NETCARE LIMITED
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("Netcare" or the "Group")

Voluntary trading update for the four months ended 31 January 2023

Overview

Netcare is pleased to provide a voluntary update on its operational performance and key strategic projects for the four months ended 31 January 2023 ("the review period"). Further details on H1 2023 performance and the outlook for H2 2023 will be provided with the half-year results to be released on Monday, 22 May 2023.

The Group experienced steady improvement in operational and financial performance in the first four months of FY 2023 as the post-COVID operating environment continues to normalise.

Group revenue for the review period grew by 12.3% compared to the four months ended 31 January 2022 ("the prior period"). EBITDA margins continued to improve with EBITDA increasing by more than 20%.

Network arrangements

Two networks came up for tender for 2023. Netcare was successfully appointed as co-anchor on one of these tenders, where previously we had filler status. We were unsuccessful in the renewal of the other tender where we had been one of the anchor tenants, but have been granted filler status at six hospitals. The estimated impact of these two contracts was factored into the guidance provided in the FY 2022 results commentary, which remains unchanged (see 'Guidance' below).

Loadshedding

The impact of loadshedding on operations has been well contained. The vast majority of Netcare's hospitals have full island capacity, allowing them to operate independently of the grid. In addition, all facilities are supported by Uninterrupted Power Supply (UPS) systems and a fleet of 200 backup diesel generators across the portfolio. Over the past decade the Group has invested in installing a sizable solar power base across 72 sites, capable of generating 18-20 GWh per annum, which is used during daylight hours and outside of loadshedding to ensure that safe, sustainable care is delivered without disruption throughout our hospitals at all times.

Generator diesel fuel costs were R35 million in FY 2022 vs. R9 million in FY 2021. Diesel costs have increased to approximately R41 million for the review period due to the extent of loadshedding experienced to date, with an average of Stage 4.2 across our facilities over the last two months, and the higher price of diesel.

Netcare has invested R585 million in capex since the implementation of its environmental sustainability strategy in 2013. The Group has placed considerable emphasis on improving energy efficiency at its facilities and has implemented more than 204 environmental sustainability projects which have reduced the Group's exposure to the impacts of the instability of the national grid. By the end of FY 2022, the Group achieved a 35% reduction in energy intensity per hospital bed, surpassing its original target of 22% - 25% set for 2023 and has avoided R1.1 billion in energy, water and waste costs as compared to the 2013 base.

Nursing shortages

We continue to engage and collaborate with all stakeholders and regulatory bodies, including the South African Nursing Council, to unlock the barriers that inhibit our ability to train nurses at a scale sufficient to address the nursing skills deficit, particularly nurses with clinical specialisation skills, and to keep pace with the escalating demand.

Divisional review

Hospital and emergency services

Hospital and emergency services comprise acute hospitals and mental health facilities, as well as emergency and ancillary services.

Four months to 31 January 2023 vs. four months to 31 January 2022	**% change**		
Patient days total	13.8		
Patient days - acute hospital	13.5		
Patient days - mental health	17.0		
Length of stay (LOS) – acute hospital	0.4		
Net revenue per patient day	-1.0		
Theatre cases	7.7		
	Four months to January 2023	**Four months to January 2022**	**Four months to January 2019**
Occupancy (full week) - acute hospital	59.9	52.3	62.4
Occupancy (week day) - acute hospital	64.6	56.2	67.4
Occupancy (full week) - mental health	64.5	57.3	66.2
Surgical cases as % of total admissions	57.2	59.7	60.0

Note: Metrics exclude Netcare Ceres, Bougainville and Optiklin hospitals.

The Hospital and emergency services division continued to benefit from the ongoing recovery in the operating environment.

Notwithstanding the usual seasonality and dilutive impact of lower occupancy levels during the holiday period (spanning December and January), full week occupancy levels within acute hospitals increased to 59.9% for the review period from 52.3% in the prior period, with average occupancy across February 2023 at 67.8% and March 2023 trending at 66.2% to date.

Similarly, occupancy levels have shown strong recovery in our mental health facilities, improving from 57.3% in the prior period to 64.5%, with average occupancy across February 2023 at 82.5% and March 2023 trending at 80.3% to date.

Total paid patient days ("PPD") grew by 13.8% against the prior period, comprising growth of 13.5% in acute hospitals and 17.0% in mental health facilities.

The average acute patient day activity for the review period is above 95% of pre-pandemic levels during the four months to January 2019 ("pre-pandemic levels"). Average mental health PPD activity for the review period has surpassed pre-pandemic levels by 3.6% (same store) and by 7.3% (inclusive of Netcare Akeso Richards Bay).

