NETCARE LIMITED
(Registration number 1996/008242/06)
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("Netcare" or the “Group”)

Voluntary trading update for the six months ended 31 March 2021 (“H1 2021”)

Highlights

- Strong growth in H1 2021 with steadily improving Group revenue and EBITDA, compared to H2 2020 (ended 30 September 2020)
- Second wave of COVID-19 adversely impacted year-on-year performance with Group revenue and EBITDA down on H1 2020 (ended 31 March 2020)
- Cash resources and committed undrawn facilities of R6.6 billion
- Vaccination of all Netcare frontline healthcare workers remains a crucial priority

Overview

The second wave of the COVID-19 pandemic has impacted Netcare’s operational and financial performance over the past six months. However, despite operating in a fluid environment, we are pleased with the swift manner in which we have pivoted our business to deal with the crisis.

Netcare treated its first COVID-19 patient on 9 March 2020. We have since treated more than 71 000 COVID-19 patients, of which approximately 31 000 were admitted to our hospitals, with around 26% of those admitted being treated in High Care or Intensive Care.

Trading activity for H1 2021 was impacted by the emergence of an even more severe, nation-wide COVID-19 variant, which resulted in a second wave of infections. This was evidenced by the number of COVID-19 patient admissions in H1 2021, which exceeded that of the 2020 financial year (“FY 2020”). As a result, the period under review experienced the impacts of the tightening and subsequent easing of lockdown regulations, the sporadic commencement of elective surgeries and a marked reduction in non-COVID-19 medical admissions.

Our learnings and experiences from the first wave with respect to bed demand and reduced lengths of stay, due to more effective treatments, enabled a far more nuanced approach to the second wave. This resulted in improved financial and operational resilience in H1 2021 when benchmarked against the second half of the 2020 financial year (“H2 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 for the admission of patients with severe COVID-19 symptoms. As a result, on 19 December 2020 we temporarily suspended elective surgery across our network, only allowing for medically necessary and time-sensitive (“MeNTS”) surgeries.

Following a decline in the national incidence of COVID-19 cases in the third week of January 2021, these constraints were subsequently lifted, allowing for the resumption of elective surgeries across our entire network and the gradual return of non-COVID-19 activity which continues to improve.

Group performance

	% change H1 2021 vs H2 2020	% change H1 2021 vs H1 2020
Revenue	23.5% to 24.5%	-5.5% to -6.5%
EBITDA	635.0% to 672.0%	-36.0% to -38.0%

	H1 2021	H1 2020	H2 2020	FY 2020
EBITDA margin	14.5% to 15.1%	22.0%	2.4%	13.6%

	March 2021	March 2020	September 2020
Cash and undrawn committed facilities (R billion)	6.6	4.4	5.6
Net debt/annualised EBITDA – post IFRS 16 (times)	2.0	1.3	2.5
Net debt/annualised EBITDA – pre IFRS 16 (times)	2.5	1.5	3.1

Note: All figures, metrics and variances reflect the Group's latest financial estimates and have not been reviewed or reported on by Netcare's external auditors.

We continued to see a steady improvement in trading activity in H1 2021 when measured against H2 2020, with both six-month periods being impacted throughout by the first and second waves of the COVID-19 pandemic, respectively. Group revenue increased within a range of 23.5% to 24.5% and EBITDA grew by between 635.0% and 672.0% at an improved margin ranging from 14.5% to 15.1% (H2 2020: 2.4%).

The comparative six-month period ended 31 March 2020 ("H1 2020") was largely free of the impact of COVID-19 other than for the last two weeks of March 2020. Group revenue for H1 2021 declined within a range of 5.5% to 6.5% against H1 2020 due to lower activity levels related to COVID-19. Group EBITDA decreased in a 36.0% to 38.0% range. Group EBITDA margin declined to fall within a range of 14.5% to 15.1% (H1 2020: 22.0%) due to the loss of activity, the resultant negative operating leverage and additional costs related to the pandemic.

As previously guided, COVID-19 costs have continued into FY2021, with the Group incurring approximately R300 million in H1 2021. Room rentals from doctors normalised in H1 2021 but parking revenue and revenue-based rentals from pharmacies and coffee shops have remained under pressure.

