

ASX Announcement (ASX: HLS)

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

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ACN 064 530 516
REGISTERED OFFICE:
Level 22
161 Castlereagh Street
SYDNEY NSW 2000
+61 2 9432 9400
healio.com.au

Healio announces interim unaudited results

Following its trading update on 28 November 2022, Healio today announces its interim unaudited results for the six months ended 31 December 2022 (1H 2023) in comparison to the prior comparable period (pcp).

Healio has not published a forecast for FY 2023 due to unpredictability in trading. 1H 2023 underlying results are set out below with further details in the Appendix. Healio expects trading in 2H 2023 to be materially stronger than 1H 2023 and hence expects a higher skew towards 2H 2023 results than historical trends.

| Underlying results ^{1,2,3} | 1H 2023 | 1H 2022 | 1H23 v 1H22 | 1H23 v 1H22 |
|-------------------------------------|----------------|-----------------------------------------|-------------|-------------------------|
| Working days | 127 | 129 | Actual | Normalised ⁴ |
| | \$'m | \$'m | % | % |
| BAU Revenue | 824.9 | 799.1 | 3.2 | 2.8 |
| COVID-19 | 64.4 | 539.9 | (88.1) | (87.9) |
| Total Revenue | 889.3 | 1339.0 | (33.6) | (33.7) |
| EBITDA | 182.0 | 510.8 | (64.4) | (64.2) |
| | 1H 2023 | 1H 2020 (last pre-COVID trading) | | |
| EBITDA margin | 20.5% | 20.5% | | |

1H 2023 TRADING

- As announced in its four-months trading update to October 2022, Healio saw the cessation of large scale COVID-19 testing and the commencement of BAU recovery from lows in July 2022. For the four months, BAU Pathology revenue was 3.3% ahead of pcp (normalised for working days and Agilex). Imaging experienced a stronger recovery with revenue 9.9% ahead of pcp (normalised for working days).
- In November, the recovery appeared to slow with MBS⁵ BAU Pathology benefits down 6.9% on pcp and Imaging benefits up 1.2%. Pleasingly Healio's trading outperformed MBS in both divisions.

¹ 1H 2023 underlying results are based on preliminary, unaudited financial results for the six months ended 31 December 2022. They remain subject to finalisation, audit and Board review and approval, and may change.

² Non-underlying items of ~\$9.5 million (post-tax) are expected to be recognised in 1H 2023 financial statements relating to pathology digital transformation, acquisition and disposal costs, as well as restructuring and termination costs due to the current reset programs and recently announced CEO transition.

³ Healio understands that there is inconsistency in treatment of the Day Hospitals division within market consensus. Healio will report the Day Hospitals segment as a discontinued operation in its 1H 2023 results in line with accounting standards. However, it has included the Day Hospitals division in this announcement for comparability with market consensus.

⁴ Normalised for working days and Agilex acquisition in 2H 2022.

⁵ Medicare Benefits Schedule.

- In December, while MBS data is not yet available, both divisions experienced the traditionally lower 'holiday' trading (December historically sees around 85% of average monthly volumes⁶).
- COVID-19 testing remained broadly stable at ~3,500 per working day in November and December 2022, after recording a 75% drop in testing from July to October.
- Overall Healius' trading in 1H 2023 compared to pcg was:
 - Pathology BAU revenues up 1% (normalised for working days and Agilex)
 - Lumus Imaging revenues up 8.3% (normalised for working days)
 - COVID revenues down 87.9% (normalised for working days).

2H 2023 TRADING

- In late January/early February daily revenues are returning to pre-Christmas levels.
- Healius expects BAU trading in 2H 2023 to be materially stronger than 1H 2023, with the recovery in BAU testing to continue.
- Healius also expects to undertake between 1,000-2,000 COVID tests per working day.

MARGIN PERFORMANCE

- The Healius business is highly leveraged to volumes.
- In 1H 2023, the drop in margins was the result of the rapid decline in COVID-testing demand, compounded by the fee cut introduced in October 2022 and the slow recovery in healthcare impacting the resumption of BAU testing.
- Comparison to pcg is coloured by the record revenue and record margins achieved during 1H 2022 due to the surge in COVID-19 testing in the January Omicron wave.
- In response to the current demand levels, Healius has undertaken significant cost restructuring and will continue this drive to ensure it delivers the most efficient operating model. Currently Healius has on foot the following initiatives:
 - Resetting labour to match volume with FTEs/Episode and FTEs/Exam now below FY 2019 levels.
 - Removing COVID-related costs with all direct costs except for equipment depreciation exited out by 31 December 2022.
 - Implementing an aggressive sourcing strategy to offset inflation.
- Whilst managing costs is critical, Healius is also focused on driving higher-than-market revenue growth. Healius' growth in Pathology has been assisted by contract wins and better yield/ACC. Imaging investment in e-referrals, a single-brand digital presence, and contract wins have driven the above-market revenue growth in the period.
- Healius will continue to invest in systems and capabilities including:
 - Higher-margin imaging modalities,
 - Customer and referrer digital experience,
 - Expanded footprint and upgraded facilities, and
 - Operating processes and capability for frontline staff.
- Above-market revenue growth and strong cost control as well as the expected recovery in BAU market volumes will deliver margins accretion.
- Details on the go-forward cost base and SIP 2 progress will be covered in 1H 2023 Results Market Briefing.

