Conference call transcript

26 November 2024

ANNUAL RESULTS

Operator

Good day and welcome to Life Healthcare's summarised group results for the 12 months ended 30 September 2024 and cash contributions. At this time all participants are in listen-only mode. If you should require operator assistance during the call, please press * and then 0 on your telephone keypad. A question-and-answer session will follow the formal presentation, at which time you may key in * and then 1 on your telephone keypad. For the benefit of the participants who have connected via the webcast, you are welcome to pose your written questions in the question box provided on your screen. Please note that this conference is being recorded. I would now like to turn the conference over to Adam Pyle.

Adam Pyle

Good morning and welcome to the 2024 Life Healthcare results presentation. With me I have our CEO, Pete Wharton-Hood, and he will go over the operational performance of the business over the past 12 months. He will then hand over to Pieter van der Westhuizen, our CFO, who will then cover the financial performance of the business. And so, I'll now hand over to Pete.

Peter Wharton-Hood

Thank you, Adam, and good morning all. And may I also extend a warm welcome to all of you on the call. If we kick off with the highlights for the year, starting with our Southern African business, we saw a commendable increase in PPD growth of 1.6%, which we telegraphed to the market 12 months ago. A stronger second half of the year, which we're delighted to report on, and Pieter will go through some of that in more detail a little later on, culminating in a domestic revenue growth of 7.7%.

And from a project perspective, we've concluded the FMC transaction, and we are in the process of implementing that integration into our local operations. Internationally, Life Molecular Imaging had a very strong year, a near 100% increase in doses sold of NeuraCeq, a significant sub-licensing transaction on a product called RM2, which contributed significantly to the financial outcomes for the year, revenue growth of 181%, and a normalised EBITDA growth of nearly double the prior year.

All told, when one looks at the group, we report a revenue growth of 12.7% for the year, normalised earnings per share improvement of 48.5%. I'm sure shareholders and stakeholders will be delighted to hear that we are paying a 31 cents per share final dividend, in addition to which we will also be distributing a special dividend of 70 cents per share. That takes the total dividend and cash distribution for the year to 720 cents per share, and we will have returned to shareholders just over R10.6 billion during the course of the last financial year.

Our strategy remains unchanged, and in an effort to get to a simplified version of how we talk about it, this company going forward will emphasise growing and restructuring our existing acute network by focusing on facility optimisation and driving further activity through our existing facilities. We're well on the way to expanding our complementary services business, which are highlighted there for you in detail, and we'll report on the subcomponent parts and the success thereof later on. And underpinning both our infrastructure and our complementary services business is value-based care contracting, where we believe that we are innovative in the way that we're approaching our contracting, reimbursement, and delivery of integrated care models.

Our efficiency optimisation challenges continues, and it will probably never end, but therein lies a continued focus on operations, procurement, and a continuing focus on our corporate head office. The underpinning capabilities which we depend upon is we see our property portfolio as a significant strategic asset and strong barrier to competition or entry. Our strong balance sheet, which we'll talk about later on, we now refer to as a fortress balance sheet, which we believe is, whilst it appears under-geared, is suitably equipped for the growth opportunities that lie ahead. And our continued dependency on skilled and compassionate people, technology and clinical excellence, our doctor relationships and preferred networks continues.

All of this culminates in a business that will continue to see an emphasis on targeting improved returns on investment for shareholders. The more complex diagram, which we continue to articulate, shows the split between an international, a Southern African and a South African business. But the important point that we really want to draw investors and stakeholders' attention to is the growth in complimentary services in 2021 where we've taken to the task of increasing our complimentary offering. We've added two cyclotrons. We've added three PET-CT sites. We've added seven imaging sites and 572 renal dialysis stations since 2021, culminating in a revenue in 2024 of just over R2 billion, which is approximately double where we were in 2021.

