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IBA Health Limited yesterday reported net profit of \$14.6 million for the year ended June 2008, down from \$22.9 million for the previous year. Underlying EBITDA, before non-recurring items relating to your acquisition of iSOFT on 30 October 2007, was \$105.6 million, up from \$32.3 million. EBITDA was above your guidance range yet revenue, at \$360.9 million was below your guidance. What were the main contributing factors to the stronger than expected EBITDA?

**Executive Chairman & CEO Gary Cohen**

Our underlying EBITDA of \$105.6 million was a strong result for the group, and this was also reflected in our strong underlying NPAT of \$49.4 million. Our reported profit included \$28.3 million relating to the non-cash accounting treatment for the amortisation of intangibles on the acquisition and the impairment of some previously acquired IP, plus \$6.9 million of one-off items relating to integration and the acquisition.

We're now a global health IT company with over 13,000 customers in over 35 countries. With this transformation we now do business in a number of currencies. During the June 2008 year, the Australian dollar strengthened against the major international currencies and that held back both our revenues and earnings when translated into Australian dollars. The currency translation

effect was the biggest single item in our revenue not meeting our forecast range.

Our EBITDA came in ahead of guidance despite the currency impact due to growth in revenue from the UK and the significant in-roads we've made in extracting cost synergies from the iSOFT acquisition. We were able to achieve a higher level of synergies and extracted them more quickly than our plan. In addition, we held a tight rein on our expenses in general.

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Your guidance for the current year ending June 2009 is EBITDA of \$120 million to \$130 million on revenue of \$540 million to \$560 million. What assumptions underlie this forecast?

**Executive Chairman & CEO Gary Cohen**

We believe we'll achieve an increase of around 20 percent on our 2008 annualised revenue base of \$472 million. This is being driven by the confidence we've restored within the iSOFT customer base which is translating into contract renewals.

We have opportunities in new markets, such as southern Europe, Russia, the Middle East, China and Latin America as well as in the UK around London and the South Clusters. The latter is particularly interesting as these were traditionally Cerner sites and we've already had some successes in these areas with our existing solutions. We've been renewing existing contracts with customers that we may have lost to Cerner and now we're being approached to take LORENZO into this market. We also believe our new departmental solutions, our Laboratory, Radiology, Pharmacy, Theatres and Maternity products, together with our primary care solution, will drive revenue growth. We started cross-selling our products during the year and we've already seen the early signs of success. The June 2009 year will also see the global launch of LORENZO, our next generation SOA platform, in the second and third quarters.

Whilst we're forecasting a lower EBITDA margin than the 27 percent recorded in 2008 we plan throughout 2009 a program of investment to generate further long-term margin improvements, and much of this will be expensed in the year. In the medium term we're targeting EBITDA margins of 30 percent. Notwithstanding our investment program, we expect to see strong growth in EBITDA driven by our anticipated strong top-line growth.

As a global business, a key assumption is our currency exchange rates. Whilst recently the Australian dollar has softened against the major currencies, we've retained a conservative view on Australian dollar exchange rates in our stated forecasts. For example, we've assumed an AUD to GBP exchange rate of 0.47. If there's an appreciation of the pound against the Australian dollar, more revenue and profit will flow through to the bottom line.

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In the second half of 2008, when the iSOFT business made a full contribution, EBITDA margin was 31.2 percent. Your guidance implies a margin of 22 to 23 percent in the current year. What factors might push margin higher or lower than this range?

### **Executive Chairman & CEO Gary Cohen**

As I mentioned, we have a program of investment planned for 2009. This investment will be in the areas of product management and development, marketing and sales activities, and also on our ICT network and hardware. Our EBITDA margin will depend on how quickly we roll out this program. A quick roll-out would see our 2009 margin at the lower end of the range but the quicker we can roll out our planned investments the quicker the benefits will emerge. The benefits should enable us to achieve our targeted EBITDA margin of 30 percent.

### **corporatefile.com.au**

Given currency movements are now such an important variable in your earnings outcomes, how are seeking to mitigate currency risk across the group?

### **Executive Chairman & CEO Gary Cohen**

Currency movements are a fact of life in a global business. We manage our currency exposures through having around 70 percent of our expense base in the same currencies as our revenues. Accordingly, we're pretty well naturally hedged. That is, we operate locally in the markets in which we do business. We also have a further natural hedge to our UK earnings, which now represent over 50 percent of our revenue base, by holding our debt predominantly in GBP.

We also have some exposure to the Indian rupee, with 16 percent of our expense base relating to our centres of excellence in that region but primarily generating sterling revenues. We'll be looking to hedge the Indian rupee against the sterling.

### **corporatefile.com.au**

With in excess of \$27 million of synergy benefits from the iSOFT acquisition now locked in, are there further potential synergies that could be realised?

### **Executive Chairman & CEO Gary Cohen**

In the eight months since the iSOFT acquisition we've worked tirelessly to extract our synergy targets. We've delivered in excess of our promise of \$27 million of synergies and we've delivered them more quickly than we'd planned. Our efforts haven't stopped and we're continually adding efficiencies to the business. We're not going to specify any further synergy targets because iSOFT has been integrated. We're now a single group, with a single brand strategy. The benefits of our efforts will be seen through improvements in our EBITDA margins over time.

