

HEALTHIA LIMITED (ASX: HLA)

HEALTHCARE SERVICES



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Key Highlights

- A binding acquisition offer is in place for 100% of HLA shares to be acquired for \$1.80 each
- The Offer represents a 87.3% premium to the 1-month VWAP of \$0.96;
- The Offer represents a 80% premium to the IPO Offer Price of \$1.00;
- The Offer represents a 111% premium on Emerald Financial's first coverage price of \$0.85;
- 319 total allied health businesses spanning podiatry, physiotherapy and optometry;
- Difficult trading conditions forecast with higher cost-of-living expenses impacting household spending;
- Healthia has a \$120 million debt facility which has been subject to re-structuring and higher repayments witnessed in FY23 expected to continue;
- Acquisition pipeline of 100+ prospective allied health businesses has slowed;
- Healthia management should be commended for creating this exit opportunity.

Outlook - Sell

Healthia (ASX: HLA) has received a binding offer to be 100% acquired by a private equity fund (Harold TopCo) which is being advised by Pacific Equity Partners (PEP).

The offer is to acquire all HLA shares via an off-market transaction at an Offer Price of \$1.80 per share. The transaction is likely to be settled in Q4 FY24 to ensure all court, regulatory and shareholder approvals are sought and granted.

While the regulatory process takes place, it is not expected HLA shares will dip below \$1.75, assuming all approvals are granted. This gives shareholders an opportunity to exit their HLA shares without waiting for the final transaction to take place, while freeing up cash at a time where there are other investment opportunities that will deliver greater returns than the \$0.05 differential between the on-market bid and the acquisition Offer Price.

Outlook:

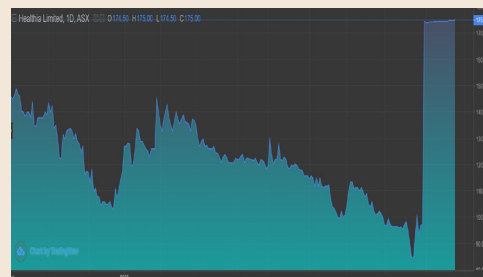
Date:

SELL

25 SEP 2023

Price (25 Sep):	\$1.75
Ticker:	ASX: HLA
52-Week range:	\$0.85-\$1.75
Market cap (AUD):	\$244.9m
Shares on issue	140.2m

Underlying*	FY23	FY22	FY21
Revenue (\$m)*	255.9	202.8	140.4
EBITDA (\$m)*	37.5	24.5	21.5
NPAT (\$m)*	18.3	9.2	8.9



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Historical Statistics - Healthia Ltd

INCOME SUMMARY (STATUTORY)	2019/06	2020/06	2021/05	2022/06
Revenues (m)	65.90	88.10	137.90	200.30
EBITDA (m)	7.15	22.40	35.23	35.26
Depreciation (m)	-1.55	-9.10	-13.18	-19.34
Amortisation (m)	-0.39	-0.66	-1.02	-1.68
EBIT (m)	5.20	12.64	21.03	14.24
Earning Before Tax & Abnormals (m)	3.87	9.92	17.36	8.34
Income Tax Rate (%)	128.80	29.00	30.20	78.40
Net Profit After Abnormals (m)	-1.24	2.69	5.16	-3.33

Shareholders have an option to retain shares in the new privately held company, but this carries risks linked to liquidity, transparency, fair value and shareholder communication as detailed further in this report.

A full Scheme Booklet is to be issued to shareholders in Q2 FY24 which will provide greater detail of PEPs plans for Healthia post-acquisition. This however does not make Healthia immune to the broader macroeconomic conditions where risen interest rates and cost-of-living expenses have put pressure on Healthia's clinics and its balance sheet where finance costs in FY23 were 57% higher than FY22 due to the RBA cash rate rising in that time and Healthia's \$120 million finance facility with ANZ, Bank of Queensland and NAB.

Emerald Financial has updated its rating on Healthia

to Sell. It is unlikely a better bid will emerge from other private equity firms and the offer represents a very good premium on the Company's IPO Offer Price of \$1.00 when the Company was listed on the ASX.

Company Summary

Healthia Limited (ASX: HLA) is a vertically integrated group of health-based companies which operates a network of podiatry, physiotherapy and optometry clinics. Clinics are supplied by a range of healthcare supply businesses nationally which includes retail footwear, 3D-printed orthotics, eyewear frames and general medical supplies.

