Conference call transcript

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ANNUAL RESULTS

Operator

Greetings and welcome to the Life Healthcare annual results presentation. At this time, all participants are in a listen-only mode. A brief question and answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press * then 0 on your telephone keypad. As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, CEO of Life Healthcare, Mr Peter Wharton-Hood. Please go ahead, sir.

Peter Wharton-Hood

Thank you, ma'am, and good morning, ladies and gentlemen. Welcome to Life Healthcare's summarised group results for the year of 2025. I'll start with an opening comment that the overall performance of the group was very strong operationally, and we had good activity growth for the 12 months under review. That's recorded in a PPD growth of 1.1%, an overall occupancy for the year of 69.7%. Pleasingly, in the second half of the year, we hit the magical 70% occupancy mark.

Strong revenue growth under the prevailing conditions of 6%, normalised earnings per share from continuing operations just above 10%, and Pieter will explain in due course the accounting complexities that have arisen from the very successful sale of LMI and how that has been included in the results. Very strong cash generation for the 12 months, 119.6% of EBITDA, and, as you've become accustomed to in the last 12 months, good dividend performance for shareholders. Our final dividend is up 12% to 56 cents per share, which, including the special dividend during the course of the year, takes us to just over 281 cents per share.

Our strategy is taking shape. Over the last five years, geographically, we've become more focused. Operationally, we've become more specific. And as we outlined at the half year, we are talking in this business about where we grow, what we drive, and what we seek to optimise. In the grow category of our strategy, we will talk extensively later on about our greenfield expansion, our brownfield expansion of existing facilities, where we will be acquiring new facilities, and the expansion of our complementary lines of business.

The improved utilisation of our facilities is ever most important for us, and we'll get to that through both the occupancy levels that we talked to and the doctor recruitment drive that we are on. And crucially in this conversation and later on, we'll talk about what we really mean by the optimisation of our asset utilisation. The unsung head office hero sits in technology and data, and we'll expand on their importance and what they've delivered in the 12 months.

From a growth perspective, greenfields, we're very excited about the 140-bed Life Paarl Valley expansion opportunity. The spades have gone into the ground, and we look forward to delivering that both for patients, doctors, and ultimately for shareholders. Our brownfield expansion opportunities during the course of the year, we delivered a further 30 ICU and high care beds, and you'll see later on how intensively occupied our ICU beds are. We also added another 39 general ward beds during the year. Two imaging sites were acquired, and we added the Life Renal Dialysis in Namibia to our footprint. From a complementary lines of business perspective, we added another 24 acute rehabilitation beds, and our two cyclotrons, both built and completed according to design, are awaiting final regulatory sign-off and the commencement of activities.

From a drive perspective, we recruited 139 specialists onto the platform during the year. Our emergency channel saw more than 655,000 visits. We added a new cath lab to our cardiac network and our funder network channel now accounts for 35% of the PPDs through the network. Our value-based care initiative continues to go from strength to strength. We have proven excellent renal ICP outcomes where the quality of clinical outcomes for patients has improved. The cost to funders has been reduced and we're now in a position to be able to expand that fairly significantly. We have an improved level of occupancy as we reported at the high level at 69.7% off the back of a very strong second half which was slightly over 70%.

The optimisation process included during the course of the year, the sale of LMI as we realised geographically and industry specifically that that wasn't a business that belonged within the portfolio set. From a local geographic perspective, we concluded the sale of Life St Mary's Private Hospital and we closed Life Isivivana Hospital. Furthermore, with detail to follow, we've identified a small number of hospitals and complementary facilities of a detailed and further asset optimisation process during the course of the next 12 months.

We've streamlined our business operations, good management of nursing and overhead costs, which grew to slightly above 5%. And from a capital allocation perspective, our ROCE is at 17.8% and I've spoken already about the dividends that we've paid.

Our strategy remains unchanged but commencing with the footprint which you're now familiar with, that is the competitive advantage of which Life Healthcare trades and which we will take significant and deliberate care of as we think further about how we operate in South Africa. Our underlying capabilities, we start with a very strong balance sheet, which we refer to as our fortress balance sheet. I am pleased to report a net debt to EBITDA of 0.77 at the balance sheet date. And for the avoidance of doubt, that includes all our IFRS lease liabilities in the calculation. An improvement in our credit rating to zaAAA off the strong cash generation during the course of the year.

