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

Voluntary trading update for the year ended 30 September 2021 ("FY 2021")

Highlights

- Cash resources and committed undrawn facilities of R5.6 billion
- Strong cash conversion and net debt/EBITDA ratio of approximately 1.7x (post IFRS 16)
- Continued strong sequential revenue, EBITDA and EBITDA margin growth in H2 2021

Overview

As we emerge from a third wave of COVID-19, Netcare has been privileged to play a role in helping to combat the pandemic. We express our sincere gratitude to our staff and doctors for their ongoing dedication and resilience over the past eighteen months in providing our patients with the best and safest care during circumstances of unprecedented difficulty. In particular, we express our heartfelt condolences to the families and relatives of our doctors, patients and staff who lost their lives during the pandemic.

Progression of the pandemic

COVID-19 metrics	**H2 2020***	**H1 2021**	**H2 2021**	**FY 2021**	**Current total since start of pandemic**
Patients treated	28 533	42 304	54 772	97 076	126 130
Patients admitted	12 756	18 189	23 212	41 401	54 474
% of admissions into ICU or High Care	27.1%	24.2%	26.0%	25.2%	25.6%
% of acute hospital beds allocated to COVID-19 at peak**	80%	60%	52%		

** From the onset of the pandemic, therefore including the small number of cases that presented before 1 April 2020*
***Measured during the three weeks of a surge*

Since the onset of the pandemic in March 2020, Netcare has treated 126 130 COVID-19 patients and admitted 54 474 of these patients into our hospitals, with 25.6% being treated in High Care or Intensive Care.

The first wave of the COVID-19 pandemic, which peaked in July 2020, predominantly impacted operations for the second half of the 2020 financial year (“**H2 2020**”).

The second wave of COVID-19 was driven by the emergence of the Beta variant in the KwaZulu-Natal region in late November 2020, which rapidly spread to the Eastern and Western Cape in December 2020. The wave then spread into Gauteng, although to a lesser extent due to the implementation of restrictions. The second wave, which peaked in January 2021, negatively impacted Netcare’s operational and financial performance during the first six months of the 2021 financial year (“**H1 2021**”).

The second six months of the 2021 financial year (“**H2 2021**”) were impacted by a third wave of COVID-

19 following the emergence of the more contagious Delta variant in May 2021. The third wave was nuanced by differing provincial peaks. Gauteng, representing 57% of our bed portfolio, peaked in July 2021 at a higher intensity than previous waves and other provinces due to the late implementation of stricter lock down restrictions. As a result, in July 2021 we experienced the highest level of COVID-19 patient admissions since the start of the pandemic, especially in Gauteng.

Each successive wave has proven to be more severe than the preceding wave, as evidenced by the number of COVID-19 admissions during H2 2021 exceeding those of H1 2021, which in turn exceeded those of H2 2020.

During these waves, it has been necessary to carefully balance hospital capacity to meet the increasing demand for admission of patients with severe COVID-19 symptoms. Consequently, elective surgeries were temporarily suspended across our network from mid-December 2020 to mid- February 2021 during the second wave, and from mid-June 2021 until mid-August 2021 during the third wave, only allowing for medically necessary and time-sensitive ("MeNTS") surgeries during these periods.

The business has benefited from experience and learnings gained since the onset of COVID-19, which have contributed to reducing the length of stay for COVID-19 patients, as well as a more refined approach to bed allocation. Notwithstanding the substantial increase in COVID-19 admissions during the third wave, only 52% of beds were allocated to COVID-19 patients, reflecting a marked improvement from 60% in the second wave and 80% in the first wave.

We are encouraged by the gradual return in non-COVID-19 activity experienced in October 2021, following the decline in the incidence of COVID-19 cases and subsequent relaxation of the national lockdown regulations.

Group performance

Netcare continued to pivot its business within a fluid operating environment to deal with the changing demands brought about by the pandemic. This versatility, combined with the benefits of learnings and experience gained during the pandemic to date, contributed to the continued sequential improvement in financial performance in H2 2021 when benchmarked against H1 2021 and H2 2020, as well as a robust improvement in the Group's year-on-year financial results. The Group's financial position remains strong, net debt levels reduced by R1.1 billion during the past year and the business is compliant with its banking covenants.