If one looks at the South African operational review, our first port of call is to have a look at the revenue growth. And you can see the bulk of the revenue still comes from acute hospital segment, which is the backbone of the company. But again, you can see in context, the improvements in revenue from our complementary services business. There's disappointment in this side, in that our healthcare services business has had a very difficult year. And that is, we will highlight where life in Life Nkanyisa had its challenges later on in the presentation.

Shifting eyes to the right, we're trying to articulate in the top right-hand corner, our challenge around improving the occupancy across our facilities. Whilst we have continued improvement in overall occupancy, and you can see that moving from 68.2% to 69% in FY 2024, what we are trying to demonstrate is how we're dealing with the underperforming facilities. So, if one looks at FY 2023 and cast your eyes to the blue block, which shows 19% and that goes to 14% in 2024, effectively what we're saying is that in 2023, 19% of our beds had an occupancy of less than 60%, which we just feel is unsustainable.

By concentrating our efforts on improving occupancy, you will see that in FY 2024, 14% of our beds had occupancies of less than 60%. And in so doing, we want to continually drive an improvement in occupancy levels across all our beds, all our complexes, and we will continue to report to you on that basis. If we look at the acute hospitals, the improvement in occupancy moved from 67.7% to 68.7%, slightly below what we would have preferred for the full year, but demonstrable improvement in occupancy of the tough base that had already been established in 2023.

This particular slide, the normalised EBITDA margin, continues to be a debate. And we have consistently applied exactly the same definitions from one year to the next, and it is an inclusive normalised EBITDA margin which we report. The important number to see is the strong second half performance, where the margin settled at 15.9%, an improvement from the 15% in the first half of 2024, and an improvement from the 15.8% reported in the comparable period in 2023.

Our PPD growth showed good underlying growth, albeit slightly slower in the second half of the year due to higher overall occupancies in the base period. Our revenue per PPD was derived at 4.7%. We had about CPI tariff increases in January and a strong revenue for PPD growth in the second half of H2. If we look at our complementary services business, both mental health and acute rehabilitation, the disappointment is the decline in occupancies, which you see in FY 2024, moving from 73.5% down to 71.7% for the full year. But there was still a strong second half performance.

Highlight of the year was the growth in renal dialysis treatments, which one can see on a normalised basis without FMC grew by 8.3%. With the inclusion of FMC, takes us to a shade short of 400,000 treatments for the year. We also had a strong improvement in the imaging volumes that we processed and that came off the back of the Hilton Radiology acquisition in March of 2024 and the TheraMed nuclear acquisition in one June of 2023.

Life Molecular Imaging is the star of the show during the course of this year's results presentation. We've got an ambitious growth trajectory behind this business, which we articulate in the Capital Markets Day earlier in the year, and that ambitious growth strategy will be achieved through three pathways. Primarily we want to deliver increasing sales of NeuraCeq. We've spoken at length in previous presentations about the total addressable market being approximately $2.5 billion, which we think we can target a third of that as a market share for ourselves.

We also have a promising product pipeline. Everyone talks about the promising product pipeline and we did receive raised eyebrows. The RM2 transaction is an exact demonstration of what that optionality does provide to us to either out-license before commercialisation or take these products through to commercialisation as we've done with NeuraCeq. And underpinning all of this is LMI's expert R&D capabilities and the R&D services and supplies business which we think has a unique capability on the world's platform.

If one looks at the LMI revenue growth, you can see that we've included the RM2 transaction contribution of $36 million. And we will be asked questions on the repeatability of that in FY 2025, when we'll have to concede the point that that type of revenue occurrence, albeit in the ordinary course of LMI's business is episodic and it is circumstantially driven. But we did like to report that outcome during the course of this year. The underpinning volumes to cost, your [unclear] and the NeuraCeq volumes, which the commercial sales of which have effectively doubled for every half since the second half of 2023. With that, we'll move into the financial review and I'll hand you over to Pieter.

