



UNAUDITED GROUP INTERIM RESULTS

FOR THE PERIOD ENDED 31 MARCH 2020
AND TRADING STATEMENT



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OUR VISION

at Life Healthcare Group
is to be a market-leading,
international, diversified
healthcare organisation.

HIGHLIGHTS

Revenue

+6.8%
to R13.2 billion

Normalised EBITDA
pre-IFRS 16

+2.7%
to R2.8 billion

Normalised earnings
per share

+12.0%
to 55.0 cents

Strong financial position
with available undrawn
facilities of

R3.8 billion

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the period ended 31 March 2020

	2020 R'm	Change %	2019 R'm
Revenue	13 244	6.8	12 399
Operating expenses	(11 397)		(10 596)
Operating profit¹	1 847	2.4	1 803
Fair value adjustments to contingent consideration	(34)		(38)
Fair value loss on derivative financial instruments	(10)		(370)
Gain on derecognition of lease asset and liability	75		–
Impairment of assets and investments	–		(37)
(Loss)/profit on disposal of property, plant and equipment	(2)		4
Transaction costs	(5)		(30)
Other	–		(2)
Finance income	8		13
Finance cost ¹	(455)		(525)
Share of associates' and joint ventures' net profit after tax	10		4
Profit before tax¹	1 434	74.5	822
Tax expense	(498)		(324)
Profit after tax	936	88.0	498
Other comprehensive income/(loss), net of tax			
Items that may be reclassified to profit or loss			
Movement in foreign currency translation reserve	2 105		466
Items that will not be reclassified to profit or loss			
Retirement benefit asset and post-employment medical aid	(41)		(4)
Total comprehensive income for the year	3 000	>100	960
Profit after tax attributable to:			
Ordinary equity holders of the parent	781	>100	357
Non-controlling interest	155		141
	936	88.0	498
Total comprehensive income attributable to:			
Ordinary equity holders of the parent	2 818	>100	812
Non-controlling interest	182		148
	3 000	>100	960

¹ Impact of adopting IFRS 16 on statement of profit or loss – refer to note 3.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME continued

for the period ended 31 March 2020

	2020	Change %	2019
Weighted average number of shares in issue (million)	1 455	(0.1)	1 456
Earnings per share (cents)	53.7	119.2	24.5
Headline earnings per share (cents)	53.8	100.0	26.9
Diluted earnings per share (cents)	53.5	119.3	24.4
Diluted headline earnings per share (cents)	53.7	100.4	26.8
Headline earnings (R'm)			
Profit attributable to ordinary equity holders	781		357
Adjustments (net of tax)			
Impairment of assets and investments	–		37
Loss/(profit) on disposal of property, plant and equipment	2		(3)
Headline earnings	783	>100	391

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 March 2020

	Notes	31 March 2020 R'm	30 September 2019 R'm
ASSETS			
Non-current assets		35 902	31 588
Property, plant and equipment	3	14 892	12 929
Intangible assets ¹		19 564	16 969
Other non-current assets		1 446	1 690
Current assets		6 092	5 978
Cash and cash equivalents		1 255	1 544
Other current assets		4 837	4 434
Total assets		41 994	37 566
EQUITY AND LIABILITIES			
Capital and reserves			
Stated capital		13 520	13 515
Reserves		4 688	2 673
Non-controlling interest		1 317	1 303
Total equity		19 525	17 491
LIABILITIES			
Non-current liabilities		13 808	11 632
Interest-bearing borrowings	1, 3	11 762	9 399
Other non-current liabilities	2	2 046	2 233
Current liabilities		8 661	8 443
Bank overdraft		1 323	867
Interest-bearing borrowings	1, 3	2 456	2 596
Other current liabilities	2	4 882	4 980
Total liabilities		22 469	20 075
Total equity and liabilities		41 994	37 566

¹ Intangible assets increased mainly as a result of a R2.8 billion movement in foreign currency exchange rates.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the period ended 31 March 2020

	Stated capital and reserves R'm	Non- controlling interest R'm	Total equity R'm
Balance at 1 October 2019¹	16 188	1 303	17 491
Total comprehensive income for the period	2 818	182	3 000
Profit for the period	781	155	936
Other comprehensive profit	2 037	27	2 064
Transactions with non-controlling interests	(58)	(24)	(82)
Purchase of treasury shares	(3)	–	(3)
Distributions to shareholders	(778)	(144)	(922)
Share-based payment charge for staff benefit schemes	41	–	41
Balance at 31 March 2020	18 208	1 317	19 525
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 period	812	148	960
Profit for the period	357	141	498
Other comprehensive income	455	7	462
Transactions with non-controlling interests	(35)	(7)	(42)
Distributions to shareholders	(734)	(150)	(884)
Share-based payment charge for staff benefit schemes	43	–	43
Balance at 31 March 2019	15 022	1 277	16 299