Since listing on the ASX in September 2018, Healthia has utilised a \$120m loan facility, free cash flow and Clinic Class shares to continue national expansion of its network of clinics from 104 at the time of listing to more than 300 now.

SNAPSHOT: HEALTHIA LTD

FUNDAMENTALS		DIVIDENDS	
Market Capitalisation	\$195m	Most Recent	\$0.020
P/E Ratio	30.07	Dividend Yield	2.3%
EPS	\$0.029	Franking	100%
PE Growth	0	Actual DPS	\$0.020
Debt to Equity	105%	Dividend Stability	82%
Price to Book	1.43	Ex-Dividend Date	03 Mar 2022
5 Year Beta	1.06	Pay Date	24 Mar 2022
Margin Lending LVR	0%	-	-



Popular brands owned and operated by Healthia include My FootDr, Allsports Physiotherapy, Back in Motion, Extend Rehabilitation, The Optical Co, Kevin Paisley, Optical Warehouse, Australian Eyewear Distributors, Natural Fit Footwear, iOrthotics and DBS Medical Supplies.

Healthia's growth strategy has primarily undertaken a rationale of identifying underperforming allied health clinics that can be optimised via Healthia's vertical integration strategy. These include floorspace optimisation, additional service co-location, supply chain support, marketing support, back office support, and cross-referrals through the Healthia network.

Delisting from the ASX

Upon settlement of their 100% acquisition by Harold TopCo/PEP, shareholders that choose to retain shares in the private company will have a substantial reduction in transparency compared to what is enforced by being listed on the ASX. Additionally, it will be substantially harder to gauge the fair value of the shares, and exit the investment given.

A few things to consider if shareholders choose not to sell, are:

Limited Liquidity

Delisting will lead to significant reduction in liquidity of HLA shares, to the point any sale or transfer will need to be managed personally, or in collaboration with the new owners. With fewer buyers and sellers in the market, it may become challenging to execute trades at desirable prices. Investors who need to access their investment capital may find it difficult to do so after delisting.

Uncertain Valuation

The valuation of a delisted company can become uncertain, as there may be limited transparency and public information available. Private companies are not required to disclose financial results and other key metrics, making it harder for investors to assess the company's true value and prospects.

Loss of Regulatory Oversight

When a company is delisted, it is often no longer subject to the same level of regulatory scrutiny and reporting requirements as a publicly traded company. This reduced oversight can increase the risk of corporate governance issues, making it challenging for investors to monitor the company's activities and protect their interests.

Potential for Shareholder Disadvantage

In some acquisition deals, the acquiring company may offer shareholders a cash buyout or shares in the acquiring company as compensation for their shares in the delisted company. The terms of such deals may not always be favourable to existing shareholders, and investors may prefer to sell their shares independently to maximise their returns.

Diverging Investment Objectives

After an acquisition and delisting, the company's strategic direction and priorities may change, which might not align with the investment objectives of existing shareholders. Investors who initially invested in the company for specific reasons (e.g., growth potential, dividend income) may find that the new ownership's objectives differ from their own, prompting them to consider selling their shares.

Financial and Operational Performance - FY23

FY23 was a strong year of growth for Healthia which had a semi-reset of its financials following two years of its operations being heavily impacted by the pandemic, and the lingering effects of COVID.

The \$252.5 million revenue generated in FY23 represented a 26.1% increase on the previous year, but those prior year metrics were skewed by pandemic lockdowns impacting a total of 6,869 clinic trading days (clinics in Victoria were impacted more than those in other states).

