ASX Announcement (ASX: HLS)

ACN 064 530 516
REGISTERED OFFICE:
LEVEL 6
203 PACIFIC HIGHWAY
ST LEONARDS NSW 2065
TEL: +61 2 9432 9400
FAX: +61 2 9432 9447

ASX Limited
Market Announcements Office
Exchange Centre
Level 4, 20 Bridge Street
Sydney NSW 2000

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Healius Announces Half Year 2019 Result

Healius Limited (ASX: HLS) today announced underlying NPAT of $39.4 million and reported NPAT of $20.7 million for the six months ended 31 December 2018.

Performance	**Underlying**[1]		**Reported**	
Six months ended $m	**31 December 2018**	**31 December 2017**	**31 December 2018**	**31 December 2017**
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

Underlying EBIT of $73.1 million reflected a 13% increase in the contribution from Imaging and a good performance in Medical Centres, partially offsetting a decline in Pathology which was impacted by previously announced and mainly short-term headwinds. All divisions experienced soft market conditions in the period.

The Board has declared an interim fully-franked dividend of 3.8 cents per share, representing a payout ratio of 60% of underlying NPAT.

Commenting on the results, Managing Director and Chief Executive Officer Dr Malcolm Parmenter said: “Healius has three core businesses in pathology, medical centres and imaging and three emerging businesses in dental, IVF and day hospitals. Together, they give us a unique market position in the Australian medical landscape.

“Through a number of initiatives, we are shifting our value proposition to deliver care when, where and how consumers need it. The repositioning of the Medical Centres business, known as Project Leapfrog, the development of efficient IT platforms in Pathology and Imaging, and the modernisation of our corporate support functions are key. On completion, we expect them to deliver material benefits to our shareholders.

“The brand, Healius, underscores the new value proposition, a signal of change to healthcare professionals who are considering working in our network.

“We are just over 12 months into our change agenda and the result today contains a number of positive trends - green shoots if you will - as we near the end of our GP contract transition period and see early signs of traction on our initiatives.

[1] Underlying results for the six months ended 31 December 2018 exclude the impact of non-underlying items relating to restructuring and strategic initiatives.

"The EBIT contribution from Medical Centres grew nearly 50% from its lows in the second half of 2018, with recruitment of GPs up 48% and confidence in our pipeline continuing to strengthen. In January a record 32 new GPs joined us and gross billings grew to an average of $234 per hour.

"Imaging's contribution was up nearly 13% with strategic initiatives, including the Northern Beaches Hospital contract, bearing fruit. We continue to expect significant ongoing improvement in this business.

"Looking at our emerging businesses, dental is growing strongly and we are confident in the future of our IVF business with huge demand for low cost IVF services in this country. By acquiring Monserrat, we have a portfolio of 13 day hospitals, an experienced team and a platform for growth in a sector which is on the cusp of technology and cost-led transformation in Australia.

"We look forward to the second half delivering a stronger result, with underlying market volumes in all divisions expected to trend back towards historic norms and our efficiency drives in Pathology and Imaging, implemented in the first half, delivering benefits in the second with a $10 million EBIT uplift targeted," Dr Parmenter concluded.

Turning to cash flow, one-off back payments to resolve legacy matters in Medical Centres and Dorevitch contributed to a reduction in cash flow, together with a return to a more normal tax payments schedule after the receipt of a large refund in 1H 2018. Both legacy matters were fully provided for in prior periods. The Montserrat acquisition was successfully completed and investment was made in a number of other growth initiatives, all of which are expected to become strong cash contributors in time. As a result, net debt at 31 December 2018 was $652.4 million.

The company has adopted AASB 15 from 1 July 2018. This required the reclassification of upfront payments to healthcare professionals, with a $20.1 million reduction in revenue and EBITDA but no impact on EBIT and NPAT.

DIVISIONAL RESULTS

Pathology

Pathology revenue rose 3.3% to $551.5 million, reflecting good fee growth and strong increases in specialties such as genetics, offset by soft underlying volume growth. This was driven in part by a benign winter flu season.

EBIT declined to $45.2 million due to this soft volume growth, cycling the loss of the national bowel screening contract and higher labour costs in Dorevitch, following resolution of the aforementioned legacy matter.

"We have a great business in our pathology division, with strong state-based brands all positioned as number one or two in their markets.

