DIVISIONAL REVIEW
SOUTHERN AFRICA

CEO’S STATEMENT

“Mediclinic Southern Africa delivered good operational and financial results for the period under review despite some weaker patient volumes. We have continued to make good progress with the rollout of further strategic initiatives to improve the value proposition that we offer to our patients, focusing on patient safety initiatives, improving patient experience and initiatives to improve collaboration with our supporting doctors. We have continued to invest in the maintenance and upgrade of our facilities and will add six new day clinics to our portfolio in the next few years to provide the most appropriate range of care for our patients in the future. We continued to address a number of matters in the wider business environment, specifically the Health Market Inquiry and National Health Insurance developments.”

KEY FINANCIAL AND OPERATIONAL HIGHLIGHTS

In Southern Africa (including South Africa and Namibia), as at the end of the reporting period, Mediclinic operated 52 hospitals and 2 day clinics with a total of 8,131 beds and 16,068 employees (19,795 full-time equivalents). Mediclinic Southern Africa is the third largest private healthcare provider in Southern Africa by number of licensed beds. Mediclinic Southern Africa accounted for 31% of the Group’s revenues (FY17: 28%) and 37% of its adjusted EBITDA (FY17: 33%).

Following a first half performance where patient volumes were impacted by the timing of Easter and other public holidays, Mediclinic Southern Africa delivered an improved and stronger-than-expected second half performance. Despite a continued weak macroeconomic environment, stable medical insurance membership and certain funder interventions, revenue in Southern Africa increased by 5% to ZAR15 106m (FY17: ZAR14 367m). Bed days sold decreased by 1.5% and average revenue per bed day increased by 6.7%. Admissions decreased by 2.2% with the greatest decline in surgical day cases as the outmigration trend continues. The average length of stay increased by 0.8% whilst occupancy rates were 69.7% (FY17: 71.5%).

Koert Pretorius
Chief Executive Officer: Mediclinic Southern Africa
Adjusted EBITDA increased by 6% to ZAR3 245m (FY17: ZAR3 049m) resulting in the adjusted EBITDA margin increasing to 21.5% from 21.2% as the ongoing shift in case mix towards medical versus surgical cases and lower patient volumes were more than offset by cost management and efficiency initiatives.

Depreciation and amortisation increased by 7% to ZAR495m (FY17: ZAR465m) mainly because of an increased spend on medical equipment. Operating profit increased by 6% to ZAR2 749m (FY17: ZAR2 584m).

Net finance costs increased by 6% to ZAR526m (FY17: ZAR496m), helped by interest received on cash balances. Mediclinic Southern Africa contributed £72m to the Group’s adjusted earnings (representing 33%) compared to £67m (representing 30%) in the comparative period.

The division converted 103% (FY17: 104%) of adjusted EBITDA into cash generated from operations.

INVESTING TO SUPPORT LONG-TERM GROWTH

Mediclinic Southern Africa invested ZAR423m on expansion capital projects and new equipment and ZAR634m on the replacement of existing equipment and upgrade projects. The total number of licensed beds increased marginally during the year to 8 131 (FY17: 8 095) as existing hospital expansion work in the second half of the year at Mediclinic’s Thabazimbi and Newcastle hospitals was completed. In addition to these modest expansion works, other projects during the year included expansion of Mediclinic Bloemfontein and Mediclinic Vergelegen. In FY19, Mediclinic Southern Africa expects to invest ZAR472m and ZAR846m on expansion and maintenance capex respectively. Several existing hospital and day clinic projects are due for completion in FY19 and FY20, which are expected to add some 300 additional operational beds. In line with our commitment to provide quality clinical care, we expect to invest during the year in additional resources to deliver further improvements across the division.

Mediclinic’s day clinic roll-out is unique and premises on co-locating the facilities with the main hospitals to adapt to the outmigration of care trend in Southern Africa where admissions across the division have been impacted by declining day cases. The six day clinics Mediclinic now plans to open during FY19 and FY20 are at Mediclinic Newcastle, Nelspruit, Stellenbosch, Bloemfontein, Pietermaritzburg and Cape Gate, which will provide an additional 15 theatres to the Southern African operations. The first of these will be Mediclinic Newcastle Day Clinic which is scheduled to open in September 2018 with Mediclinic Nelspruit Day Clinic to follow next in 1H20.