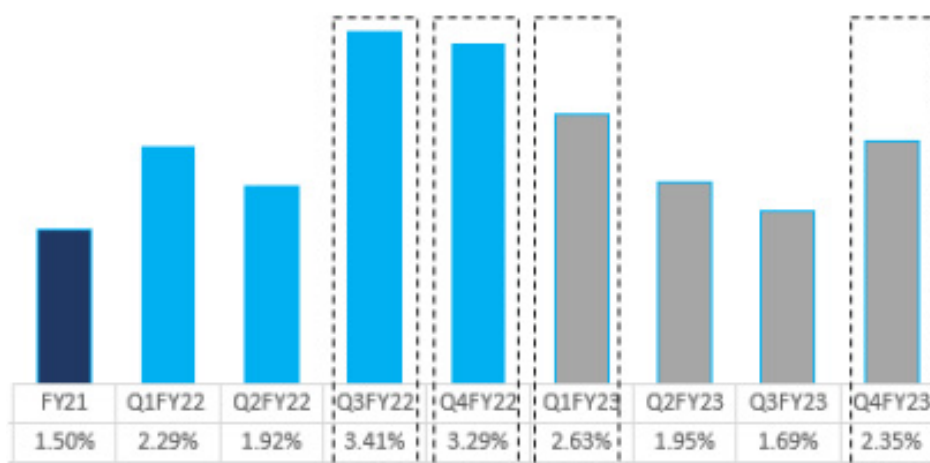
It was not until October 2022 that Healthia began seeing its abnormally high staff sick leave days across its previous two years, commence normalising back to pre-pandemic levels. Thereby meaning there



were still 3 months of FY23 where Healthia's trading was impacted by the lingering effect of COVID.

Underlying EBITDA for FY23 was \$38.3 million which was a 56% increase on the previous year. This fell marginally short of the \$40m guidance issued by Healthia, but that guidance was also issued before the announcement of the one-off Queens Memorial Public Holiday, meaning clinics had one less operating day for the FY with wages still paid on the day.

Chart 1: Sick leave as a % of Wages by Financial Quarter



Underlying NPATA of \$18.2 million for FY23 was a 105.4% increase on the previous year, but due to Healthia's unique equity model around its Clinic Class Shares, the figure decreased to \$6.3 million as a statutory NPAT. Still, it is a substantial jump from the \$3.3m statutory net loss after tax in FY22.

Healthia ended FY23 with a cash position of \$5.6 million which was in line with its previous year, but the biggest change during that time were macroeconomic changes which have seen a lift in interest rates.

Table 4: Reconciliation of Underlying EBITDA to Statutory NPAT

	FY23 Unaudited \$m	FY22 \$m
Underlying EBITDA (pre-AASB16)	38.3	24.5
Less: Finance costs (pre-AASB16)	(6.3)	(2.8)
Less: Tax expense (underlying)	(4.1)	(5.5)
Less: Depreciation (pre-AASB16)	(4.0)	(3.3)
Less: NCI (underlying)	(5.0)	(3.7)
Underlying NPATA attributable to the owners of Healthia Limited¹	18.9	9.2
Less: COVID-19 related expenses ²	(1.0)	(3.4)
Less: Acquisition costs ³	(3.4)	(6.9)
Less: Integration costs ⁴	(0.8)	(1.5)
Less: Restructuring costs and discontinued operations ⁵	(3.9)	(2.2)
Less: Share-based payments expense and associated costs ⁶	(1.0)	(1.4)
Less: Doubtful debts ¹⁰	(0.5)	-
Less: Amortisation ⁷	(1.9)	(1.7)
Less: Net impact of AASB16 ⁸	(0.9)	(0.9)
Add: Fair Value movements of contingent consideration ⁹	1.2	1.6
Net taxation impact	(0.4)	3.9
Statutory NPAT attributable to the owners of Healthia Limited¹	6.3	(3.3)

Since listing on the ASX, Healthia has utilised a debt facility to fund acquisitions, combining with free cash flow, clinic class shares and deferred settlements. These have also been complemented with capital raisings but to maintain their targeted acquisition growth of deploying at least \$20m per year, the Company capitalised on lower interest rates between 2018 and 2022. To maintain this, Healthia has twice rolled over its debt facility which was \$50m in 2018 at the time of listing, but last increased to \$120m in April 2023 with the assistance of its lenders ANZ, Bank of Queensland and NAB.

It meant that borrowings as of 30 June 2023 stood at \$95.4m compared to \$77.1m the year prior. Finance costs subsequently increased from \$5.9m in FY22 to \$9.3m which will place further strain on operating cash flow, and likely not fully budgeted for when Healthia issued their \$40m underlying EBITDA guidance in February 2022 before the RBA commenced lifting the Cash Rate from 0.1% in April 2022 to 4.10% as of 30 June 2023.

The current debt facility has a term date of 2025. Healthia also elected not to declare a final dividend for FY23.