From a technology and data perspective, it's an important part of our overall strategy, but must be seen in the context of a healthcare company with a South African presence. The strategic projects that we completed during the year included our network modernisation and cloud migration, but excitingly, the new hospital information system was completed. That is built and delivered but it's also been included in our enterprise architecture capability with a three year roadmap that has a very cleverly thought out modular API-led approach that allows us to integrate the best of breed approaches to technology improvements that are available.

We have initiated the digitisation of the patient journey, and we will only use the word digitised or digital once in this presentation. From a doctor relationships perspective, we've initiated a nine-year programme to train 40 surgical specialists, 35 medical specialists, and 40 sub-specialists, a total investment of R450 million over the period, but with an anticipated return back to Life Healthcare slightly over 22%. From an underlying capabilities perspective, we are a care-based organisation with care delivered by humans, so our people are particularly important to us. Employee turnover is the lowest that it's been in the last five years.

The implementation of the employee value proposition and targeted remuneration initiatives have led to a strong focus both on employee development and training. And the employee share scheme, not for executives or senior managers, enabled employees to share in the success of the company. Employees have been able to share in the special dividend payments made during the course of the year. And overall, Life Healthcare is a great place to work.

When one looks at the real purpose of the company, our clinical excellence metrics are of utmost importance with an improvement in our reported patient experience, and our bundled compliance ratio is at 97%, including the ventilator-associated pneumonia, surgical site infections, catheter-associated urinary tract infections, and central line associated bloodstream infections. That level of compliance is commendable to all of our clinicians and experts and care workers involved in the delivery of care to patients.

Moving on to the operational review for the year, we had a steady activity growth just under 1%, resulting in occupancies of 69.2% and up on the prior year. We had very high ICU occupancies of over 84%, and hence our focus on adding ICU beds, which we've added 46 over the past two years. We had good revenue per PPD growth of 5.8% off a tariff increase of 5.1%, a positive case mix impact despite a higher percentage of medical PPDs. The overall acute EBITDA margins were flat on the prior year. However, the vast majority of our acute hospitals overall had an excellent year. And I'll touch on that in a few slides.

Our complementary services include mental health, acute rehabilitation, renal dialysis, oncology, imaging, and nuclear. An overall strong revenue growth of approximately 25%, which included the renal dialysis acquisition, which is now included for 12 months versus the six months in the prior year, and two additional imaging transactions concluded during the course of the year. In mental health, we had a strong year with occupancies of 77% and PPD growth of 6%. In acute rehabilitation, we were negatively impacted during the year by a major upgrade in one of the units as well as two of the units that underperformed primarily due to poor location issues.

In our imaging business, we continue with our strategy of acquiring the non-clinical portion of imaging practices. We had good performance with underlying activity growth of over 3%. We continue to make good progress in our nuclear business with increased volumes and three PET-CTs to open in 2026. We expect the two cyclotrons to be sound or from a regulatory perspective and be operable in Q2. In renal dialysis, we had good underlying activity growth of nearly 10%, reflecting the strong underlying demand. We had good performance from the in-hospital renal units and a much-improved operational performance from the Life Renal Care units in the second half, reflecting a positive EBITDA in Life Renal Care compared to a loss in the first half.

Asset optimisation will be a key component key focus of our conversations with shareholders and analysts during the course of the next six months. A key focus within our optimisation strategy is how we strategically optimise our hospitals. Our first focus was on the top 20 hospitals. They make up the bulk of the acute hospital business and optimising their business operations and efficiencies was a key component of the initial exercise. If you look at the top 20 hospitals, they make up 65% of our acute beds. They make up two-thirds of the acute PPDs, 72% of the revenue and 84% of the acute EBITDA.