In August 2017, Mediclinic announced it had agreed to an investment in the Intercare group of companies (“Intercare”). The Intercare group was founded in 2000 and currently manages 20 multi-disciplinary primary care medical centres (which includes 15 dental centres), as well as 4 day hospitals and 4 sub-acute and rehabilitation hospitals in South Africa, servicing over 1 million patients per annum. The investment in Intercare comprises a minority shareholding in the multi-disciplinary medical and dental centres and a controlling shareholding in the day hospitals and sub-acute and rehabilitation hospitals. Intercare will continue to manage all its facilities under the Intercare brand. Mediclinic’s proposed acquisition of the controlling shareholding in the day hospital and sub-acute and rehabilitation hospitals remains subject to Competition Commission approval.

Mediclinic’s proposed acquisition of a controlling shareholding in Matlosana Medical Health Services (Pty) Ltd (“MMHS”), based in Klerksdorp in the North West Province of South Africa, has been referred to the Competition Tribunal by the Competition Commission with the case expected to be heard in the first quarter of FY19.

EFFICIENCY AND OTHER DEVELOPMENTS

Mediclinic Southern Africa progressed with several improvements to its core processes during the period under review. A particular focus on optimising nurse utilisation without compromising on the quality of care enabled the operating division to manage nursing cost particularly well during the period under review.
In addition, the operating division introduced action plans to improve employee engagement and conducted the third survey through its employee engagement index. Detailed plans to improve employee engagement were successful in improving employee engagement to 3.85 (2017: 3.73) during the year (the grand mean score based on a 1 to 5 rating scale).

As part of Mediclinic Southern Africa’s commitment to the Competition Commission’s Health Market Inquiry, the operating division agreed to publish, in an open and transparent way, the detailed patient feedback from Press Ganey on its website. The division also had the largest representation in the annual Discovery Health Top 20 South Africa Hospital survey in 2017. Based on patient feedback, eight of Mediclinic’s hospitals were recognised in the survey for the quality of care they receive from doctors and nurses, patients’ overall experience and hospital conditions.

**REGULATORY UPDATE**

The Competition Commission is currently undertaking a market inquiry into the private healthcare sector in South Africa to understand both whether there are features of the sector that prevent, distort or restrict competition and how competition in the sector can be promoted. The inquiry is due to publish its provisional recommendations by the end of May 2018, having been further delayed. The final publication is expected by the end of August 2018. Mediclinic has submitted documentation and participated in numerous seminars and discussions during the inquiry.
The South African Government is seeking a phased introduction of a National Health Insurance system over a 14-year period. The latest White Paper was released in June 2017 for consultation. Mediclinic has engaged with the Department of Health with regards to the functioning of the proposed seven institutions, bodies and commissions, submitting comments on the draft guidelines and making nominations to the committees. Mediclinic will continue to closely monitor the process and seeks further clarity on a large number of matters that still need to be addressed.

MARKET OVERVIEW

In recent years, growth in the South African private healthcare market has stagnated due to political uncertainty, low economic growth and a lack of job creation. However, latest economic forecasts indicate improving GDP growth rates which may provide the opportunity for insured lives in Southern Africa to increase. In the meantime, the market offers isolated incremental growth opportunities to expand existing hospitals, and to build new hospitals and day clinics. The focus remains on improving the efficiency of healthcare delivery across the value chain in a fragmented market to ensure services remain affordable. At the same time Mediclinic Southern Africa is committed to improving outcomes for patients, attracting and retaining qualified staff and investing in infrastructure and medical technology.

OUTLOOK

Mediclinic Southern Africa remains well positioned for future success in the current market and regulatory environment. The private healthcare industry has reached maturity with limited opportunities for material growth in the large multi-disciplinary acute care hospital environment given Mediclinic Southern Africa’s extensive footprint. Future growth will focus on related business opportunities across the continuum of care.

The focus in the coming year will be on further developing Mediclinic Southern Africa’s strategy to position itself for future value-based contracting opportunities. The operating division will continue to focus strategically on the value that it delivers to patients, by continuing to improve the safety and quality of its clinical care, the quality of the patient experience, and opportunities to improve operational efficiency. The division will also continue to focus on opportunities to develop an integrated Southern African private healthcare delivery model through collaboration with doctors.