

# Healthia Ltd Newsletter

June 2020



# Company Update

BY WES COOTE  
CEO, HEALTHIA LTD

Welcome to the June 2020 Healthia shareholder newsletter. How the world has changed since our first newsletter in mid-December of last year. We started the year with devastating bushfires and followed it up with a global pandemic. However, in the midst of all this chaos we continue to focus on delivering our four-tiered growth strategy, being:

1. Patient focused outcomes;
2. Organic growth;
3. Acquisitive growth; and
4. Vertically integrated businesses.

## COVID Update

For all Australians, the COVID pandemic has been very trying. Healthia is not immune and has experienced its own challenges through these unprecedented times. However, as a provider of a number of essential community services, we remained open at all times during this crisis. As a Healthia team we agreed early to focus on the following:

- The practice of safe and hygienic patient care for those who require our essential health care services;
- Ensure, where possible, to take pressure off the public health system and front-line staff;
- Continue to work as a team to make sure we minimised the financial pain felt by each team member; and
- Continue to positively contribute to the communities we operate within.

During April, when the Prime Minister imposed several restrictive lockdown measures, we saw our biggest impact on trading. This impact meant, we qualified for JobKeeper payments. These payments ensured that clinic hours remained largely unchanged and continuity of patient care continued.

At the same time, we asked our teams to tell us how they were continuing to engage with their patients and their communities. Those clinic teams who sent in examples were rewarded with \$100 to spend as a team, to support a local café or restaurant through these tough times. This initiative saw our team implement a number of key patient engagement strategies that will have long term benefits for their clinics.



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With the lockdown laws and social restrictions easing, our focus remains the same, however, we have also implemented our Rally, Recover and Challenge initiative. Rally, Recover and Challenge has the teams focused on returning trading to where they were at this time last year (Rally and Recover) and then challenging themselves to get back to the same organic growth they were experiencing pre-COVID (Challenge). Our teams understand the importance of strong trading and that it will ensure rosters and wages for all team members are not negatively affected moving forward.

I am pleased to report that during the first three weeks of June our teams have worked incredibly hard to "Rally, Recover and Challenge" themselves, ensuring that as a company we are hitting our June forecast revenue targets (pre-COVID revenue targets). This is pleasing and is showing the robust and resilient nature of our teams, patients, and our overall business model.

To say I am extremely proud of the way all the Healthia team members have pulled together during these difficult times would be a massive understatement. I want to take this opportunity to thank each and every one of them for their continued dedication to each other, their patients, clinic, communities and Healthia.



## Acquisitions

A key part of our growth strategy has been acquisitive growth. Our stated plans has been to deploy \$15m of new capital per annum for the acquisition of well-established allied health businesses.

On 11 May 2020, we announced that we acquired 12 podiatry clinics in Victoria for \$5m, contributing \$4.4m and \$1.1m of annualised revenue and EBITDA respectfully. This brought the capital deployed in FY20 to circa \$18m, as demonstrated in Table 1. below.

As at today's date, the company has a \$50m finance facility with ANZ and BOQ, with circa \$27m drawn, leaving headroom of \$23m which can be drawn to help fund future acquisitions.

Utilising the headroom in the finance facility, free cash and our clinic class share model, we are well positioned to deploy another \$15m+ of capital in FY21 for new acquisitions.

Its been a strange 6 months, but we are well positioned to come out the other side of Covid-19 stronger, and we are looking forward to a big FY21.

Finally, I would like to say thank you to all shareholders for their continued support during these unprecedented times and I look forward to providing further updates as FY21 progresses.