These hospitals had an excellent underlying performance during the year. Their occupancies were at 72%, PPD growth was 1.3%, revenue growth of 7.4% and EBITDA growth of 10.3%. The success of this initiative in the top 20 led us to expand the program to the top 30 hospitals. If we look at the top 30 hospitals, they account for 86% of our acute beds, 88% of the PPDs, 88% of revenue, and 96% of the EBITDA generated by the group. Again, this group of 30 hospitals had a strong operational performance during the course of the year. The top 30 hospitals recorded occupancies of 71%, PPD growth of 1.5%, revenue growth of 7.2% and an EBITDA growth of 9.6% reflecting the improved margins across these facilities. These are the hospitals that we want to be and these are the metrics that we want to be able to deliver for the complex of Life Healthcare.

If one looks at asset optimisation, this is the second area of focus which we now dig into. And these are the assets that are not performing according to our expectations for a number of reasons, including their location, and/or certain geography issues. It's a small number of facilities and if we exclude these from the overall group result, we end up with occupancies of 72% and we end up with PPD growth of 2%. This is how we want to look. Robust activity and good revenue growth.

The third area of focus is our asset optimisation in renal dialysis and the renal dialysis business including the FMC acquisition. There's been an improved performance with the increase in treatments and a shift to a positive EBITDA from a loss in H1. And the focus is now on improving the operational performance of this business and we expect to see further improvements during the forthcoming year. To provide a clearer view of how the complementary business performed outside of the FMC acquisition, we show that excluding their poor performance for the 12 months, revenue growth was at 8.8% and EBITDA growth was at 9%.

So, I think it becomes absolutely clear from a management perspective on where the work needs to be done. We know that we've got to continue to support the strong performance of the top 30 hospitals. The small number of hospitals that are underperforming require deliberate and focused attention, and there's clearly an operational requirement to improve the integration of FMC into our overall business. I now hand you over to Pieter to take you through some accounting complexities.

Pieter van der Westhuizen
Thank you, Pete. Just in terms of the Life Molecular Imaging, or LMI, transaction that was concluded during this year. Even with our best efforts to explain the transaction, we found that it's still complex and the investor community doesn't really understand it, so we're going to try again. The sale was concluded during the year, just over $750 million, of which we received an upfront payment of $355 million. Post, the transaction costs and provisions for liabilities that we have to pay the Piramal and the exiting management team, the net proceeds is roughly $200 million. And we will have potential further earn-outs of up to $400 million that we can receive up to 2034.

And in addition to that, we've retained the rights to RM2 milestone payments, as well as the right to manufacture, commercialise and distribute LMI products in Africa. From the $200 million, we've declared and paid a special dividend of R2.35 in the month of September. The complexity around this transaction is how, from an accounting perspective, we have to account for it. The net profit on the disposal is a value of R2.4 billion, but due to accounting, we need to reflect the profit and the liability for the Piramal separately.

The Piramal liability of R2.9 billion is recognised as part of continuing operations. And the reason for that is that the liability remains with Life Healthcare. We didn't sell it across to the purchaser of LMI. And hence it will sit as part of continuing operations. We have accounted for the full liability of up to $200 million. And that is effectively R2 .9 billion and it will increase slightly due to a discount factor that we need to provide. The gross profit of R5.3 billion, that sits as part of discontinued operations.

In terms of financial highlights, good revenue growth, normalised earnings per share, and it's the one year where we had to do a normalised earnings per share true to a form because of the accounting mess with the LMI transaction. It's just north of 10%. Very strong cash generation. A great effort from our credit risk teams in terms of managing our debtors. Probably one of the strongest years in the last few years that we had on debtors' collections.

Return on capital still a healthy 17.8%, slightly down against last year, and largely due to some of the big capex projects that we're investing in as we continue to see investment opportunities in South Africa to grow our footprint. And then the final dividend up 12.9%, a 35 cents per share dividend. And that will be paid in the middle of December.

On the income statement, or profit and loss, we had processed a pro forma adjustment. And the pro forma adjustment is effectively taking out the LMI liability and just showing it as part of discontinued operations effectively. So, on a continuing basis, revenue is up 6%, normalised EBITDA of 4.7%. We would have liked to get that up to 6%, and as Pete explained in the operational slides, there's really two factors that are impacting us in terms of delivering the growth and EBITDA margin that we're looking for. The Fresenius or FMC transaction in terms of underperformance of that business, and we've got plans to address that. And then the impact of the asset optimisation assets that we're in the process of fixing.

