

NETCARE LIMITED
(Registration number 1996/008242/06)
JSE ordinary share code: NTC
ISIN: ZAE000011953
JSE preference share code: NTCP
ISIN: ZAE000081121
("Netcare")

TRADING STATEMENT

In terms of paragraph 3.4 (b) of the JSE Listings Requirements, a listed company is required to publish a trading statement as soon as it is satisfied that a reasonable degree of certainty exists that the financial results for the period to be reported upon next will differ by at least 20% from those of the previous corresponding period.

The results for the year ended 30 September 2020 ("FY2020") have been affected by the following factors:

COVID-19 pandemic

As a leading South African healthcare provider, the COVID-19 pandemic ("COVID-19" or "the pandemic") had a material negative impact on Netcare's overall performance for FY2020. In particular, the last seven months of FY2020 was one of the most extraordinary periods in the Group's 23-year history. Since Netcare's first case on 9 March 2020, we have treated 27 968 COVID-19 patients of whom 13 395 were admitted to our hospitals. Of those admitted during the period, 25% were treated in high care or intensive care units. We currently have 310 COVID-19 patients in our hospitals.

In the first five months of the financial period, our average full week occupancy amounted to 62.5% and 67.7% on weekdays. However, acute hospital full week occupancy levels ended the year at 52.5% (2019: 66.0%), with weekday occupancies of 56.2% compared to 71.6% in the prior year. We continue to see a steady improvement in average acute occupancy levels.

As a result, FY2020 can be characterised as a year of two halves with strong trading during the first five months of the financial year offset by the adverse impact of COVID-19 on revenue and costs. It is broadly estimated that the pandemic resulted in the loss of approximately R3.7 billion in revenues and R2.3 billion in EBITDA to the Group.

The Group's available cash and committed undrawn facilities as at 30 September 2020 were R5.6 billion.

IFRS 16: Leases

Netcare adopted the new accounting standard IFRS 16: *Leases* with effect from 1 October 2019. Under this new accounting standard leases are brought onto the statement of financial position through the capitalisation of a right of use asset and recognition of a related lease liability. Rental payments are no longer expensed through the statement of profit and loss, but are applied to reduce the lease liability. The right of use asset is depreciated over the lease period, creating an additional depreciation charge, while an interest charge is recognised on the balance of the lease liability. As Netcare has elected to apply the modified approach for the adoption of IFRS 16, comparative figures for the year ended 30 September 2019 ("FY2019") have not been restated. Accordingly, the FY2020 results are not directly comparable to the comparative year's results which were not prepared under IFRS 16.

The adoption of IFRS 16 has resulted in a reduction in Earnings per Share (“EPS”), Headline Earnings per Share (“HEPS”) and adjusted HEPS (which is the primary measure used by management to assess Netcare’s underlying financial performance) of 15.1 cents per share in the FY2020 results.

Broad-based Black Economic Empowerment transaction

On 15 October 2019, Netcare approved a further allocation of 61 110 000 previously unallocated Netcare shares that were available under its Health Partners For Life Broad-based Black Economic Empowerment (“B-BBEE”) scheme concluded in 2005. The shares were allocated to 20 370 Netcare employees (excluding executives), of whom 80% are black and 65% are black women, as part of Netcare’s commitment to the imperative of building a transformed South Africa characterised by values of social and economic equality and inclusion for all. The transaction further enabled Netcare to strengthen the ownership component of its empowerment rating.

A once-off, non-cash share-based payment expense of R348 million arising from the implementation of this B-BBEE transaction has been recognised in the FY2020 results and equates to a charge of 26.0 cents against EPS and HEPS respectively. However, this charge is excluded from the calculation of adjusted HEPS.

Profit on disposal of associate

During FY2020 an after tax profit of R474 million was realised on the disposal of the GHG PropCo 2 associate entities, following the sale of their six United Kingdom hospital properties. Netcare’s share of the related sale proceeds of R778 million was received during September 2020.

The profit on disposal of associate equates to a benefit of 35.5 cents within EPS. However, this profit is excluded from HEPS in terms of Circular 1/2019 issued by the South African Institute of Chartered Accountants (SAICA) and is also excluded from the calculation of adjusted HEPS.

Financial performance, EPS, HEPS and adjusted HEPS

As a result of the matters discussed above, the financial results for FY2020 are expected to vary from the prior year’s results as set out in the table below:

	Reported result for FY2019	Expected result for FY2020	% change
Revenue	R21 589m	R18 567m to R19 106m	-11.5% to -14.0%
EBITDA ¹	R4 388m	R2 523m to R2 633m	-40.0% to -42.5%
EBITDA ¹ (measured on pre IFRS 16 basis)	R4 388m	R2 040m to R2 150m	-51.0% to -53.5%
EPS	176.7 cents	23.9 cents to 32.7 cents	-81.5% to -86.5%
HEPS	165.9 cents	0.0 cents to -8.3 cents	-100.0% to -105.0%
Adjusted HEPS	171.2 cents	25.7 cents to 34.2 cents	-80.0% to -85.0%
Adjusted HEPS (measured on pre IFRS 16 basis)	171.2 cents	42.8 cents to 51.4 cents	-70.0% to -75.0%

¹ Excluding the impact of exceptional items, comprising profit on disposal of investment in associate, a once off non-cash share-based payment expense on B-BBEE transaction and 2019 realisation of foreign currency translation reserve.

Netcare will be releasing its audited Group results for FY2020 on Monday, 23 November 2020 and further detail on the above matters will be disclosed in these results.

The information provided in this trading statement has not been reviewed or reported on by Netcare’s external auditors.

Johannesburg
19 November 2020

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