ASX Announcement (ASX: HLS)

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Healius announces 1H 2020 results, update on strategic initiatives

Healius Limited (ASX: HLS) today announced underlying[1] EBIT of $75.7 million and underlying NPAT of $42.1 million, increases of 4% and 8%, respectively, for the half-year ended 31 December 2019 ("HY 2020"). Reported EBIT was $45.0 million and reported NPAT was $66.3 million.

Group revenue grew by 7% to just under $1 billion supported by growth in Pathology and Montserrat. Underlying EBIT rose 10% in Pathology and 16% in Imaging but Medical Centres incurred a small decline, with stronger contributions from Montserrat and Health & Co.

	31 DECEMBER 2019 $M UNDERLYING	31 DECEMBER 2018 $M	31 DECEMBER 2019 $M REPORTED	31 DECEMBER 2018 $M
Revenue	**945.1**	878.9	**945.1**	878.9
EBIT	**75.7**	72.7	**45.0**	51.0
NPAT	**42.1**	39.1	**66.3**	20.4

Commenting on the results, Managing Director and Chief Executive Officer Dr Malcolm Parmenter said: "The performance across all of our divisions is starting to reflect the efficiencies from our organisational redesign and cost savings initiatives, known as the Sustainable Improvement Program.

"The strategy of investing in leading-edge IT infrastructure across the Group and enhancing our value proposition by renewing our Medical Centres model is also being validated in our performance, although we are incurring some short-term costs in the implementation phases. We are adjusting our plans and targets based on learnings as we move though these programs.

"A mix of volume and fee increases assisted Pathology to achieve above-market revenue growth while Imaging benefitted from new and expanded sites, including the Northern Beaches Hospital in Sydney and the Australian Defence Force Health Services contract in partnership with Bupa. Both Pathology and Imaging delivered good EBIT growth from the Sustainable Improvement Program.

"Some financial benefits are also emerging in Medical Centres from the investment initiatives, although the time taken to become familiar with new systems and service offerings had an impact on first half productivity. We also had a larger than expected number of GP retirements and service fee pressure in a competitive recruitment market.

[1] Underlying results have been shown before AASB 16 to enable comparability with 1H 2019, as Healius has adopted the modified retrospective approach in its reported results with prior periods not restated. From 1H 2021, underlying results will include the impact of AASB 16.

"Pleasingly, the transition to the new contracts is almost complete and the Healius brand continues to attract a large number of new GPs. In addition, having revolutionised both our consumer service offerings and our own systems and processes, we are seeing more diverse clinical cases, a differentiated patient experience, and efficiencies which will all help to drive revenue growth and cost control.

"Montserrat is beginning to exhibit the growth attributes expected with the ramp up of its new facilities. The flagship Westside Private Hospital in Brisbane is a good example, contributing $1 million of EBITDA in the half," Dr Parmenter concluded.

The Group's balance sheet remains solid with leverage well within covenants. With spend on strategic initiatives gated, there is a pause on major Project Leapfrog spend to allow newly created capacity to be filled and the required returns to be delivered prior to further centre refurbishments. In addition, rationalisation of non-underlying spend is in train and the size of the adjustments between reported and underlying results is expected to reduce materially in FY 2021.

The Board remains focused on managing debt levels to balance an optimal gearing ratio with capital needs and dividends. It has declared an interim dividend of 2.6 cents per share, fully franked, and representing a payout ratio of 38% of underlying NPAT, in line with the final dividend in FY 2019.

DIVISIONAL RESULTS

Pathology

In Pathology, a mix of stronger volumes (particularly in the first quarter) and fees delivered growth of 6% in 1H 2020 revenue to $583 million, while a 10% rise in EBIT to $50 million also reflected improved cost control. Both labour and Approved Collection Centre costs grew at a lower rate than revenue.

The upgrade to the Serum Work Area, which covers around 60% of all pathology tests, was completed in Laverty in NSW and QML in Queensland, with Dorevitch in Victoria underway. This upgrade increases automation, improves clinical methodologies and lowers cost per test.