In addition to that, we have processed two large impairments to the value of R211 million. The bulk of it sits in the Fresenius business. And as we indicated at the end of last year, we did sell one of our hospitals in the Eastern Cape and we made a profit of R54 million. And that's also reflected as part of other non-trading expenses, a net number of R160 million.

From a segmental basis, I really just want to show that the complementary service continues to grow. And it's largely due to the inclusion of the Fresenius business. Last year it was only included for six months and this year it's obviously included for 12 months. Very strong at the revenue side, but you can see the impact of the underperformance in the normalised EBITDA where revenue is growing 24.7% but normalised EBITDA is only 3.6%. And as we indicated in the half year for the first six months the Fresenius business made a loss at EBITDA level. We have arrested or changed it effectively in the second six months, and it's a slight profit, but still nowhere where we want it to be.

We have for the first time also split out a bit in terms of at the corporate level. Employee cost you can see is flat against last year, and that's our efforts to manage the cost at the head office level. The other cost is up significantly at 50% but the bulk of that is related to investment in future doctor pipeline, where we contribute to various opportunities to train more doctors in the country.

Cash, really strong cash generation from operations, close to R4.6 billion, and we were really looking for the extra R2 million just to make it a round R4.6 billion but couldn't get there. 23.8% up against last year. Free cash flows still were healthy and 36.5%. And what's really pleasing is that within the last two years we've paid significant funds back to shareholders. We've paid a special dividend in the current year of R1 billion in January and a further R3.4 billion in September. So, total R4 billion. And if you look at last year, we've paid R8.8 billion. So, in the last two years, shareholders got close to R13 billion. Our ordinary dividend at R758 million compared to last year at R668 million.

Included in the capex, R1.3 billion is effectively in maintenance, replacement and infrastructure capex where we maintain our facilities and replace our equipment as needed. Growth capex of close to R450 million. And as we indicated last year, we've concluded the acquisition of a property that we leased previously in the current year and there are plans to buy one more in the next financial year. Pete will talk a bit about that as well.

Balance sheet, really strong. Net debt to EBITDA based on the bank covenants is close to 0x. But what we have done is the pyramid liability that needs to be settled in the first half of next year, the next financial year, we've treated it as a debt. If we treat it as a debt-like item, it will push our net debt to EBITDA up to close to 0.8x. And we're very comfortable at that level. Obviously, there's still a bit of room to push it up more. And we have growth opportunities that we will then utilise our balance sheet effectively to fund.

This is just how we want to show you in terms of the debt maturity. As you can see, most of our big debts are maturing at the longer dated period. We've got bank debt and notes maturing in 2027 and we will in the next six to nine months start refinancing some of this debt.

Earnings per share from continuing operations significantly down against last year, but on a pro forma basis up 2.1%. And the pro forma is really taking out the Piramal liability. Headline earnings per share up 14.7% on a pro forma basis and normalised earnings per share up at 10.1%. And the dividends, I just demonstrated to you that the total dividend for the year is up 12%. Final dividend up 12.9%. I'm going to hand you over to Pete to take you through the outlook for next year.

Peter Wharton-Hood

Thanks Pieter. I think it's clear to see that the fundamentals of our business are resilient and the substantial returns to shareholders, both in this year and the prior period, reflect our disciplined approach to capital management. Having said that, our focus is now firmly on the continuing operations, and investors now have a clear visibility into a stable, well-positioned healthcare organisation. Our strategy will be to continue our focus to grow, drive and optimise the business.

From a growth perspective, we remain excited about the opportunities in South Africa and investing therein. The 140-bed hospital is the cornerstone of our greenfield path. Our brownfield expansion will deliver a further 89 acute beds during the course of the year, another cath lab at Mount Edgecombe, a new vascular lab at Rose Park Hospital, and there'll be further expansion in our complementary services business with the delivery of a further 40 acute rehabilitation beds, 20 renal stations, another three PET-CT sites, and as we mentioned previously, the commencement of commercial production in our cyclotrons.