Table 1. Acquisition Summary for FY20

This table has not been audited	Revenue \$'000's	EBITDA \$'000's	Consideration			Total Consideration \$'000's	Effective EBITDA Multiple
			Cash \$'000's	Clinic Class Shares \$'000's	Contingent Consideration \$'000's		
Podiatry	8,660	2,012	7,627	401	700	8,728	4.34
Physiotherapy	10,313	2,209	5,007	3,002	1,235	9,244	4.18
<b>TOTAL</b>	<b>18,973</b>	<b>4,221</b>	<b>12,634</b>	<b>3,403</b>	<b>1,935</b>	<b>17,972</b>	<b>4.26</b>

# DISASTER RELIEF RAFFLE 10 x \$1000 PRIZE PACKS TO BE WON



## #SupportLocal

BY EMILY BARNWELL

BRAND & CAMPAIGN MANAGER, HEALTHIA LTD

One of our greatest achievements during the current unprecedented times has been our strive to support other local businesses.

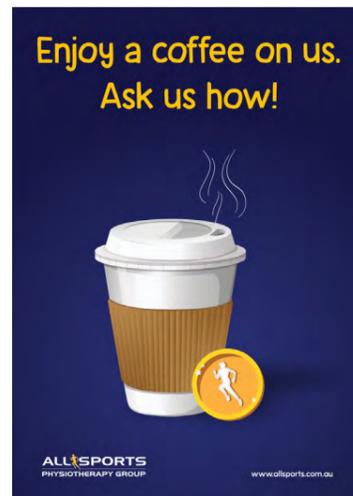
At the beginning of the year we saw the nation's bushfire crisis wreak irreversible damage across Australia's communities and wildlife for weeks on end. It was also through this darkness that we saw the nations community spirit and sheer resilience surface in the face of adversity. The resulting support and kindness inspired the Healthia team to help in every way we could.

The 'Healthia Bushfire Relief Appeal' began with our Support Office purchasing \$10,000 worth of goods from small businesses that had been severely affected by the fires. These items were then raffled off through internal ticket purchases, where we were able to raise a further \$6000 thanks to the efforts of our amazing clinic staff.

Together, we were able to give \$16,000 to businesses and communities that were adversely impacted. It was with great pleasure that we were able to help these local businesses & families, as well as donating to Kangaroo Island where more than two thirds of the land was scorched through the disaster.

Coming together to support locals and show our community spirit with our clinics was an inspiring experience, and we have been truly grateful to be able to rely on the efforts of one another.

Shortly after the bushfire crisis, the Coronavirus global pandemic hit Australia. The effect on businesses again was devastating: as Australians lost their jobs, and businesses were having to close their doors.



It wasn't long before #supportlocal started trending within Healthia, and everyone was being encouraged to buy from small businesses in order to keep their doors open, all whilst adhering to the newly introduced social distancing safety measures.

As a company, we felt we were extremely lucky to be able to keep our clinic doors open and to continue providing patients with essential health services. Our teams were driven to do what they could to help those who were suffering, with our goal being to spread the positivity and community spirit.

Our "Enjoy one on us" initiative encouraged our clinics to connect with fellow businesses in their area and share resources. We gave our clinics the tools to offer their patients a token to redeem free or discounted items or services from another local business in order to promote purchases.

This initiative was a great inspiration to some of our clinics who took it upon themselves to support local and take to social media to use their platform to share local businesses in their area.

So far 2020 has not only shown our strength as a company, but what it means to work together and help each other.





## Allsports Physiotherapy's ride for change at NZ Smiddy Challenge in March 2020

BY EMILY BARNWELL

BRAND & CAMPAIGN MANAGER, HEALTHIA LTD

The dedicated team members of Allsports Physiotherapy headed off for the 2020 New Zealand Smiddy Challenge to help raise vital funds for cancer research. Healthia and Allsports Director Tony Ganter was joined by Kieren Egan and Sam Wood for the challenge, which was set to run for 5 days from Wanaka to Christchurch.

Before leaving for the ride, Allsports Physiotherapy Wellington Point physiotherapist, Kieren Egan, told her story and why Smiling for Smiddy is so important to her. To watch the video, head over to the Latest News section at [allsportsphysio.com.au](http://allsportsphysio.com.au)

Although the team's intense and dedicated training for the 700km journey was more than enough to prepare them for the challenge, nothing could have prepared the group for the beginning of the Coronavirus pandemic.

