



Mediclinic 2019 Full Year Results Presentation

Thursday, 23rd May 2019

Operator: Welcome to your conference call. Ladies and gentlemen, thank you for standing by. Welcome to today's Mediclinic International 2019 Full Year Results Presentation. At this time all participants are in a listen-only mode. There will be a presentation followed by a question and answer session, at which time if you wish to ask a question you will need to press star and one on your telephone and wait for your name to be announced. I must advise you that this conference is being recorded today, Thursday, 23rd May 2019. I would now like to hand the conference over to your speaker today, Dr Ronnie Van Der Merwe, CEO, Mediclinic International. Please go ahead, sir.

Introduction

Dr Ronnie Van Der Merwe

CEO, Mediclinic International Plc

Welcome

Thank you, operator. Good morning and welcome to Mediclinic International 2019 Full Year Results audio webcast. I'm Ronnie Van Der Merwe, Group CEO and I'm joined today by Jurgens Myburgh, Group CFO and James Arnold, Head of Investor Relations. Thank you very much for taking time to join us this morning, following the release of our – the release of our financial results announcement in London, as well as on the Johannesburg stock exchanges.

Agenda

I'm going to take you through an introduction and some operational summaries across the Group's three divisions and then ask Jurgens to unpack the numbers in detail. After that I'll spend a few minutes on the strategic positioning of Mediclinic as well as the way forward.

Financial Summary

If we can maybe refer to the first page, the financial summary page. I would like to just highlight a few points. It's almost a year since I took over as CEO of the Group and it's been a busy year with our senior executive team spending a lot of time traveling overseas to ensure the divisional teams have the necessary support, with clear direction and long-term strategic focus in mind. There have been – there've clearly been some challenges which we faced but we've also addressed them and delivered quite a lot. As a Group we've come together and supported the teams across the divisions to deliver on a number of strategic projects and goals.

Together with the divisions, the Clinical, Procurement, ICT, Human Resources and Analytics teams that sit across the Group have delivered excellent results. Together they've improved performance, they aligned structures and processes across their organisation, built new, long-term relationships, negotiated important contracts and most significantly enabled the divisions to focus their time and effort in addressing the needs of their patients, doctors, funders, as well as regulators in the respective markets in which we operate.

These efforts culminated in Group year-end numbers which are very much in line with expectations as well as with the details we disclosed in last month's trading update. They clearly reflect the significant impact of regulatory challenges on the Hirslanden division. But Jurgens will take you through the financial results in detail shortly. Meanwhile I'm pleased to

report that trading so far in the New Year is in line with expectations across all three divisions and guidance for financial year 2020 remains unchanged.

Operational Summary

On the next page, operational summary page, the operational performance across the three divisions was good this year despite the various macroeconomic, regulatory and competitive environments we experienced across our different divisions. We have a lot to be proud of and the teams have worked very hard to deliver on our objectives.

Adapting Hirslanden to Swiss healthcare requirements

In Hirslanden the focus has been to adapt the business to the changing regulatory environment in Switzerland. An area which has been significantly impacting all public and private healthcare providers. We started to see the benefits from the actions we have taken concerning the performance of Hirslanden in the second half of the year. As a result, we met our 16% EBITDA margin guidance. I expect the momentum from the various initiatives to continue into the new financial year as cost savings, efficiencies and revenue opportunities are the delivered and the final phase of outmigration of care regulatory changes works its way through the business in the first nine months of financial year 2020.

Continued deliver of operational excellence

In Southern Africa continued excellent operational delivery and cost management meant that the EBITDA margin was maintained at recent levels. The focus for Mediclinic Southern Africa remains the delivery of value-based care across acute hospital and day case clinic environment. It is in this area, the latter area of day case clinics and other – in other areas across the continuum of care where we see potential for growth opportunities. And we will build on our own internal knowledge as well as that of Intercare, which we are invested in, to capitalise on these opportunities over the coming years.

Strategy yielding a period of sustained growth

At Mediclinic Middle East the operational highlight was the successful opening of the 182-bed Mediclinic Parkview Hospital in southern side of Dubai, which has performed well. Our strong brand and reputation for clinical excellence in that region provides me with confidence that Mediclinic Parkview will be a great success within our Middle East portfolio. Supporting our sustained growth in the region are the projects at Mediclinic [Inaudible] Hospital and Mediclinic Airport Road Hospital in Abu Dhabi, which remain on track for completion over the next 12 months. And also the continued business and operational improvements following the acquisition of Al Noor in 2016.