Pieter van der Westhuizen

Thank you, Pete. Good morning, everyone. Just in summary, in terms of the results overview, a few key events during the current financial year. One is we concluded the disposal of AMG and the numbers that flows onto it, we effectively excluded AMG from all the line items. Other than in your one slide, it'll talk to the profit that we've recognised on Alliance over the two years has been to a tune of about R1.8 million. Second to that is the RM2 transaction that was concluded during the year, contributed significantly at the top line and also at the earnings line of R434 million.

Due to the impact of this transaction and the underlying good performance of the business, the staff incentives have increased because the setup of our staff incentives reward employees for outperformance and that had a direct impact on margins and I'll talk to that a bit later.

So, in terms of the top line, we had strong activity drivers resulting in strong revenue growth. Revenue grew 12.7%, a big contribution from the LMI business where revenue grew 180% and SA revenue 7.7%. SA revenue has been bolstered by the FMC transaction that we have concluded in the second half of this financial year. Operational performance, the group normalised EBITDA is up 19.9%, operating profit almost 19% and RM2 contributed R580 million of a normalised EBITDA.

Earnings growth, as Pete said, on a normalised earnings per share is up almost 50%. The benefit of the Alliance transaction was that we had significant cash balance for a period of time on our balance sheet and that has resulted in interest income going up, but also due to the repayment of international debt, our total net interest expense has gone down by 66%. Net debt to EBITDA at 0.45x a real fortress balance sheet, and the return on capital employed for the year at 20%, comparable against last year of 17.6% excluding AMG. So overall, a very strong performance from a financial perspective for the year.

On the income statement, a few key things I want to highlight. Revenue, as I said, was boosted by the PPD growth of 1.6% and specifically improved revenue per PPD in the second half. NeuraCeq doses sold up 91.9% as well as for RM2 transaction contributed significantly to the top line. In terms of operating profit, 19%. And as you can see on the net finance costs, compared to last year, R180 million net compared to last year, R557 million. And the big movement is really the finance income where we had a significant cash income of R346 million of interest.

Also, during the current year, due to the RM2 transaction, there is tax losses that we haven't recognised in LMI, but because of the RM2 transaction we were able to recognise these tax losses and that is adding the impact on the effective tax rate that's reduced to 19.7%. If one looks at the Southern African business split between the halves on a segmental basis, you could clearly see on the right-hand side the strong performance in H2, where we grew revenue by 9.3%. And then at the normalised EBITDA, although it's at 2.7%, it's really the impact of two things. One is in the Healthcare Services Division, we had some of the contracts in Life Nkanyisa that came to an end. And you can see the impact of that, where we've had the normalised EBITDA of R10 million compared to in the first half of R94 million.

And then the second thing in the corporate line the R48 million loss compared to the profit of R57 million in the first half. That's due to the impact of the incentive arrangements. If one strips out the incentive arrangements it's made about a hundred basis points impact on the margin. On an earnings per share, as I said earlier, the total net gain recognised on the disposal of AMG is R1.8 billion. Earnings per share from continuing operations up 58%. If one strips out some impairments that we'd recognised during the year on some properties and some businesses that's not performing well, it’s 58.9%, close to 60%.

And then adjusting for the interest saving, what we've tried to do is to normalise the interest charge and take out the interest that we have recognised on the AMG disposal in the bank, and that had 11.8 cents impact. The deferred taxes that we've raised in LMI, we've stripped that out as well and then some small other items. So, the normalised earnings per share up 48.5%. Excluding the sub-license transaction for RM2 it’s up 15% or 14.7 cents.

On the balance sheet, as I said, a very strong balance sheet with net debt to normalised EBITDA at 0.45x. We've spent during the year capex of R1.6 billion and also concluded acquisitions of R421 million. Our capex commitment for 2025, both maintenance, infrastructure, as well as growth capex, excluding acquisitions, is set at R2.6 billion.