Tony, Kieren, Sam and the Smiddy peloton were half-way through the challenge when they received the news that all travelers were being asked to return back home to Australia, and the challenge could sadly not continue.



Despite having heavy hearts over not being able to finish the challenge, they were ecstatic at the \$252,000 sum which was raised by the whole group and the significant effect that this would have on families affected by cancer.

Tony Ganter, a dedicated Smiddy participant who has been associated with Smiling for Smiddy since the first ride back in 2006, believes that it is a privilege and honour for

staff to continue to show their support for an organisation doing so much for cancer research.

"It's a sport we're passionate about, where our health professionals can make a real difference and also, the fact that Adam Smiddy was a physio ties in neatly and resonates with many of our staff members," Tony said.

"They're physios themselves and (like Adam) they've all been 26 years old. Now they are maybe 36, so I'm sure they look back at those 10 years that Adam didn't get and know how lucky they are.

"Plus, a few of them get hooked on the excitement of the event and end up competing the following year and then volunteering back in the Smiddy tent after they finish."

Further support continued in May this year, when Cam Schembri, senior physiotherapist at Allsports Jindalee and 10x Noosa Triathlon legend, was joined by special guest Emily Seebom, an Australian gold medalist swimmer, for a video series with Mater Smiling for Smiddy. The four-part video series from Allsports Physiotherapy and their long-time partner AlphaSport focused on exercises and tips on how to train safely and efficiently for the Noosa Triathlon event, which at this stage has neither been confirmed nor postponed. These videos can be found on the Allsports Physiotherapy Facebook page.



## iOrthotics 3D printed face shields to assist healthcare professionals through COVID-19

Healthia is proud of the efforts of our team at iOrthotics who rose to the challenge initiated by Metro North Hospital in Queensland, who used crowdsourcing, to quickly manufacture face shields for healthcare workers.

iOrthotics' rapid turnaround of 1,000 face shields was made possible by open source sharing of designs within the 3D printing community where these designs had already been registered by the Therapeutic Goods Administration as approved personal protective equipment.



# Healthcare sector outperforms wider market for investors through COVID-19

Jarryd Russell, Emerald Financial

Despite the economic uncertainty which has disrupted global markets, the Australian healthcare sector continued to do what it has always done in these times - outperform the wider market.

Whilst previous market crashes from the dotcom bubble and GFC were not health related like the coronavirus pandemic has been, healthcare has consistently performed across all three rebounds to outperform the overall market recovery.

Having witnessed the longest bull run in history, many believed a correction was inevitable, but few would have foreseen a correction for the XJO from 7162 to 4402 in the space of only six weeks, a 38.5% fall.

It happened at a time where Government directed biosecurity measures led to a shut-down of all business districts and a flurry of restrictions preventing us from leaving the house unless it was absolutely necessary.

These restrictions came at a time when the community

infection rate of COVID-19 was alarmingly high and the public healthcare system was under immense pressure to continually increase testing, contact trace those infected, and manage the swelling demand for ventilators and emergency treatment. It was the only way to prevent the disastrous results witnessed in Spain and Italy where pressure on medical systems forced medical professionals to make unenviable decisions for whose lives were more deserving of treatment.

But in a time of crisis, Australians did what we do best. We worked together and looked out for each other with our frontline healthcare workers leading the way, risking their own lives for those most in need.

This was just one of the reasons why Prime Minister Scott Morrison urged allied healthcare services to keep their doors open so that those practitioners could play a key role in alleviating as much pressure off the public healthcare system as possible. This included Healthia and their 142 allied healthcare clinics which

remained in operation through COVID-19 to assist communities through challenging times.

Assessing the economic impact of COVID-19 by sector, most sector indices have been driven by cyclical momentum swings in consumer spending, which is the biggest differentiator to past market corrections that saw across the board sector impact.

Similar to past market corrections however, the Healthcare index (AHXJ) indicated minimal disruption due to its continued operations, allowing an outperformance of the wider XJO by 3.3% to the end of May.

