



GROUP RESULTS
FOR THE YEAR ENDED
30 SEPTEMBER 2019,
CASH DIVIDEND DECLARATION
AND TRADING STATEMENT



HIGHLIGHTS

Revenue

+9.3%
to R25.7 billion

Normalised EBITDA

+3.5%
to R5.7 billion

Normalised earnings per share

+5.6%
to 116.4 cents

Cash generated from operations

+7.7%
to R5.9 billion

Final dividend of 53 cents per share

+6.0%



SUMMARISED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 30 September 2019

	2019 R'm	% change	2018 R'm
Revenue	25 672	9.3	23 488
Operating expenses	(21 728)		(19 640)
Operating profit	3 944	2.5	3 848
Fair value adjustments to contingent consideration	2		(18)
Fair value (loss)/profit on derivative financial instruments	(438)		127
Gain on derecognition of lease assets and liabilities	–		79
Impairment of assets and investments	(164)		(34)
Profit on disposal of investment in joint venture	1 501		–
Profit on disposal of investment in subsidiary	11		–
Profit on disposal of property, plant and equipment	–		35
Transaction costs relating to acquisitions and disposals	(148)		(38)
Other	(22)		(95)
Finance income	60		40
Finance cost	(1 058)		(1 002)
Share of associates' and joint ventures' net profit/(loss) after tax	18		(105)
Profit before tax	3 706		2 837
Tax expense	(835)		(923)
Profit after tax	2 871	50.0	1 914
Other comprehensive income/(loss), net of tax			
Items that may be reclassified to profit or loss			
Movement in foreign currency translation reserve	117		183
Items that will not be reclassified to profit or loss			
Retirement benefit asset and post-employment medical aid	(54)		–
Total comprehensive income for the year	2 934	39.9	2 097
Profit after tax attributable to:			
Ordinary equity holders of the parent	2 569	63.1	1 575
Non-controlling interest	302		339
	2 871	50.0	1 914
Total comprehensive income attributable to:			
Ordinary equity holders of the parent	2 622	49.2	1 757
Non-controlling interest	312		340
	2 934	39.9	2 097
Weighted average number of shares in issue (million)	1 456	0.3	1 451
Earnings per share (cents)	176.4	62.4	108.6
Headline earnings per share (cents)	88.7	(18.5)	108.8
Diluted earnings per share (cents)	175.8	62.3	108.1
Diluted headline earnings per share (cents)	88.4	(18.6)	108.3
Headline earnings (R'm)			
Profit attributable to ordinary equity holders	2 569		1 575
Adjustments (net of tax)			
Impairment of assets and investments	140		34
Profit on disposal of investment in joint venture	(1 407)		–
Profit on disposal of investment in subsidiary	(11)		–
Profit on disposal of property, plant and equipment	–		(30)
Headline earnings	1 291	(18.2)	1 579



SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 September 2019

	Notes	2019 R'm	2018 R'm
ASSETS			
Non-current assets		31 588	30 558
Property, plant and equipment		12 929	12 243
Intangible assets		16 969	17 084
Other non-current assets		1 690	1 231
Current assets		5 978	8 584
Cash and cash equivalents		1 544	1 494
Other current assets	2	4 434	4 249
Asset classified as held for sale		–	2 841
Total assets		37 566	39 142
EQUITY AND LIABILITIES			
Capital and reserves			
Stated capital		13 515	13 510
Reserves		2 673	1 406
Non-controlling interest		1 303	1 286
Total equity		17 491	16 202
LIABILITIES			
Non-current liabilities		11 632	14 764
Interest-bearing borrowings	1	9 399	12 870
Other non-current liabilities	2	2 233	1 894
Current liabilities		8 443	8 176
Bank overdraft		867	488
Interest-bearing borrowings	1	2 596	3 086
Other current liabilities	2	4 980	4 602
Total liabilities		20 075	22 940
Total equity and liabilities		37 566	39 142

SUMMARISED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 September 2019

	Total capital and reserves R'm	Non- controlling interest R'm	Total equity R'm
Balance at 1 October 2018 (as previously reported)	14 916	1 286	16 202
Transition adjustment relating to IFRS 9	20	–	20
Balance at 1 October 2018 (restated)	14 936	1 286	16 222
Total comprehensive income for the year	2 622	312	2 934
Profit for the year	2 569	302	2 871
Other comprehensive income	53	10	63
Transactions with non-controlling interests	(60)	(44)	(104)
Disposal of subsidiary	(5)	(18)	(23)
Distributions to shareholders	(1 321)	(233)	(1 554)
Net movement in treasury shares for staff benefit schemes	(62)	–	(62)
Loss on disposal of treasury shares	(3)	–	(3)
Share-based payment charge for staff benefit schemes	81	–	81
Balance at 30 September 2019	16 188	1 303	17 491
Balance at 1 October 2017	14 380	1 171	15 551
Total comprehensive income for the year	1 757	340	2 097
Profit for the year	1 575	339	1 914
Other comprehensive income	182	1	183
Issue of new shares as a result of scrip distribution	450	–	450
Transactions with non-controlling interests	(474)	19	(455)
Distributions to shareholders	(1 208)	(244)	(1 452)
Net movement in treasury shares for staff benefit schemes	(66)	–	(66)
Share-based payment charge for staff benefit schemes	77	–	77
Balance at 30 September 2018	14 916	1 286	16 202