Following a discovery period, an amended pathway to implementation of the Laboratory Information System (LIS) has been selected which is expected to deliver better alignment of benefits to spend and greater operational risk mitigation. Existing systems across the States will be upgraded and processes standardised, prior to a move onto a unified database and installation of additional modules, with SCC Soft Computer remaining part of the destination.

Pathology continues to achieve growth in niche specialities such as Genomic Diagnostics where breast cancer gene screening and pharmacogenomics are being developed, in addition to the successful growth in non-invasive prenatal testing.

Imaging

In 1H 2020, Imaging revenue grew by 5% to $202 million following successful contract wins. The division's EBIT increased by a strong 16% to $21 million, with margin expansion underpinned by savings in consumables and property expenses from the Sustainable Improvement Program.

Market volumes remain subdued, while benefits tracked in line with long-term averages according to the 12-months rolling Medicare data.

The rollout of the Imaging Core Application Refresh (iCAR) is nearing successful completion, with over 80% of sites now live and the balance expected to be undertaken during the second half of 2020. This program is already delivering efficiencies in operational savings and is expected to drive revenue uplift by enhancing the way the division interacts with referrers and their patients.

Further opportunities to improve returns will be delivered through the strategic focus on the higher margin hospital channel and large-scale high-end community sites, together with select M&As, a rationalisation of NSW community sites and cost control.

Medical Centres

The division's revenue rose 18% to $183 million, with Montserrat and Healius' Medical Centres driving most of the increase. Divisional EBIT declined by $1.6 million due to the performance of the Medical Centres, while Health & Co and Montserrat delivered good EBIT growth.

In the core Medical Centres momentum generated in 2H 2019 and continued good recruitment of GPs and patient demand were offset by GP retirements, service fee pressure and a short-term productivity dip from system familiarisation. Priorities to reverse this trend include better service levels to existing GPs, investment in frontline staff, a portfolio review of underperforming sites, and initiatives to deliver divisional Head Office efficiencies.

Montserrat operates day hospitals and haematology/oncology clinics, all of which have synergies with pathology and IVF. Improving technology and on-going cost pressures are moving patients away from high-cost overnight hospitals into day hospitals, with cancer treatments, cardiology, and orthopaedic procedures all projected to grow strongly in the outpatient setting. In the period, Montserrat delivered revenue of $18 million and EBIT of $2 million, exhibiting the anticipated growth characteristics and on track to deliver a return in line with the acquisition case.

The five Healius day hospitals generated a revenue increase of 22% but remained in EBIT loss with two new sites still ramping up. The Healius day hospitals are expected to benefit from incorporation into Montserrat's risk and billing systems and business development initiatives.

Health & Co grew its revenue by 30% to $11 million and contributed $2 million in EBIT, while Dental – one of the top four dental operations in Australia – grew its revenue by 8% to $20 million and generated $3 million in EBIT. Adora Fertility also achieved strong IVF market penetration and revenue growth, making a positive contribution to the Group on a whole-of-business basis.

Outlook

"The bottom end of our guidance has increased and we forecast underlying NPAT of between $96 million and $102 million for FY 2020, before the impact of AASB 16 and subject to any unforeseen circumstances. To achieve the top of the range, our second half volumes will require improvements in pathology in line with last year," Dr Parmenter stated.

"Our current strategic investment in leading-edge IT infrastructure across the Group and in renewing our medical centres model is aimed at delivering quality in our services to consumers and healthcare professionals alike, to underpin our sustainability.

"Through our recent strategic review, organisational redesign and sustainable improvement program, we have developed a clear pathway to cost efficiency, portfolio simplification, and growth initiatives in order to maximise shareholder value.

"As a part of this, we have today confirmed that we intend to explore a sale process of part or all of the Medical Centres business to focus on a range of growth initiatives in the Diagnostic divisions and, in time, the Day Hospital business."

ENDS

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For over 30 years Healius has been one of Australia's leading healthcare companies with a commitment to supporting quality, affordable and accessible healthcare for all Australians. Today Healius has three main businesses – pathology, medical centres and imaging - and three emerging businesses – dental, IVF and day hospitals. Through its unique footprint of centres and 13,000 employees, Healius provides diagnostic services to consumers and their referring practitioners, as well as enabling a range of independent healthcare professionals to deliver patient care in partnership with Healius' nurses and support staff.