Debt. During the year we've repaid the international debt. So, the total debt, or gross debt, as at the end of September is R4.4 billion. You can see the bank debt of R3.2 billion and lease liabilities of R1.1 billion. Included in the lease liabilities is a specific property that we were hoping to conclude during the year, but we still haven't been able to conclude this property acquisition. We're still leasing it. That's to a value of about R400 million that's sitting in the maturing profile of 2025 on lease liabilities. We have also during the year refinanced our bank debt to extend the maturity profile and also to reduce the margins.

From a cash perspective, the cash position has been boosted by the RM2 transaction. So, free cash flow for the year is up 80% against last year at R1.8 billion. And after growth capex and investments, we've got R958 million. And you can see the disposal of AMG net of cost contributed R18.8 billion. We've applied that to repay the international debt of R8.9 billion, paid the special dividend of R8.8 billion, as well as the ordinary dividends during the year of roughly R700 million between the final dividend of the last year as well as the interim dividend during the year.

As part of the AMG transaction, we did retain funds for LMI. And due to the conclusion of the RM2 transaction, we deemed it unnecessary to retain these funds, and that's the reason for the special dividend. It's effectively repaying back to shareholders the funds that we retained for the LMI as part of the AMG transaction. That's why on the special dividend of 70 cents is roughly the R1 billion that we've retained for shareholders. And then the final dividend, what we've done is we've looked at the normalised earnings per share excluding the RM2 transaction. And that gave us 51 cents and bringing the total dividend to 50 cents. In total for the year, as Pete stated, we've repaid to shareholders R10.6 billion. I'll now hand you back to Pete in terms of the outcome.

Peter Wharton-Hood

Thank you, Pieter. In terms of how we see our Southern African prospects going forward, we have growth plans across our acute hospitals to add another 219 beds, a significant number and one of the largest numbers we've committed to in recent times. 79 of those will be built in the next financial year. And we've commenced the build of a 140-bed hospital in the Western Cape, which will take some years to complete. We do have a number of imaging transactions underway, which will further bolster our growth in our imaging services business. And we have a few more PET-CT sites planned and the build of which will commence to bolster our foray into the nuclear medicine business and nuclear diagnostics.

We will continue to drive occupancies through our existing facilities, and we've targeted a PPD growth of between 1% and 1.5%, off the back of the 1.6% PPD growth which we reported during the course of this year. We are a long way from completing our optimisation, and we will need to continue the focus on operational efficiencies. We'll have to conclude embedding the FMC business into all of our renal operations and expand the rollout of our renal dialysis integrated care programme, which we have a strong belief in will gain significant traction. We also need to pursue further asset optimisation opportunities across our existing complexes. As far as Life Molecular is concerned, it's all about driving the commercial volume growth in sales of NeuraCeq doses primarily in the United States of America. And with that, we're happy to take questions.

Operator
Thank you, sir. Ladies and gentlemen, if you'd like to ask a question, please press * and then 1 on your telephone keypad. A confirmation tone will indicate that your line is in the question queue. You may press * 2 to leave the question queue. Once again, for the benefit of other participants who have connected via the webcast, you're welcome to pose your written questions in the question box provided on your screen. The first question comes from Roy Campbell of RMB Morgan Stanley. Please go ahead.

Roy Campbell
Good morning, and congratulations, and thank you very much for the presentation this morning. Two questions from me please. The first is that the balance sheet is now particularly strong and you've had a year now of special divvies and divvies being paid out. If you can just give us some sort of sense of whether that strong balance sheet could lead to a sustainable higher dividend yield going forward or just maybe discuss the dividend? I know it's been progressive in the past, so maybe we could just talk through that a little bit. And then secondly, just on the new build in the Western Cape, if you can give us a sense of the positioning and the strategy behind the new build. Thank you.

