

ASX Announcement (ASX: HLS)



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Trading update

- **Strong Pathology recovery and management cost initiatives underpinning delivery of approximately \$102-\$104 million Underlying EBIT and \$54-56 million Underlying NPAT from continuing operations in FY20**
- **Net debt of approximately \$670 million and bank gearing ratio of 2.7x at 30 June 2020 with good cash conversion and strong liquidity**
- **Sale of the Healius Primary Care¹ business:**
 - **Receipt of approximately \$470 million² in 1H21, to deliver significant balance sheet flexibility**
 - **Approximately \$110-\$120 million after-tax negative impact from discontinued operations in FY20, primarily due to a non-cash goodwill impairment**
- **Overheads to be right-sized in FY21 and FY22, together with ongoing margin expansion through the Sustainable Improvement Program**

Healius Limited (“Healius”) (ASX: HLS) today announced that it expects to report underlying EBIT of approximately \$102-104 million and underlying NPAT of approximately \$54-56 million from continuing operations for the year ended 30 June 2020.

FY20 unaudited results³ from continuing operations are as follows:

\$m Underlying	FY20 Unaudited	FY19 Actual
Pathology	114-116	111
Imaging	17	39
Montserrat Day Hospitals	3	1
Healius IVF/Day Hospitals	(10)	(4)
Corporate	(22)	(20)
EBIT continuing operations	102-104	127
Interest	(24)	(26)
Notional tax @ 30%	(24)	(30)
UNPAT continuing operations	54-56	71

¹ Healius Primary Care comprises 69 large scale medical centres, 13 Health & Co practices and 62 dental clinics. Four small scale medical centres have been retained by Healius and are in the process of being closed.

² Less part or all of \$75 million which will be deferred if the earnings of the dental clinics have not returned to pre-COVID-19 levels at the time of completion, plus or minus working capital adjustments and any further cost to complete.

³ FY20 unaudited results are based on preliminary, unaudited financial results for the year ended 30 June 2020. They remain subject to finalisation, audit and Board review and sign-off, and may change. The results are underlying and before the impact of adjustments for AASB16.

Group

Healius last updated the market on 15 June 2020 in which it noted a good growth in its activity post the impact of the COVID-19 pandemic and associated lockdown in Australia from mid-March. Today Healius announces a strong underlying result for FY20 driven by the Pathology division trading in combination with a rapid response by the Group to reduce costs at a time when the extent of the volume declines due to COVID-19 and the timing of any recovery was unknown.

Underlying EBIT includes approximately \$12 million in Government support in Pathology, for delivery of its essential services in return for certain availability, accessibility and employment undertakings, and in Montserrat and Healius Day Hospitals for JobKeeper and viability payments. Without this support, additional cost reduction would have been undertaken.

In the near-term, the Group is focused on the on-going proactive management of the business in the current dynamic situation, together with the simplification of the portfolio from the sale of Healius Primary Care, the execution of strategic initiatives and the delivery of cost savings from the Sustainable Improvement Program.

Pathology

Trading volumes

Since reaching a floor in its volume decline in early April, the Pathology division has experienced a good recovery in trading. At present, total volumes are running ahead of the prior comparable period and look likely to continue at strong levels in the near term.

COVID-19 testing has rapidly escalated due to various state-based testing initiatives and recent COVID-19 outbreaks, with Healius currently undertaking up to 16,000 COVID-19 tests per day including undertaking nearly 50% of private COVID-19 testing in Victoria.

Non-COVID pathology testing has grown with the reopening of the economy nationally and is currently in the order of 5-10% behind the prior comparable period.

FY20 contribution

The division responded to the March and April volume declines with strong cost control measures including closing collection centres and redeploying testing to other sites. Employment levels were maintained, and staff and unions worked with management throughout this tough period.

In combination with the receipt of Government support for its essential services in April and the strong trading performance since that time, these cost control measures delivered an underlying EBIT contribution of approximately \$114-\$116 million for FY20, slightly ahead of FY19.

While uncertainty remains around the extent and timing of the COVID-19 pandemic in Australia and the consequent impact on trading, Pathology's EBIT contribution is expected to grow significantly in FY21, assuming the continuation of the current strong volumes together with the execution of strategic initiatives and the delivery of cost savings from the Sustainable Improvement Program.

Imaging

Trading volumes

The Imaging division experienced a rapid decline in its volumes in late March and April as a result of the COVID-19 pandemic, at its worst in excess of 40% down on the prior comparable period. From May, volumes improved in line with the reopening of the economy and, in particular, with the resumption of elective surgery.

Currently, volumes are approximately 6% behind the prior comparable period, with different outcomes in different states due to the local impact of COVID-19. They will continue to fluctuate with changes in Government-mandated clinical activity.

FY20 contribution

Imaging traded ahead of the prior comparable period for the eight months to February 2020 with revenue, EBIT and EBIT margin growth.