SUMMARISED CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 September 2019

	2019 R'm	% change	2018 R'm
Cash generated from operations	5 927	7.7	5 503
Transaction costs paid relating to acquisitions and disposals	(147)		(38)
Interest received	60		40
Tax paid	(1 185)		(1 065)
Net cash from operating activities	4 655	4.8	4 440
Capital expenditure	(2 060)		(2 244)
Investments (net of cash acquired) and contingent considerations paid	(269)		(1 131)
Proceeds from disposal of subsidiary and joint venture	4 395		–
Premiums paid/settlement of foreign exchange option contracts relating to disposal of joint venture	(322)		(61)
Other	27		72
Net cash generated from/(utilised in) investing activities	1 771		(3 364)
Proceeds from interest-bearing borrowings	5 996		8 437
Repayment of interest-bearing borrowings	(10 052)		(6 784)
Dividends paid to Company's shareholders	(1 321)		(758)
Finance costs paid	(984)		(903)
Other	(404)		(818)
Net cash utilised in financing activities	(6 765)		(826)
Net (decrease)/increase in cash and cash equivalents	(339)		250
Cash and cash equivalents – beginning of the year	1 006		726
Effect of foreign exchange rate movements	10		30
Cash and cash equivalents – end of the year¹	677		1 006

¹ Cash and cash equivalents are net of bank overdrafts.

SEGMENTAL INFORMATION

for the year ended 30 September 2019

The Group's segments are aligned to those business units that are evaluated regularly by the chief operating decision maker (CODM) in deciding how to allocate resources and in assessing performance.

In southern Africa, the hospitals and complementary services segment comprises all the acute hospitals and complementary services which include mental health, acute rehabilitation, renal dialysis and oncology. The healthcare services segment comprises Life Esidimeni and Life Employee Health Solutions.

International comprises diagnostic services and healthcare services (Scanmed) across Europe and the United Kingdom.

Growth initiatives comprise the new outpatient business model, developing the imaging opportunity, investing in data analytics and clinical quality products within South Africa and product development internationally.

Corporate is an additional non-operating segment.

The comparative information has been restated to adjust for the change in the composition of the reportable segments. Growth initiatives were included as part of the diagnostic services segment in the prior year. In the current year, growth initiatives are disclosed as a separate segment and the comparative information has therefore been adjusted.

The operating businesses have been aggregated into different segments based on the similar nature of products and services, similar economic characteristics, similar type of customers and operating in a similar regulatory environment.

Inter-segment revenue of R5 million (2018: R4 million) is eliminated and relates to revenue between Life Employee Health Solutions and the southern Africa business.

	2019 R'm	2018 R'm
Revenue¹		
Southern Africa		
Hospitals and complementary services	17 213	16 118
Healthcare services	1 259	1 122
International		
Diagnostic services	5 582	4 922
Healthcare services	1 349	1 260
Growth initiatives	269	66
	25 672	23 488
Normalised EBITDA²		
Southern Africa		
Hospitals and complementary services	3 933	3 703
Healthcare services	148	131
International		
Diagnostic services	1 253	1 206
Healthcare services	97	85
Growth initiatives	(25)	(45)
Corporate		
Recoveries	1 292	1 218
Corporate costs	(971)	(763)
	5 727	5 535

¹ Revenue of approximately 33% (2018: 23%) is derived from two (2018: one) external customers. The revenues are attributed to the southern Africa segment.

² Life Healthcare defines normalised EBITDA as operating profit before depreciation on property, plant and equipment, amortisation of intangible assets and non-trading-related costs or income.



SEGMENTAL INFORMATION continued

for the year ended 30 September 2019

	2019 R'm	2018 R'm
Depreciation		
Southern Africa		
Hospitals and complementary services	(576)	(531)
Healthcare services	(18)	(17)
International		
Diagnostic services	(521)	(478)
Healthcare services	(62)	(59)
Growth initiatives	(10)	(2)
Corporate	(49)	(46)
	(1 236)	(1 133)
EBITA³		
Southern Africa		
Hospitals and complementary services	3 357	3 172
Healthcare services	130	114
International		
Diagnostic services	732	728
Healthcare services	35	26
Growth initiatives	(35)	(47)
Corporate	272	409
	4 491	4 402
Amortisation of intangible assets		
Southern Africa		
Hospitals and complementary services	(110)	(110)
International		
Diagnostic services	(411)	(368)
Healthcare services	(17)	(19)
Growth initiatives	(18)	(19)
Corporate	(30)	(21)
	(586)	(537)

³ EBITA is defined as normalised EBITDA less depreciation.

