NETCARE LIMITED

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("Netcare" or "the Group")

Voluntary Investor Update on FY2020 trading

- Improved incremental performance since May 2020 following the enactment of the Disaster Management Act and resultant Regulations which initially impacted access to non-urgent healthcare
- EBITDA positive in the acute hospital division from June 2020
- Revenue for the 11 months ending 31 August 2020 declined by 12.9% on the comparative period due to the impact of the COVID-19 pandemic
- Cash resources and available committed undrawn facilities of R5.1 billion as at 31 August 2020

The purpose of this announcement is to provide shareholders with an update on Netcare's trading for the 11 months of its financial year ending 30 September 2020 ("FY2020")

COVID-19 PANDEMIC

The COVID-19 pandemic ("COVID-19" or "the pandemic") remains a crisis unparalleled in its scope and unrivalled in its complexities, yet, Netcare has managed to maintain its consistency of the highest quality care and remain commercially stable. Since Netcare's first case on 9 March 2020, we have treated 11 913 COVID-19 positive patients in total. In terms of those admitted, 35% were treated in High Care or Intensive Care.

Netcare has been fortunate to learn from the experiences and methodologies employed around the globe, and our treatment regimens continue to improve as a result. Our experience over the last six months has shown that not every critical patient needed a ventilator or a critical care bed, and many stable patients could be adequately treated at home. In addition, the introduction of the use of different modalities of oxygen delivery, anti–coagulants and steroids at the appropriate time has contributed to more positive outcomes in the treatment of COVID-19. As a result, we have seen that hospital admissions, length of stay and mortality rates are lower than initially anticipated.

In March 2020, the Group introduced appropriate measures, including relevant training of employees, extensive use of appropriate personal protective equipment ("PPE"), as well as screening and isolating infected patients to contain the spread of COVID-19 across our network of facilities. Netcare has continued an 'abundance of caution' approach to ensure that our patients, healthcare workers and doctors remain protected throughout the pandemic.

On behalf of everyone at Netcare, we express our heartfelt and sincere condolences to the families of our doctors and staff who have lost their loved ones through the pandemic.

We pay tribute to, and thank, our staff and doctors for their unwavering dedication and commitment to treating patients and their consistent daily acts of courage and compassion during this challenging time. They are our modern day heroes and heroines and we salute their extraordinary efforts.

TRADING ACTIVITY

For the 11 months under review, Group revenue declined by 12.9% against the comparative period in the prior year due to lower activity levels during H2 2020 related to COVID-19. For the same period, Group EBITDA (before IFRS 16) decreased by 50.8% and operating profit (before IFRS 16) reduced by 61.5%. Consequently, Group EBITDA margin (before IFRS 16) declined to 11.5% (11 months to 31 August 2019: 20.3%) due to the loss of activity, the resultant negative operating leverage and additional costs of R219 million, related to the pandemic.

ACUTE HOSPITALS

Six months ended 31 March 2020

As previously reported, for the six months ended 31 March 2020, total patient days declined by 2.6%, which comprised a 3.2% decline in acute hospital patient days, and was offset by the growth of 2.9% from Akeso Clinics.

Of the decline in acute patient days, approximately 1.4% was due to lower activity in March 2020 related to the COVID-19 pandemic. The balance of the decline was a result of new hospital networks established in the 2019 calendar year, a tightening of restrictions on an existing Designated Service Provider network for 2020, and ongoing containment of respiratory admissions prior to the onset of COVID-19.

April to September 2020

The most severe impact of COVID-19 was experienced in April 2020 during South Africa's national Level 5 lockdown, which adversely affected non-urgent surgery and medical and trauma cases, resulting in acute hospital occupancies falling to 32.5%. Throughout the lockdown period, there was a notable decline in respiratory cases, while emergency and trauma-related activity fell sharply. These factors were largely the reasons limiting hospital admissions in South Africa.

From May 2020, activity in our hospitals continued to be impacted by the various lockdown alert levels as well as the internal measures taken to balance capacity and demand for COVID-19 beds, especially in our critical care units. The responsible resumption of medically necessary and time-sensitive surgery ("MeNTS") commenced at the beginning of May 2020 in line with the easing of the lockdown to Level 4, resulting in a moderate increase in patient days and occupancy during May 2020.

With the easing of the lockdown in June 2020 to Level 3, hospitalisation of COVID-19 patients increased, as well as admissions of trauma patients and patients requiring urgent surgery. During this period, we continued to adopt a rigorous approach to ensure the safety of our staff and patients and continued to carefully balance the capacity at our hospitals in line with increasing demand from patients with severe COVID-19 symptoms needing admission.

During the height of the pandemic in July 2020, we temporarily suspended elective surgery on a case-by-case basis where critical bed capacity was constrained. The Hospital Division operated at an occupancy level of 49.3% in the month of July.

August 2020 was a transitional month characterised by the further easing of the national lockdown to Level 2, but offset to some degree by public and school holidays, and a reduction in COVID-19 admissions. As a result, occupancies declined marginally from July 2020 levels.

We have seen a gradual improvement in average occupancy levels in September 2020, with an average full week occupancy of 49.7%, and 52.7% during weekdays prior to the long weekend.

Activity for the 11 months ended 31 August 2020

As expected, in the last five months we have seen a shift in our admissions mix with a higher weighting towards medical versus surgical cases. Prior to the pandemic, surgical cases comprised approximately 60% of total inpatient admissions, with surgical admissions declining by 50% during the months of April to August 2020. During this period, COVID-19 cases comprised around 7% of patient days and Netcare treated six COVID-19 state patients.