In line with sector trends, medical PPDs continue to grow at a faster pace recording growth of 35.1% against the prior period and trending at 98% of pre-pandemic levels. Surgical PPDs increased by 11.5% against the prior period. Surgical PPDs for the review period were trending at 92% of pre-pandemic levels. Resultantly, total surgical cases comprised 57.2% of admissions (prior period: 59.7%; pre-pandemic levels: 60.0%) and medical cases 42.8% (prior period: 40.3%; pre-pandemic levels: 40.0%). Elective surgical cases increased by 7.6% against the prior period.

The higher growth in medical cases is reflected in the average length of stay, which increased by 0.4% to 4.3 days, and the revenue per PPD which has declined by approximately 1.0% on the prior period. The prior period included COVID-19 vaccine revenue, which has subsided in 2023, accounting for 0.4% of the 1.0% decline in net revenue per PPD. Pharmacy revenue per PPD was inflated during the pandemic due to a higher ratio of critical cases, exacerbated by the higher cost of drugs relating to COVID-19 patients.

The proclamation of an additional public holiday on 27 December 2022 resulted in increased staffing costs of R14 million.

Netcare continues to attract specialists and a net 43 doctors were granted admission rights at acute and mental health facilities during the review period.

Primary care

Total GP and dental visits in the prior period were boosted by the COVID-19 Omicron variant, whereas the review period was not impacted by COVID-19. Resultantly, total visits declined slightly by 2.7% during the review period. However, revenue increased by 2.0%, and EBITDA margins remain above 20.0%.

Strategic update

The various strategic and digitisation initiatives across all divisions of Netcare are progressing well and remain on schedule and within budget. The Group incurred operational costs relating to key strategic projects of R75 million against R74 million in the prior period.

Digitisation

A major focus of the digitisation projects is to provide electronic medical records (“EMR”) across all divisions of Netcare. This new way of care has now been successfully implemented at 26 Netcare hospitals (comprising 5 637 beds) since the start of the pilot in 2020. With five hospitals already implemented in 2023 we remain on track to implement an additional 12 hospitals in 2023 and finally 7 hospitals (943 beds) in H1 2024, which marks the completion of the project across the entire portfolio. There are currently around 17 930 active users, comprising nurses, doctors, healthcare professionals, pharmacists and administrative personnel.

Similarly, good progress was made on the digitisation of Netcare Akeso and Medicross, which was fully implemented at the end of 2022.

Akeso

Following the successful commissioning of Netcare Akeso Richards Bay, we continue to explore opportunities to meet the demand for mental health and plan to expand Akeso’s footprint further by adding 159 beds. Projects include Akeso Gqeberha (72 beds – expected to open by May 2023) and Akeso Polokwane (87 beds - scheduled to open in May 2024). In addition, in line with our strategy to optimise beds in the acute segment and to address the strong demand for mental health in KwaZulu Natal, we are on track to introduce 77 mental health beds in the Netcare Alberlito Hospital from October 2024.

NetcarePlus

The Group has a pipeline of innovative pre-paid procedures that will be launched in FY 2023. These procedures include general, gynaecological and orthopaedic surgical procedures. For the review period we have successfully completed enhancements to NetcarePlus GapCare and NetcarePlus Accident and Trauma, driving growth of these products over the last four months. Similarly, we continue to gain traction with other product lines.

Guidance

Trading in the first four months of FY 2023 is in line with expectations. Our FY 2023 guidance is based on an average of Stage 5 loadshedding for the remainder of the year, accounting for higher levels of loadshedding anticipated during the winter months. We maintain this guidance for FY 2023, as previously published in the FY 2022 results, and included below for reference:

In the absence of further severe COVID-19 waves in FY 2023, the Group expects revenue growth of between 9.0% and 12.0%. Total patient days are expected to grow by between 6.5% and 7.5%. The increased activity will drive further margin expansion, improved earnings and ROIC.

Costs associated with the implementation of the CareOn EMR project of approximately R129 million will be incurred in FY 2023. We expect to realise savings of approximately R55 million to R65 million in FY 2023 and *the project will be earnings accretive from H2 2024.*

Other strategic costs of R146 million for environmental sustainability, data analytics and NetcarePlus, which are all critical enablers of our strategy, will be incurred in FY 2023.

Total capital expenditure for FY 2023 of R1.6 billion will be incurred, of which R111 million will be attributable to expansion in mental health, approximately R600 million for refurbishments that were delayed during the pandemic and R185 million to strategic projects.

We will continue to maintain an optimal capital structure, and the strength of the statement of financial position and the ongoing improvement in operational performance in the underlying businesses will continue to support dividend payments in line with our dividend policy, where we seek to return at least 50% - 70% of adjusted headline earnings to shareholders.

The information contained in this announcement has not been reviewed or reported on by Netcare's auditors.

10 March 2023

Sponsor
Nedbank Corporate and Investment Banking, a division of Nedbank Limited