	2019 R'm	2018 R'm
Operating profit before items detailed below		
Southern Africa		
Hospitals and complementary services	3 247	3 062
Healthcare services	130	114
International		
Diagnostic services	321	360
Healthcare services	18	7
Growth initiatives	(53)	(66)
Corporate	242	388
	3 905	3 865
Retirement benefit asset and post-employment medical aid income	39	34
Severance payments	–	(51)
Operating profit	3 944	3 848
Fair value adjustments to contingent consideration	2	(18)
Fair value (loss)/profit on derivative financial instruments	(438)	127
Gain on derecognition of lease assets and liabilities	–	79
Impairment of assets and investments	(164)	(34)
Profit on disposal of investment in joint venture	1 501	–
Profit on disposal of investment in subsidiary	11	–
Profit on disposal of property, plant and equipment	–	35
Transaction costs relating to acquisitions and disposals	(148)	(38)
Other	(22)	(95)
Finance income	60	40
Finance costs	(1 058)	(1 002)
Share of associates' and joint ventures' net profit/(loss) after tax	18	(105)
Profit before tax	3 706	2 837

Operating profit before items detailed includes the segment's share of shared services and rental costs. These costs are all at market-related rates.



SEGMENTAL INFORMATION continued

for the year ended 30 September 2019

	2019 R'm	2018 R'm
Total assets before items detailed below		
Southern Africa	13 550	12 998
International	22 342	22 078
	35 892	35 076
Asset classified as held for sale (Max) ¹	–	2 841
Employee benefit assets	448	401
Deferred tax assets	1 102	700
Derivative financial assets	–	100
Income tax receivable	124	24
Total assets per the balance sheet	37 566	39 142
Net debt		
Southern Africa	4 481	8 018
International	6 837	6 932
	11 318	14 950
Cash and cash equivalents (net of bank overdrafts)		
Southern Africa	(141)	(82)
International	818	1 088
	677	1 006

¹ Max Healthcare Institute Limited (Max).

Net debt is a key measure for the Group, which comprises all interest-bearing borrowings, overdraft balances and cash on hand.

ACQUISITIONS AND DISPOSALS OF INVESTMENTS

Transactions with non-controlling interests

Increases and decreases in ownership interest in subsidiaries

The Group had marginal increases and decreases in its percentage shareholdings in some of its southern Africa and Polish subsidiary companies due to transactions with minority shareholders. The individual transactions are immaterial.

Business combinations

Cork Community Imaging Limited (Cork)

The Group, through Alliance Medical Group Limited (Alliance Medical), acquired 100% of Cork on 25 May 2019 for a total consideration of R4 million. Goodwill of R3 million was recognised. No significant contingent liabilities existed at the acquisition date.

European Scanning Centre Limited (ESC)

Acquirer	Alliance Medical
Country of incorporation	United Kingdom
Acquisition date	21 December 2018
Percentage voting equity interest acquired	100%
Primary reasons for business combination	This is in line with Life Healthcare's strategy to establish a sizeable international business, and complements the Group's existing diagnostic services segment
Qualitative factors that make up goodwill recognised	Attributable to future earnings potential and synergies relating to property consolidation, reduction in administrative costs and improved procurement
Contingent liabilities at acquisition	None

Details of the fair values of net assets acquired and goodwill are as follows:

R'm	ESC
Total purchase consideration	(211)
Cash portion	(195)
Contingent consideration ¹	(16)
Fair value of net assets acquired	80
Property, plant and equipment	40
Customer relationships	71
Brand name	15
Trade and other receivables	12
Cash and cash equivalents	8
Interest-bearing borrowings	(4)
Deferred tax liabilities	(15)
Trade and other payables	(46)
Income tax payable	(1)
Goodwill	(131)

¹ Contingent consideration is based on performance and is expected to become payable between six and 12 months from the date of acquisition.



ACQUISITIONS AND DISPOSALS OF INVESTMENTS continued

R'm	ESC
Cash outflow to acquire business, net of cash acquired	
Initial cash consideration	195
Less: Cash at acquisition	(8)
	187
Impact on consolidated information from date of acquisition	
Revenue	54
Net loss	(7)
Impact on consolidated information if business combination took place on 1 October 2018	
Revenue	76
Net loss	(16)

Changes to fair values of previously acquired business

During the prior year, the Group acquired the business of Piramal Imaging (renamed Life Molecular Imaging (LMI)). The fair values identified on acquisition were treated as provisional and have now been finalised. The following adjustments were made during the current year.