Working capital during the period under review has been well managed. Inventory balances, which have reduced by approximately R280 million since September 2020, remain at elevated levels.

The Group's strong balance sheet has facilitated continued investment in core projects, with R466 million of capital expenditure invested in H1 2021 out of the anticipated total spend of R1.2 billion for FY2021.

Pleasingly, Group net debt (exclusive of IFRS 16 lease liabilities) declined to R6.1 billion from R6.4 billion at 30 September 2020. In March 2021, Netcare issued the first Green Bond in South Africa. The majority of the R1.0 billion proceeds raised will be utilised to refinance debt maturities falling due in

H2 2021 and will have a neutral effect on total net debt levels.

In September 2020, the Group secured waivers of its prescribed net debt to EBITDA covenant of 2.75x (measured on a pre-IFRS 16 basis) for the March 2021 period. The net debt to annualised EBITDA ratio at 31 March 2021 was approximately 2.0 times, improving from 2.5 times at 30 September 2020. As at 31 March 2021, the Group had cash resources and available undrawn committed facilities of R6.6 billion.

Segmental performance - Hospitals and emergency services

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

	% change H1 2021 vs H2 2020	% change H1 2021 vs H1 2020
Revenue	24.0% to 25.0%	-5.5% to -6.5%
EBITDA	690.0% to 725.0%	-35.5% to -38.5%
Patient days – total	26.2%	-13.6%
Patients days – acute hospital	24.4%	-13.7%
Patient days – mental health	46.9%	-12.6%
Theatre minutes – acute hospital	22.7%	-20.9%
Revenue per patient day – acute hospital	0.6%	9.8%

	H1 2021	H2 2020	H1 2020
EBITDA margin	14.5% to 15.0%	2.3%	22.0%
Occupancy – acute hospital	53.8%	42.8%	62.3%
Occupancy – mental health	60.6%	41.0%	68.9%

Note: All figures, metrics and variances reflect the Group's latest financial estimates and have not been reviewed or reported on by Netcare's external auditors.

There was a steady improvement in average acute hospital occupancy levels during H1 2021. This was characterised by growth in elective surgery during October and November 2020 and increased COVID-19 cases in December 2020, which is traditionally a less active month. Occupancy averaged 52.7% during the first quarter of FY2021, improving from 48.0% in the last quarter of FY2020. The second wave peaked in January 2021 resulting in a higher occupancy of 56.8% during the month. As expected, February 2021 was a transitional month which saw the re-implementation of lockdown Level 3 and the closure of schools through to the middle of the month which tempered the incidence of COVID-19 cases and admissions. There was a gradual uplift in activity in March 2021 following the move back to Lockdown Level 1, with average occupancy for Q2 2021 increasing to 54.8%. These factors resulted in acute occupancy averaging 53.8% for H1 2021, improving from 42.8% during H2 2020.

Occupancy levels have shown strong recovery in our mental health facilities, improving from 41.0% in H2 2020 to 60.6% for H1 2021.

Total patient days for H1 2021 grew by 26.2% against H2 2020, comprising growth of 24.4% in acute hospitals and 46.9% in mental health facilities. During the same period, theatre minutes increased by 22.7%.

Notwithstanding the improved H1 2021 performance against H2 2020, activity levels and occupancies have not recovered to pre-pandemic levels. Total patient days for H1 2021 were lower against H1 2020 by 13.6%, comprising declines of 13.7% within acute hospitals and 12.6% in mental health facilities. The temporary suspension of elective surgery from mid-December 2020 coupled with higher COVID-19 admissions resulted in a 20.9% reduction in theatre minutes. As a result, for the six months ended 31 March 2021, full week occupancy levels within acute hospitals decreased to 53.8% from 62.3% in the comparative period.

Revenue for H1 2021 increased in a range of 24.0% to 25.0% against H2 2020, but was lower than H1 2020 revenues by 5.5% to 6.5%. EBITDA grew by a range of around 690.0% to 725.0% against the low base in H2 2020, but remains between 35.5% and 38.5% below H1 2020 due to the negative impact of COVID-19 on patient activity. EBITDA margins have strengthened from 2.3% in H2 2020 to within a range of 14.5% to 15.0%. However, EBITDA margins remain below the largely pre-pandemic levels of 22.0% achieved in H1 2020.

