DIVISIONAL REVIEW – SOUTHERN AFRICA

CEO’S STATEMENT

“Mediclinic Southern Africa delivered satisfactory operational and financial results for the period under review in challenging market conditions. We have continued to make good progress with the roll out of further strategic initiatives to improve clinical performance and the patient’s experience and we gained momentum in the development of an integrated healthcare system provider concept through the introduction of a number of new initiatives. Mediclinic Southern Africa successfully followed its incremental growth strategy by adding 78 acute care beds at existing hospitals. We continued to address a number of matters in the wider business environment, specifically the Health Market Inquiry and National Health Insurance developments.”

KEY STATISTICS

52 NUMBER OF HOSPITALS
2 NUMBER OF DAY CLINICS
8,095 NUMBER OF LICENSED BEDS
278 NUMBER OF THEATRES
16,848 NUMBER OF EMPLOYEES*

* 20,349 full-time equivalents, which includes 3,501 agency staff
KEY FINANCIAL AND OPERATIONAL HIGHLIGHTS

Mediclinic Southern Africa accounted for 28% of the Group’s revenue (2016: 31%) and 33% of its underlying EBITDA (2016: 32%).

In Southern Africa (including South Africa and Namibia), as at the end of the reporting period, Mediclinic operated 52 hospitals and two day clinics with a total of 8,095 beds and 16,848 employees. The platform is the third largest private hospital provider in Southern Africa.

During the period under review, revenue increased by 7% to ZAR14,367m (2016: ZAR13,450m). Bed days sold and average revenue per bed day increased by 0.8% and 5.8%, respectively. Admissions increased by 0.6% with growth in medical cases partially offset by a decrease in surgical day cases as the outmigration trend continues. The average length of stay increased by 0.2%.

Underlying EBITDA increased by 6% to ZAR3,049m (2016: ZAR2,877m) resulting in the underlying EBITDA margin decreasing from 21.4% to 21.2% due to the ongoing shift in mix towards medical versus surgical cases, wage and cost inflation, including higher price increases on pharmaceuticals (sold at zero margin) and investment in additional clinical personnel. Operating profit increased by 15% to ZAR2,584m (2016: ZAR2,522m). Mediclinic Southern Africa contributed £67m to the Group’s underlying earnings compared to £63m in the prior year, impacted by an additional ZAR182m (£10m) interest charge on additional debt following the refinance of the Group’s bridge loan.

Mediclinic Southern Africa invested ZAR790m on expansion capital projects and new equipment and ZAR515m on the replacement of existing equipment and upgrade projects. The number of beds increased by 78 taking the total number of beds to 8,095. Key projects completed during the year were at Mediclinic Upington, Mediclinic Worcester, Mediclinic Emfuleni and Mediclinic Windhoek. The building projects in progress are expected to add some 54 additional beds by the end of FY18, taking the total number of licensed beds across the operating platform to 8,149. Several additional building projects are due for completion in FY19 and FY20, which are expected to add some 350 additional beds in both existing facilities and new day clinics.

During FY16, Mediclinic Southern Africa announced the proposed acquisition of a controlling share in Matlosana Medical Health Services Proprietary Limited (“MMHS”), based in Klerksdorp in the North-West Province of South Africa. MMHS owns two multi-disciplinary hospitals, Wilmed Park Hospital (144 licensed beds) and Sunningdale Hospital (62 licensed beds), as well as a 51% share in Parkmed Neuro Clinic, a psychiatric hospital (50 licensed beds). This proposed acquisition supports Mediclinic’s core focus of providing acute care, multi-disciplinary specialist hospital services. Although substantially completed, the transaction...
remains subject to approval by the competition authorities. In January 2017, Mediclinic Southern Africa also announced the proposed acquisition of a 50% + 1 share interest in Life Path Health, which operates seven mental health facilities and is in the process of establishing three further facilities, with applications approved by Department of Health for further facilities. This transaction is subject to a number of conditions precedent.

EFFICIENCY AND OTHER DEVELOPMENTS

Mediclinic Southern Africa progressed with several improvements to its core processes during the period under review. The new SAP solution for financial and central procurement processes was successfully rolled out to 32 Mediclinic Southern Africa hospitals.

In addition, the platform introduced action plans to improve employee engagement and conducted the second survey through its Employee Engagement Index. Detailed plans to improve employee engagement were successful in improving employee engagement to 3.73 (2016: 3.67) during the year (the grand mean score based on a 1 to 5 rating scale).

MARKET OVERVIEW

Growth in the South African private healthcare market has stagnated due to elevated political uncertainty, low economic growth and a lack of job creation. The market offers isolated incremental growth opportunities to expand existing hospitals, and to build new hospitals and day clinics. Challenges include lowering healthcare costs across the value chain in a fragmented market, whilst at the same time improving outcomes for patients, attracting and retaining qualified staff and investing in infrastructure and medical technology.

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 was due to publish its recommendations in December 2016, but has advised of further delays with the HMI now guiding that the final publication is expected at the end of the 2017 calendar year. Mediclinic has submitted documentation to the inquiry and will continue to engage with all stakeholders as draft documents are published through the year to achieve an agreeable outcome.

The South African Government is seeking to address the shortcomings of the public health system through the phased introduction of a National Health Insurance system over a 14-year period. A draft White Paper outlining the financing and design of the envisaged system has been released for consultation and Mediclinic has submitted comprehensive comments. However, there remain a large number of obstacles that still need to be addressed before greater clarity about the outcomes can be communicated.

OUTLOOK

Mediclinic Southern Africa remains well positioned to face the significant challenges that exist in the business environment, such as increasing regulatory oversight, slow economic growth, a fragmented private healthcare delivery model and a shortage of healthcare professionals. Mediclinic Southern Africa remains cautiously optimistic about its prospects in the region.

The private healthcare industry has reached maturity with limited opportunities for growth of the current business. Future growth will focus on related business opportunities, for example mental health and primary care.

The focus in the coming year will be on further developing the operating platform’s strategy to position itself for future value-based contracting opportunities. The platform 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 platform will also continue to focus on opportunities to develop an integrated Southern African private healthcare delivery model for the future.