	R'm
Increase in intellectual property	93
Decrease in goodwill	(92)
Decrease in trade and other receivables	(24)
Increase in trade and other payables	23

Disposals

Disposal of investment in subsidiary – Life Piet Retief Hospital Proprietary Limited

On 31 May 2019, the Group disposed of its 62.28% interest in Life Piet Retief Hospital Proprietary Limited (incorporated in South Africa) for a purchase price of R48 million. The sale resulted in a profit on disposal of subsidiary of R11 million.

Disposal of investment in joint venture – Max

On 21 June 2019, the Group disposed of its 49.7% equity shareholding in Max (incorporated in India) for R4.3 billion. This resulted in a profit on disposal of joint venture of R1.5 billion (before withholding tax of R94 million). Transaction costs relating to the disposal amounted to R118 million.

NOTES

1. Interest-bearing borrowings

	R'm
Total borrowings at 30 September 2018	15 956
Proceeds from interest-bearing borrowings	5 996
Repayment of interest-bearing borrowings	(10 052)
Other movements	27
Exchange differences	68
Total borrowings at 30 September 2019	11 995

Borrowing facilities

The Group has total facilities of R8.2 billion, of which R5.1 billion is available at 30 September 2019.

2. Financial instruments

Fair value

Other non-current liabilities, other current assets and liabilities as presented in the statement of financial position, include contingent consideration liabilities and derivative financial instruments (assets and liabilities) at fair value (through profit or loss).

The derivative assets and liabilities used for hedging, as presented in the statement of financial position, are the financial assets and liabilities that are measured at fair value.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active and for unlisted securities, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group's financial instruments held at fair value, are measured subsequent to their initial recognition and are grouped into levels 1 to 3 based on the extent to which the fair values are observable. All of the resulting fair value estimates for the derivative financial instruments used for hedging are included in level 2. The contingent considerations are included in level 3. The fair value of interest rate swaps is calculated as the mark-to-market valuation, which represents the mid-market value of the instrument as determined by the financial institution at 30 September 2019.

There were no transfers between levels 1, 2 and 3 during the year.

Basis of presentation and accounting policies

The summarised consolidated financial statements are prepared in accordance with the requirements of the JSE Limited (JSE) Listings Requirements for preliminary reports, and the requirements of the South African Companies Act 71 of 2008 (as amended) applicable to summary financial statements. The Listings Requirements require preliminary reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 *Interim Financial Reporting*.

The accounting policies applied in the preparation of the consolidated financial statements from which the summary consolidated financial statements were derived are in terms of IFRS and are consistent with those applied in the previous consolidated annual financial statements, except for the adoption of the new, revised and amended standards.

These financial results have been prepared under the supervision of PP van der Westhuizen (CA(SA)), the Group Chief Financial Officer.

New accounting standards

The Group has adopted IFRS 9 and IFRS 15 from 1 October 2018, and changed its accounting policies accordingly. The Group elected not to restate any comparative information. The impact of adopting these new standards has been applied retrospectively. An adjustment to the Group's opening retained earnings was made as a result of IFRS 9.

IFRS 15 Revenue from Contracts with Customers

All contracts within the Group have been assessed against the new standard. It was determined that the implementation of IFRS 15 does not have an impact on the Group's revenue recognition and measurement.

Therefore, no adjustments were required and no practical expedients, as made available by IFRS 15, were used.

IFRS 9 Financial Instruments

IFRS 9 replaces the requirements of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, and impairment of financial assets.

Classification and measurement

The Group currently recognises the following financial assets – trade and other receivables, cash and cash equivalents and other assets which includes loans to associates, loans receivable and derivative assets.

In terms of IFRS 9, all these financial assets will be measured at amortised cost, with the exception of derivative instruments which are recognised at fair value through profit or loss.

This is because the objective of the business model is to hold these financial assets for the collection of the contractual cash flows, and the contractual cash flows represent payments of principal and interest.

Consequently, the subsequent measurement (i.e. amortised cost) is the same under IAS 39 and IFRS 9.

Derivative financial assets are measured at fair value through profit or loss under IAS 39 and IFRS 9, and therefore no reclassification or remeasurement is required.

In summary, upon the adoption of IFRS 9, the Group had the following measurement categories:

R'm	As at 30 September 2018 IAS 39		As at 1 October 2018 IFRS 9	
	Fair value through profit or loss	Loans and receivables at amortised cost	Fair value through profit or loss	Amortised cost
Trade and other receivables ¹	–	3 636	–	3 656
Cash and cash equivalents	–	1 494	–	1 494
Other assets				
Loans receivable/loans to associates	–	77	–	77
Derivative financial instruments	100	–	100	–

¹ The change in carrying amount is a result of changes to the expected credit loss provision.

