



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 2022

Netcare is pleased to provide a voluntary trading update for the six months ended 31 March 2022 ("H1 2022" or "the period"). Further details on H1 2022 performance and the outlook for H2 2022 will be provided with the half-year results to be released on Monday, 23 May 2022.

Highlights

- Group revenue growth of 2.0% to 2.5%
- Robust improvement in activity as the business transitioned out of the fourth wave, with average occupancy in February and March 2022 of 62.4%
- Group normalised EBITDA growth of 8.5% to 9.0%
- Underlying EBITDA margins excluding strategic costs improved to around 16.8% from 15.8%
- Net debt to annualised EBITDA ratio strengthened to c.1.7 times from 2.0 times in March 2021

Group performance

	% change H1 2022 vs H1 2021		
Revenue	2.0% to 2.5%		
Normalised* EBITDA	8.5% to 9.0%		
	H1 2022	H1 2021	
Normalised* EBITDA margin	15.8%	14.8%	
	March 2022	March 2021	September 2021
Cash and undrawn committed facilities (R billion)	3.4	6.6	5.6
Net debt/annualised EBITDA (times)	1.7	2.0	1.7

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.

** Normalised EBITDA excludes the impact of non-trading related costs and income. 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.*

There was a steady improvement in non-COVID-19 activity in the first two months of H1 2022. However, trading in December 2021 and January 2022 was adversely impacted by the emergence of the Omicron variant. While the Omicron variant was more contagious, there was a decoupling in the direct correlation between community transmission and hospitalisation,

reflected in a 70.3% decline in COVID-19 patient days in H1 2022 against the six months ended 31 March 2021 (“H1 2021”). From late January 2022, as we emerged from the fourth wave, an increase in non-COVID-19 activity has been experienced, with activity levels in the month of March 2022 achieving the highest acute and mental health occupancy levels since the onset of the pandemic. Notwithstanding the disruption to the operating environment caused by the fourth wave, there has been a steady improvement in financial performance in H1 2022 when measured against H1 2021.

Group revenue increased within a range of 2.0% to 2.5% against H1 2021. Normalised EBITDA grew by 8.5% to 9.0%, and the normalised EBITDA margin improved to approximately 15.8% (H1 2021: 14.8%), with the higher occupancy levels since late January 2022, tight control of costs and a reduction in COVID-19 PPE expenditure absorbing the negative impact of lower occupancies during the fourth wave.

The Group incurred operational costs relating to strategic projects of R112 million (H1 2021: R96 million) during the period, with a further R161 million to be incurred in H2 2022. Pleasingly, normalised EBITDA margins, excluding the strategic operational costs, strengthened from 15.8% in H1 2021 to 16.8% in H1 2022.

Cash generation remains strong and Group net debt (exclusive of IFRS 16 lease liabilities) has declined to R5.4 billion from R6.1 billion at 31 March 2021. The ratio of net debt to annualised EBITDA at 31 March 2022 was c. 1.7 times, improving from 2.0 times at 31 March 2021. During the period, and in light of increasing certainty of the impacts of COVID-19, the Group reduced its committed facilities by R2.1 billion. At 31 March 2022, the Group had cash resources and available undrawn committed facilities of R3.4 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 2022 vs H1 2021		
Revenue	2.0% to 2.5%		
EBITDA	7.7% to 8.2%		
Patient days total	2.7%		
Patient days - acute hospital	2.3%		
Patient days - mental health	6.1%		
Acute COVID-19 patient days	(70.3)%		
Acute non-COVID-19 patient days	19.8%		
Revenue per patient day	(0.8)%		
Theatre cases	14.1%		
	H1 2022	H1 2021	FY 2021
EBITDA margin	15.5%	14.7%	15.0%
Occupancy (full week) acute hospital	55.5%	53.8%	55.9%
Occupancy (week day) acute hospital	59.8%	57.1%	59.2%
Occupancy (full week) mental health	64.2%	60.6%	62.1%

Hospital activity during December 2021 and the first three weeks of January 2022 was impacted by low COVID-19 admissions, in conjunction with reduced non-COVID-19 admissions due to sector seasonality and patient sentiment around hospitalisation during a wave, informed by the devastating effect of the previous Delta wave. However, after the wave subsided and schools opened, the division experienced a steady ramp-up in activity in both medical and surgical cases, which continued throughout the last two months of the reporting period. The reduction in length of stay to 4.2 days (H1 2021: 4.7 days) is indicative of the shift towards the normalisation of case mix to pre-COVID-19 levels.