From an outlook perspective, we see occupancies at 70%. We're forecasting or anticipating a PPD growth of 1%, an improvement in revenue next year of 5% with the further recruitment of specialist doctors of approximately 140. Management has their work cut out in the optimisation category of business. We have to make sure that our top performing hospitals, as we evidenced earlier in the presentation, are not only maintained, but where they can be, operationally improved.

The hard work is in the cost savings that we need to deliver over the next three years. We are anticipating having to deliver R400 million worth of cost savings. And these are real cost savings of the existing cost base, not cost avoidance, real cost savings over the next three years. Our asset optimisation process is absolutely clear where the ambition statement has been laid down that for the small number of underperforming units, there's work to be done. I'm pleased to say that this is not new work. This is work that has already commenced. We have made two significant management changes. We are in the process of relocating two of the businesses that are in the incorrect places and having their licenses reassigned. And we've already closed one of the underperforming units.

Our overheads and cost of sales focus is crucial to the delivery of the savings target. And of course, the continued improvement of Life Renal Dialysis is the operational challenge at hand to basically get the integration complete and those operations correctly streamlined on an appropriate clinical basis where Life Healthcare's clinical standards are maintained so that we deliver superb clinical outcomes for patients, but also done in a way that's operationally profitable and sustainable.

We're also in the process of acquiring one of our last remaining significant hospital properties that we don't own. This will cost about R475 million. The board has given its approval. And with that in mind, our property portfolio will then be nearly 100% owned across the entire country. So, it's with a sense of optimism that we approach the 2026 year, but the daunting task of getting this job done is both a challenge for the management team and has been set into the KPIs to deliver during the course of 2026. There will be no remaining outstanding optimisation decisions by the time we speak to you at the end of the 2026 year, and we'll make sure that we deliver on the promises to take this business to the next level. With that, I conclude our presentation and we're happy to take questions.

Operator

Thank you, sir. We will now be conducting a question-and-answer session. If you would like to ask a question, please press * then 1 on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press * and then 2 if you would like to remove your question from the queue. For those on the webcast, if you would like to ask a question, please do so by submitting it via the text box on the webcast. Again, for those on the conference, if you would like to ask a question, please press * and then 1 now. The first question we have comes from Alex Comer of JP Morgan. Please go ahead.

Alex Comer

Hello. A couple of questions from me. Just on the R400 million of cost savings, how does that play out over the next few years, i.e., what do we see this year, what do we see next year, what do you see the year after? That's the first question. Also, you talked about the underperforming assets. If my maths is right, the businesses or hospitals that are outside your top 30 have got an EBITDA margin of around about 5%. So, what particularly are you going to try and do to lift that? You talked about moving facilities. I wouldn't have thought that was that easy. That's the second question. And then you haven't given any margin guidance for the year. I just wondered whether you'd like to give us some indications on that. And then also, clearly CPI is pretty low this year. You've got revenue growth at 5%. Wage growth last year was around that level. How confident are you about being able to keep wage inflation below revenue growth? Thanks.

Peter Wharton-Hood

Thanks. Let me take the asset optimisation challenge first. Your maths is about right. We, for obvious reasons, have not specifically identified the individual units because that wouldn't be fair play. It's our job of work to fix and not to cause disruption to continuing activities. The relocation of certain of the facilities is easier than you think. It's a reassignment of licenses from one of our facilities. It's effectively a consolidation of license and beds into existing facilities. It's not the construction of new ones. So, apologies if I didn't explain that correctly.

So, the confidence with which we see our ability to be able to optimise those assets break themselves into a couple of categories. There are those where the relocation makes sense or the consolidation makes sense. The next step up is to see whether or not we can trade our way into a more profitable set of circumstances in the location. And that's typically designed around the recruitment of sub-specialties into the units that would be both revenue -generative and consistent with the levels of acuity and disease burden in the region, i.e., generate more revenue.