Macroeconomic Impact on Allied Health Services

Rising interest rates in Australia have had an impact on Healthia's debt repayments but the bigger impact may be through their customer channels where macroeconomic headwinds have substantially softened household spending.

While Healthia is not expected to feel the effects as much as the retail industry, revenue sources from Healthia's retail footwear stores and frames (glasses) must be classified as discretionary products. Healthcare has also not been immune to the microeconomic effects of the pandemic, where the ASX200 Healthcare Index (ASX: XHJ) has substantially underperformed the ASX 200 (ASX: XJO). Over a 3-year span, the XHJ has performed almost 30% poorer.

Based on the revenue growth, it is difficult to get a clear picture of how much the cost-of-living crunch is having on allied health services, but quarterly private health insurance data released by APRA does not bode well for Healthia services.

Revenue from private health insurance premiums were down 2.3% in Q4 FY23 compared to Q3, indicating a fall in policies as some households made the difficult decision to cancel their private health insurance to tackle household budget pressures. The reduced revenue from premium was reflected in

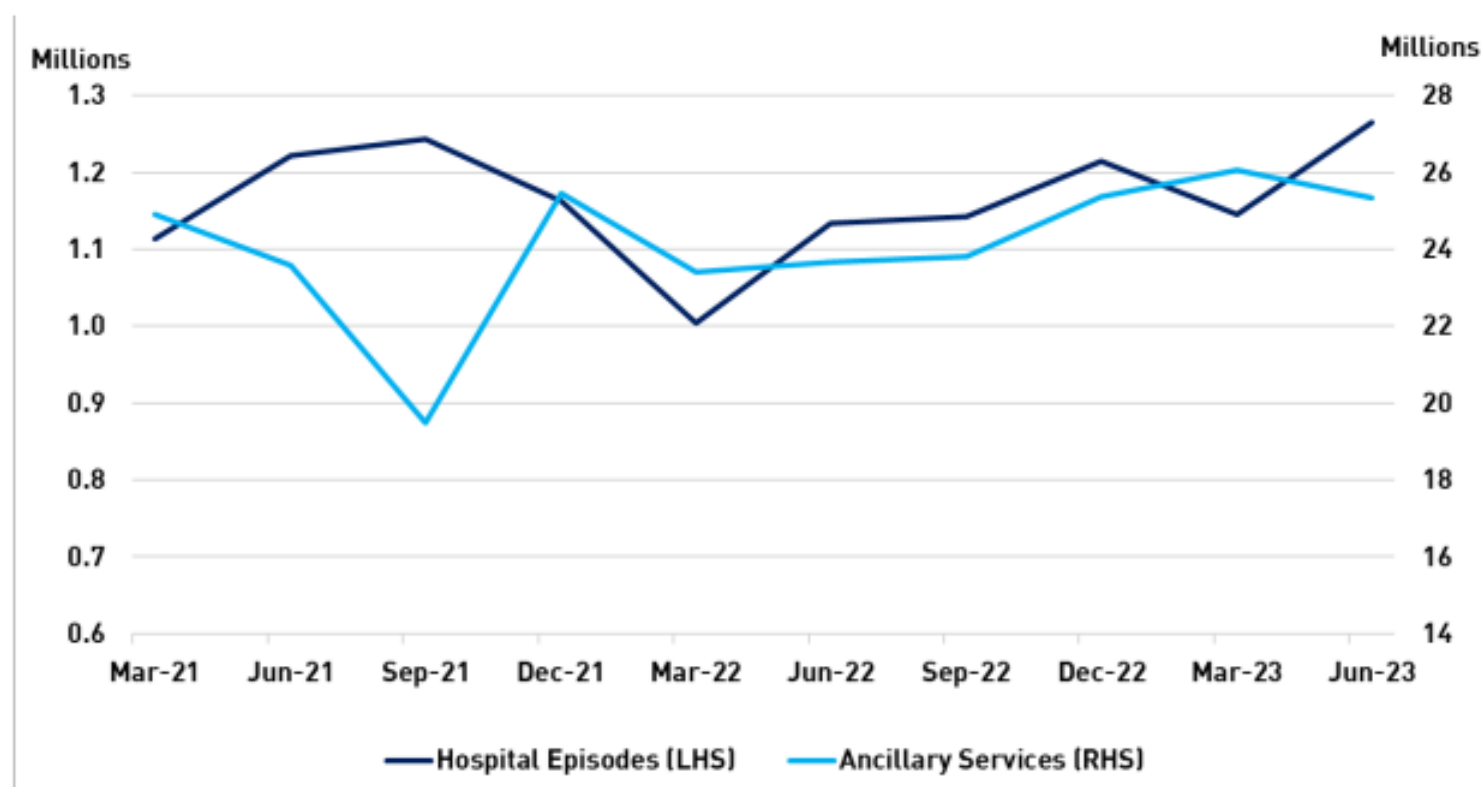
reduced usage of ancillary services where Healthia's podiatry, physiotherapy, optometry and audiology services are all subsidised. This reduced usage of ancillary services (discretionary) was in contrast to Hospital Episodes (staple) which indicates that the cost-of-living pressures linked to higher interest rates will have an ongoing impact on Healthia's allied health services in the immediate future.