Impairment of financial assets

Under IFRS 9, the Group was required to revise its impairment methodology from an incurred loss model to an expected loss model.

The adoption of IFRS 9 has resulted in a decrease in the impairment provision of R20 million relating to trade receivables.

In calculating the provision on transition to IFRS 9, the Group applied the simplified approach to measure the expected credit losses, which uses a lifetime expected loss allowance.

While the remaining financial assets held at amortised cost are also subject to the impairment requirements under IFRS 9, the impairment provision on transition was determined to be immaterial.

Transition

It was determined that on transition to IFRS 9, it would not be possible to restate comparatives without the use of hindsight.

As a result, the Group did not restate prior periods, and rather recognised differences on initial application of IFRS 9 in opening retained earnings.

Consequently, the decrease in the expected credit loss provision (outlined on page 12) on the initial application of IFRS 9 resulted in an increase in trade receivables and retained earnings of R20 million.

The impact of the change on the Group's retained earnings is as follows:

	R'm
Opening balance as at 1 October 2018 (as previously reported)	1 569
Decrease in provision for expected credit losses (under IFRS 9)	20
Opening balance as at 1 October 2018 (restated)	1 589

Impact of standards issued but not yet effective

IFRS 16 Leases

IFRS 16 Leases is effective from 1 October 2019, and will impact the Group for the first time in FY2020. Under the new standard, Life Healthcare as lessee will recognise right-of-use assets and lease liabilities for all lease contracts (with limited exceptions) on the statement of financial position. Property lease contracts have the most significant impact on the Group.

The adoption of IFRS 16 is expected to increase normalised EBITDA by between R220 million and R250 million and decrease profit after tax by between R25 million and R40 million in FY2020. Property, plant and equipment as well as interest-bearing borrowings will increase by between R950 million and R1 billion on 1 October 2019 due to the adoption of IFRS 16. The assessment has been made on current available information and exchange rates.

Report of the independent auditors

This summarised report is extracted from audited information, but is not itself audited. The consolidated financial statements were audited by PricewaterhouseCoopers Inc., who expressed an unmodified opinion thereon. The auditor's report does not necessarily report on all the information contained in the announcement. Shareholders are therefore advised that, in order to obtain a full understanding of the nature of the auditor's engagement, they should obtain a copy of the auditor's report together with the accompanying consolidated financial statements from the Company's registered office.

The directors take full responsibility for the preparation of the preliminary report and that the financial information has been correctly extracted from the underlying consolidated financial statements.

OVERVIEW

Life Healthcare delivered a healthy overall performance, despite challenging trading environments in most of the markets in which we operate. The strong revenue growth of 9.3% is a result of robust volume growth in the PET-CT contract in the United Kingdom and a strong H2 FY2019 performance in southern Africa.

Good progress has been made in the imaging market as well as broadening our business lines across the healthcare continuum in South Africa. Internationally, we are expanding our radiology product development business within Alliance Medical through Life Molecular Imaging (LMI).

To complement our growth focus, we have initiated several efficiency programmes for sustainability, which we expect will deliver substantial savings. These include nursing optimisation, improved procurement, capex optimisation, focusing on cost of sales management and other administrative costs. In addition, we continue to progress on our integration effort. The investment in these programmes impacted normalised EBITDA negatively by R124 million.

Life Healthcare attended the launch of South Africa's National Health Insurance (NHI). We look forward to continue to engage positively with the government to implement NHI in a sustainable manner, and ultimately to broaden healthcare access and affordability in South Africa.

OPERATIONAL REVIEW

Southern Africa

	2019 R'm	Change %	2018 R'm
Revenue			
Hospitals and complementary services	17 213	6.8	16 118
Healthcare services	1 259	12.2	1 122
	18 472	7.1	17 240
Normalised EBITDA			
Hospitals and complementary services	3 933	6.2	3 703
Healthcare services	148	13.0	131
Corporate			
Recoveries	1 292	6.1	1 218
Corporate costs	(971)	27.3	(763)
	4 402	2.6	4 289

Revenue from southern Africa increased by 7.1% to R18.5 billion (2018: R17.2 billion). Revenue from hospitals and complementary services grew by 6.8% mainly due to a 5.8% increase in revenue per paid patient day (PPD) and a 0.8% growth in PPDs (2018: +1.1%). The increase in revenue per PPD is made up of a 4.8% tariff increase and a 1.0% positive case mix change. Even though the Group experienced negative activity volumes in the first half of the financial year (H1 FY2019: -0.3%), we delivered positive PPD growth of 0.8% for the full year due to strong PPD growth of 1.8% in H2 FY2019. This growth is largely due to doctor recruitment gains over the last two years, network gains and an increase in acuity from surgical cases. The overall weighted occupancy for the year

remained in line with the prior year at 69.7%, with 49 brownfield expansion beds being added. Complementary services continued to show good growth with revenue increasing by 9.2%, benefitting from the opening of the new mental health unit, Life Brackenview in April 2019, and good growth in renal dialysis.