Peter Wharton-Hood
Thank you, Roy. At a very high level, the returns back to shareholders on the basis, not in terms of a strict parameter driven policy, but on the basis of, if we don't believe we have useful funds, we return it to shareholders. In the context of an overall, or shall we say a planned level of gearing, we will also have to take into account the level of capital commitments and growth opportunities that we see within Southern Africa before we are able to give you a realistic or consistent view of how that will play out over a 36 to 48 month period.

But at this particular juncture, we are looking to make sure that shareholders are satisfied with the returns that have been generated in the business and the cash that has been returned to them, and we will get to a more precise view on that conversation in six months' time or so. In terms of the Western Cape, that forms part of Adam's strategy portfolio. Adam, will you give an update on what is going to happen in the Western Cape?

Adam Pyle

Sure. Hi, Roy. Roy, we've been very careful about building new hospitals, I think, and it's nine years since we finished the Hilton Hospital. We've had numerous opportunities to build new hospitals, but obviously in this market we are very careful in terms of where we are going to put on a greenfields new site. This particular hospital is located near the Paarl region in the Western Cape. There has been a significant growth in the population. The area is currently underserved. We did a detailed analysis in terms of the beds available. The hospital also has a cath lab, which we think is needed in that particular area, with the closest cath lab sites being Somerset West and Panorama in the northern suburbs of Cape Town. So, we are very positive about this facility. It's 140 beds, and we think it'll be finished in two years' time. And we're very optimistic about what we see as a hospital in an area which is in dire need of new beds.

Roy Campbell

Thank you. Thanks, Adam. Thanks, Pete.

Operator

At this stage, we have no further questions on the telephone lines. I will now hand over for questions from the webcast.

Adam Pyle

Okay, so there's a couple of questions we have so far from Avi Pillay [?]. So, the question I think you're referring to is around the Piramal family in terms of how the calculation works with them in terms of LMI. Pieter, I'll hand that over to you.

Pieter van der Westhuizen

I'll deal with that. So effectively, the Piramal family, when we acquired LMI from them, we've agreed with them that as we continue to grow the asset and we need to put funding in place, our funding contribution first needs to be repaid. Once the management EBITDA is positive, and management EBITDA is defined as EBITDA less capex, less IP development costs, we share 50-50 with them. And that continues up to 2028. And our share that we need to pay to them would be to a maximum value of $200 million. Hopefully that answers the question.

Adam Pyle

Okay. There's a question, Pete, for you in terms of how many doses of NeuraCeq were sold in the financial year of 2024. And there's also a question. What was the EBITDA margin for NeuraCeq?

Peter Wharton-Hood

In terms of EBITDA margin for NeuraCeq, that one we'd understand is a direct function of the pricing policy that happens for commercial doses sold in the United States. And we would rather keep that to ourselves at this particular juncture, otherwise it does give our competitors insight into our pricing strategy. So, for the moment, Adam, that stays under wraps and understandably so. In terms of the actual physical number of doses sold, we have got that reported on page 13 of the presentation, which we can refer people to. The commercial doses sold for the year were just short of 13,000 doses. The R&D doses sold were just short of 8,000. I hope that answers the question.

Adam Pyle

Okay. There's a question regarding the exposure of the Life Nkanyisa or the loss of the contracts and the reasoning behind it. The Shiluvana contract went to an independent party. It was an independent ambulance provider who won the contract for that site. And the other centres, the Witpoort and Randfontein recovery centres, we're reliant on the Gauteng Department of Social Development in terms of those contracts. You know, if they don't renew the contracts, they don't renew the contracts. We do believe that there's a real underlying need in terms of treatment, but we are reliant on the departments to keep those contracts going. We've covered the Western Cape Hospital, and I think that covers the questions we have received so far.

Adam Pyle

Thank you very much everyone for your time.

Peter Wharton-Hood

Thank you very much. Thank you.

Operator

Thank you. Ladies and gentlemen, that concludes today's event. Thank you for attending and you may now disconnect your lines.

END OF TRANSCRIPT