

ASX Announcement (ASX: HLS)



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Sale of Medical Centres and Market Update

- **Sale of Medical Centres for \$500 million**
- **Revenues recovering strongly in line with opening of broader economy**
- **Renegotiation and extension of banking facility**

Healius Limited ("Healius") (ASX: HLS) today announced it has entered into a binding agreement to sell the Healius Primary Care business¹ to funds managed by BGH Capital ("BGH Capital") for an enterprise value of \$500 million on a cash and debt free basis.

Healius' Managing Director and Chief Executive Officer, Dr Malcolm Parmenter, said: "The successful sale of Medical Centres has been achieved at an attractive valuation for us, despite the challenging environment from the COVID-19 pandemic, testament to the quality of this business.

"This sale is consistent with our strategy of simplifying our portfolio and focusing on our leading and scalable diagnostics and day hospital business, in order to deliver on our mission of seeking and sustaining life-enhancing healthcare through people who care.

"The proceeds will strengthen the company, reducing our net debt and freeing up capital for investment, while enabling shareholders to realise the value of the Medical Centres business, which has not been reflected in our share price."

Key terms of the transaction

BGH Capital will acquire 100% of Healius Primary Care for an enterprise value of \$500 million. BGH Capital is a leading Australian based private equity firm, committed to building strong and sustainable market-leading businesses with extensive investment experience in Australian healthcare.

Healius will retain Day Hospitals and IVF which currently sit within its Medical Centres division. Importantly, Healius will continue to operate its existing pathology collection centres and imaging clinics located within the medical centres under long term leases at rents consistent with current levels.

On completion, Healius expects to receive cash proceeds of approximately \$470 million which represent \$500 million enterprise value less separation and completion costs to be funded by Healius and future earn-outs to be funded by BGH².

Reflecting the significant disruption in dental activities due to COVID-19 restrictions, up to \$75 million of these proceeds may be deferred if the earnings of the dental clinics have not returned to pre-COVID-19 levels at the time of completion. Any outstanding balance will be paid over the 18 months following completion once the business returns to previous trading levels.

Completion of the transaction is expected to occur before the end of 2020 and remains subject to a number of customary conditions including approval by the Foreign Investment Review Board. The

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 Subject to movements in working capital and capital expenditure over the period until completion.

transaction is not subject to arrangement of funding since BGH Capital have provided committed debt and equity funding for the transaction. Healius expects to receive consent for the divestment from its own banking syndicate by the end of June.

To support separation, Healius will provide Healius Primary Care with certain services on commercial, arm's-length terms for approximately 12 months following completion. Healius Primary Care will be permitted to use the Healius name during this period.

Healius retains the rights to an income tax refund totalling approximately \$70 million (including interest), associated with a court case on the treatment of healthcare practitioner lump-sum payments for financial years 2003-2007. An appeal by the Commissioner of Taxation to the Full Court of the Federal Court is expected to be heard in August this year.

Healius after the sale

As a specialist diagnostics company with a growing day hospitals business, Healius will be well-placed to leverage its established market positions and scalable businesses with a clear pathway to enhanced shareholder value. Healius will complete the rightsizing of its corporate cost base to reflect its smaller and more streamlined portfolio.

The sale proceeds of approximately \$470 million will be utilised to strengthen the balance sheet and support growth initiatives in Pathology and Imaging and, in time, the Day Hospitals business. These proceeds reduce the proforma gearing ratio at 31 December 2019 from 2.7x to approximately 1.5x³.

Trading update and banking facility

Healius provided its most recent COVID-19 trading update on 14 April 2020, in which it noted early signs of stabilisation and recovery in its revenues. Since that time and in line with the opening up of the broader economy, Healius has experienced good growth in activity in its diagnostics businesses supported, in part, by increased COVID-19 testing in Pathology. Day Hospitals, Dental and IVF are also moving back towards pre-COVID levels following the lifting of relevant clinical restrictions, while Medical Centres has experienced strong revenues throughout the COVID period, underpinned by telehealth services.

As the business returns to more normal trading levels, Healius will be looking to reset its cost base by entrenching a number of the short-term cost reductions undertaken as a result of COVID-19 through its Sustainable Improvement Program. Further details on the program will be set out as part of the FY20 results announcement.

As previously stated, the company is confident that it will maintain its bank gearing ratio below 3.0x at 30 June 2020 (prior to cash proceeds from the Medical Centres sale), through a combination of revenues, cost reductions, cash conservation and Government funding.

Healius has today successfully signed the refinance of its syndicated bank debt facility of \$500 million which was due to mature in January 2021. The facility has been increased by \$70 million to \$570 million and its maturity extended to January 2024, with covenants remaining unchanged. The funding of the facility is subject to satisfaction of customary conditions precedent which is anticipated to be confirmed by the end of June.

Dr Parmenter concluded: "This is a seminal moment in the history of Healius, which was founded as a medical centres business by Dr Edmund Bateman in 1985 and grew to over 86 medical centres, including the Health & Co clinics.

"Over the past few years we have transformed the operations of the business, with new and extended patient offerings, more flexible doctor contracts and updated facilities and systems. I am confident that, backed by the financial strength of BGH Capital, the business will continue to successfully serve the Australian community in the provision of quality, accessible and affordable frontline healthcare."

³ Assuming no deferral of consideration for the dental clinics and excluding any contingent liabilities to be retained.

“I would like to express my gratitude and appreciation for the contribution Scott Beattie, Lisa Conway and everyone in Healius' Medical Centres and Dental businesses and Health & Co have made over the years. I especially thank them for their dedication and professionalism shown during the COVID-19 pandemic this year and wish them well in what will be an exciting future in partnership with BGH Capital.”

Robin Bishop, Founding Partner at BGH Capital said, “This is an important acquisition for BGH Capital and we look forward to partnering with the Healius Primary Care team to help it thrive, standalone. We recognise the critical role Healius Primary Care plays in frontline care in Australia and we are excited about the opportunity to invest in and expand its existing services.”

David Brooks, Partner at BGH Capital said “We would like to acknowledge the hard-working efforts of Healius Primary Care's team of healthcare professionals, dentists, nurses, allied health, support staff and management, particularly during this COVID-impacted period. We will be focussed on building a collaborative work environment to support the team's ongoing delivery of high-quality care to patients in this country.”

ENDS

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

Investor and Analyst Briefing:

Healius will hold a briefing for Investors and Analysts today at 11.00am (AEST). Media are welcome to listen in to the briefing.

Briefing Registration

Participants will be required to pre-register at least 10 minutes prior to the commencement of the event using the following link: <https://s1.c-conf.com/diamondpass/10005796b-invite.html>

Registered participants will receive a calendar invitation with the dial-in details and a unique code which is to be quoted when dialling in to the call. **Please allow 5 minutes for your unique code to activate.**

To ask a question following the presentation you will need to dial “*1” (star, 1) on your telephone keypad.

Webcast link

A link to the webcast of the presentation can be accessed via: <https://webcast.openbriefing.com/6177/>

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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.