¹ There was no net impact on retained earnings on 1 October 2019 as a result of adopting IFRS 16.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the period ended 31 March 2020

	2020 R'm	Change %	2019 R'm
Cash generated from operations	2 376	(8.3)	2 591
Transaction costs paid	(5)		(30)
Interest received	8		13
Tax paid	(382)		(477)
Net cash from operating activities	1 997	(4.8)	2 097
Capital expenditure	(1 145)		(925)
Investments (net of cash acquired) and contingent considerations paid	(1)		(236)
Other	(81)		(97)
Net cash utilised in investing activities	(1 227)		(1 258)
Proceeds from interest-bearing borrowings	7 631		2 076
Repayment of interest-bearing borrowings	(8 009)		(2 610)
Dividends paid to Company's shareholders	(778)		(734)
Finance cost paid	(340)		(467)
Other	(158)		(153)
Net cash utilised in financing activities	(1 654)		(1 888)
Net decrease in cash and cash equivalents	(884)		(1 049)
Cash and cash equivalents – beginning of the period	677		1 006
Effect of foreign currency rate movements	139		24
Cash and cash equivalents at the end of the period¹	(68)		(19)

¹ Cash and cash equivalents at the end of the period are net of bank overdrafts.

SEGMENTAL INFORMATION

for the period ended 31 March 2020

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 (Alliance Medical) and healthcare services (Scanned) 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 adjusted for the change in the composition of the reportable segments. Growth initiatives were included as part of the other segments in the prior period. In the current period, 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 R3 million (2019: R2 million) is eliminated and relates to revenue between Life Employee Health Solutions and the southern Africa business.

	2020 Reported R'm	2020 Pre-IFRS 16 R'm	2019 R'm
Revenue¹			
Southern Africa			
Hospitals and complementary services	8 745	8 745	8 238
Healthcare services	657	657	609
International			
Diagnostic services	2 945	2 945	2 742
Healthcare services	740	740	664
Growth initiatives	157	157	146
	13 244	13 244	12 399

¹ Revenue of approximately 32% (2019: 23%) is derived from two (2019: one) external customers. The revenue is attributable to the southern Africa segment.

SEGMENTAL INFORMATION continued

for the period ended 31 March 2020

	2020 Reported ³ R'm	2020 Pre-IFRS 16 ³ R'm	2019 R'm
Normalised EBITDA¹			
Southern Africa			
Hospitals and complementary services	2 010	1 916	1 830
Healthcare services	71	71	70
International			
Diagnostic services	625	566	628
Healthcare services	101	79	42
Growth initiatives	(39)	(41)	(41)
Corporate			
Recoveries	623	683	625
Corporate costs	(468)	(468)	(421)
	2 923	2 806	2 733
Depreciation			
Southern Africa			
Hospitals and complementary services	(317)	(303)	(284)
Healthcare services	(10)	(10)	(8)
International			
Diagnostic services	(344)	(289)	(266)
Healthcare services	(54)	(34)	(32)
Growth initiatives	(8)	(6)	(5)
Corporate	(35)	(30)	(24)
	(768)	(672)	(619)
EBITA²			
Southern Africa			
Hospitals and complementary services	1 693	1 613	1 546
Healthcare services	61	61	62
International			
Diagnostic services	281	277	362
Healthcare services	47	45	10
Growth initiatives	(47)	(47)	(46)
Corporate	120	185	180
	2 155	2 134	2 114

¹ Normalised EBITDA is defined as operating profit before depreciation on property, plant and equipment, amortisation of intangible assets and non-trading-related costs or income.

² EBITA is defined as normalised EBITDA less depreciation.

³ Difference between reported and pre-IFRS 16 totals relate to impact of IFRS 16.