	FY 2021 vs FY 2020 % chg	**H2 2021 vs H2 2020 % chg**	**H2 2021 vs H1 2021 % chg**
Revenue	11.0% to 12.0%	33.7% to 35.0%	7.8% to 8.8%
EBITDA	22.0% to 26.0%	740.0% to 780.0%	11.6% to 14.9%
	FY 2021	**H2 2021**	**H1 2021**
EBITDA margin	14.9% to15.3% (FY 2020: 13.6%)	15.3% to 15.9% (H2 2020: 2.4%)	14.8% (H1 2020 pre COVID-19: 22.0%)
	Sep 2021	**Sep 2020**	**Mar 2021**
Cash and undrawn committed facilities (R billion)	5.6	5.6	6.6
Net debt/annualised EBITDA - post IFRS 16 (times)	1.7	2.5	2.0
Net debt/annualised EBITDA - pre IFRS 16 (times)	2.0	3.1	2.5
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.			

Group revenue, EBITDA and EBITDA margins showed steady sequential improvement from H2 2020 through to H2 2021. Group revenue for FY 2021 has increased by between 11.0% and 12.0% over the prior year. Group EBITDA for FY 2021 improved by between 22.0% and 26.0% against the year ended 30 September 2020 ("**FY 2020**"), while the Group EBITDA margin of between 14.9% and 15.3% improved by 130 to 170 basis points from the prior year.

In addition to absorbing lower activity levels throughout the pandemic, the Group also incurred COVID-19 related costs, which continued to weigh on margins, given the higher prices paid for PPE at the height of the first wave during H2 2020 due to global supply shortages and uncertain lead times.

Working capital has been well managed. Inventory levels continued to decline as the higher-priced PPE and drugs procured during the first COVID-19 wave (referred to above) were consumed, with an overall reduction of approximately R550 million in inventory balances since September 2020.

As at 30 September 2021, the Group had cash resources and available undrawn committed facilities of R5.6 billion (FY 2020: R5.6 billion). Group net debt (exclusive of IFRS 16 lease liabilities) declined to R5.3 billion from R6.4 billion at 30 September 2020. The net debt to EBITDA ratio at 30 September 2021 was approximately 1.7 times, improving from 2.5 times 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.

	FY 2021 vs FY 2020 % chg	**H2 2021 vs H2 2020 % chg**	**H2 2021 vs H1 2021 % chg**
Revenue	11.3% to 12.4%	34.4% to 35.7%	8.0% to 9.0%%
EBITDA	21.6% to 26.5%	786.0% to 825.0%	10.9% to 14.4%
Patient days – total	**6.8%**	**36.6%**	**8.2%**
Patients days – acute hospital	**6.2%**	**35.0%**	**8.5%**
Patient days – mental health	**12.7%**	**55.3%**	**5.7%**
Theatre minutes – acute hospital	**-3.4%**	**23.9%**	**1.0%**
	FY 2021	**H2 2021**	**H1 2021**
EBITDA margin	14.8% to 15.2% (FY 2020: 13.5%)	15.1% to 15.6% (H2 2020: 2.3%)	14.7% (H1 2020 pre COVID-19: 22.0%)
Occupancy – acute hospital	55.9%	58.0%	53.8%
Occupancy – mental health	62.1%	63.7%	60.6%
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.			

The challenges of weathering significant rolling waves of COVID-19 and the short recovery periods between waves have impinged on our momentum towards a full recovery to pre-COVID-19 levels. However, average full week acute hospital occupancies continued to improve in H2 2021 to 58.0% compared to 53.8% in H1 2021 and 42.8% in H2 2020. Full week occupancy levels for FY 2021 improved to 55.9% from 52.5% in FY 2020.

Similarly, mental health occupancies continued to show a steady improvement increasing to 63.7% in H2 2021 from 60.6% in H1 2021 and 41.0% in H2 2020. On a full year basis, mental health occupancy improved from 55.0% in FY 2020 to 62.1% for FY 2021.

Total patient days in H2 2021 grew by 8.2% against H1 2021 and 36.6% against H2 2020. Total patient day growth for the financial year equated to 6.8% against FY 2020.

Within acute hospitals, patient days for H2 2021 improved by 8.5% against H1 2021 and by 35.0% when compared to H2 2020. On a full year basis, acute hospital patient days grew by 6.2% against FY 2020.

Mental health patient days showed a strong recovery, improving in H2 2021 by 5.7% compared to H1 2021 and by 55.3% against H2 2020. Mental health patient days grew by 12.7% in FY 2021 against the prior year.

The decline in non-COVID-19 medical cases since the onset of the pandemic in March 2020 was more pronounced than the decline in surgical cases due to lower infections in transmissible diseases arising from restrictions on the movement of individuals during lockdown regulations, and the reluctance of patients to be admitted to hospital during the pandemic. Surgical admissions comprised 58.2% of total admissions in FY 2021 (FY 2020: 60.0%).

The emergence of the Delta variant resulted in a sharp increase in admissions of COVID-19 patients from May 2021 to August 2021, with COVID-19 admissions comprising 11.1% of total admissions during H2 2021 versus 8.9% in H1 2021 (FY 2020: 3.0%).