Operational Review

Dr Ronnie Van Der Merwe

CEO, Mediclinic International Plc

Operations

Hirslanden

I'm going to spend a bit of time on Hirslanden itself, on the – on the next page. Looking at the operations of Hirslanden it's safe to say we are in a different place to where we were

when we presented our half year results in November of last year. At that point we were in the middle of a rapidly-changing regulatory environment with many uncertainties to deal with. Our senior executive team have worked tirelessly with the Hirslanden management team to develop and implement the necessary plans to adapt the business to the changing regulatory environment. As you know, these changes have been driven by tariff reductions and the outmigration of care. The effects of the latter are most clearly seen in the paragraph on – in not the paragraph, the graph on the right where successful back-filling of spare capacity created by outmigration has come from the general insured population.

There's still more for us to do but today we're in a much better place with more clarity as to the impacts of these changes on our business and more importantly having the right action plans in place to deal with it. We gathered the combined resources from across the whole Group to work with the new management team in Switzerland over the recent months, which delivered operational improvements and I know that the Hirslanden team, as well as the rest of us, are energised and focused on delivering the necessary changes that will ensure we maintain our leading market position in Switzerland.

Swiss Regulatory Environment

Significant tariff reductions

On the next slide, the regulation in Switzerland, the two specific regulatory changes that I've already mentioned, TarMed and outmigration are by now well-known to you all. These have played out as we described back at the half year results and we have more clarity in the future performance of the business. I just want to remind you that the significant impact of the TarMed tariff reductions is now in the base, having been implemented on 1st January 2018. The outmigration of care changes started to have an impact on Hirslanden's financial performance back in July 2017 already. We are now in the final phases of this change and with around half of our remaining hospitals that had not been impacted by outmigration, now being affected in the first nine months of financial year 2020 on a comparative basis. The effect Hirslanden will be fully in the base from 1st January 2020.

Hirslanden

Benefitted from actions taken

On the next page on benefits from actions taken, at the half year results we presented a list of near-term actions which we were taking to adapt to the regulatory changes. And I'm very pleased with the delivery by the team in Switzerland. As you can see from this slide we achieved much in a short space of time. On the top line we were able to continue to attract patients to back-fill the spare capacity created by outmigration. This was supported by a net increase in doctors partnering with Hirslanden during this year. Attracting and retaining doctors and staff is supported by our leading clinical reputation in Switzerland as demonstrated by our excellent IQM results. Also our improved employee engagement, despite the challenging environment, demonstrates that we have maintained our standing as employer of choice.

Achieving our 16% EBITDA margin was the result of the relentless focus on cost management and efficiencies as we adapt the business model in Switzerland. And deliver appropriate care settings for the growing day case and outpatient activities. Hirslanden's procurement cooperation agreement with Sana in Germany, combined with the efforts of our Group

Procurement function, was a very important development and will continue to create value as we move forward.

We opened our second day case clinic at the main train station in Luzern. That in addition to the Zurich day case clinic we have at [Inaudible] and we will open two more in the coming year. Across nearly all our other hospitals we have implemented in-house day case optimisation plans which allow the hospitals to improve the profitability of carrying out this work without the requirements for additional capacity. The knowledge and experience across the Group in this field has helped to drive this project forward and we will benefit from this work in future as day case surgery activities increase.

Infrastructure investment in day case – in the day case setting isn't as capital-intensive as in the acute hospital environment. This, combined with our disciplined approach to capital allocation and appropriately adjusting the maintenance capital expenditure spent in Switzerland for the new environment, gave us the ability to reduce capex by 28% compared to original budget. As a result, we delivered strong free cash flow generation, something we will remain focused on in future.

Medium-term actions

On the next page – on the next page we talk about medium-term actions. So on to the medium-term actions that will support Hirslanden's operating performance. Much of what I've described already will benefit the division over the coming years but it's important to highlight a few additional points. Firstly, in support of our local team I've become personally involved in our engagement with government and will continue to do so. The purpose of this engagement is to construct a dialogue, to understand government's perspective on how we can add additional value to the Swiss healthcare sector and to highlight the value we already bring through superior clinical outcomes, high levels of patient experience and the efficiencies in doing so.

Secondly, the multi-year Hirslanden 2020 business transformation projects annual investment levels are now peaking. This is a complex project that has required significant investment over the years but will deliver significant cost savings and operational efficiencies in the coming years. Deliverables include a standardised electronic health record and back office business application installation throughout the entire Hirslanden. This enables centralised back office functions, a significant reduction in ICT cost and complexity, as well as the ability to scale up the organisation if and when necessary.

Operations

Southern Africa

That concludes comments on Switzerland, if we can carry on to Southern Africa on the next page. Once again, excellent operational delivery and cost management from the team there to deliver stable margins in what is a challenging macro environment. We also leverage our brand and strong market position across all the provinces in South Africa and continue to build on the support of our respected doctors and nurses to deliver high quality care. Our investment in improving clinical performance is showing positive results and we will continue to strengthen our structures and processes to enable our improvement efforts.