	2020 Reported ¹ R'm	2020 Pre-IFRS 16 ¹ R'm	2019 R'm
Amortisation of intangible assets			
Southern Africa			
Hospitals and complementary services	(55)	(55)	(55)
International			
Diagnostic services	(220)	(220)	(203)
Healthcare services	(6)	(6)	(9)
Growth initiatives	(9)	(9)	(32)
Corporate	(18)	(18)	(12)
	(308)	(308)	(311)
Operating profit before items detailed below			
Southern Africa			
Hospitals and complementary services	1 638	1 558	1 491
Healthcare services	61	61	62
International			
Diagnostic services	61	57	159
Healthcare services	41	39	1
Growth initiatives	(56)	(56)	(78)
Corporate	102	167	168
	1 847	1 826	1 803
Fair value adjustments to contingent consideration	(34)	(34)	(38)
Fair value loss on derivative financial instruments	(10)	(10)	(370)
Gain on derecognition of lease asset and liability	75	75	–
Impairment of assets and investments	–	–	(37)
(Loss)/profit on disposal of property, plant and equipment	(2)	(2)	4
Transaction costs	(5)	(5)	(30)
Other	–	–	(2)
Finance income	8	8	13
Finance cost	(455)	(425)	(525)
Share of associates' and joint ventures' net profit after tax	10	10	4
Profit before tax	1 434	1 443	822

¹ Difference between reported and pre-IFRS 16 totals relate to impact of IFRS 16.

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 period ended 31 March 2020

	31 March Reported 2020 R'm	31 March Pre-IFRS 16 2020 R'm	30 September 2019 R'm
Total assets before items below			
Southern Africa	13 867	13 664	13 550
International	26 862	25 877	22 342
	40 729	39 541	35 892
Employee benefit assets	369		448
Deferred tax assets	892		1 102
Derivative financial assets	–		–
Income tax receivable	4		124
Total assets per the balance sheet	41 994		37 566
Net debt			
Southern Africa	5 017	4 740	4 481
International	9 269	8 265	6 837
	14 286	13 005	11 318
Cash and cash equivalents (net)			
Southern Africa	(780)		(141)
International	712		818
	(68)		677

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 subsidiary companies due to transactions with minority shareholders. The individual transactions are immaterial.

BUSINESS COMBINATIONS

Priamar SRL

The Group, through Alliance Medical Group Limited (Alliance Medical), acquired 100% of Priamar SRL, incorporated in Italy, on 30 December 2019 for a total consideration of R9 million. Goodwill of R2 million was recognised. No significant contingent liabilities existed at the acquisition date.

NOTES

1. INTEREST-BEARING BORROWINGS

	R'm
Balance at 1 October 2019	11 995
Proceeds from interest-bearing borrowings	7 631
Repayment of interest-bearing borrowings	(8 009)
Additional lease liabilities recognised on 1 October 2019 as a result of adopting IFRS 16	1 230
Derecognition of lease liability	(173)
Other movements	(34)
Exchange differences	1 578
Balance at 31 March 2020	14 218

2. FINANCIAL INSTRUMENTS

Fair value

Other non-current liabilities and other current liabilities as presented in the statement of financial position, include contingent consideration liabilities of R717 million (September 2019: R543 million) and derivative financial instrument liabilities of R37 million (September 2019: R30 million) 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.

NOTES continued

2. FINANCIAL INSTRUMENTS continued

Fair value continued

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 31 March 2020.

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

3. NEW ACCOUNTING STANDARD (IFRS 16 LEASES)

The Group adopted IFRS 16 from 1 October 2019, and changed its accounting policies accordingly. The Group has elected the modified retrospective approach, with no restatement to comparative periods.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 October 2019.

For leases previously classified as finance leases the Group recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date.

	2020 R'm
Operating lease commitments disclosed as at 30 September 2019	1 293
Discounted using the lessee's incremental borrowing rate at the date of initial application	(463)
Finance lease liabilities recognised as at 30 September 2019	1 427
Low-value leases recognised on a straight-line basis as expense	(5)
Adjustments as a result of a different treatment of extension and termination options	405
Lease liability recognised as at 1 October 2019	2 657
Current lease liabilities	640
Non-current lease liabilities	2 017
	2 657

3. NEW ACCOUNTING STANDARD (IFRS 16 LEASES) continued

The associated right-of-use assets for all lease classes were recognised at an amount equal to the lease liabilities on 1 October 2019, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised on the statement of financial position as at 30 September 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	31 March 2020 R'm	1 October 2019 R'm
Land and buildings	1 526	1 537
Medical equipment	1 242	1 105
Motor vehicles and other equipment	28	29
Total right-of-use assets	2 796	2 671

The change in accounting policy affected the following items in the statement of financial position on 1 October 2019:

- Right-of-use assets included under property, plant and equipment – increased by R1.1 billion
- Prepayments included under other liabilities – decreased by R86 million
- Lease liabilities included as part of interest-bearing borrowings – increased by R1.2 billion

There was no net impact on retained earnings on 1 October 2019.

Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- Reliance on previous assessments on whether leases are onerous
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 October 2019 as short-term leases
- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease

The Group also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease*.

NOTES continued

3. NEW ACCOUNTING STANDARD (IFRS 16 LEASES) continued

Leasing activities and how these are accounted for

The Group leases various properties, medical equipment (including scanning equipment, blood gas machines and renal dialysis units), motor vehicles, IT equipment and gym equipment. Rental contracts are typically made for fixed periods of one to 25 years but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Up until 30 September 2019, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 October 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable
- Variable lease payments that are based on CPI, the Polish inflation rate or WIBOR
- Amounts expected to be payable by the lessee under residual value guarantees (only in our Polish operations)
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets (defined as assets with a value of less than R60 000 for our southern Africa business and GBP5 000 for our international business) comprise IT equipment and contracts for general business services.

3. NEW ACCOUNTING STANDARD (IFRS 16 LEASES) continued

Leasing activities and how these are accounted for continued

(i) Extension options

Extension options are included in a number of leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension options held are exercisable only by the Group and not by the respective lessor.

Critical judgements in determining the lease term

In determining the lease term, the Group considers all facts and circumstances that create an economic incentive to exercise an extension option. Extension options are only included in the lease term if the lease is reasonably certain to be extended. The Group has assessed that it is reasonably certain that all extension options on property leases will be exercised and therefore has included all renewal periods as part of the lease term. Due to the medical equipment being highly technical in nature, and the possibility that new technology may be developed, extension options have not been taken into account for medical equipment.

(ii) Discount rate applied to leases

The lease payments are discounted using the incremental borrowing rate, which is the rate that the relevant business unit (lessee) would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Critical estimates in calculating discount rates

The incremental borrowing rate was calculated using an adjusted Group weighted average cost of capital (WACC) approach by extracting the pre-tax cost of debt element from the WACC rate, which was adjusted for the following:

- Local borrowing rates
- The unsecured/secured nature
- Lessee-specific credit risk
- Lease start date and term

The weighted average incremental borrowing rate applied to the lease liabilities on 1 October 2019 was 9.33% for the Group's leases in South Africa and 3.35% for the Group's international operations.

Should the discount rate applied at the date of transition change by 0.5%, the impact would be as follows:

- Increase by 0.5%: Right-of-use asset and lease liability decrease by R32 million
- Decrease by 0.5%: Right-of-use asset and lease liability increase by R33 million

NOTES continued

3. NEW ACCOUNTING STANDARD (IFRS 16 LEASES) continued

Impact on statement of profit or loss

	2020 Reported R'm	IFRS 16 impact R'm	2020 Pre-IFRS 16 R'm	Change % Pre-IFRS 16	2019 Pre-IFRS 16 R'm
Operating profit	1 847	(21)	1 826	1.3	1 803
Finance costs	(455)	30	(425)		(525)
Profit before tax	1 434	9	1 443	75.5	822

No impact on FY2019.

Impact on earnings per share

Earnings per share decreased by 0.5 cps for the six months to 31 March 2020 as a result of the adoption of IFRS 16.

BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The condensed consolidated interim financial statements contained in the interim report are prepared in accordance with the requirements of the JSE Limited (JSE) Listings Requirements for preliminary reports, and the requirements of the South Africa Companies Act, 71 of 2008 (as amended) applicable to summary financial statements. The accounting policies are consistent with those applied in the previous consolidated annual financial statements, except for the adoption of IFRS 16 *Leases*. 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 South African Institute of Chartered Accountants (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*.

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

UNAUDITED RESULTS

The results for the period ended 31 March 2020 have not been reviewed or audited by the Group's auditors.

The directors take full responsibility for the preparation of the interim report.

COMMENTARY

OVERVIEW

Life Healthcare had a strong trading performance for the period ended 31 March 2020. The underlying business performance, excluding the estimated negative impact of the COVID-19 pandemic (the pandemic) and the implementation of the new leases accounting standard (IFRS 16), reflected Group revenue growth of 8.9% and normalised EBITDA growth of 8.7% against the corresponding prior period (six months ended 31 March 2019). The results have, however, been impacted by the pandemic from February 2020 and this resulted in Group revenue growing by 6.8% while normalised EBITDA pre-IFRS 16 increased by 2.7% and normalised earnings per share grew by 12%.