The average length of stay for COVID-19 patients requiring a critical care bed peaked at 17 days and is now approximately six days.

Overall, we have seen an increase in the total average length of stay, which peaked at 5.64 days in July 2020 and 5.26 days in August 2020, with the average over the 11-month period at 4.26 days compared with 3.87 days in the corresponding period in FY2019.

Paid patient days and revenue declined by 19.4% and 12.9% respectively on the comparative period. Revenue per patient day increased by 8.3%, driven in part by COVID-19 admissions which attract a higher rate per patient day, as well as the retention and a higher mix of more severe admissions. Average occupancy for the 11 months ended 31 August 2020 was 52.9% (and 56.6% during weekdays).

Netcare continues to attract specialists, and a net 73 doctors were granted admission rights over the period to support service offerings across the network of hospitals.

Margins

Within the acute hospital business, EBITDA margins during the pre-COVID-19 period (being October 2019 to February 2020) were in line with guidance of 20.5%, assisted by cost savings initiatives. The EBITDA margin in H1 2020 equated to 20.6% (excluding R25 million of increased central costs related to developing data capabilities and new business and the estimated impact of COVID-19 during March 2020).

Full year EBITDA margins have been negatively affected by the loss in activity and subsequent negative operating leverage experienced during the pandemic throughout H2 2020. Additional costs of R219 million have been incurred to date as a result of the pandemic and the impact of rental concessions granted to doctors, pharmacies and other third parties, as well as lost parking revenues amount to R68 million to date.

Despite this constrained operating environment, the Hospital Division was EBITDA positive from June 2020.

AKESO

While occupancy levels in Akeso improved following the easing of lockdown measures, overall activity continued to be constrained until the end of August 2020, as some patients opted for outpatient treatment. However, since then Akeso's occupancy has increased significantly and is currently at 62.0% for the month-to-date in September 2020. Overall occupancy for the 11 months was 54.4% (full year FY2019: 71.6%), while patient days declined by 21.8% on the prior year. Despite lower occupancies, costs have been well contained, and operations have been EBITDA positive since June 2020.

HOSPITAL AND EMERGENCY SERVICES

Revenue for the Hospital and Emergency services segment (comprising acute and mental hospitals, as well as emergency and ancillary services) for the 11 months ended 31 August 2020 declined by 12.4% against the comparative period, reflecting the negative impact of the pandemic. EBITDA (before IFRS 16) reduced by 50.7% for the same period, with EBITDA margin (before IFRS 16) dropping to 11.6% (full year FY2019: 20.5%).

PRIMARY CARE

There has been a steady improvement in activity levels since the severe COVID-19 impact experienced in April 2020, with this division turning EBITDA positive from June 2020. Revenue for the 11 months ended 31 August 2020 declined by 12.5% (excluding prior year revenue from day theatres transferred to the Hospital Division from October 2019). Certain loss-making clinics were closed in FY2020 and as such, revenue on a like-for-like basis declined by 9.5%. Costs have been well contained and EBITDA margins (before IFRS 16) for the period are 8.3%.

GROUP

The Group's statement of financial position, cash flows and access to liquidity remain stable.

The Group continues with its imperative of preserving cash and postponed approximately R800 million of capital expenditure ("capex") earmarked for new and current projects. However, capex on key strategic projects continued during the period and total spend for FY 2020 is expected to amount to approximately R1.0 billion, as previously guided, including additional COVID-19-related capex of approximately R155 million.

Working capital during the period has been well managed despite the need to prioritise additional inventory reserves, including adequate levels of PPE, drugs, and consumables.

Since reporting our results in May 2020, the Group has secured a further R1.0 billion in bank loans and listed notes, which have been applied to the settlement of debt maturities that fell due in July 2020.

As at 31 August 2020, the Group had cash resources and available committed, undrawn facilities of R5.1 billion. In addition, the GHG PropCo 2 property disposal proceeds of R778 million were recently repatriated. The Group therefore has sufficient access to capital and funding to meet its foreseeable operational needs.

Outlook

In line with global trends, a relaxation of lockdown measures may result in a second wave of infections. Nonetheless, during this pandemic, given our experience of bed demand and the reduced lengths of stay due to more effective treatment modalities, our approach to any potential second wave will be far more nuanced and contained in terms of the facilities potentially made available to treat COVID-19 patients. Netcare's operational plans are informed by a Netcare-specific forecasting model which assists in managing bed capacity on a risk-stratified basis. As a result, whilst the demand for, and the provision of, healthcare services will remain fluid over the next few months, we do not foresee wide-scale suspension of elective surgery and activity over the short term.

We anticipate that over the next six months, hospital occupancy and margins could continue to be impacted by changes in volume and case-mix. This will be determined by the timing and pattern of the COVID-19 recovery, as well as increased costs of risk mitigation measures that are essential in delivering healthcare in these circumstances. An update of our guidance will be provided at our year end presentation in November 2020.

In the past month, we have resumed certain key strategic projects and various person-centred health and care initiatives to enhance our business, particularly the Group-wide digitisation strategy and the core CareOn project – all of which were put on hold during the pandemic.

The information provided in this investor update has not been reviewed or reported on by Netcare's external auditors. In addition, the investor update contains certain pro forma financial information which is the responsibility of the directors of Netcare, has been prepared for illustrative purposes only and, because of its nature, may not fairly present the Group’s financial position.

Netcare will be releasing its audited FY2020 Group results on 23 November 2020.

29 September 2020

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