It's also worth noting that we've been heavily involved in all the various engagements regarding the Health Market Enquiry and the National Health Insurance processes. We are –

both are still ongoing with reports expected to be published later this year. We are also participating in other engagements with government in order to jointly formulate practical solutions to the many challenges facing the healthcare industry in South Africa.

Investing across the continuum of care

On the next page, investing across the continuum of care, there are opportunities for Mediclinic to further expand in Southern Africa across the continuum of care. Our unique strategy of co-locating our day case clinics with our biggest and busiest hospitals is a success based on the feedback we received from patients, doctors and insurers. It also allows us to free-up much needed bed capacity in the main hospitals for higher acuity work. But not all hospitals will end up with co-located day case clinics. In this we are following a similar approach as in Hirslanden by streamlining the day case processes to mirror the efficiencies reached in freestanding day case clinics.

The advantage of this approach is that where appropriate we can better utilise the asset base we already have. We currently have fully functioning, co-located day case clinics at Limpopo, [Inaudible], Newcastle, [Inaudible] and Welkom, as well as four Intercare facilities. In addition, we will open new facilities at Nelspruit and [Inaudible] this year, followed by four more in financial year 2021. Together, these new facilities will add 13 hospitals and 109 beds to our portfolio.

But it's not just day case clinics where we are investing in and where further opportunities lie. And as you can see from the diagram on the right, other related business opportunities are actively being reviewed as well. Building on the work already done in the Middle East and Switzerland, we are also considering an electronic health record and digital platform in Southern Africa. And we expect to make an investment decision later this year. And that concludes comments about Southern Africa.

Operations

Middle East

On to the Middle East operations on the next page. Despite the current macro-economic and competition environment, the broader Middle East region presents a huge opportunity for Mediclinic to deliver world class quality of care and excellent patient experience in different care settings and with transparent, sustainable value-based care at its core. That's why we continue to invest in selective projects in Dubai and Abu Dhabi. The investment we made in the business and operational changes in Abu Dhabi are starting to come through and will provide steady future growth. Mediclinic Airport Road, for example, is performing well since we changed our market segment strategy at the beginning of last year. The graph on the right illustrates how the mix in Abu Dhabi has changed.

But the highlight of this year in the Middle East has been the successful commissioning of a new Mediclinic Parkview Hospital. Since the end of September the hospital has been rapidly ramping up its activities and has already established a strong reputation in this area. The financial performance of the facility's exceeding our original business case.

Middle East growth drivers

On to the Middle East growth drivers on the next page, the gradual long-term growth of Mediclinic is supported by a number of strategic investments and operational measures. As

you can see on the right-hand side, two new projects are on track to be delivered in the next 12 months and those are the renovation of the ground and mezzanine floors at Mediclinic Al Noor Hospital, as well as the 100-bed expansion and the comprehensive cancer centre at Mediclinic Airport Road Hospital. Together these two projects, along with the continued ramp-up of Mediclinic Parkview Hospital, will give positive momentum to our Middle East business.

Across the continuum of care we actively look at the investment opportunities that can enhance Mediclinic's presence in the region. This year we invested in the Bourn Hall in vitro fertility business and two additional mall-based, day case and outpatient clinics. And it's possible that given the current macro-economic environment small consolidation opportunities may present themselves or may naturally take some capacity out of the market over there.

Operationally our focus is to actively increase the acuity of our inpatient mix, to increase the occupancy within the existing facilities and the new expansion projects, and to increase our inpatient activities, which is particularly relevant in Abu Dhabi where around 75% of our revenue is generated through outpatient activities. This will only be possible by building a strong clinical reputation, brand and trust in our inpatient services in the Abu Dhabi region. I'm confident that these growth drivers will support Mediclinic Middle East as it continues to grow, targeting a 20% EBITDA margin from the current 13%.

So with that operational review done, I'm now going to hand over to Jurgens to take you through the numbers in detail. Thank you, Jurgens.

Financial Review

Jurgens Myburgh

CFO, Mediclinic International Plc

Adjusted Group

Income statement

Thank you very much Ronnie, and good morning everyone. Starting with the Group income statement, all on an adjusted basis, Group revenue was up 2% year-on-year and up 4% in constant currency. The reasonable growth in the Southern Africa and Middle East divisions was in contrast to the more modest growth in Switzerland which was impacted by the outmigration of care and tariff reductions, that we've spoken about and that Ronnie highlighted as well.

EBITDA was down 4% as a direct result of the revenue impact in Switzerland, which was only partially offset by the benefits of the actions that we took, especially in the second half of the year, combined with stable margins in Southern Africa and the Middle East. Operating profit then was down 11% to £330 million. Depreciation and amortisation is up 12% to £163 million, in line with our continued investment in the business, like Mediclinic Parkview in Dubai, supporting future growth, enhancing patient experience and clinical quality, and also driving efficiencies in the business.