The Group's normalised EBITDA margin pre-IFRS 16 has been impacted by:

- Increased operational costs due to the pandemic
- Loss of operational leverage due to lower activity volumes from March 2020 in all the markets in which we operate
- Continued operational challenges in isotope delivery due to the maintenance programme of cyclotrons in the UK

The margin has been positively impacted by the successful efficiency programmes the Group launched in the last quarter of FY2019.

The Group has successfully refinanced its term debt in the international operations during March 2020 and this extended the debt maturities that were due in November 2020 out to 2023 and 2025. In addition, banking facilities have been increased and the committed undrawn facilities as at 31 March 2020 are R3.8 billion. The Group is also in the process of increasing these facilities by a further R3.9 billion.

COVID-19

The impact of COVID-19 has varied across the Group's geographic regions and business lines due to the timing of the spread of the disease and the responses of the various governments. Stakeholders are referred to the Group's detailed COVID-19 narrative contained in the trading statement released on 20 April 2020.

The estimated impact of the pandemic for the period to 31 March 2020 is lower revenue of R264 million, a decrease in normalised EBITDA of R166 million and earnings have been negatively impacted by R132 million.

The southern Africa business performed well up to mid-March 2020 but has seen significant reduction in hospital admissions since then. The average hospital occupancies from mid-March to end April 2020 were approximately 40%. The estimated impact of COVID-19 on normalised EBITDA for southern Africa has been R67 million for the period ended 31 March 2020.

The Alliance Medical diagnostic imaging business has experienced significant reductions in volumes (circa 60% reduction on average) since February 2020 across all major geographies. The reduction in volumes is due to national healthcare systems prioritising urgent and emergency cases as well as country-specific self-isolation and social distancing guidelines, resulting in significant increases in patient cancellations and non-attendance for appointments. The pandemic had a minimal impact on Scanned for the period under review. The estimated impact of COVID-19 on normalised EBITDA for our international operations has been R99 million for the period ended 31 March 2020.

COMMENTARY continued

The Group's operational response to the pandemic includes:

In southern Africa

- Establishment of COVID-19 committees across the organisation with representation from internal leadership and management teams as well as various medical specialities, and where possible, leveraging scarce expertise across the hospitals to drive consistent best practice
- Strict access management and entrance screening
- Sourcing of personal protective equipment (PPE) and implementation of standards and protocols across all facilities, including the implementation of universal masking
- Implementation of a dynamic forecasting model that the hospitals are using for logistical, capacity and staff planning, including, where practical, designation of COVID-19 and non-COVID-19 teams and areas
- Suspension of visitors to patients
- Extensive workforce management, including redeployment of permanent employees and reduction in the use of agencies
- Representation on various national and provincial structures as well as participating in the Business Unity for South Africa initiatives in order to ensure broader alignment

Subsequent to the release of the trading statement on 20 April 2020, South Africa has come out of lockdown level 5 enabling the return of medically necessary surgery and other admissions which have been postponed. The Group has implemented plans across its facilities to ensure that the COVID-19 risk is appropriately managed. These plans include but are not limited to:

- Testing of patients before admission
- Screening for symptoms of employees, doctors and support services personnel on a daily basis
- Random testing of employees and doctors
- Facility plans covering:
 - Staggered admission times
 - The split of facilities between COVID-19 and non-COVID-19 patients
 - Bed capacity management to ensure social distancing
 - Appropriate protocols in theatre covering utilisation, cleaning and social distancing
 - Revised PPE protocols
 - Employee rotation
- Guidelines from various medical societies as well as international best practice have been considered in the approach that has been adopted

Internationally

- Introduced restricted opening hours and limited site closures in all regions
- Establish rapid deployment of employees to manage opening and closing of sites as the need arises
- Training employees in different modalities in the scanning business to enable redeployment where the need arises
- Prepare sites and employees for increase in scanning ability post-lockdowns

- Introducing screening and treatment protocols in all facilities to manage in a COVID-19 environment
- Review of post-COVID-19 opportunities including permanent changes to practices, continuation of new clinical services, and revised customer and supplier relationships

As the lockdowns start to ease in some countries (mainly in Italy and Spain from the end of April 2020) a slow week-on-week growth in scanning volumes was seen.

OPERATIONAL REVIEW

Southern Africa

Southern Africa includes hospitals and complementary services, healthcare services and corporate.

