NETCARE LIMITED

(Registration number 1996/008242/06)

JSE ordinary share code: NTC

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("Netcare" or "the Group")

Voluntary trading update for the three months to 31 December 2020 (“Q1 2021”)

Highlights

- Strong sequential performance, with Q1 2021 Group revenue up 9.1% and Group EBITDA 78.3% higher than Q4 2020 (ended 30 September 2020)
- COVID-19 pandemic adversely impacting year-on-year performance with Group revenue down 4.6% and Group EBITDA down 29.4% on Q1 2020 (ended 31 December 2019)
- Cash resources and committed undrawn facilities of R5.2 billion

Overview

Netcare’s operations continue to be affected by the COVID-19 pandemic. In line with global trends, the emergence of a more contagious variant of the virus, coupled with the relaxation of lockdown measures, resulted in a more severe second wave of infections. This is evidenced by the number of COVID-19 patients admitted during the first quarter of the 2021 financial year exceeding the total admissions over the seven month period from the incidence of the first COVID-19 case in early March 2020 through to 30 September 2020.

Since the emergence of the virus Netcare has treated 45 600 COVID-19 patients of which 27 363 were admitted to our hospitals with 25% of those admitted treated in High Care or Intensive Care. Our regional COVID-19 patient admissions have mirrored the higher national incidence of COVID-19 related cases and bed capacity continues to be managed on a risk-stratified basis. During the peak of the second wave approximately 60% of total beds were allocated to COVID-19 patients versus approximately 80% during the peak of the first wave in July 2020.

We continued to maintain a rigorous approach to ensure the safety of our staff and patients, carefully balancing hospital capacity in line with increasing demand from patients with severe COVID-19 symptoms requiring admission. As a result, on 19 December 2020, we temporarily suspended elective surgery at certain hospitals on a case-by-case basis where critical care bed capacity was constrained, only allowing for medically necessary and time-sensitive (“MeNTS”) surgeries. These constraints have subsequently been lifted, having moved past the peak of the second wave, and elective surgeries have resumed.

As part of our disaster management planning, temporary Clinical Decision Units were commissioned in regions where there was unprecedented demand for hospitalisation. This eased the burden on emergency departments at these hospitals, enabled the stabilisation of patients prior to admission and ensured that no patients were ever refused or denied treatment.

Netcare continues to fully support government through the treatment of COVID-19 patients from the public sector when required. Since March 2020, 50 public sector patients have been treated at our facilities, including patients treated through the Netcare Foundation.

Group performance

		% change Q1 2021 vs. Q4 2020	% change Q1 2021 vs. Q1 2020
Revenue		9.1%	(4.6)%
EBITDA		78.3%	(29.4)%
Operating profit		321.6%	(39.8)%
	Q1 2021	**Q4 2020**	**Q1 2020**
EBITDA margin	15.1%	9.2%	20.4%
Operating profit margin	9.4%	2.4%	15.0%
		December 2020	**September 2020**
Cash and undrawn committed facilities (Rbn)		5.2	5.6
Net debt/EBITDA (times) (post IFRS 16)		2.3	2.5

There has been a steady improvement in trading activity in Q1 2021 when measured against the last quarter of the 2020 financial year (“Q4 2020”). Relative to Q4 2020, Group revenue grew by 9.1%, with EBITDA increasing by 78.3% at an improved margin of 15.1% (Q4 2020: 9.2%). Operating profit rose by 321.6% and the operating profit margin increased to 9.4% (Q4 2020: 2.4%).

Group revenue for Q1 2021 declined by 4.6% against the comparative quarter in the prior year (“Q1 2020”) due to lower activity levels related to COVID-19. As a result, Group EBITDA decreased by 29.4% and operating profit reduced by 39.8%. Group EBITDA margin declined to 15.1% (Q1 2020: 20.4%) due to the loss of activity, the resultant negative operating leverage and additional costs related to the pandemic.

As previously guided, COVID-19 related costs have continued in FY2021 with the Group incurring R86 million in Q1 2021. Rentals from doctors have normalised. However, parking revenue and revenue-based rentals from pharmacies and coffee shops have remained under pressure in Q1 2021.

As at 31 December 2020, the Group had cash resources and available undrawn committed facilities of R5.2 billion, while the net debt to EBITDA ratio was 2.3 times, improving from 2.5 times (3.1 times on a pre-IFRS 16 basis) at 30 September 2020.

Segmental performance - Hospitals and emergency services

Hospitals and emergency services comprise acute and mental hospitals, as well as emergency and ancillary services.

		% change Q1 2021 vs. Q4 2020	% change Q1 2021 vs. Q1 2020
Revenue		9.4%	(4.4)%
EBITDA		83.8%	(29.9)%
Operating profit		319.8%	(40.1)%
Patient days – total		9.9%	(12.1)%
Patient days – acute hospital		9.3%	(12.3)%
Patient days – mental health		15.9%	(9.8)%
Theatre minutes – acute hospital		21.4%	(14.2)%
Revenue per patient day – acute hospital		0.4%	9.5%
	Q1 2021	**Q4 2020**	**Q1 2020**
EBITDA margin	15.1%	9.0%	20.6%
Operating profit margin	9.7%	2.5%	15.5%
Occupancy – acute hospital	52.7%	48.0%	60.6%

There was a steady improvement in average acute facility occupancy levels in Q1 2021 driven by growth in elective surgery during October and November 2020. December is traditionally a quiet month, particularly in the Gauteng region where 57% of our hospital network is represented. However, an increase in COVID-19 cases across the country from the second week of December 2020 resulted in higher occupancies and a more robust overall performance in the month.