The net finance cost line benefitted from the refinancing on more attractive terms in all three divisions during the current and also the prior financial year. Excluding exceptional non-

deductible charges, the normalised effective tax rate was 20.4%, which is more or less in line with the prior year, if not slightly lower, due to a lower average tax rate in Switzerland.

Income from associates, as you know, is largely from Spire. You may have seen Spire reporting last week that they had had a good start to the year and were on track to meet market expectations for the full year. And so then adjusted earnings, down 10% to £198 million, with adjusted earnings per share also down 10% to 26.9 pence, in line with market expectations. The proposed final dividend per share is 4.7 pence, resulting in a total dividend for the year of 7.9 pence, which is the same as last year.

Group Revenue

Analysis

Over the page on Group revenue analysis, reporting currency was a net headwind across the portfolio for the year. You can find the details and the rates in the appendix. With that in mind, just looking at revenues then for Hirslanden we had modest revenue growth of 2.5% in CHF which was attributable to the acquisition of both Les Grangettes, which was included for six months, and the base effect of the acquisition of Linde, which was only in for nine months in the prior financial year. Revenue per admission declined by 2% which impacted revenue and margins.

In Southern Africa revenue increased by 5% in ZAR terms in a continued weak macro-economic and flat private medical insurance membership environment, which Ronnie described earlier as well. Bed days sold increased by 0.6% but if you adjust out the acquisition of Intercare bed days sold were down 0.1%, indicating softer trading in the second half of the financial year.

In the Middle East revenue was up 7% in AED, despite a lack of tariff increases in calendar years 2018 and 2019. After adjusting for the impact of IFRS 15 that reclassified these allowances to revenue. The second half increase of 9% included the benefit from the new Parkview Hospital for just about six months.

Adjusted EBITDA

Analysis

Over the slide on EBITDA, for Hirslanden the effect of the TarMed tariff is actually lower average revenue per admission, was partially offset by the cost savings and efficiency gains that we spoke about at the half year as well. With adjusted EBITDA down 10.3% in CHF. Southern Africa's adjusted EBITDA increased by 4.3% in ZAR driven by the strong operational performance and cost management for which the team is well-known. Including the loss associated with the start-up of the Parkview Hospital, adjusted EBITDA in the Middle East increased by 7% in AED.

Group

Balance sheet summary

Over the page then on the balance sheet, here currency largely increased the reported numbers relative to local currency, except for Southern Africa, which declined quite materially. The fixed asset base includes an increase of £232 million on capital projects and fixed asset additions as well as the acquisition of Les Grangettes and other small purchases which added approximately £152 million of assets including goodwill. In line with the

requirements if IFRS non-financial assets are considered for impairment when indicators are identified at an individual CGU level. In Switzerland the changes in the market and regulatory environment continued to effect some of our key inputs to the review and gave rise to impairment charges recorded against properties and trade names at the half year of £43 million and £55 million respectively. And then an additionally £143 million charge against properties at year end. The impairment charges are non-cash and excluded from adjusted earnings and remain sensitive to reasonably possible changes and key assumptions, including cash flow projections, long-term growth and also the discount rates. At the half year an impairment charge of £164 million was recorded against the carrying value of Spire with no further impairment charge at year end.

The Group continues to follow a strategy of responsible leverage which we've spoken about, largely using the asset base to secure cost-efficient borrowings. These are incurred in the same currency as the underlying cash flows of the divisions to avoid FX fluctuation risks and that is ring-fenced with no cost guarantees or cost defaults through one division to another. We successfully refinanced the Southern African and Middle East borrowings in August and September of this financial year, or last calendar year. As Hirslanden has the highest value of fixed assets and lowest cost of borrowing across the Group we do follow the deliberate strategy of raising the majority of our funding in Switzerland.

On a Group basis leverage at the end of the period was at 3.5x EBITDA and we maintain sufficient cash flow generation and financing flexibility across the entire Group to fund continued investment in the business and incremental growth, all whilst maintaining headroom to our covenants. In Switzerland we've actively negotiated a favourable adjustment to the covenants to reflect the impact of recent regulatory changes on the profitability of the business, providing us with material headroom.

Cash flow summary

Over the page to cash flows, cash flow generation is, and has always been, a key focus area across the Group. We've continued to generate strong operating cash flows with conversion – converting adjusted EBITDA to cash from operations at 91%. With all three operating divisions in line with our expectation. We do continue to seek improved conversion in the Middle East through reducing debtor days. In line with our disciplined approach to returns oriented capital allocation, maintenance capex as a percentage of revenue was 2.9% this financial year. Expansion capex and acquisitions for the year totalled approximately £220 million reflecting an active decision to invest in future growth opportunities. As I referenced earlier, Parkway being significant amongst those.