The temporary suspension of elective surgery during the second and third waves, coupled with higher COVID-19 admissions, resulted in a decline of 3.4% in theatre minutes against FY 2020.

Acute revenue per paid patient day increased by 5.4% compared to FY 2020, reflecting the change in the mix. Similarly, the average length of stay increased slightly to 4.8 days (FY 2020: 4.3 days).

Revenue for FY 2021 grew within a range of 11.3% to 12.4% when compared to FY 2020. Full-year EBITDA increased by between 21.6% and 26.5% against the low base in FY 2020.

EBITDA margin for the full year ranged between 14.8% and 15.2%, improving from 13.5% reported for FY 2020. Normalised EBITDA margins excluding the impact of the CareOn electronic patient record project, data platform and analytics capabilities, new business initiatives and COVID-19 costs, continued to improve and strengthened to between 18.2% and 18.5% in FY 2021 from 15.7% in FY 2020.

The FY 2021 EBITDA margin within the hospital and pharmacy operations normalised for the items above continued to improve to between 18.5% and 19.1% from the 16.0% reported in FY 2020, with improvements in the underlying H2 2021 margin from H1 2021.

Segmental performance - Primary Care

Overall, medical and dental consultations increased marginally in FY 2021 by approximately 0.8% on a like-for-like basis, despite the impact of the COVID-19 pandemic, subsequent lockdowns and an absence of seasonal flu.

Revenue for FY 2021 declined by approximately 2.5% year-on-year. Due to a combination of improving activity and stringent cost management, EBITDA for FY 2021 increased by approximately 33.0%. As a result, the EBITDA margin for FY 2021 improved to approximately 20.5% from 15.2% in FY 2020.

Exceptional items

In light of the early termination of the Lesotho Public-Private Partnership agreement by the Government of Lesotho and ongoing uncertainty with regard to the resolution of matters under dispute, we have adopted a conservative approach in electing to impair our Lesotho-related investments in the amount of circa R30 million.

Provisions for impairments of property assets of approximately R70 million will be recognised in the FY 2021 results, the majority of which relates to the Union and Clinton hospital buildings which will be vacated on the opening of the new Netcare Alberton facility. The impact of COVID-19 on the property market has reduced the previously anticipated market valuations of these sites.

Strategic projects

We have made solid progress in a number of our key strategic capital projects during FY 2021, despite the disruptive operating environment.

The CareOn digitisation project to implement a fully integrated Electronic Medical Healthcare Record across the Netcare ecosystem was successfully completed within four hospitals with a further three to be completed by the calendar year end.

The CareOn implementation at Netcare Milpark Hospital had to be put on hold due to the pandemic. However, the 16 wards in the hospital where the rollout had been completed continued to operate CareOn during the third wave. The benefits of the system were evident during this period as doctors could limit their physical presence in the wards while still managing patients remotely, timeously and effectively. The rollout to the remainder of Netcare Milpark Hospital has subsequently resumed and is planned for completion by the end of October 2021.

CareOn implementation is currently in process at two further hospitals, with planned completion by November and December 2021, respectively. CareOn is planned for implementation at a further 13 hospitals in 2022 and is expected to be fully implemented across the acute hospital portfolio by the end of 2023.

Construction of the new Alberton hospital, which will replace the current Netcare Union and Clinton hospitals, is progressing well with the opening of the new 427 bed facility planned for April 2022.

The NetcarePlus division, which develops healthcare solutions to solve the needs of households that are employed but do not have adequate healthcare cover, launched several new products, including NetcarePlus Accident and Trauma cover, NetcarePlus pre-paid procedures and NetcarePlus vouchers for optometry services. In addition, GapCare, which is a range of three gap cover products underwritten by Hollard, was launched in October 2021 and the introduction of dental vouchers is currently underway.

Outlook

Following the pattern of COVID-19 experienced globally, we are mindful of the possibility of the outbreak of a fourth wave in South Africa, which the current low level of vaccination uptake could exacerbate in the short to medium term. However, as the number of vaccinated South Africans increases, expectations are that non-COVID-19 activity will strengthen and COVID-19 activity will reduce, although new variants may counteract such an outlook.

In the absence of a fourth wave, further stabilisation of hospital activity is anticipated due to enhanced patient sentiment and growth in elective procedures. In line with improving occupancy levels and the normalisation of PPE costs, we expect EBITDA margins to continue improving.

The normalised information is the responsibility of the directors of Netcare, has been prepared for illustrative purposes only and because of its nature, may not fairly present Netcare’s financial position.

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 FY 2021 and the outlook for the 2022 financial year will be provided in the audited Group results due to be released on Monday, 22 November 2021.

22 October 2021
Sponsor

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