In the four-month period to June 2020, measures to control costs, including temporary site closures, partially offset the impact of the volume decline. The division was not eligible to access any Government assistance, such as JobKeeper but, with the support of the unions, labour cost reductions were undertaken while maintaining employment levels.

Due to impact of COVID-19, Imaging is expected to deliver an underlying EBIT contribution for FY20 of approximately \$17 million, compared with \$21 million at 1H20.

While uncertainty remains around the extent and timing of the COVID-19 pandemic in Australia and the consequent impact on trading, Imaging's EBIT contribution is expected to grow in FY21 from annualised pre-COVID levels, assuming current volumes remain, in combination with strategic initiatives and cost savings from the Sustainable Improvement Program.

Day Hospitals (Montserrat, Healius Day Hospitals, IVF)

Trading volumes

Montserrat, Healius Day Hospitals and IVF were all impacted by relevant clinical restrictions in March and April but have since moved back towards pre-COVID levels with the lifting of these restrictions. Pleasingly, Montserrat's three new facilities including Westside Private Hospital have experienced strong volume growth since the end of clinical restrictions. As with Imaging, the current volumes remain subject to any changes in Government-mandated clinical activity.

FY20 contribution

Having contributed \$2 million in EBIT in 1H20, Montserrat is expected to record an EBIT contribution for FY20 in the order of \$3 million. Healius Day Hospitals and IVF are expected to record an EBIT loss of \$10 million in FY20, due to the closures of these businesses during the COVID-19 impacted period.

Balance Sheet and gearing

Net debt at 30 June 2020 was approximately \$670 million, delivering a bank gearing ratio of approximately 2.7x, comfortably below the covenant ceiling of 3.5x. This has been achieved through strong trading in Pathology, good cash conversion and a range of cash conservation measures including:

- rationalising the network of facilities;
- negotiating rent reductions and deferrals;
- deferring non-essential capital and project-related operating expenditure;
- reducing Director fees and salaried staff wages and bonuses; and
- deferring payment of the FY20 interim dividend.

Liquidity at 30 June 2020 was approximately \$425 million, following the successful refinance and extension of the first tranche of the Group's borrowing facilities.

Healius Primary Care

As announced in June, Healius has entered into a binding agreement to sell the Healius Primary Care business¹ to funds managed by BGH Capital. The separation process is proceeding on schedule and the sale is expected to complete during the first half of FY21, at which time Healius should receive cash proceeds of approximately \$470 million² which will deliver additional, significant balance sheet flexibility to the Group.

As part of the FY20 reported results, Healius expects to record an after-tax loss on discontinued operations in the order of \$110-\$120 million relating to Healius Primary Care. This reflects the current year's trading and the value achieved through the sale process net of the value of assets held on balance sheet and costs associated with the sale. The largest component will be a non-cash impairment of goodwill.

Healius after the sale, with margin expansion and strong cash generation

As a specialist diagnostics company with a growing day hospitals business, Healius is well-placed to leverage its established market positions and scalable businesses with a clear pathway to growth.

With the sale of Healius Primary Care, Healius will have balance sheet flexibility and a good level of available liquidity together with a significantly reduced requirement for 'business as usual' capital expenditure from its continuing operations.

In the near-term and outside of the impacts of COVID-19, margin expansion is being delivered through the Sustainable Improvement Program. This program will continue in FY21 and beyond, through a range of additional initiatives, including embedding cost reduction initiatives brought forward as a result of COVID-19. Further details on the program, deliverables and targets will be set out in the FY20 results announcement.

Work continues in FY21 to transition the business to the new operating model reflecting the simplified portfolio following the Healius Primary Care sale. Overhead costs are expected to reduce in FY21 and FY22.

Given the current dynamic situation in the country due to COVID-19 outbreaks and the consequent impact, both positive and negative, on volumes across the Group, Healius expects to update the market on its trading on a regular basis throughout FY21.

In conclusion, Dr Malcolm Parmenter, CEO and Managing Director of Healius, stated: "Our overriding priority is the health and safety of patients, healthcare practitioners and our people. Our rapid response in setting up drive-through collection centres, expanding pathology testing capabilities and delivering GP telehealth services demonstrates commitment to our critical frontline role in the fight against COVID.

"I want to thank our people for their dedication, caring, and professionalism over the past few months with the demands of the COVID-19 pandemic and the disruption to "normal" business. I am enormously proud of the way they have responded and our success in these results is in no small way due to them. This will help to provide a secure future for all those who work for Healius.

"While our volumes are moving all the time and are difficult to predict, we are encouraged by the current strong trading levels in Pathology, our largest business. Looking to the future, strong growth should continue, as we deliver critical and largely non-discretionary health services, whether for COVID-19 or all other health matters, at scale and underpinned by consistent, long-term demand."

ENDS

The release of this announcement has been authorised by the Board.

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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.