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In 2008 IBA reported net operating cash flow of \$1.1 million versus \$38.1 million in the previous year. Cash flow for the second half was \$25.1 million including the \$29.7 million negative impact of iSOFT's existing service agreement (ESA) with the UK National Health Service (NHS) and one-off payments of \$0.4 million relating to exceptional items. How indicative is second half underlying cash flow of \$55.2 million of the expected cash flow of the group going forward?

**Executive Chairman & CEO Gary Cohen**

The second half of the year is more representative of our cash flow going forward. It was the first complete six-month period of the transformed business. Also, in April we closed down the ESA prepayment arrangement which had been a significant drag on cash flow. This effect alone will add an additional \$70 million to our annual cash flow. However, you should be aware that we tend to see increased cash flow in the second half due to the seasonality of our sales, which tend to be strong in the last quarter as contracts are completed before financial year end.

We expect to see a strengthening of our cash flows with increased sales revenues, and improved EBITDA. But in 2009 we'll be expensing the investment program I mentioned earlier, and that will, to some extent, hold back the apparent growth in cash flow for the year.

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You've indicated that the roll-out of LORENZO, the hospital software platform iSOFT has been developing for the UK NHS, is on track and that the platform has been trialled for global launch. What is the time line for the global launch of LORENZO?

**Executive Chairman & CEO Gary Cohen**

We're excited about the global roll-out of LORENZO. We believe this will be the key driver of growth for our business, particularly beyond 2009. We're planning the launch of the LORENZO platform in the second quarter of the 2009 financial year, and a clinical launch in the third quarter. Clearly with the timing of these roll-outs we shouldn't anticipate a significant contribution from LORENZO in 2009, but we should start to see the revenue growth emerging in the 2010 financial year.

LORENZO is the key to growth, but you should recognise that two thirds of our 2009 growth is anticipated from our existing suite of products, other product releases and our services.

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What was R&D spending in 2008? In view of the ongoing roll-out of LORENZO, what is the likely level of R&D spending in the current year and going forward?

**Executive Chairman & CEO Gary Cohen**

R&D spending was \$82 million in 2008, equivalent to 21 percent of revenues. In 2009 we're expecting to increase the absolute spend to \$95 million, however as a percentage of revenue our R&D spend will reduce to approximately 17 percent, more in line with industry peers.

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IBA had net debt of \$246.5 million as at the end of June, down from \$282.4 million six months earlier. At June 2008, net debt to equity was 42 percent. IBA did not pay a dividend in 2008, reflecting debt covenant constraints. When do you expect to emerge from these dividend-payment restrictions and will shareholders see a dividend in the current year?

**Executive Chairman & CEO Gary Cohen**

We've forecast a return to dividends in 2009. We expect our strong cash flows to enable us to further reduce our net debt to equity to 34 percent by June 2009 and further strengthen our interest cover ratios. Given continuing improvement in our balance sheet strength, the board has indicated that it will seek to resume dividends in 2009.

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You have compared IBA with global peers, such as Eclipsys and Cerner. How valid are these comparisons and to what extent does IBA face the same operating conditions as these players?

**Executive Chairman & CEO Gary Cohen**

We now operate across 35 countries with 13,000 customers. We're a global business. Cerner, whilst it has a larger revenue base, operates in around 20 countries. Cerner's main business is in the US, whereas our major exposure is the UK, with an overall broader geographic spread.

We're not far away from Eclipsys in terms of our annualised revenue base of \$472 million, however, we're operating with higher EBITDA and EBIT margins than Eclipsys, with broadly comparable margins to Cerner. However, our forecast revenue growth rates are higher than those of both these companies.

It's not appropriate to comment directly on our competitors' business models, but suffice to say, our business is predominantly long-term, public sector funded projects that are showing strong resilience to the slow down in the economic cycle. We'd assume that Cerner, for example, may have a greater exposure to private sector health projects, with its US business base.

In Australia we don't have a direct peer; we believe comparisons should be made with our competitors and these are companies such as Eclipsys and Cerner. We note that on simple valuation multiples we're significantly undervalued relative to these peers. We believe that by making the efforts we have to improve disclosure, to improve the transparency of our business, and above all to have our management team continue to deliver operationally, we'll eventually be given a fairer valuation.

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Looking beyond the current financial year, how is IBA positioned in an environment of slowing global economic growth and rising inflationary/cost pressure?

**Executive Chairman & CEO Gary Cohen**

As I mentioned, our business is predominantly linked to long-term, public sector health projects. These tend to have more stability and sponsor commitment to see them through to completion, and are less sensitive to short-term economic fluctuations than private sector projects.

Inflation pressures exist in any services business, and we're not immune, but we hold a tight rein on expenses and are focussed on extracting efficiencies in our business. In fact, inflationary pressures are an incentive for our customers

to take up our services and systems given we add efficiency and help our customers mitigate inflation and cost pressures.

Because we operate in 35 countries, we have diversity of revenue and we're not exposed to a single economy. Over 85 percent of our revenues are now generated outside Australia and New Zealand

The demand for improvement in delivery of health care and efficiencies in health care systems won't slow down globally. Our systems and services cater to this demand. New markets are still emerging and we're well placed to capture business in these markets with products such as LORENZO, particularly given its credentials are being established in the UK NHS.

We're confident about our future beyond the current financial year.

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Thank you Gary.

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For more information about IBA Health, visit [www.ibahealth.com](http://www.ibahealth.com) or call Gary Cohen or Greg King on (+61 2) 8251 6700

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