Healthcare services performed well with revenue growing by 12.2% largely due to new contracts gained by Life Employee Health Solutions.

Normalised EBITDA increased by 2.6% with an EBITDA margin of 23.8% for the year (2018: 24.9%). The EBITDA margin was impacted by the lower PPD activity in December 2018 and January 2019 which affected operational leverage in H1 FY2019, the cost of additional human resource capacity at a Group level to support growth initiatives and the initial cost of efficiency programmes which are expected to deliver future efficiency gains. Normalised EBITDA excluding corporate costs increased by 6.4%. This increase has been driven by the strong growth in H2 FY2019 combined with good cost management, resulting in the H2 FY2019 margin for normalised EBITDA excluding corporate costs increasing by 0.9% from H1 FY2019 to 29.5% (H1 FY2019: 28.6%).

The Group continues to improve on the overall patient safety adverse event rate and remained on par with the prior year with regards to the healthcare associated infection rate and patient experience scores. Life Healthcare became the first hospital group in South Africa to publish quality scores on a per hospital basis from October 2018. These scores can be viewed on Life Healthcare's website (www.lifehealthcare.co.za).

International

	2019 R'm	Change %	2018 R'm
Revenue			
Diagnostic services	5 582	13.4	4 922
Healthcare services	1 349	7.1	1 260
	6 931	12.1	6 182
Normalised EBITDA			
Diagnostic services	1 253	3.9	1 206
Healthcare services	97	14.1	85
	1 350	4.6	1 291

Diagnostic services' revenue grew by 13.4% to R5.6 billion (2018: R4.9 billion) driven by strong growth in PET-CT scan volumes in the United Kingdom (up 15.9%), the full year impact of the acquisition of the Italian clinics during H2 FY2018, the acquisition of scanning facilities in the United Kingdom in December 2018, and a solid underlying performance in Ireland. Normalised EBITDA increased by 3.9% to R1.3 billion (2018: R1.2 billion). The results were positively impacted by the weakening of the rand against the pound sterling and euro.

The normalised EBITDA margin decreased to 22.4% (2018: 24.5%). The margin was negatively impacted by supply challenges within our radiopharmacy production units while we are currently undertaking an 18-month planned refurbishment programme, resulting in increased costs. Excluding this impact the margin was 23.6%.



COMMENTARY continued

Healthcare services' (Scanmed in Poland) revenue for the year increased by 7.1% to R1 349 million (2018: R1 260 million). Normalised EBITDA increased to R97 million (2018: R85 million) resulting in the normalised EBITDA margin increasing to 7.2% (2018: 6.7%). Healthcare services' performance was impacted by reduced overquota referrals in FY2019, increased competition in orthopaedics, costs relating to IT automation projects and costs associated with the strengthening of the management team.

Regulatory changes impacted minimum employment costs in Poland primarily resulted in a R125 million impairment in the carrying value of the Polish investment in the Group's results during the year ended 30 September 2019.

Growth initiatives

Growth initiatives comprise the new outpatient business model, developing the imaging opportunity, investing in data analytics and clinical quality products within South Africa and product development internationally.

During the current year, Life Healthcare opened its first outpatient clinic. This pilot site delivered excellent learnings around the operating model and offering. In addition, it proved our ability to operate a low cost, efficient, high-quality service, with consistently high patient experience scores. The Group has launched a partnership with a large retailer to test the clinic model in-store, and is excited by the future opportunities presented by this expansion across the healthcare continuum. The normalised EBITDA loss for the year was R14 million.

The other South African growth initiatives contributed to a total EBITDA loss of R29 million during the current year.

LMI, our primary international growth initiative, performed better than expected and contributed revenue of R268 million (2018: R66 million) and a normalised EBITDA profit of R18 million (2018: loss of R45 million). The profit of R18 million includes a non-trading related exchange gain of R30 million. Excluding this non-trading item the normalised EBITDA loss was R12 million.

Disposal of equity investment in Max

The disposal of Max was concluded during the current year and funds were received on 21 June 2019. The results for the year include the profit on the sale of R1.5 billion before withholding tax of R94 million, transaction costs of R118 million and the loss on foreign exchange option contracts of R292 million (net of tax).

The net cash proceeds of R3.8 billion, after withholding tax, the hedge costs and transaction costs, was utilised to repay debt.