	2020 as reported R'm	Change %	2020 Pre-IFRS 16 R'm	Change %	2019 R'm
Revenue					
Hospitals and complementary services	8 745	6.2	8 745	6.2	8 238
Healthcare services	657	7.9	657	7.9	609
	9 402	6.3	9 402	6.3	8 847
Normalised EBITDA					
Hospitals and complementary services	2 010	9.8	1 916	4.7	1 830
Healthcare services	71	1.4	71	1.4	70
Corporate					
Recoveries	623	(0.3)	683	9.3	625
Corporate costs	(468)	11.2	(468)	11.2	(421)
	2 236	6.3	2 202	4.7	2 104

Revenue from southern Africa increased by 6.3% to R9.4 billion (2019: R8.8 billion). Revenue from hospitals and complementary services grew by 6.2% mainly due to a 5.8% increase in revenue per paid patient day (PPD) and a 0.2% increase in PPDs (2019: -0.3%). The increase in revenue per PPD is made up of a 4.5% tariff increase and a 1.3% positive case mix change. The Group experienced lower activity volumes in March 2020 due to the impact of the pandemic. Activities for the period to the end of February 2020 were strong with overall PPD growth of 2.0%, with acute PPDs growing by 1.3% and complementary services PPDs growing by 8.0%. The overall weighted occupancy for the period decreased to 67.1% (2019: 67.7%). Overall weighted occupancy for the period ended February 2020 was 67.3% (2019: 66.8%)

COMMENTARY continued

Normalised EBITDA pre-IFRS 16 increased by 4.7% with a normalised EBITDA margin pre-IFRS 16 of 23.4% for the period (2019: 23.8%). The normalised EBITDA margin was affected by the impact of lower activity in March 2020 due to the pandemic and the additional costs incurred. Normalised EBITDA margin excluding the estimated COVID-19 impact was 23.8%.

The Group made good progress with its patient quality scores, improving the healthcare associated infection (HAI) rate and the patient safety adverse event rate.

International

International comprises diagnostic services (Alliance Medical) and healthcare services (Scanmed) across Europe and the UK.

	2020 as reported R'm	Change %	2020 Pre-IFRS 16 R'm	Change %	2019 R'm
Revenue					
Diagnostic services	2 945	7.4	2 945	7.4	2 742
Healthcare services	740	11.4	740	11.4	664
	3 685	8.2	3 685	8.2	3 406
Normalised EBITDA					
Diagnostic services	625	(0.5)	566	(9.9)	628
Healthcare services	101	>100	79	88.1	42
	726	8.4	645	(3.7)	670

Revenue in diagnostic services increased by 7.4% to R2.9 billion (2019: R2.7 billion). This increase was driven by the strong growth of the volumes within our PET-CT centres (13.9%) in the UK, the acquisition of scanning facilities in December 2018 within the UK (contributing R16 million) and the weakening of the rand against the pound sterling and the euro. Revenue in diagnostic services has been negatively impacted by the pandemic from February 2020 but more acutely in the month of March 2020. Up to the end of February 2020 revenue in pound sterling was 8.4% ahead against the prior period. However, revenue in pound sterling for the six months ended 31 March 2020 only increased by 4.3% compared to the prior year.

Within our UK business, our fourth cyclotron site in Preston was re-opened in March 2020. By having four sites operational again, we have excess capacity over current demand, providing a more reliable PET-CT service. The fifth site, Dinnington, is expected to become operational later this year and this will enhance our delivery.

The growth in PET-CT scan volumes in the UK was 13.9% for the six-month period, and for the month of March 2020 the growth reduced to 4.4% as a result of the pandemic.

Normalised EBITDA pre-IFRS 16 was R566 million (2019: R628 million).

The normalised EBITDA margin pre-IFRS 16 for Alliance Medical of 19.2% (2019: 22.9%) was impacted by the pandemic and increased costs related to the continued supply challenges with our radiopharmacy production during the planned refurbishment programme. These two items impacted the normalised EBITDA margin by 3.0%, of which an estimated 2.0% is attributed to the impact of the pandemic.

Healthcare services' revenue for the period increased by 11.4% to R740 million (2019: R664 million). The normalised EBITDA margin pre-IFRS 16 increased to 10.7% (2019: 6.3%), on the back of operational efficiencies and backdated NFZ pricing increases. The pandemic had a minimal impact on Scanned for the period under review.

The Group has decided to suspend the process of potentially disposing of Scanned due to the uncertainty and market volatility brought on by the pandemic. The process is expected to restart towards the latter part of 2020, dependent on market conditions at that point in time.

Growth initiatives

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

The Group has progressed on its radiology project in South Africa but has decided to delay the execution of its first few transactions due to the pandemic. This opportunity remains exciting.