Capital expenditure

Over the page on capex, in addition to ongoing routine maintenance currently the Group's capex in this and also the next financial year is largely driven by expansion in the Middle East, upgrades in Southern Africa and investment in system architecture to support ongoing efficiency gains and digitisation in Hirslanden, as well as in the Middle East. The FY20 capex budget is expected to reduce by 11% to £207 million. During the year Hirslanden invested a total of CHF 95 million in maintenance and expansion capex, aligning the division's investment plans with the changing Swiss healthcare environment. Mediclinic Southern Africa continues to expand across the continuum of care with, as Ronnie mentioned earlier, six day

case clinics scheduled for construction in the next two financial years and the opening of the new [Inaudible] Hospital later this year.

In FY19 the Middle East division spent almost half of its total capex on the new Parkview Hospital with further expansion capex invested into the chronic [inaudible] work implementation. With the Parkview Hospital now opened it's expected that expansion capex will be materially lower in the coming years, despite ongoing investment in Airport Road and Al Noor hospitals, which support future growth, and also the EHR project. We currently expect the levels of expansion capex to trend down further in FY21 as projects in our current pipeline are completed and we focus on growing the capacity we've – growing into the capacity we've got.

As the Group's cyclical and project capital expenditure requirements mature we will continually evaluate our capital allocation model with consideration to other uses including debt amortisation and also returns to shareholders.

Hirslanden

Financial overview

And then looking at each of the divisions in turn, starting with Hirslanden. As Ronnie mentioned earlier, following the regulatory impacts affecting the first half performance we've benefitted in the second half from actions taken to adapt the business in Switzerland. Excluding the contributions from Linde and Grangettes, revenue was down 2% year-over-year. Outpatient revenues were marginally down as the TarMed tariff was largely offset by volume increases and small acquisitions. In the inpatient environment volumes were flat, indicating that we were able to [inaudible] the volume losses we had due to outmigration. However, the average revenue per case was down 2%, predominantly due to the increased proportion of general insured patients within the mix.

On the cost side we were CHF 21 million below budget due to the cost savings and personnel efficiencies that we also spoke about at half year. This was marginally behind our target at half year but still a good achievement from the team in the short space of time. And there is good momentum on these projects continuing in the new financial year as well. Underlying costs increased by around 1% in line with total activity, which implies that the increased head office spend due to HIT2020 integration costs and inflationary increases were offset by cost savings that we spoke about.

After including Les Grangettes then the result was that adjusted EBITDA declined 10% to CHF 285 million with a second half margin of 17.6% supported by seasonality and actions taken to moderate the financial impact of the regulatory changes in the second half of the year. Depreciation and amortisation was up 13% to CHF 124 million with the acquisition of Linde and Grangettes and also capitalised HIT2020 project costs, as well as the amortisation of trade names, contributed to this charge. The refinance of the – of the Hirslanden debt facilities reduced the annualised finance cost by approximately CHF 20 million and these savings are now in the base. The debt remains unhedged, a position that is continually monitored.

Cash conversion at 97% was in line with our expectations. We do expect to continue the rollout of HIT2020 to potentially have an effect on cash conversion, particularly in the process-intensive revenue cycle management environment, but are focused on reducing this

to the minimum. As discussed earlier, we reduced maintenance expansion capex to CHF 95 million to align the operating cash flow generation of the business. As a result the free cash flow after debt servicing, which include interest at CHF 25 million and a scheduled annual amortisation of CHF 50 million, was around CHF 70 million.

On the guidance then in FY20 Hirslanden expects modest revenue growth, reflecting the continued integration of Clinique des Grangettes. Under the current regulatory environment Hirslanden will be impacted by a further nine months comparable effect in FY20 from the national outmigration of [inaudible] programme that was implemented from 1st January 2019, which we anticipate will have a similar impact to the current year on inpatient revenues. The anticipated cost management and efficiency savings are likely to be more than offset by reduction in tariffs and the operational effects of outmigration, with the FY20 EBITDA margin expected to be around 15% with the inclusion of Les Grangettes. Over the medium-term and assuming no further regulatory changes are implemented, the operating performance is expected to be supported by the benefits from the Hirslanden 2020 strategic project and structural efficiencies being implemented in the division, which Ronnie also referenced earlier.

Mediclinic Southern Africa

Financial review

Turning then to Southern Africa where revenue increased by 5% to just short of ZAR 16 million with the continued weak macro-economic environment and flat private medical insurance membership. Bed days sold, as I said earlier, increased by 0.6% and average revenue per bed day increased by 4.3%, more or less in line with inflation. The revenue contribution in this financial year from the majority investment in the Intercare Group of four day case clinics, four sub-acute hospitals and one specialist hospital for four months was ZAR 60 million. Underlying bed days sold, excluding Intercare, were down 0.1% on the prior year. Adjusted EBITDA increased by 4% to ZAR 3.3 billion, resulting in an adjusted EBITDA of 21.2% broadly in line with the previous years.