Total patient days increased 9.9% against Q4 2020 representing growth of 9.3% within acute hospitals and an increase of 15.9% in mental health facilities. Theatre minutes increased by 21.4% during this period and acute hospital occupancy improved to 52.7% (Q4 2020: 48.0%). Despite the COVID-19 strain of the second wave being more severe, the overall length of stay for COVID-19 patients is largely in line with that experienced in the first wave, as is net revenue per patient day.

There has been a considerable improvement in Q1 2021 against Q4 2020 with revenue increasing by 9.4% and EBITDA growing by 83.8%. The EBITDA margin has improved from 9.0% to 15.1%. Further operating leverage is evident at the operating profit line, given the relatively fixed depreciation charge, reflecting growth of 319.8% at a higher margin of 9.7% (Q4 2020: 2.5%).

Notwithstanding the improved performance against Q4 2020, activity levels and occupancies have not recovered to pre-pandemic levels. Total patient days for Q1 2021 declined against Q1 2020 by 12.1%, comprising declines of 12.3% within acute hospitals and 9.8% in Akeso clinics. The temporary suspension of elective surgery from mid-December 2020 coupled with higher COVID-19 admissions resulted in a reduction in theatre minutes of 14.2%. Acute hospital occupancies dropped from 60.6% in Q1 2020 to 52.7% in Q1 2021.

Revenue declined by 4.4% against Q1 2020 and EBITDA decreased by 29.9% at a lower margin of 15.1% (Q1 2020: 20.6%) affected by the loss in activity and subsequent negative operating leverage experienced during the pandemic.

Segmental performance – Primary Care

GP and dental consultations for Q1 2021 declined by 1.1% against Q4 2020. There was an increase in GP consultations in December 2020 in line with the national surge in COVID-19 cases taking activity above average in what is seasonally a quieter month. Patient visits declined by 7.9% relative to Q1 2020. Revenue for Q1 2021 has held flat against Q4 2020 and decreased by 11.6% from Q1 2020 due to lower patient visits and lower revenue from occupational health contracts. EBITDA declined by 11.5% from Q1 2020 (flat versus Q4 2020), while EBITDA margins have held firm at 15.9%. The division was profitable at Q1 2021.

COVID-19 vaccine update

Netcare has continued an 'abundance of caution' approach to ensure that our patients, healthcare workers and doctors remain protected throughout the pandemic. The vaccination of all of our frontline healthcare workers remains an absolute priority for us and we are committed to supporting rapid access to COVID-19 vaccines for healthcare workers in South Africa. In this regard, we are supporting the National Department of Health in all areas of the rollout and the vaccination of our healthcare workers is expected to commence imminently.

Outlook

The impact of the second wave, aside from the Eastern Cape, was primarily evident from the second week of December 2020 and continues to impact our operations. The second wave impacted Eastern Cape operations from November 2020, which was earlier than the rest of the country. Acute hospital occupancy improved to 57% in January 2021, which is the highest level since March 2020. The re-implementation of lockdown Level 3 and deferral of the opening of schools to mid-February 2021 has tempered the incidence of COVID-19 cases, and there has been a rapid decline in reported cases across all provinces over the last two weeks. We, therefore, expect February 2021 to be a transitional month, with growth in elective surgery as COVID-19 admissions decline and lockdown regulations ease.

However, there remains a high level of uncertainty surrounding the ongoing impact and knock-on effects of COVID-19, particularly in terms of a possible third wave. Consequently, the operating environment remains fluid. 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 full recovery of the second wave and a possible third wave, increased costs of risk mitigation measures that are essential in delivering healthcare in pandemic circumstances, the timing and efficiency of the vaccine rollout in South Africa, the efficacy of current vaccines against new variants of COVID-19 and the tightening or easing of lockdown levels.

Absent a third wave, an improvement in these factors should contribute to further advancement in activity levels across the first half of FY2021, with patient volumes stabilising at more normalised levels into the second half. In line with improving occupancy levels, we expect EBITDA margins to improve off a low base.

We began the rollout of the CareOn digitisation project in the Western Cape in general wards in three hospitals in November 2020 and completed this on 11 December 2020. The rollout to ICU's began on 31 January 2021 and we remain on track to complete these hospitals by the end of April 2021.

Other strategic projects have been delayed due to the second wave of COVID-19 but are all back on track as of 1 February 2021.

Acknowledgement

Our staff and doctors have proved their dedication over the past year, delivering world-class care under unprecedented circumstances. We thank them for their unwavering and continued commitment.

Sadly, in January 2021, the ECMO team from the Netcare Milpark Hospital tragically lost their lives in a catastrophic helicopter crash. We express our heartfelt and sincere condolences to the families of our doctors and staff who have lost their loved ones in this tragic accident and through the pandemic.

The information above has not been reviewed or reported on by Netcare's external auditors.

5 February 2021

Sponsor

Nedbank Corporate and Investment Banking