⁶ Based on data from FY 2016 to FY 2020 (pre-COVID).

ASSET BASE RESTRUCTURING

- To optimise return on invested capital and invest in the higher margin sites while managing the tail of small, lower-performing sites, Healius has reviewed its portfolio of assets in Imaging.
- It is taking a non-cash pre-tax impairment of circa \$39 million primarily relating to the 3rd party GP medical centre leases (right of use assets under AASB 16) in Lumus Imaging.

BALANCE SHEET

- The preliminary bank gearing ratio at 31 December 2022 was approximately 3 times⁷ compared to a covenant ceiling of 3.5 times.
- Healius expects to remain within its covenants at the end of FY 2023.
- Cash proceeds of \$127 million (before earn-out) from the Day Hospitals sale are expected to be received at the end of March 2023.

LONGER-TERM FUNDAMENTALS

- The drivers of diagnostic testing remain strong and Healius expects reversion to long-term growth trends.
- Healius is positioning itself to capitalise on this growth by resetting its cost base and by investing in higher-margin and higher-growth segments.

ENDS

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

For further information contact:

Janet Payne
Group Executive, Corporate Affairs
Mobile: +61 409 995 517

Charlene Jaw
Manager, Corporate Affairs
Mobile: +61 403 222 810

For over 30 years Healius has been one of Australia's leading healthcare companies, committed to supporting quality, affordable and accessible healthcare for all Australians. Today, Healius has two core diagnostics businesses, pathology and imaging. Through its unique footprint of centres and its 11,000 employees, Healius provides Australia-wide specialty diagnostic services to consumers and their referring practitioners.

⁷ 1H 2023 preliminary bank gearing ratio is based on preliminary, unaudited and underlying financial results for the six months ended 31 December 2022. It remains subject to finalisation, audit and Board review and approval, and may change.

APPENDIX: UNDERLYING RESULTS

| Underlying results ^{1,2,3} | 1H 2023 | 1H 2022 | 1H23 v 1H22 | 1H23 v 1H22 |
|---------------------------------------------------------------|--------------------|---------------------|-------------|------------------------------|
| Working days | 127 \$'m | 129 \$'m | Actual % | Normalised ⁴ % |
| Revenue | | | | |
| Pathology BAU | 585.1 | 572.4 | 2.2 | 1.0 |
| Imaging | 212.8 | 199.6 | 6.6 | 8.3 |
| Other (including intersegment adjustments) | 1.8 | 3.2 | (43.8) | - |
| BAU Revenue | 799.7 | 775.2 | 3.2 | 2.7 |
| Montserrat Day Hospitals (including intersegment adjustments) | 25.2 | 23.9 | 5.4 | 7.1 |
| BAU Revenue (including Day Hospitals) | 824.9 | 799.1 | 3.2 | 2.8 |
| COVID-19 | 64.4 | 539.9 | (88.1) | (87.9) |
| Total Revenue (including Day Hospitals) | 889.3 | 1339.0 | (33.6) | (33.7) |
| EBITDA | | | | |
| Pathology | 136.5 | 473.1 | (71.1) | |
| Imaging | 46.9 | 43.5 | 7.8 | |
| Corporate | (6.6) | (12.6) | 47.6 | |
| EBITDA (Continuing operations) | 176.8 | 504.0 | (64.9) | |
| Montserrat Day Hospitals | 5.2 | 6.8 | (23.5) | |
| EBITDA (including Day Hospitals) | 182.0 | 510.8 | (64.4) | (64.2) |
| D&A (Continuing operations) | (136.8) | (130.9) | (4.5) | |
| EBIT (Continuing operations) | <u>40.0</u> | <u>373.1</u> | (89.3) | (89.2) |
| Montserrat Day Hospitals | <u>1.4</u> | <u>3.0</u> | (53.3) | |
| EBIT (including Day Hospitals) | 41.4 | 376.1 | (89.0) | (88.9) |

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