Depreciation and amortisation increased by 12%, mainly resulting from recent major facility upgrades as well as the additional Intercare in the second half. Some increase is still expected in FY20 as we go through the current upgrade cycle. Net finance costs decreased by 2% due to lower rates and interest received on cash balances. With rates now back up that will be reflected in next year's numbers. The division converted 96% of adjusted EBITDA into cash generated from operations.

And then onto the guidance for FY20, Mediclinic Southern Africa expects volume growth of around 1% which largely reflects the additional capacity from Intercare day case clinics that were consolidated from December last year. In line with our strategic objectives and continued focus on improving clinical quality and patient experience, further investment will be made in employees and information communication technology during this financial year. This, together with the expected lower margin contribution from Intercare and the ramp-up of the new Mediclinic [Inaudible] facility which we'll rent, is anticipated to result in an EBITDA margin of around 20%.

Mediclinic Middle East*Financial review*

And then finally on to the Middle East, in FY19 revenue was up 7% after adjusting for the impact of IFRS 15 in the base year, reflecting a gradual improvement over the last year. Inpatient and outpatient volumes were up 5% and 2% respectively. In Abu Dhabi [Inaudible] and enhanced insurance volumes combined increased during the year by 14% and 10% for inpatients and outpatients respectively. While the basic insured volumes continued to reduce consistent with our expectation. As Ronnie referenced, Parkview Hospital opened in September 2018 and has performed well, contributing AED 88 million in the second six months of the year. Excluding this contribution from Parkview Mediclinic Middle East revenue growth was around 4%.

Adjusted EBITDA increased by 7% to AED 425 million with the adjusted EBITDA margin at 13%. Excluding the loss associated with the start-up of Parkview, adjusted EBITDA increased by 13% with the margin at 14%. Given the performance of Parkview in the second half of the year I expect the hospital to be breaking even in FY20, which is ahead of the original business case.

Depreciation and amortisation increased by 15% to AED 171 million, mainly due to the Parkview Hospital and also the acquisition of the Majid Al Futtaim Clinics. We expect the phased opening of Parkview to continue to increase D&A next year as well. Net finance costs was down marginally benefitting from the refinancing done half way through the year. Due to the increased borrowings to fund expansion a run rate net finance cost for the division are expected to be between AED 50 million and AED 60 million. We've also now ceased capitalising the interest on the borrowing costs of Parkview which accounts for this increase. The division converted 70% of adjusted EBITDA in to cash generated from operations. This was impacted by the late receipt from major insurer and also an increase in VAT receivables. We continue to seek to improve cash conversion in the Middle East, as I said earlier, through reducing our debtor days.

On to the guidance, in FY20 the Middle East division is expected to deliver revenue growth of around 10%, which includes the continued ramp-up of the new Parkview Hospital. A gradual improvement in the EBITDA margin is expected in FY20 to around 14%, incorporating the ramp-up of Parkview and investment in the hospital expansion and new cancer centre at Airport Road, which is scheduled to open in the first half of calendar year 2020. The division continues to target an EBITDA margin of around 20%.

And then finally before I hand back to Ronnie, in the appendix you'll see reference to the FY20 guidance on an IFRS 16 basis, including the expected impact on divisional EBITDA margins, depreciation and finance costs. Due to our preference of property ownership the impact of this accounting change is not that material to our numbers. Everything I've described to you today has been on a pre-IFRS 16 basis but we won't be restating our FY19 numbers to reflect the accounting change, which is effective from the start of our FY20 financial year. On that technical note, I'll hand back to Ronnie.

Group Summary

Dr Ronnie Van Der Merwe
CEO, Mediclinic International Plc

Strong Geographic Footprint and diversified service offering

Thank you, Jurgens. I would like to make a couple of comments in terms of our strategy and positioning before we hand over for Q&A. So on page 27, strong geographic footprint, I'd like to point out that Mediclinic benefits from a – benefits from a unique geographic footprint and a diversified service offering. Over the last decade we've developed valuable competencies, exceptional expertise and leading positions across our geographies. We are no longer just an acute care hospital provider. As you can see, our diversified revenue streams are growing as we invest, adapt and expand across the continuum of healthcare services. That puts us in a position to further exploit the opportunities in current and future territories as they arise.

Uniquely Positioned to Leverage Scale and Unlock Value

On to the next page, uniquely positioned page, we follow unified focus to unlock operational and financial benefits across the Group. This is coordinated through Group-wide initiatives, whether it's supporting the Middle East team as they prepared for DRGs in Dubai or the introduction of clinical quality initiatives, both of which our team in Hirslanden have extensive knowledge. We transport competencies across the organisation to become more competitive. Something, as I've already mentioned, has clearly benefitted Hirslanden – benefitted Hirslanden in the second half of this year. We make best use of our scale to get optimal procurement and contract prices and we lower our cost base through sharing of resources through shared services and centres of excellence, which are often ZAR-denominated functions. And as Jurgens has already referred to the benefits of our Group funding structure, which provides financial flexibility for us.