The outpatient business model continues to evolve and we have two standalone clinics, and four in partnership with Pick n Pay. The management team has successfully developed a COVID-19 symptom checker, as well as a telemedicine tool with the ability to offer direct-to-patient doctor virtual consultations.

LMI (formerly Piramal Imaging), our primary international growth initiative, performed better than expected and contributed revenue of R156 million (2019: R146 million) and a normalised EBITDA of R1 million (2019: loss of R13 million).

FINANCIAL POSITION AND LIQUIDITY

The Group is in a strong financial position with net debt to normalised EBITDA as at 31 March 2020 at 2.24 times (30 September 2019: 1.96 times). The banks' covenant for net debt to EBITDA is 3.50 times.

The Group has implemented additional structures and processes to forecast, monitor and mitigate liquidity risks. The Group's current base and bear case forecasts indicate that the Group will still be within its covenants for the next reporting period. As it is not feasible to accurately forecast longer term, the Group is engaging with its lenders for dispensation on the measurement of covenants for the following reporting period.

The refinance of the term debt in the international operations has increased the committed facilities by approximately GBP55 million. In the southern Africa operations the Group increased its banking facilities by R750 million and is in the process of increasing these facilities by a further R3.9 billion. The available undrawn facilities as at 31 March 2020 amounted to R3.8 billion.

COMMENTARY continued

To ensure the Group has sufficient cash reserves, in addition to securing additional bank facilities, management has implemented a number of mitigating actions and cash preservation levers across the Group's operations. These levers include the reduction and deferral of capex projects, suspending the interim dividend, placing an interim embargo on non-critical spend, reducing temporary employee costs through increased utilisation of permanent employees, negotiating extended payment terms with suppliers, negotiating rent payment holidays with landlords, and utilising government incentive programmes, as far as possible. The Group's executive team has also agreed to suspend their short-term incentives.

FINANCIAL PERFORMANCE

Group revenue increased by 6.8% to R13.2 billion (2019: R12.4 billion) consisting of a 6.3% increase in southern African revenue to R9.4 billion (2019: R8.8 billion), an 8.2% increase in international revenue to R3.7 billion (2019: R3.4 billion) and R157 million revenue contribution from growth initiatives (2019: R146 million).

Normalised EBITDA pre-IFRS 16 increased by 2.7% to R2.8 billion (2019: R2.7 billion).

Normalised EBITDA was negatively impacted by the pandemic and related costs.

	2020 R'm	Change %	2019 R'm
Normalised EBITDA			
As reported			
Operating profit	1 847	2.4	1 803
Depreciation on property, plant and equipment	768	24.1	619
Amortisation of intangible assets	308	(1.0)	311
Normalised EBITDA as reported	2 923	7.0	2 733
Impact of IFRS 16	(117)		–
Normalised EBITDA pre-IFRS 16	2 806	2.7	2 733
Southern Africa	2 202	4.7	2 104
International	645	(3.7)	670
Growth initiatives	(41)	–	(41)

CAPITAL EXPENDITURE

During the current financial period, the Group invested approximately R1 146 million (2019: R1 161 million), comprised mainly of capital projects of R1 145 million (2019: R925 million) and a new acquisition (net of cash acquired) by Alliance Medical of R1 million. The maintenance capex for the period was R598 million (2019: R527 million).

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

EPS increased by 119.2% to 53.7 cps (2019: 24.5 cps).

HEPS increased by 100.0% to 53.8 cps (2019: 26.9 cps). NEPS, which excludes non-trading-related items listed below, increased by 12.0% to 55.0 cps (2019: 49.1 cps). The presentation of normalised earnings is a non-IFRS measure.

EPS, HEPS and NEPS for the period 31 March 2020 includes the impact of IFRS 16 (2019: no impact).

Earnings have been positively impacted (+24.0 cps) by the reduction of post-tax interest cost of R94 million as a result of the repayment of debt in Q4 FY2019, following the disposal of our investment in Max Healthcare (Max disposal) and the inclusion of an option contract hedge loss (R256 million, net of tax) relating to the Max disposal in the corresponding prior period, that is non-recurring.

Earnings were negatively impacted by an estimated R132 million (-9.1 cps) due to the pandemic.

