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

Voluntary trading update for the six months ended 31 March 2024

Netcare is pleased to provide the following voluntary trading update ahead of the release of the Group's interim results for the six months ended 31 March 2024 ("H1 2024" or "review period"). Further details on H1 2024 performance and the outlook for the Group's results for the year ending 30 September 2024 will be provided with the half-year results to be published on or about 20 May 2024.

Highlights

- Group revenue growth of between 4.2% to 4.4%
- Normalised Group EBITDA growth of between 7.3% to 7.7%, demonstrating operating leverage
- 40 to 80 basis point improvement in EBITDA margin of hospital and pharmacy operations sub-segment (excluding strategic and generator diesel costs) to between 19.5% to 19.9%
- ROIC increased to 10.9% from 10.6% in H1 2023
- R264 million invested in share buybacks to 30 April 2024

Group Performance

H1 2024 vs. H1 2023		**% change**
Revenue		4.2% to 4.4%
Normalised EBITDA		7.3% to 7.7%
	H1 2024	**H1 2023**
Normalised EBITDA margin	17.8% to 18.2%	17.5%

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.
"Normalised" to exclude exceptional items.

Activity in H1 2024 has been influenced by sector seasonality, a change in respiratory disease patterns, a reduction in maternity cases and the impact of low-cost medical scheme networks.

Sector seasonality was affected by a one-week delay in the start of the school year in January 2024 which contributed to a softening of patient activity at the beginning of the calendar year. Pleasingly, there was a robust upswing in activity from February 2024. School holidays commenced on 20 March 2024 and the Easter long weekend began on 29 March 2024, falling mostly within the first half of the financial year. In the prior year, the school holidays commenced on 27 March 2023, while the Easter long weekend began on 7 April 2023, primarily affecting the second half of the financial year. Consequently, performance for the month of March 2024 is not directly comparable to March 2023 and also distorts the comparability of H1 2024 against H1 2023. As anticipated, activity decelerated in the final two weeks of March 2024, effectively nullifying the gains made over the preceding six weeks of trading. However, the month of April 2024 reflects a recovery of this timing impact and therefore the year-to-date metrics for the seven months to April 2024 provide a more accurate indicator of year-on-year trends.

Total paid patient days ("PPDs") for H1 2024 decreased by 0.8% compared to the prior period. However, for the seven-month period to April 2024, total PPDs increased by 0.4%.

The total PPD decline for H1 2024 comprised of a 1.7% reduction in acute PPDs and a 7.0% increase in mental health PPDs. The decline in acute care PPDs is due to a decrease in respiratory, maternity and private cases, the intentional cessation of poor credit risk activity and to a lesser extent, and in line with the Group's expectations, changes in low-cost networks.

Group revenue for H1 2024 increased between 4.2% and 4.4% against H1 2023.

Total operating costs have been well contained, notwithstanding a high inflationary environment and the declaration of an extra public holiday on 15 December 2023, which led to an increase in staffing costs of approximately R22 million.

Operational costs relating to strategic projects amounted to R87 million (H1 2023: R127 million). The CareOn component of these costs amounted to R53 million (H1 2023: R47 million).

Load shedding across our facilities averaged Stage 2.6 for H1 2024 (H1 2023: Stage 3.5) and generator diesel costs decreased to R39 million from R67 million in H1 2023.

Normalised Group EBITDA, including strategic operational costs and generator diesel costs, increased between 7.3% and 7.7%. The normalised Group EBITDA margin improved from 17.5% reported in H1 2023 to between 17.8% and 18.2%.

Pleasingly and notwithstanding the lower volumes, the EBITDA margin in the core hospital and pharmacy operations sub-segment (excluding strategic costs and generator diesel costs) strengthened from 19.1% in H1 2023 to between 19.5% to 19.9% in H1 2024, supported by a favourable revenue mix and tight cost control.

The Group's strong balance sheet has facilitated continued investment in core projects, with R510 million of capital expenditure invested in H1 2024 out of the anticipated total spend of R1.4 billion for FY 2024.

Group ROIC increased to 10.9% from 10.6% in H1 2023.

In line with Netcare's capital allocation strategy of returning excess cash to shareholders, the Group continued with the share buyback program, whereby a total of 11.2 million ordinary shares were acquired in the market from 1 October 2023 up to 31 March 2024 at an average price of R12.96, and a further 10.4 million ordinary shares were purchased at an average price of R11.35 during April 2024. Collectively, 21.6 million ordinary shares have been repurchased at a total cost of R264 million and an average price of R12.19.

Group net debt (exclusive of IFRS 16 lease liabilities) has increased to R5.8 billion from R5.0 billion at 31 March 2023 as a result of the payment of ordinary and preference dividends, share buybacks and a higher interest bill during the review period. The net debt to annualised EBITDA ratio at 31 March 2024 was 1.3 times (31 March 2023: 1.2 times).

