



## **NETCARE LIMITED**

Incorporated in the Republic of South Africa  
(Registration number 1996/008242/06)

JSE ordinary share code: NTC

ISIN: ZAE000011953

JSE preference share code: NTCP

ISIN ZAE000081121

("Netcare" or the "Group")

### **Voluntary update on FY 2023 trading**

The purpose of this announcement is to provide shareholders with an update on Netcare's trading for the financial year ending 30 September 2023 ("**FY 2023**").

Reference is also made to the year ended 30 September 2022 ("**FY 2022**") and the six months ended 31 March 2023 ("**H1 2023**").

For comparative purposes, the impact of exceptional items is excluded, unless otherwise indicated.

### **Overview**

Netcare is encouraged by the ongoing improvement in the Group's financial performance as demand continues to normalise from the impact of the COVID-19 pandemic. The Group continued on the solid trajectory reported in H1 2023 and is on track to meet its FY 2023 guidance and strategic goals published with the FY 2022 results and reiterated at the H1 2023 results presentation.

### **Key financial highlights**

Notwithstanding the constrained economic environment and unseasonal lower activity during June and July 2023, total paid patient days ("**PPD**") for FY 2023 are expected to grow by c. 6.8% against FY 2022. Revenue for FY 2023 for the Group and the Hospital and emergency services segment is expected to grow by 9.0% to 10.0% compared to the FY 2022 Group revenue of R21 636 million and Hospital and emergency services revenue of R21 024 million.

The business remains focused on cost efficiencies and continues to benefit from operating leverage. The underlying year-on-year normalised Group EBITDA margin (excluding strategic costs and diesel costs) is expected to strengthen by c. 125 to 175 basis points (FY 2022: 17.5%).

Similarly, the normalised EBITDA margin (excluding strategic and diesel costs) for the Hospital and emergency services segment has strengthened against FY 2022 and is expected to be c. 125 to 175 basis points higher than the prior year (FY 2022: 17.2%).

Implementation costs related to the CareOn Electronic Medical Record project remain within guidance and

savings in excess of the upper budgeted range of R65 million will be realised in FY 2023. Similarly, other strategic operating costs relating to environmental sustainability, data analytics and NetcarePlus, which are all critical enablers of our strategy, remain in line with guidance.

Guidance for diesel costs for FY 2023 was based on an expected average of Stage 5 load shedding across our facilities for H2 2023, in anticipation of higher levels of load shedding during the winter months. Load shedding in June, July and August 2023 proved lower than expected. Consequently, diesel costs (which amounted to R113 million for the 11 months to 31 August 2023) will be lower than the guidance provided of R165 million for the full year. However, this cost still represents a significant increase against the FY 2022 cost of R37 million.

The Group's statement of financial position remains solid, with strong cash generation. In line with our capital allocation policy, during the second half of FY 2023 the Group bought back 24.4 million shares at an average price of 1 311 cents per share.

### Segmental performance - Hospital and emergency services

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

	FY 2023 vs. FY 2022 % change	
Patient days – total	6.8%	
Patient days – acute hospital	6.1%	
Patient days – mental health	12.7%	
	FY 2023	FY 2022
Total patient days	2 448 322	2 293 344
Occupancy - total	64.4%	60.1%
Occupancy – acute hospital	63.5%	59.3%
Occupancy – mental health	72.7%	68.1%
Note: Metrics exclude Netcare Ceres and Bougainville hospitals		

The segment delivered a steady performance for FY 2023, driven by continued recovery in demand and further normalisation of the post COVID-19 operating environment.

Total growth in patient days of c. 6.8% for FY 2023 is in line with the full-year guidance of 6.5% to 7.5% growth. The acute segment experienced a steady improvement in PPDs, which increased by c. 6.1%, equating to 95.2% of FY 2019.

For the 11 months ended 31 August 2023, growth in medical PPDs of c. 9.8% continued to outpace that of surgical PPDs of c. 4.7%. Medical PPDs have recovered to 99% of 2019 levels, while surgical PPDs continue to be impacted by, *inter alia*, declining maternity cases, which is in line with global/sector trends, and have recovered to approximately 91% of pre-pandemic levels. Total surgical cases comprised c. 57.4% of admissions (FY 2022: 59.5%; pre-pandemic levels: 60.0%) and medical cases c. 42.6% (FY 2022: 40.5%; pre-pandemic levels: 40.0%). Net revenue per PPD to August 2023 increased by 2.7% compared to FY 2022. This has been diluted by case mix (with higher growth in medical vs. surgical admissions) which continues to normalise towards pre-pandemic levels, notwithstanding higher complexity cases in both categories as reflected in increased length of stay of c. 4.4 days (FY 2022: 4.3 days).

The steady increase in activity contributed to higher occupancy levels. Full week occupancy for FY 2023 within acute hospitals is forecast to increase to c. 63.5% from 59.3% in FY 2022. Occupancy for the month of August 2023 was 66.2% and is currently trending at c. 64.3% in September 2023.