FINANCIAL OVERVIEW

Group revenue increased by 9.3% to R25.7 billion (2018: R23.5 billion) consisting of a 7.1% increase in southern African revenue to R18.5 billion (2018: R17.2 billion); a 12.1% increase in international revenue to R6.9 billion (2018: R6.2 billion) and R269 million revenue contribution from growth initiatives (2018: R66 million).

Normalised EBITDA was impacted by investments in growth initiatives. The Group also implemented a number of efficiency programmes focusing on cost of sales management, improved procurement, nursing optimisation and other administrative costs. Although the benefits of these efficiency programmes started to realise in H2 FY2019 the full associated programme set-up costs of R124 million were expensed in the current year.

Normalised EBITDA excluding growth initiatives and investments in efficiency programmes increased by 5.3%.

	2019 R'm	% change	2018 R'm
Normalised EBITDA			
Operating profit	3 944	2.5	3 848
Depreciation on property, plant and equipment	1 236	9.1	1 133
Amortisation of intangible assets	586	9.1	537
Retirement benefit asset and post-employment medical aid income	(39)		(34)
Severance payments	–		51
Normalised EBITDA	5 727	3.5	5 535
Southern Africa	4 402	2.6	4 289
International	1 350	4.6	1 291
Growth initiatives	(25)	44.4	(45)
Normalised EBITDA excluding growth initiatives and investments in efficiency programmes	5 876	5.3	5 580

CASH FLOW AND CAPEX

The Group produced excellent cash flows from operations due to strong working capital management. The cash generated from operations increased by 7.7% on FY2018, and represented 103% of normalised EBITDA (2018: 99%).

The capex for the year was R2.3 billion (2018: R3.4 billion), comprising mainly of capital projects of R2.1 billion (2018: R2.2 billion) and new acquisitions (net of cash acquired) by Alliance Medical of R190 million. The maintenance capex for the year was R1.2 billion (2018: R878 million).

FINANCIAL POSITION

Net debt to normalised EBITDA as at 30 September 2019 was 1.96 times (30 September 2018: 2.73 times). The bank covenant for net debt to EBITDA is 3.50 times.

EARNINGS PER SHARE (EPS), HEADLINE EARNINGS PER SHARE (HEPS) AND NORMALISED EARNINGS PER SHARE (NEPS)

EPS increased by 62.4% to 176.4 cps (2018: 108.6 cps) primarily due to the impact of the disposal of Max.

The decrease of HEPS by 18.5% to 88.7 cps (2018: 108.8 cps) is due to the impact of the mark-to-market loss of R292 million (net of tax) on the Max foreign exchange option contracts, diluting HEPS by 20.1 cps. NEPS, which excludes non-trading related items listed below, increased by 5.6% to 116.4 cps (2018: 110.2 cps).

	2019 R'm	% change	2018 R'm
Weighted average number of shares in issue (million)	1 456	0.3	1 451
Normalised earnings			
Profit attributable to ordinary equity holders	2 569		1 575
Adjustments (net of tax)			
Retirement benefit asset and post-employment medical aid income	(28)		(24)
Fair value adjustments to contingent consideration	(2)		18
Fair value loss/(profit) on the Max foreign exchange option contracts	292		(17)
Gain on derecognition of lease assets and liabilities	–		(71)
Impairment of assets and investments	140		34
Profit on disposal of investment in joint venture	(1 407)		–
Profit on disposal of investment in subsidiary	(11)		–
Profit on disposal of property, plant and equipment	–		(30)
Transaction costs relating to acquisitions and disposals	148		38
Other	30		75
Unwinding of contingent consideration	44		–
Deferred tax raised on historical losses	(80)		–
Normalised earnings	1 695	6.1	1 598
NEPS (cents)	116.4	5.6	110.2

NEPS was impacted by the investments in growth initiatives and by the cost of additional human resource capacity created at Group level to support the growth initiatives. NEPS excluding the current losses on the growth initiatives is 118.5 cps (7.5% increase on FY2018).

REGULATORY ENVIRONMENT

The NHI bill was introduced to the South African parliament in August 2019 and is currently under review by the National Assembly's portfolio committee on health. A stipulated parliamentary review process and public participation process is under way. Stakeholders have been invited to submit written submissions to the portfolio committee by 29 November 2019. Life Healthcare welcomes this opportunity to contribute meaningfully to the dialogue in order to ensure that the bill is implemented in a sustainable manner. We are actively participating in the stipulated parliamentary processes in our own capacity as well as through the Hospital Association of South Africa (HASA) and Business Unity South Africa (BUSA).

The Competition Commission Healthcare Market Inquiry (HMI) was concluded and the findings were published on 30 September 2019. The HMI made a number of recommendations to the South African government. Life Healthcare ascribes to the principles of the inquiry and will respond to these findings based on what the government implements.