The third step from there is a context of whether or not the business needs to be or can be right-sized. So, if it's under occupancy levels, and we've said that most of these are under 60%, can we right-size the hospital, cut costs, and appropriately run a margin-accretive business, but at a smaller scale? So, those are the immediate management challenges that need to be addressed. And as I said, none of those are necessarily easy to execute, but we don't want decision processes left hanging in the wind for the next 12 months. I will leave the balance of your questions for Pieter to answer, the buckets on the R400 million and the CPI.

Pieter van der Westhuizen

So, in terms of the R400 million cost saving opportunities, we are targeting between 20% to 25% in the first year of that value. And then depending on how quickly we can then operationalise the process that we're implementing, how quickly we can deliver on the R400 million. Just to elaborate on how we look at it, we've got the baseline effectively as 2025. And we are targeting real cost saving opportunities. Not in terms of things that we potentially will not be able to do from a cost. We are really looking at taking costs out of our base. And there are a number of projects on the go on that.

In terms of the CPI, in terms of getting labour inflation below CPI, obviously it's a challenge that we have every single year. And the real thing is, can we get our tariffs? And the team is busy with the final tariff negotiations. And I think we will get close to getting labour inflation through the tariff. In this environment, it is going to be tough.

Peter Wharton-Hood
I think the last question that you asked was more guidance around margin. It will be publicly viewable that margin improvement is on the executive scorecards and how we will be compensated during the course of the year. And you'll see those thresholds quite clearly articulated, published in the annual financial statements. But yes, it's levels of margin improvement, not just in the underperforming units. We're expecting to deliver margin improvement across the top performing units as well. That guidance will become clearer a little bit later.

Alex Comer
Thank you very much.

Operator
Thank you, sir. At this stage, there are no further questions on the conference. I will now hand over to management for webcast questions. Please go ahead.

Pieter van der Westhuizen
Thank you. There are a couple of questions in terms of just elaborate what we mean with initiation of the digitisation of the patient journey.

Peter Wharton-Hood
I think in that context it starts from how we have digitised the patient administration or forms and includes a roadmap all the way through to the digitisation of patient data in patient files and claims to the medical aids.

Pieter van der Westhuizen
And then there's a couple of questions just in terms of we guided at the market in terms of the 1.5% PPD growth and we're talking at the acute side of 0.9% PPD growth. The 1.5% growth is in total, so it does include the complementary services, the acute rehabilitation and mental health beds. And hence the 1.1% growth relative to the 1.5% is what we guided. The key impact on us is we had a couple of hospitals where we had a large doctor that contributed significantly to those specific facilities that left the hospitals for a variety of reasons. That had a negative impact. We also did see a bit of a slower winter season than what we normally have. But there's nothing other than that, other than the asset optimisation assets that we will focus on. As we said, our core business that did really, really well still attracted the 70% occupancy for the second half.

And then there's just a couple of questions in terms of the margin guidance. And then in terms of the renal dialysis margin going forward after we've corrected the Fresenius business, effectively, if we look at last year, we had mid to high teens in terms of a margin on the renal business. In the current year, the overall renal business is single digit and we are aiming to get it back to the 15% to 18% EBITDA margin.

Peter Wharton-Hood

And I think it's fair to concede that the operational complexity of integrating the acquisition was more difficult than we anticipated when we signed the deal, and that has hurt us. But the underlying business is strong. The renal ICP is showing really good perspective results, as I said, both clinically and from a funder perspective. So, we remain positive on the outlook for that business, but the operational challenges need to be addressed. And as we saw in the second half, we were getting the traction right because the second half of the year's performance was better than the first. But the job is not done.

Pieter van der Westhuizen

And then the last question is just a clarification in terms of is the LMI accounting adjustments excluded from normalised earnings per share? Yes, it is. The rest of the questions I think are addressed in our presentation and in the financial statements that's published on our website. I think we'll leave it there.

Peter Wharton-Hood

And sorry Alex, the guidance as to where management is being incentivised around margin improvements is actually in the Rem report.

Pieter van der Westhuizen

Thank you so much operator.

Peter Wharton-Hood

Thank you. Thank you, ladies and gentlemen. Thank you.

Operator

Thank you. Ladies and gentlemen, that concludes today's conference. Thank you for joining us. You may now disconnect your lines.

END OF TRANSCRIPT