	2020 R'm	Change %	2019 R'm
Weighted average number of shares in issue (million)	1 455	(0.1)	1 456
Normalised earnings			
Profit attributable to ordinary equity holders	781		357
Adjustments (net of tax)			
Fair value adjustments to contingent consideration	34		38
Fair value loss on the Max foreign exchange option contracts	–		256
Gain on derecognition of lease asset and liability	(54)		–
Impairment of assets and investments	–		37
Loss/(profit) on disposal of property, plant and equipment	2		(3)
Transaction costs	5		30
Other	–		1
Unwinding of discounting of contingent consideration (included in finance cost)	32		–
Normalised earnings	800	11.7	716
NEPS (cents)	55.0	12.0	49.1
NEPS pre-IFRS 16 (cents)	55.5	13.0	49.1

COMMENTARY continued

CHANGES TO THE BOARD OF DIRECTORS

Dr Shrey Viranna resigned from the Company and the board with effect from 17 January 2020 and has relocated to Australia for personal reasons. Dr Viranna has in his tenure established strong management teams in the Group and worked with these teams to put in place a dual strategy of integrated healthcare in southern Africa and growing the international diagnostic opportunity. The Group will continue to execute on these strategies. We thank Dr Viranna for his contribution and wish him well in his endeavours.

Pieter van der Westhuizen, the current Group CFO, has been appointed as acting Group CEO. The board initiated a recruitment process which has been put on hold due to the pandemic.

The board is pleased to welcome Dr Victor Lithakanyane to the board from 15 April 2020.

DISTRIBUTION POLICY

The board has decided, considering the current trading conditions and in order to preserve cash, not to pay an interim dividend. This position will be reviewed for the full year.

OUTLOOK

We expect tough trading conditions for at least the next six months due to the continued impact of the pandemic on business operations as well as a general slowdown in the economies we are trading in. Management teams have taken steps to protect revenue streams, reduce costs and preserve cash in all the countries we operate in and will focus on bringing operations to full capacity as quickly as possible once lockdown conditions in the various countries are lifted. The Group has reviewed its capex commitments in light of the pandemic and the total capex for the year is expected to be approximately R1.6 billion (2019: R2.1 billion).

The Group is evaluating the applicability of the growth initiatives in the current trading environment and its view of the trading conditions post-COVID-19. All investments will be evaluated based on cash availability and the impact on the business model post-COVID-19.

COVID-19 introduces a high degree of uncertainty surrounding the impact on activity levels and the timing of the return to previous trading environments, therefore it is not possible to provide guidance for the full year results.

TRADING STATEMENT FOR THE 12 MONTHS ENDING 30 SEPTEMBER 2020

Life Healthcare's results for the 12 months ending 30 September 2020 are expected to show a decrease of more than 20% in EPS (minimum decrease of 35.3 cps to at least 141.1 cps) from those reported for the financial year ended 30 September 2019 (EPS: 176.4 cps). This expected decrease is mainly due to the impact of the disposal of Life Healthcare's equity investment in Max Healthcare during Q4 FY2019 (a non-recurring net profit on disposal in FY2019 of 68.5 cps) and the resultant benefit in FY2020 of reduced finance cost as a result of the repayment of debt with the net proceeds. The pandemic will further impact the results for the full year but the extent thereof is uncertain.

A detailed trading statement will be released in early November 2020. The forecast financial information on which this trading statement is based has not been reviewed or reported on by the Group's external auditors.

Shareholders are advised that the investor presentation for the six months ended 31 March 2020 is published on Life Healthcare's website (www.lifehealthcare.co.za).

THANKS

Our ability to effectively respond to the pandemic and provide quality care to our patients in this time of crisis is largely due to the dedication and unwavering support of all our front-line employees, including our doctors. The Company takes this opportunity to acknowledge your invaluable contribution and to thank you sincerely.

Worldwide 12 May 2020 is International Nurses Day. This carries additional significance as 2020 is also the World Health Organization's year of the nurse. Nurses across the world have been at the forefront of looking after patients during the COVID-19 pandemic and we would like to thank them for their valuable role and sacrifice in these times. Their contribution to society is immense and we thank them for it.

Approved by the board of directors on 8 May 2020 and signed on its behalf:

Mustaq Brey

Chairman

Pieter van der Westhuizen

Acting Group Chief Executive Officer

Executive directors

PP van der Westhuizen (Acting Group Chief Executive Office and Group Chief Financial Officer)

Non-executive directors

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

Company secretary

A Parboosing

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Sponsors

Rand Merchant Bank, a division of FirstRand Bank Limited

Date

11 May 2020

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 auditors.

LIFE HEALTHCARE GROUP HOLDINGS LIMITED

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Share code: LHC



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