Each Alliance Medical region has reviewed its operations in the context of a hard Brexit. Within the UK, impact has already been felt over the last two years with a reduction of EU applicants for positions. This is being mitigated by increasing relationships with universities as well as recruitment drives from outside of Europe. Key supplier contingency plans have been reviewed. In a small number of instances this has resulted in an increased level of stock being held.

CHANGES TO BOARD OF DIRECTORS

There have been no changes to the board of directors for the year ended 30 September 2019.

CASH DIVIDEND DECLARATION

The board approved a final gross cash dividend of 53.0 cents per ordinary share for the year ended 30 September 2019. The dividend has been declared from income reserves. The dividend is subject to South African dividend withholding tax of 20%, which will be applicable to all shareholders not exempt therefrom, after deduction of which the net cash dividend is 42.4 cents per share.

The Company's total number of issued ordinary shares is 1 467 349 162 as at 20 November 2019. The Company's income tax reference number is 9387/307/15/1.

In compliance with the requirements of the JSE, the following salient dates are applicable:

Last date to trade cum dividend	Tuesday, 10 December 2019
Shares trade ex the dividend	Wednesday, 11 December 2019
Record date	Friday, 13 December 2019
Payment date	Tuesday, 17 December 2019

Share certificates may not be dematerialised or rematerialised between Wednesday, 11 December 2019 and Friday, 13 December 2019, both days inclusive.



COMMENTARY continued

OUTLOOK

Tough operating conditions will remain, largely due to the slow economic growth in South Africa. The Group does, however, see good pockets of growth opportunities, both in southern Africa and internationally.

In southern Africa, the Group expects flat acute PPDs in a market of increased network arrangements and good growth in complementary services. The Group plans to add approximately 50 beds during the following financial year. Capex for the year is expected at approximately R1.3 billion, largely comprising of replacement capex. We will continue to focus on improving clinical quality, implementing new growth initiatives and driving our operational efficiency programmes.

Diagnostic services will complete the roll-out of the PET-CT 2 contract and the current refurbishment programme of radiopharmacy facilities. The additional radiopharmacy facility should be operational in FY2020, until then the business will continue to manage production carefully. We expect continued good growth in PET-CT volumes. The Italian operations will focus on growing the clinic business through acquisitions and consolidation of certain clinics. Capex for the year is expected at approximately R1.1 billion.

The Group is exploring strategic options to potentially exit Poland-based operations.

The Group will invest further into growth initiatives:

- We will continue to progress the South African imaging market opportunity.
- New outpatient models – Life Healthcare is targeting to deliver further standalone and partnered clinics to reach 20 000 customers by September 2020. The cost of the investment is anticipated to be R17 million (including capex and opex).
- LMI – the Group will invest up to USD8 million capex in FY2020 on the back of the good performance in FY2019.

TRADING STATEMENT FOR THE SIX MONTHS ENDING 31 MARCH 2020

Life Healthcare's results for the six months ending 31 March 2020 are expected to show an increase of more than 20% in EPS (minimum increase of 4.9 cps to at least 29.4 cps) and HEPS (minimum increase of 5.4 cps to at least 32.3 cps) from those reported for the six months ended 31 March 2019 (EPS: 24.5 cps and HEPS: 26.9 cps). This is primarily due to the mark-to-market loss recognised in H1 FY2019 on the option contracts, taken out to protect the proceeds received on the Max disposal.

A detailed trading statement will be released mid-May 2020. The forecast financial information on which this trading statement is based has not been reviewed and reported on by the Group's external auditors.

Shareholders are advised that the investor presentation for the year ended 30 September 2019 is published on Life Healthcare's website (www.lifehealthcare.co.za).

THANKS

The contribution of the doctors, nurses and employees of Life Healthcare have greatly enhanced the quality of our performance. We thank them for their contributions.

Approved by the board of directors on 20 November 2019 and signed on its behalf:

Mustaq Brey
Chairman

Shrey Viranna
Group Chief Executive Officer

Executive directors

SB Viranna (Group Chief Executive Officer)
PP van der Westhuizen (Group Chief Financial Officer)

Non-executive directors

MA Brey (Chairman), PJ Golesworthy, ME Jacobs, AM Mothupi, JK Netshitenzhe, MP Ngatane, M Sello, GC Solomon, RT Vice

Company secretary

A Parboosing

Registered office

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Sponsors

Rand Merchant Bank, a division of FirstRand Bank Limited

Date

21 November 2019

Note regarding forward looking statements

Any forward looking statements or projections made by the Company, including those made in this announcement, are subject to risk and uncertainties that may cause actual results to differ materially from those projected, and have not been reviewed or reported on by the Group's external auditor.

LIFE HEALTHCARE GROUP HOLDINGS LIMITED

Registration number: 2003/002733/06
Income tax number: 9387/307/15/1
ISIN: ZAE000145892
Share code: LHC



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