All strategic projects remained on track in H1 2024 and the Group is pleased to announce the completion of our groundbreaking strategic digitisation initiative to implement Electronic Medical Records across the Group's entire ecosystem and seven delivery platforms. A major focus of this strategy is our CareOn program which has been tightly managed and completed within the planned timeframe and budget. CareOn is now fully implemented across the entire acute hospital portfolio of 45 hospitals, signaling the conclusion of this pivotal project. The system has garnered widespread adoption, with over 29 000 active users, including nurses, doctors, pharmacists, allied professionals and administrative personnel.

Segmental performance - Hospital and emergency services

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

H1 2024 vs. H1 2023			**% change**
Revenue			4.2% to 4.4%
Normalised EBITDA			8.0% to 8.4%
Revenue per PPD			5.0%
	H1 2024	**H1 2023**	
Normalised EBITDA margin	17.7% to 18.1%	17.3%	
Metrics	**H1 2024**	**H1 2023**	**Seven months to April 2024**
PPD growth:			
Total	(0.8)%		0.4%
Acute hospital	(1.7)%		(0.3)%
Mental health	7.0%		6.7%
Full week occupancy:			
Total	62.8%	63.2%	63.3%
Acute hospital	62.1%	62.6%	62.7%
Mental health	69.3%	70.2%	69.6%

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.
"Normalised" to exclude exceptional items.

Total revenue for the segment for H1 2024 increased by 4.2% to 4.4% against H1 2023.

In line with the acute hospitals trend reported in FY 2023, medical PPDs continue to recover at a faster pace than surgical PPDs, notwithstanding subdued respiratory activity when compared to the prior period. Surgical PPDs continue to be impacted by sector trends of declining maternity cases and the outmigration of lower-margin day cases, but continue to contribute more than 70% of revenue.

Acute hospital revenue per PPD increased by 5.7% for H1 2024.

The average case severity remains above that of 2019 and is reflected in an increased length of stay which increased to 4.5 days in H1 2024 from 4.3 days in H1 2023.

Occupancy in the acute hospitals declined slightly to 62.1% for H1 2024 from 62.6% in the prior period. The impact of seasonality and the subsequent correction in activity is evident in the average acute occupancy for the combined months of March and April 2024 which averaged 65.7% vs. 64.3% in the comparative two month period.

Demand for mental health remains strong, with PPDs in H1 2024 increasing by 7.0% against the prior period with Akeso Gqeberha (commissioned in May 2023) contributing 5.2% of this growth. Average occupancy of 69.3% (71.0% excluding Akeso Gqeberha) was achieved for the review period. Same store PPDs for the month of March 2024 were lower than March 2023, with activity normalising in April 2024, although slightly later than the acute hospitals. Resultantly, PPDs for the seven months to April 2024 increased by 6.7% (with Akeso Gqeberha contributing 5.4%).

Notwithstanding the lower volumes, costs have been well contained. Normalised EBITDA for the Hospital and emergency services segment is expected to increase by a range of 8.0% to 8.4% and EBITDA margins in H1 2024 are expected to improve from 17.3% in H1 2023 to between 17.7% and 18.1%. EBITDA margins excluding strategic and generator diesel costs are expected to improve from 18.9% to between 19.0% and 19.1%.

EBITDA margin within the hospital and pharmacy operations sub-segment strengthened from 17.7% to between 18.7% and 19.1%, and excluding strategic costs and generator diesel costs improved to between 19.5% and 19.9% from 19.1%.

Segmental performance - Primary Care

Revenue growth amounted to 6.3% for H1 2024. The occupational health business recorded a strong performance, enhanced by new contracts. However, activity in the medical and dental practices was impacted by sector seasonality with GP and dental visits declining by 4.6% (same store) against the prior period. A strong improvement in April 2024 saw visits for the seven months ending April 2024 decreasing by 1.7% against the comparative period.

In H1 2024, sector seasonality, diminished activity levels and a higher proportion of lower-margin contracts collectively contributed to an approximate 7.0% decrease in EBITDA against the underlying EBITDA of the prior period, which was boosted by a capital profit of R2 million relating to the sale of property. EBITDA margins declined from an underlying margin of 24.0% to approximately 21.1%.

Guidance

The Group has revised its PPDs guidance for the full year. We are expecting positive growth in total PPDs in H2 2024. However, the decline in activity in H1 2024 will result in full year growth ranging from -0.5% to 0.5%. Acute PPDs for H2 2024 are expected to grow between 0.5% and 1.0% versus the 1.7% decline in the first half. The rate of growth in mental health PPDs for the full year will reduce as the new Akeso Gqeberha facility was included in the base from May 2023. Total Group revenue is expected to grow between 5.0% and 5.5% and normalised EBITDA margins will continue to benefit from ongoing efficiencies.

Further detail on the Group's financial performance for H1 2024 and the outlook for the remainder of the 2024 financial year will be provided in the unaudited interim Group results due to be released on or about Monday, 20 May 2024.

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.

3 May 2024

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