Notwithstanding the dilutive impact of the lower occupancy levels in December 2021 and January 2022, full week occupancy levels within acute hospitals increased to 55.5% in H1 2022 from 53.8% in the comparative period, with average occupancy across February and March 2022 of 62.4%. Occupancy levels have shown strong recovery in our mental health facilities, improving from 60.6% in H1 2021 to 64.2% for H1 2022, with average occupancy across February and March 2022 of 78.8%.

Total patient days for H1 2022 grew by 2.7% against H1 2021, comprising growth of 2.3% in acute hospitals and 6.1% in mental health facilities.

Revenue for H1 2022 increased by between 2.0% to 2.5% against H1 2021, while normalised EBITDA grew by around 7.7% to 8.2%. Normalised EBITDA margins strengthened from 14.7% in H1 2021 to around 15.5%.

The normalised EBITDA margin within the hospital and pharmacy operations sub-segment, excluding the impact of operational costs related to strategic projects, strengthened to approximately 16.7% from 15.6%. The higher margin was attributable to improving occupancy levels, cost management and lower COVID-19 costs.

Segmental performance - Primary Care

Increased medical and dental patient visits and growth in the occupational health business in H1 2022 contributed to revenue growth of between 5.2% to 5.7% against H1 2021. EBITDA improved by around 30.0% to 32.0% due to the recovery in activity and stringent cost management. As a result, the EBITDA margin improved to around 23.0% from 18.4% in H1 2021.

Strategic projects

The new 427-bed Netcare Alberton hospital opened on 11 April 2022 and construction of the new 36-bed Akeso Richards Bay facility is complete and is expected to open shortly.

The various strategic and digitisation initiatives across all divisions of Netcare are progressing well and remain on schedule. In the Hospital Division, the CareOn electronic medical record project is well on track to have 20 hospitals completed by the end of 2022.

Environmental sustainability

For the second consecutive year, Netcare has achieved the distinction of being the only healthcare institution in the world to win Gold Medals in all four categories (Greenhouse Gas Reduction (Energy), Renewable Energy, Climate Resilience and Climate Leadership) in the latest global Health Care Climate Challenge Awards. The awards are organised by Global Green and Healthy Hospitals (GGHH), an initiative of Health Care Without Harm (HCWH). The GGHH network comprises over 1 500 members in 75 countries representing the interests of over 60 000 hospitals and health centres.

In addition, the Group was recently awarded the Commercial Corporate Company of the Year Award in South Africa by the Southern African Energy Efficiency Confederation (SAEEEC) for outstanding accomplishments in developing, organising, managing and implementing its corporate energy

management program.

These awards solidify the Group's standing in the global and local community of environmentally conscious healthcare institutions across all continents

KwaZulu-Natal floods

Our thoughts and prayers are with the people of KwaZulu-Natal during this traumatic time that has seen lives lost, people injured and extensive damage to property, leaving many people without homes amidst the catastrophic heavy rainfall and floods. Netcare 911 is privileged to continue to play a supportive and collaborative role along with multiple agencies in the search, rescue and retrieval operations throughout this time. Disruptions to power, water and oxygen supply at our various facilities continue to be well managed.

Acknowledgement

We express our thanks and appreciation to our staff and doctors for their unwavering commitment and dedication in supporting our core purpose of delivering the best and safest care and enabling us to achieve our Group's strategic and operational goals.

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 2022 and the outlook for the remainder of the 2022 financial year will be provided in the unaudited interim Group results due to be released on Monday, 23 May 2022.

26 April 2022
Sponsor

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