Table 2: Key performance data/metrics for the quarter at a glance

	March Quarter 2023	June Quarter 2023	Quarterly Change
Premium revenue	\$7.0 bn	\$6.8 bn	-2.3%
Fund benefits (claims)	\$5.5 bn	\$5.8 bn	4.3%
Gross Margin	20.3%	14.9%	-5.4pp
Management expenses	\$716.4 m	\$874.2 m	22.0%
Net Margin	10.0%	2.1%	-7.9pp
Net investment income	\$289.9 m	\$162.4 m	-44.0%
Net profit after tax (NPAT)	\$842.7 m	\$331.2 m	-60.7%

Chart 6: Hospital episodes and ancillary services



Have discussions to acquire 100+ allied health businesses stalled?

Since their IPO in September 2018 when Healthia listed on the ASX with 104 allied health businesses, they have since expanded to 319 which includes entry into international markets in New Zealand and the United States.

While Healthia originally sought out independent clinic operators in the hugely fragmented allied health industry, they have reached scaling milestones that now makes them the fastest growing allied health portfolio in Australia. Accompanying this profile is constant interest from clinic operators that wish to sell their business to Healthia as a means to improve their business through the integration of Healthia's support services, or exit into retirement via a sale. In which case Healthia then takes over the clinic operations but the original owner can retain ownership through Healthia's Clinic Class Shareholder program.

In FY22, this ongoing interest advanced to the point where Healthia is in discussions to acquire more than 100 different allied health businesses all over Australia. In FY23 however, Healthia acquired just 26 new allied health businesses - the lowest annual number since the Company listed on the ASX and committed to deploying at least \$20m towards new acquisitions. Of those 26 new acquisitions, \$11.1

million was secured from a capital raise in October 2022, further highlighting Healthia's aversion to tapping into its debt facility with the backdrop of rising interest rates which contributed to the additional \$3.4m in finance expense in FY23 compared to the previous year. Healthia's discussions with those 100+ prospective vendors range from initial conversations through to non-binding purchase agreements where Healthia has a detailed due diligence process. The DD is performed by their team of experienced clinic operators to verify a clinic's operations and undertake a detailed analysis of its growth potential.

As a business consolidation Company, Healthia looks for a range of organic growth initiatives that can be rolled out in any new clinic entering the network which includes:

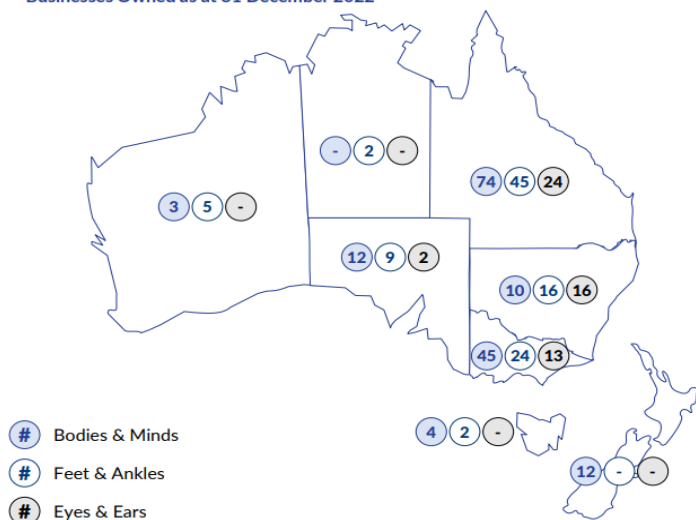
- Co-location of additional allied health services
- Floor space optimisation to provide additional treatment rooms
- Extension of operating hours for individual rooms
- Pooling of human resources
- Improved marketing and customer relationship management
- Improved supply chain management
- Human resources and recruitment support
- Local population movement and rising age demographics
- Cross referral opportunities with other Healthia businesses in the region



