

ASX Release

26 October 2017

LifeHealthcare Group Limited (ASX: LHC) 2017 Annual General Meeting Chairman's Address

Ladies and Gentlemen, welcome to the 2017 Annual General Meeting of LifeHealthcare Group Limited.

It is 9.30am and a quorum is present and I declare the meeting open.

My name is Bill Best, the Chairman of LifeHealthcare Group Limited and with me are:

- Matt Muscio, Managing Director and Chief Executive Officer
- John Hickey, Non-executive Director and Chair of the Audit and Risk Committee
- Donna Staunton, Non-executive Director and Chair of the Remuneration and Nominations Committee
- Dean Taylor, Chief Financial Officer and Company Secretary

Our other Non-executive Director, Heith Mackay-Cruise is not able to attend today's meeting due to health reasons.

We also have with us today, Shannon Maher of PricewaterhouseCoopers, our company's auditors.

Before we begin formal proceedings, I would like to address you all on the financial year 2017 results and significant events to date in financial year 2018.

Financial year 2017 was the fourth financial year result that LifeHealthcare has delivered since listing on the Australian Stock Exchange in December 2013. In that time we have grown the business and made substantial progress in the development of the brand and workplace culture.

> Not your typical multinational

In the last year a considerable amount of effort has also been focussed on working with our industry body, the Medical Technology Association of Australia to develop a co-ordinated response to the Federal Government's Prostheses List reforms culminating in these reforms being announced on 13 October 2017. This announcement ensures pricing certainty in the private sector for the next four years and provides a number of measures to streamline approval processes, reducing the time and cost to deliver new technologies to market. Our CEO will address the impact of these reforms to LifeHealthcare in more detail shortly.

Our focus over the year has been to continue to drive both organic and inorganic growth, and we were successful in doing this delivering double digit revenue growth up 10.4% to \$126.7 million, albeit with modest underlying earnings growth of 4.6% to \$20.4 million. Our EPS on an NPATA basis was only marginally up year on year however we expect growth in this metric in the current year.

Some of the highlights of the year included:

- Strong implant growth driven by new surgeon growth of 11.4% (14 new active surgeons) coupled with above market growth in minimally invasive spine and further traction in complex lower limb orthopaedics.
- Further spinal robotics penetration following placement of three Mazor Renaissance spinal robotic systems bring the installed base to seven, the highest installed base per capita outside of the United States.
- Strong share penetration from synthetic biologics in spine and strong uptake in orthopaedics.
- Continued growth in point of care ultrasound and interventional cardiology and respiratory following the acquisition of M4 Healthcare in FY15 and Medical Vision Australia in FY16, with 33% and 10% growth in FY17 respectively.
- Increased diagnostic imaging presence with the placement of a BodyTom mobile full body CT scanner alongside a Mazor Renaissance spinal robotic system at the Epworth Hospital in Victoria creating the world's second 'scan and plan' site, as well as the placement of a CereTom mobile cranial CT scanner into Australia's first stroke ambulance.
- Finally, the successful launch of allograft and amniotic biologics portfolios in New Zealand which has a different regulatory approval pathway than Australia.

The deterioration in the gross margin of 3.9%, predominately as a result of foreign exchange with the AUD to USD hedging rate reducing from an average rate in FY16 of 78c to an average rate in FY17 of 72c, largely drove the modest earnings growth. This was partly offset by operating expense management with a 3% improvement of operating expenses to sales ratio over the period.

I am pleased to report that prudent balance sheet management has delivered further improvements in working capital, net debt leverage and cash conversion. The working capital ratio of 31.0%, which is the working capital as a percentage of last twelve months' sales, has improved by 120 basis points since FY16 and there has been strong cash conversion of EBITDA to operating cash flows of 78.3%, up from 51.9% in FY16. Net debt leverage has reduced from 1.67x at FY16 year end to 1.39x.

The Board was pleased to announce a fully franked dividend of 7.5 cents per share, bringing dividends for the year to a total of 13.75 cents per share and representing 66% of net profit after tax and before amortisation (NPATA) which is consistent with the Board's intention to pay dividends in the range of 50% – 70% of NPATA.

Since the financial year end we have continued to grow the business with the acquisition of Oceania Orthopaedics on 31 July 2017 taking LifeHealthcare's market share in complex lower limb orthopaedics to an estimated number two position and the acquisition of Point Blank Medical's spinal services division on 11 October 2017 providing entry into the bone repair allograft biologics market in Australia estimated at over \$100 million per annum.

LifeHealthcare continues to be well positioned for growth through expansion of active surgeons, new product introductions and penetration of high-end capital products alongside growth in orthopaedics following the acquisition of Oceania Orthopaedics and growth in allograft biologics following the Point Blank Medical acquisition.

On behalf of the Board I would like to thank the employees, customers, supply partners and shareholders of LifeHealthcare for their continued support. We have a highly skilled and experienced management team, led by CEO, Matt Muscio, who like all of us is absolutely focussed on the ongoing success of our company.

I would now like to invite the Managing Director and CEO of the Company, Matt Muscio, to address the meeting. We will take questions at the conclusion of the CEO's presentation and before formal proceedings begin.

Ends



Bill Best
Chairman

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