"We view the underlying volume softness as an aberration and expect an improvement throughout the remainder of the second half and a return to long-term growth rates of 4% to 5%.

"The business has responded to the soft market conditions and changes to its cost structure with significant productivity initiatives underway which will deliver savings in the second half and into FY 2020," Dr Parmenter stated.

Medical Centres

EBIT for Medical Centres was $17.9 million ($17.0 million for Healius Medical Centres and $0.9 million for Health & Co), nearly 50% higher than the previous six months result.

“While pleased with the uplift, I believe we will perform better in the future. We are undertaking a series of strategic initiatives to make the most of our footprint of centres, which are unique in size, range of services and patient flow opportunities. Overall Leapfrog is targeting an average of $1 million EBIT per centre,” said Dr Parmenter.

Through a multi-channel approach, a 48% increase in new GPs was achieved in the period. With an additional 32 new GPs in January, we expect the second half to maintain strong growth.

By increasing operational efficiency, Leapfrog is transforming the way things are done. The roll-out of appointment capability and other process improvements continues apace, with proven productivity benefits. Pilot sites are trialling e-recalls and self-check-in kiosks, and a new online service which enables patients to join the queue remotely is being developed.

With better utilisation of centre footprints, Healius is creating the equivalent of four new large-scale centres. Maroubra, the first centre, is open for business with new and improved GP, dental, women’s health, treatment and physio rooms. In total 15 centres will be uplifted and expanded by 30 June 2019.

During the period, IVF successfully opened its fourth clinic at Craigie, WA and in Victoria IVF moved to the Greensborough day hospital, lifting patient capacity. Overall cycles were up 14% and revenue 18%.

“Since the acquisition of Monserrat in late October, integration activities are progressing well and the business is performing to our expectations with two new sites opening very positively. We have had engagement with a number of private health insurers which has only served to strengthen our views on the growth potential for this business,” Dr Parmenter commented.

Imaging

Imaging grew revenue by 8.7% and EBIT by 12.8% with continued strength in CT and MRI modalities, notwithstanding softer market growth overall.

Pleasingly in the period, the division won the imaging services contract for ADF Health Services, as partner to BUPA.

The Northern Beaches Hospital contract in New South Wales commenced in October 2018, with a new fully-licenced MRI. It has experienced good volumes from day one. Imaging also opened a large-scale centre at Port Macquarie with a fully-licenced MRI facility and PET/CT capabilities, an important first in the region, and successfully redeveloped St Vincent’s Private Hospital Northside in Queensland.

The roll-out of the Imaging Core Application Refresh project, or iCAR, continued during the period with 30 sites now live, 50% of radiologists trained and over $11 million of annualised benefits identified.

Importantly, the business has a range of productivity initiatives underway which will deliver savings in the second half and into FY 2020.

OUTLOOK

The 1H 2019 result was below the normal run-rate, with soft market conditions experienced in all 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 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.

“A year into our transformation, the result today contains early proof of traction,” Dr Parmenter commented.

“Looking to the future, our change agenda requires investment ahead of returns and the benefits inevitably take time to be fully realised. Nevertheless we remain confident in our ability to deliver on this agenda.

“Given the scale of our businesses and strong growth in frontline healthcare services, the opportunity in front of us is unique. We are positioning Healius to be a major beneficiary long into the future.”

ENDS

For further information contact:

Investors and analysts
Janet Payne
Group Executive, Corporate Affairs
Phone: +61 2 9432 9512
Mobile: +61 409 995 517

Cecile Schedler
Manager, Corporate Affairs
Phone: +61 2 9432 9558
Mobile: +61 466 355 608

Media
Katie Pearson
Manager, Corporate Affairs
Phone: +61 2 9432 9599
Mobile: +61 435 652 967

For over 30 years Healius has been one of Australia’s leading listed healthcare companies with a commitment to supporting quality, affordable and accessible healthcare for all Australians. Through an expansive network of multi-disciplinary medical centres, pathology laboratories, diagnostic imaging centres and day hospitals, Healius provides world class facilities and support services to independent GPs, radiologists, specialists and other healthcare professionals, enabling them to deliver quality care to patients in partnership with Healius’ pathologists, nurses and other employees. Healius’ ‘medical home’ model makes healthcare services easily accessible and cost efficient, while enabling the coordination and continuity of patient care.