Other more popular indices however have failed to regain momentum as quickly, with Banks (ASBK) underperforming the XJO by -12.25%, Financials (AXFJ) underperforming -9.73% and Real Estate (AXREJD) underperforming -9.40%.

These historically safer sectors have been rocked by the jump in unemployment through COVID-19 and rapidly emerging fintech alternatives to traditional banking and credit

products focused solely within the digital space. It's why the likes of Afterpay and Kogan have driven Technology (AXTX) and Information Technology (AXIJ) to outperform the wider market by 22% and 20.31% respectively. But will this be sustainable? In the way that Healthcare's historically proven performance through uncertainty has been? Maybe, but likely not with the same recent momentum given it's going to be a few years before everyone needs to upgrade their freshly set-up home offices.

Whilst the volatility of the Technology and IT indexes have shown the signals of a cyclical trend, the working-from-home trend is one which is likely to be sustained post-COVID.

As one of the benefits to have come through the pandemic, this rise in WFH is being driven by an opportunity to better look after ourselves. Beyond the amount of time and money we save without going into the office, improvements to work-life balance are what will see this trend maintained as Australians place greater value on their mental and physical wellbeing with the Healthcare sector well positioned for investors to facilitate this.

# Healthia primed for post-COVID acquisition growth with keys to 'war chest'

BY TIM BOREHAM, THE SENTIMENT

Having emerged from the coronavirus epidemic in good shape, Healthia is poised to deploy its \$27 million 'war chest' for further acquisitions in the fragmented podiatry and physiotherapy sectors.

In May the company settled the \$5 million purchase of The Foot and Ankle Clinic, which consists of 12 clinics in Melbourne and regional Victoria.

The acquisition expanded Healthia's 'footing' in the sector, bringing their podiatry network to 93 clinics. But as Managing Director Wes Coote notes, in revenue terms the group still accounts for just over 5% of what is a \$900m market annually.

"We still have a long way to go," said Coote. "There are plenty of opportunities out there still, including in other allied health areas and a larger share of the global foot orthotics market."

Mr Coote says it's the right time to approach practice vendors as they are looking to increase support in the wake of the virus outbreak.

"This financial year we deployed \$18m on acquisitions, roughly half podiatry and half physiotherapy, but knocked back three times as many on valuation grounds.

"We are seeing an increase in good quality businesses willing to discuss partnering with us and their future succession plans. I'm more than comfortable that we will achieve our stated target of \$15m new capital deployed on

acquisitions in FY21.”

As a guide, vendors are indicating they would be happy to sell on a multiple of 3 to 4.5 times EBITDA. On average, the company paid 4.2 times EBITDA across their FY19 acquisitions.

Mr Coote says Healthia is just as interested in expanding in physiotherapy, which is almost twice the size of the podiatry market with \$1.6 billion annual turnover. Beyond their 93 podiatry clinics, the company currently operates 43 physiotherapy clinics, as well as 14 specialty hand therapy clinics.

While physiotherapy is more keenly competed, the sector has the advantage of higher recognition among consumers than podiatrists. After all, everyone knows what a ‘physio’ does, but the foot whisperers are often confused with paediatricians.

“There are a few stereotypes and misconceptions about podiatrists we need to break down - and we can do that as a larger group with regional marketing and education campaigns,” says Coote.

In particular, the Company’s scale and multidisciplinary approach has enabled Healthia to withstand the Covid-19 crisis more resiliently than many of its smaller competitors.

“As a group, our practices have pooled their resources and supported each other over these tough times. While many operators ran for the hills or changed their opening hours we held our ground.”

Another advantage is that 60% of Healthia’s practices are in Queensland, a region less affected by Covid-19.

The \$27m ‘war chest’ Healthia intends to start deploying in FY21 consists of \$4m of cash on hand and \$23m of debt headroom on a \$50 million facility provided by the Bank of Queensland and the ANZ Bank.

“We are in great shape and our expansionary journey has only just begun.”