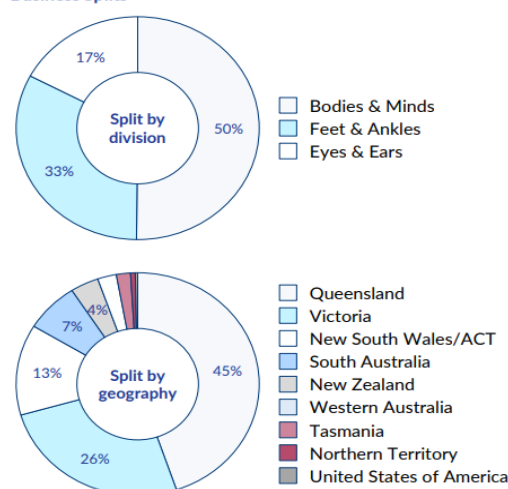
NATIONWIDE PRESENCE

Growing, diversified national presence has positioned Healthia as a market leader across Australia and New Zealand

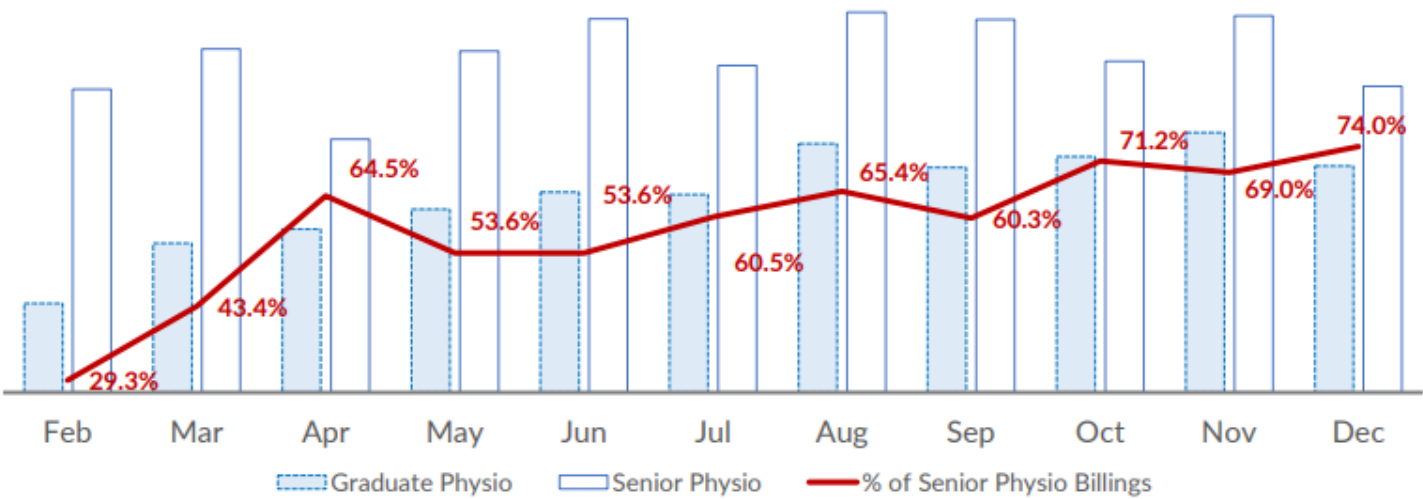
Businesses Owned as at 31 December 2022



Business Splits



Example: Recent Graduate Physio Billings¹ per month vs. Senior Physio Billings² per month



With no shortage of clinic owners keen to join the Healthia network, this has provided Healthia with bargaining power. One of the more common pathways towards an allied health business being acquired by Healthia is a clinic owner operating close to retirement age. In these instances, being acquired by Healthia offers an exit for prospective retirees where they can continue operating the clinic for a few years under profit share via Healthia’s Clinic Class Shares.