Global Megatrends Influencing Healthcare Delivery

And then on to the next page on global megatrends, a couple of words on that. A series of megatrends are currently at work in reshaping the global healthcare landscape. Demographic and disease profile changes, the rise of healthcare consumerism, advances in medical technology and digital health are all changing the way healthcare is delivered and offer many opportunities for us. Our digital and ICT investments are one of the many responses we are making to these changing trends, in addition to adapting our delivery model, as outmigration and other trends continue.

Strategic Goals

Supporting long-term success

Then the second last page on our strategic goals, in order to take advantage of these megatrends and to offer solutions to address affordability of healthcare we focus on five long-term and three supportive goals to enhance the quality of life of our patients and their families. Improving our value proposition requires improved clinical outcomes and the client experience, as well as a significant reduction in cost. Integration across the continuum of care is all about offering treatments in care settings which we did not traditionally focus on. The objective is to offer different care settings but a seamless transition between them. Digitalisation provides the opportunity to significantly transform the way treatments are

delivered. The cost associated with it as well as the experience of patients. Growth remains a priority, both within our current territories and as well as outside. And here, as Jurgens mentioned, we follow a discipline returns-orientated approach towards our allocation of capital.

Group Summary

FY20 Priorities

And then on to the last slide which is a summary of the Group priorities, our operational priorities for the year ahead, we remain highly-focused on operational delivery across all three of our divisions.

Group-wide initiatives

As I've mentioned, there are a variety of Group-wide initiatives underway that will support our performance. A key one will be the rollout of the electronic health records in Middle East and Switzerland. These systems will improve clinical quality and efficiency, enhance patient engagement and enables further technology advances that address the trend of consumerism in the industry.

Drive efficiencies

A drive for further efficiencies goes directly to addressing the challenge of affordability in healthcare. We've already demonstrated [inaudible 43.28] adapting the Hirslanden business, how we are benefitting from that. And through our Group approach we will make further changes across all of our divisions to optimise the delivery of services that we provide.

Growth opportunities

We will also continue to evaluate growth opportunities, prioritising investment in our existing markets while evaluating the potential for growth in new markets across the continuum of care.

I want to close by pointing out that the Group has shown resilience in the past. We also know that in order to thrive more of the same is not going to be enough any longer. We are adapting our business to address the changing landscape and to capitalise on growth opportunities in the global healthcare services sector. I'm confident in our management teams, in our exceptional clinical quality, our alignment with our doctors and our constructive relationship with insurers as well as regulators. With a cohesive approach and goals in hand we are committed to improving our value proposition to our patients and their families, and generate reasonable returns for our shareholders. Thank you very much for your time and interest in Mediclinic. It's highly appreciated. We can now open for Q&A.

Q&A

Operator: Thank you, ladies and gentlemen. We will now begin our question and answer session. As a reminder, if you wish to ask a question please press star and one on your telephone and wait for your name to be announced. Please stand by while we compile the Q&A queue. This will only take a few moments. If you wish to cancel your request please press the hash key. Once again, please press star and one if you wish to ask a question. And the first question comes from the line of Kane Slutzkin from UBS. Please ask your question.

Kane Slutzkin (UBS): Good morning, gents, just a couple please. Just on Switzerland, on the outpatient tariffs, I know the previous management used to hold a view that at some stage, you know, that would hurt the whole sector, including the Cantons. And, you know, that there would be some normalisation of that tariff. Do you guys still hold this view and, you know, are you seeing any signs yet of big [inaudible] at maybe some of the [inaudible] hospitals? And then just secondly on Switzerland, you mentioned the costs you've taken out of the system. Could you give us a sense for how much more there could be? You know, what are the levers you still have there? And are you seeing any risk of any further regulatory pressures that may not be baked into your current expectations? Thanks.

Dr Ronnie Van Der Merwe: Okay, Kane, thank you very much. I'll do the first one, Jurgens, and then you carry on. In terms of the outpatient tariffs in Switzerland, the so-called TarMed tariff structure, that is all-encompassing tariff structure that deals with all services rendered for patients who do not stay overnight. So that's quite a broad spectrum of services. It includes lab and radiology and cancer care and all of those. And those type of tariff structures are being evaluated on a – on a continuous basis by the authorities and they make tweaks and changes as they move along. What is important to note is that there's quite a difference between those price points and that of the DRGs for inpatients. So the kind of procedures that we saw migrating out from inpatient to outpatient took a significant decrease in terms of the price point. What – but what we also see is the possibility, and there is talk about that, of supplementary insurance companies looking at providing outpatient benefits to their packages in future. If and when that happens we don't know but it might be that the pricing of that would look slightly better than that of – that of TarMed. But it's a – it's a development that we are keeping an eye on. In the meantime we are preparing ourselves to deal with the TarMed price points in the way that they are currently.