In line with the sector trends, the decline in non-COVID-19 medical cases since the onset of the pandemic in March 2020 was more pronounced than surgical cases as patients have been hesitant to visit hospitals. For the period under review, surgical admissions comprised 59% of total admissions (H1 2020: 60%).

Segmental performance – Primary Care

GP and dental consultations reflected a steady sequential improvement, growing in H1 2021 by approximately 18.5% on a like-for-like basis against H2 2020. However, patient activity remained approximately 12.0% lower than H1 2020 due to the impact of COVID-19.

When compared to H1 2020, revenue reflected a decline of approximately 14.0% due to lower patient visits and reduced revenue from occupational health contracts, both attributable to COVID-19. As a result of this lower activity, EBITDA reduced by approximately 28.0%, and the EBITDA margin decreased from 21.9% to approximately 18.4%.

Revenue for H1 2021 increased by approximately 9.0% from H2 2020, while EBITDA improved by around 200.0% due to the recovery in activity and stringent cost management. As a result, the EBITDA margin for H1 2021 improved to approximately 18.4% from 6.7% in H2 2020.

COVID-19 vaccine update

The vaccination of all of our frontline healthcare workers remains a crucial priority for Netcare. We remain committed to supporting a rapid COVID-19 vaccine rollout for all healthcare workers in South Africa. In this regard, we are supporting the efforts of the National Department of Health ("NDOH") in various ways, which includes active participation in the Business for South Africa ("B4SA") vaccine workstreams. Netcare has also provided vaccinators at public vaccination sites as needed through the various rounds of the Sisonke rollout and successfully commissioned four vaccination sites across our hospital network to vaccinate private and public healthcare workers, as guided by the NDOH. To date, we have vaccinated approximately 17 000 Netcare healthcare workers and have submitted our vaccine requirements to complete the vaccination of all of our healthcare workers through the B4SA/NDOH collaboration as soon as the commercial vaccines are made available in the weeks to come. We will be covering the cost of vaccinating Netcare staff who do not have private medical aid.

Netcare has also agreed to keep its existing vaccination sites open to support the Phase 2 vaccine rollout programme.

Outlook

The tightening of lockdown measures over the Easter period successfully curbed the incidence of positive COVID-19 cases reported over the last two weeks. Despite several public holidays in April 2021, activity levels within our hospitals continue to improve and are currently trending at 62% over the last five working days.

Although we are encouraged by the declining number of positive COVID-19 cases, the operating environment remains fluid. A return to normal levels of elective surgery and medical admissions will continue to be influenced by the trajectory of the pandemic, and more specifically, the risks and the timing of any possible third wave, the timing and efficiency of an uninterrupted vaccine rollout in South Africa, the efficacy of current vaccines against new variants of COVID-19 and the tightening or easing of lockdown levels.

In the absence of a third wave, an improvement in these factors should contribute to enhanced patient sentiment and further advancement in activity levels and the stabilisation of volumes into the second half of FY2021. In line with improving occupancy levels, we expect EBITDA margins to continue improving.

The rollout of the CareOn digitisation project commenced within the general wards of three hospitals in the Western Cape in November 2020 and was successfully completed on 11 December 2020. The subsequent rollout to ICU's at these hospitals began on 31 January 2021 and we remain on track to complete the CareOn implementation at these sites by mid-May 2021. Following the reduction in COVID-19 cases, the rollout at Netcare Milpark Hospital will resume in May 2021 and we expect full completion of the CareOn implementation at five hospitals by August 2021.

Other strategic projects experienced some delays due to the second wave of COVID-19 but were largely back on track as of 1 February 2021.

Acknowledgement

Our staff and doctors continue to demonstrate their utmost dedication and resilience in delivering world-class healthcare under unprecedented circumstances and we express our grateful thanks and appreciation for their unwavering commitment.

We express our heartfelt and sincere condolences to the families of our doctors and staff who have lost loved ones throughout the pandemic.

The information presented above reflects the Group's latest estimates of its financial results and related metrics and has not been reviewed or reported on by Netcare's external auditors. Further detail on the Group's financial performance for H1 2021 and the outlook for the remainder of the 2021 financial year will be provided in the unaudited interim Group results due to be released on Monday, 24 May 2021.

22 April 2021
Sponsor

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