 June 2018 000's | 31 December 2018 $M | 30 June 2018 $M |
|---|---|---|---|---|
| Opening balance | **521,853** | 521,433 | **2,424.2** | 2,422.8 |
| Shares issued via Entitlement Officer, net of transaction costs | **100,183** | - | **246.0** | - |
| Shares issued via Short Term Incentive Plan | **218** | 90 | **0.8** | 0.4 |
| Shares issued via sign on arrangement | **69** | - | **0.2** | - |
| Shares issued via Retention Plan | - | 330 | - | 1.0 |
| **Closing balance** | **622,323** | 521,853 | **2,671.2** | 2,424.2 |

During August and September 2018 Healius raised approximately $250 million pursuant to an accelerated non-renounceable pro rata entitlement offer. The issue price was $2.50 per share and 100,182,944 shares were issued.

| 12. Dividends on equity instruments | 31 December 2018 Cents per share | 31 December 2017 Cents per share | 31 December 2018 $M | 31 December 2017 $M |
|---|---|---|---|---|
| **Recognised amounts** | | | | |
| Final dividend – previous financial year | **5.5** | 5.8 | **28.7** | 30.2 |
| **Total dividends paid** | **5.5** | 5.8 | **28.7** | 30.2 |
| | | | | |
| **Unrecognised amounts** | | | | |
| Interim dividend – current financial period | **3.8** | 5.1 | | |

The Directors have approved the payment of an interim dividend of 3.8cps 100% franked, to the holders of fully paid ordinary shares, the record date being 18 March 2019 and payable on 26 March 2019. The final dividend for the year ended 30 June 2018 was 100% franked (2017: 100% franked).

| 13. Notes to the cash flow statement | 31 December 2018 $M | 31 December 2017 $M |
|---|---|---|
| **(a) Reconciliation of cash** | | |
| For the purposes of the cash flow statement, cash includes cash on hand and in banks, net of outstanding bank overdrafts. Cash at the end of the period as shown in the cash flow statement is reconciled to the related items in the statement of financial position as follows: | | |
| Cash | **105.1** | 108.0 |

**(b) Reconciliation of profit from ordinary activities after related income tax to net cash flows from operating activities**

| | 31 December 2018 $M | 31 December 2017 $M |
|---|---|---|
| Profit attributable to equity holders | **20.7** | 22.1 |
| Depreciation of plant and equipment | **28.1** | 26.7 |
| Amortisation of HCP upfronts in revenue | **20.1** | 23.8 |
| Amortisation of intangibles | **7.6** | 10.2 |
| Amortisation of borrowing costs | **0.8** | 2.8 |
| Share based payments expense | **1.2** | 2.6 |
| Non-cash items | **(0.1)** | 0.6 |
| Increase/(decrease) in liabilities; | | |
| Trade payables and accruals | **(0.4)** | (4.2) |
| Provisions | **(13.6)** | 0.1 |
| Tax payable | **(3.6)** | 1.4 |
| Decrease/(increase) in assets; | | |
| Consumables | **(2.4)** | 0.2 |
| Receivables and prepayments | **(0.7)** | 5.3 |
| Income tax and deferred taxes | **(2.1)** | 13.6 |
| Net cash provided by operating activities | **55.6** | 105.2 |

## 14. Businesses Acquired

### (a) Montserrat Day Hospitals

On 19 October 2018 the Group acquired 100% of the issued capital of MB Healthcare Pty Ltd, the parent entity of the Montserrat Day Hospital Group ('Montserrat'). As at acquisition, Montserrat operates seven specialist day hospitals and haematology / oncology clinics across Queensland, Western Australia and New South Wales. The acquisition will assist in the diversification of revenue for the Group by growing non-Medicare revenues and also complements the existing businesses of the Group.

The goodwill of $119.7 million is attributable to the expected benefits arising from the acquisition, the strong and experienced management team that has been retained and the potential for future growth.

The aggregate fair values of the identifiable assets and liabilities of Montserrat as at the date of acquisition were:

| | 2018 $m |
|---|---|
| Current assets | **8.9** |
| Non-current assets | **4.9** |
| Current liabilities | **(8.4)** |
| Non-current liabilities | **(16.4)** |
| **Total identifiable net assets at fair value** | **(11.0)** |
| Non-controlling interest | **0.0** |
| Goodwill arising on acquisition | **119.7** |
| **Total consideration** | **108.7** |
| Less: Deferred consideration | **(54.3)** |
| **Cash paid to vendors on acquisition** | **54.4** |
| **Cash transferred to repay debt on acquisition** | **16.3** |
| **Total cash transferred on acquisition** | **70.7** |
| Less: Cash acquired | **(3.4)** |
| **Net cash transferred on acquisition** | **67.3** |

The deferred consideration recognised on acquisition consists of the following components:

- A deferred payment of up to $15 million which is payable no earlier than 1 July 2019 and is subject to the successful commissioning of three new facilities in South East Queensland and Western Australia and the completion of the purchase of a private hospital in Western Australia. As at 31 December 2018 the conditions have been met in relation to $11 million of this deferred payment and will be paid on 1 July 2019. As these amounts are expected to be paid within 12 months they have been recognised on an undiscounted basis.
- Earn-out payments that may be payable at the end of FY 2020 and FY 2021, depending on Montserrat achieving certain agreed financial milestones. The total consideration payable for Montserrat is capped and accordingly the earn-out payments are capped at $43.5 million. This component of the deferred consideration has been recognised on a discounted basis.

The contribution this acquisition made to the Group's profit during the period was not material due to the acquisition date being 19 October 2018.

The initial accounting for the Montserrat business combination has been performed on a provisional basis. The identification and fair value measurement of the assets and liabilities acquired remains ongoing as does the assessment of the fair value of the deferred consideration payable.

### (b) Other Businesses Acquired

The information provided below is aggregated for business combinations that have occurred during the period that are individually immaterial.

The initial accounting for the other businesses acquired has been performed on a provisional basis. The identification and fair value measurement of the assets and liabilities acquired remains ongoing as does the assessment of the fair value of the deferred consideration payable.

| | 2018<br>$m |
|---|---|
| Current assets | 1.7 |
| Non-current assets | 1.5 |
| Current liabilities | (0.5) |
| Non-current liabilities | (0.8) |
| **Total identifiable net assets at fair value** | 1.9 |
| Goodwill arising on acquisition | 25.3 |
| **Total consideration** | 27.2 |
| Less: Deferred consideration | (6.4) |
| **Cash paid on acquisition** | 20.8 |
| Less: Cash acquired | (0.8) |
| **Net cash paid on acquisition** | 20.0 |
| | |
| **Disclosed in the statement of cash flows:** | |
| Payment for Medical Centres practices & subsidiaries | (19.5) |
| Payment for Imaging practices & subsidiaries | (0.5) |
| | (20.0) |

## 15. Subsequent events

In January 2019, Healius received and rejected a non-binding indicative proposal from Jangho Hong Kong Limited (Jangho), a wholly owned subsidiary of the Jangho Group, to acquire all the shares in Healius that it does not already own by way of a Scheme of Arrangement.

Other than the above, there has not been any other matter or circumstance that has arisen since the end of the period that has significantly affected, the operations of the Group, the results of those operations, or the state of the affairs of the Group's future financial periods.