In recent years though, Healthia has emphasised a major focus on people and its graduate program, highlighting how its graduate physios can generate 74% of the billings of their senior counterparts within their first 12 months of the Healthia Graduate program.

While the exit of vendors after acquisition by Healthia does not cause liquidity selling on HLA shares, the ‘brain drain’ is significant with the potential to be exacerbated by another change of ownership upon settlement of Healthia to Harold TopCo/PEP.

Business Risks

Human Resources

Clinician turnover risk is witnessed across the healthcare industry whereby existing clinicians may disrupt standard business operations until replacements are sourced.

Debt Risk

In 2023, Healthia increased its total finance facility from \$100m to \$120m and also extended the term to December 2025 which has undrawn headroom. Should debt risk increase in future reporting periods, Healthia may look at adjusting their dividend payout ratio.

Pandemic Risk

Previous reporting periods have demonstrated the impact of lockdowns on the Healthia model where Government-imposed restrictions on movement have led to higher patient cancellations.

Acquisition Risk

The Scheme Implementation Deed is still subject to court approval, ASIC approval and shareholder approval.



Consolidated statement of profit or loss and other comprehensive income

As at 30 June 2023

	2023 \$'000	2022 \$'000
Revenue from contracts with customers	252,556	200,288
Other income	3,358	2,496
Fair value movement of contingent consideration	1,243	1,550
Expenses		
Change in inventories	3,609	2,527
Raw materials and consumables used	(24,217)	(20,785)
Employee benefits expense	(155,196)	(129,189)
Occupancy costs	(6,816)	(4,758)
Marketing costs	(3,470)	(3,218)
Other expenses	(12,642)	(11,335)
Impairment of receivables	(625)	(268)
Acquisition costs	(3,383)	(5,219)
Integration and restructuring costs	(3,790)	(2,183)
Share-based payments expense	(1,001)	(1,395)
Depreciation expense	(23,019)	(19,341)
Amortisation expense	(1,946)	(1,685)
Finance costs	(9,336)	(5,895)
Profit before income tax expense	15,326	1,590
Income tax expense	(4,099)	(1,247)
Total comprehensive income for the year	11,227	343
Profit for the year is attributable to:		
Non-controlling interest	4,963	3,672
Owners of Healthia Limited	6,264	(3,329)
	11,227	343
Total comprehensive income for the year is attributable to:		
Non-controlling interest	4,963	3,672
Owners of Healthia Limited	6,264	(3,329)
	11,227	343



Consolidated Statement of Financial Position

(As at 30 June 2023)

	2023 \$'000	2022 \$'000
Current Assets		
Cash and cash equivalents	5,589	5,666
Trade and other receivables	12,716	8,204
Inventories	14,141	10,532
Income tax	153	97
Other assets	4,353	3,199
Total current assets	36,953	27,698
Non-current assets		
Investments accounted for using the equity method	21	19
Property, plant and equipment	21,138	17,075
Right-of-use assets	63,539	59,073
Intangibles	267,476	246,326
Deferred tax	6,656	7,845
Total non-current assets	358,830	330,338
Total assets	395,783	358,036
Current Liabilities		
Trade and other payables	14,486	19,089
Borrowings	2,000	1,954
Lease liabilities	19,165	17,116
Employee benefit obligations	10,330	11,318
Provisions	1,087	357
Other liabilities	4,202	2,914
Total current liabilities	51,271	52,748
Non-current liabilities		
Borrowings	95,425	77,117
Lease liabilities	50,434	46,853
Derivative financial instruments	-	14
Employee benefit obligations	968	904
Provisions	2,618	2,975
Other liabilities	1,939	4,961
Total non-current liabilities	151,384	132,824
Total liabilities	202,655	185,572
Net assets	193,128	172,464
Equity		
Issued capital	159,312	146,213
Reserves	(1,123)	(2,124)
Retained profits/(accumulated losses)	(4,297)	(7,801)
Equity attributable to the owners of Healthia Limited	153,893	136,288
Non-controlling interest	39,236	36,176
Total equity	193,128	172,464



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Recommendation Rating Guide	Total Return Expectations on a 12-mth view
Speculative Buy*	Greater than +30%
Buy	Greater than +10%
Hold	Greater than 0%
Sell	Less than -10%

*A Speculative Buy is speculative in nature for young companies that do not have significant historical data



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