Demand for mental health remains strong, with this segment recording 12.7% growth in PPDs for FY 2023, with the newly opened Akeso Gqeberha facility contributing 2.3% of this growth.

Mental health PPD activity has surpassed pre-pandemic levels by 5.4% (same store) and 11.6% inclusive of the 36-bed Netcare Akeso Richards Bay facility (commissioned in May 2022) and the 72-bed Netcare Akeso Gqeberha facility (commissioned in May 2023).

The strong increase in mental health activity has resulted in occupancies improving to c.72.7% in FY 2023 from 68.1% in FY 2022 (FY 2019: 71.6%).

Netcare continues to attract specialists and as at the end of August 2023, a net c.120 doctors were granted admission rights at acute and mental health facilities.

### **Segmental performance - Primary Care**

Total GP and dental visits have decreased by c. 2.0% in FY 2023 against FY 2022. The decline in visits is predominantly attributable to the higher base in FY 2022, which was boosted by increased COVID-19 GP visits during the Omicron-driven fourth wave. Notwithstanding the decline in visits, revenue is expected to grow by c. 4.5% for the year from R634 million in FY 2022. EBITDA margins for the full year are expected to remain similar to the 24.0% reported for H1 2023.

### **Strategic projects**

We continued to make excellent progress across all of our key strategic projects during FY 2023.

#### **Digitisation**

The CareOn digitisation project to implement fully integrated Electronic Medical Records across the Netcare ecosystem is nearing completion, with all FY 2023 objectives achieved within scheduled timeframes and budget. This new way of care has been successfully implemented at 38 hospitals to date, comprising 8 645 beds (90% of registered beds). The remaining seven hospitals will be commissioned in H1 2024, and the project will be earnings accretive from H2 2024.

#### **Sustainability**

Netcare is pleased to announce that commercial terms have been agreed for a Renewable Energy (“RE”) supply arrangement with NOA Group Trading, a renewable energy provider. The transaction covers six Netcare facilities, whose power is currently supplied by Eskom’s coal-fired power stations. From Q1 2026 up to 100% of these sites’ energy consumption (comprising c. 11% or 22 GWh/annum of the Group’s total energy consumption) will be supplied from a combination of wind and solar farms through “Energy Wheeling” over the national electricity grid. In combination with other initiatives already implemented under Netcare’s sustainability programme, this agreement will increase the proportion of Netcare’s total energy consumption that is derived from RE sources to c. 26%. This transaction represents an important step towards Netcare’s goal of achieving 100% reliance on RE sources by 2030.

#### **NetcarePlus**

We are encouraged by the ramp-up in sales of NetcarePlus products. NetcarePlus launched a new primary care offering in September 2023. This product aims to solve primary care needs for the uninsured population (predominantly GP, dentistry and optometry). Additional prepaid procedures were also introduced during H2 2023.

#### **Netcare Diagnostics**

Netcare Diagnostics and its Enterprise and Supplier Development partner, Dr Eshile Nomlomo Inc., continues

to expand pathology services across the Netcare ecosystem and has performed in line with its business plan.

### **Netcare App**

We successfully launched the new Netcare App in July 2023. Having almost completed the rollout of electronic records across our seven service delivery platforms, this development represents the next phase of our strategy to enable digital engagement with our patients and clients. We are pleased with the robust take-up of this app, which allows online preadmissions, doctor appointments, the ability for Netcare 911 to geolocate someone in an emergency, access to a summary of their care, and the ability to purchase NetcarePlus policies, with further services to be added in future.

### **Akeso**

Following the successful commissioning of Netcare Akeso Richards Bay (36 beds) in May 2022, we completed the construction of Netcare Akeso Gqeberha (72 beds), which was commissioned in May 2023.

### **Executive Leadership and Board Change**

Investors are referred to the SENS published on 28 July 2023, where in accordance with paragraph 3.59 (b) and (c) of the JSE Listings Requirements, Netcare shareholders were advised that Dr Richard Friedland, the Chief Executive Officer (“**CEO**”) of Netcare, informed the Netcare Board of Directors (“**Board**”) of his intention to take early retirement. He will step down from his current role as CEO and as an Executive Director of the Board, with effect from 30 September 2024.

The Board is following a thorough process to evaluate both internal and external candidates and will announce Dr Friedland’s successor once the process is complete.

### **Results announcement**

Further detail on the Group’s financial performance for FY 2023 and the outlook for the 2024 financial year will be provided in the audited Group results due to be released on or about Monday, 20 November 2023.

Normalised numbers exclude the impact of exceptional items. 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, changes in equity, results of operations or cash flows.

The information presented in this announcement reflects the Group’s latest estimates of its financial results and related metrics for FY 2023 and has not been reviewed or reported on by Netcare’s external auditors.

28 September 2023

Sponsor

Nedbank Corporate and Investment Banking, a division of Nedbank Limited