Jurgens Myburgh: Kane, thank you very much and good morning from our side as well. So on the – on the cost side, as I said in the presentation, we got to saving of about £21 million relative to our target of £24 million and this relative to the budgeted numbers. So obviously those cost initiatives will continue into the New Year. The effect that that had was that our cost line basically increased in line with our activity which you can say probably meant that it offset inflation. And we would – we would expect a similar effect in the – in the next year as well. So that, you know, that our cost line increases in line with activity and our savings to be able to offset – to offset let's say – let's say inflation. Where we have had success is around the personnel efficiencies, around, you know, our supply costs. Repairs and maintenance we've had some success but there is a lag in that environment because it's more project based. But we expect that lag to give us an additional benefit in this year as well. So the activities continue and we expect the benefit of that to mirror itself in this year.

Kane Slutzkin: Thanks. Maybe if I can just quickly sneak one more in while I've got you. I mean, I'm not sure I heard you correct but did you guys say that ex Intercare your SA volumes were down 1% or down 0.1%?

Jurgens Myburgh: It was down 0.1%.

Kane Slutzkin: 0.1%, okay. So going forward using your 1% guidance would imply you kind of have a similar-ish type of performance this year from the acute business.

Jurgens Myburgh: That would be a reasonable assumption.

Kane Slutzkin: Okay, cool, thanks guys.

Jurgens Myburgh: Thank you, Kane.

Operator: Thank you. And the next question comes from the line of James Vane-Tempest from Jefferies. Please ask your question.

James Vane-Tempest (Jefferies): Hi, thanks for taking my questions. Just on the Swiss business, first of all, I think you mentioned Hirslanden 2020 peaking and getting some synergies. I think you mentioned £21 million out of the £24 million but I'm just wondering if you kind of quantify sort of the overall costs. And then I guess looking into this year you mentioned, you know, the nine-month impact from the outmigration of care. If you can just reiterate sort of why you're confident in your margin target if there's also this sort of further shift towards basic patients. And then my second question is just on the Middle East on the expansionary capex. Get the sense from your comments you're expecting to potentially enter a stage of harvesting returns so can you – there's always going to be some incremental projects but can you give a sense of the delta as to where you expect, you know, expansionary capex to normalise unless you do have obviously significant, you know, new projects you're undertaking? Thank you.

Jurgens Myburgh: Thank you, James. So firstly starting on HIT2020 this is bifurcated too. The £21 million cost saving, excuse me, that I spoke about was as a result of the cost efficiencies that we launched throughout this financial year and that – and specifically through the second half of the year as well. So that's a cost saving relative to budget. The HIT2020 is something a little bit different. HIT2020 is in our cost base at the moment. It's approximately CHF 10 million per annum in the P&L and then almost a similar number in capex as well. So – and that's the number that we expect, you know, to peak in the coming financial years and then reduce. And then bring benefits with it as well. So when we talk about the medium-term prospects of the business we expect that operating performance to be supported by HIT2020 run-off as well as some of the benefits coming from that. So I would bifurcate the savings and the – and the HIT2020.

On the – on your question around the margin so I guess, you know, the key learnings that we've had in the – in the current financial year is firstly, in our inpatient volumes if you exclude Linde and you exclude Grangettes our inpatient volumes were flat year-over-year, which means that we were able to back-fill whatever volumes we lost due to outmigration with inpatient activity. The – what that did though was come with a reduction on the average revenue per admission of around 2%. Then we had the cost – the cost aspect that I spoke about earlier. You have the outpatient activities which were down about 1% this year and we expect with the outmigration of care that actually that's probably an area of the business that could show some growth in the next year. And then you have the addition of Les Grangettes. So if you factor in an inpatient – an inpatient activity which looks the same this year as it did last year with the reduction in average revenue per case, the cost base as I described, you know, with savings offsetting inflation and a cost base up in line with activity, slight increase in outpatient and then the addition of Grangettes that gets us to the guidance and also to the – to the 15%.

Then on your slightly more difficult question on the Middle East expansion capex, these – I mean, it's easier to talk about maintenance capex. That's something that's scheduled and in

the Middle East this is reasonably low at the moment because, you know, the buildings are all still quite new. In terms of expansion capex it really is a little bit more difficult to try and predict a number, you know, through the cycle. So I'm not going to hazard a guess at this stage but, you know, I – it is clearly in the next financial year reducing materially because of the fact that Parkview this year inflated that number and was almost 50% of our total capex in this year. So we're talking about a reduction of about 38-40% in next year because of the bulk of the capex running off.

James Vane-Tempest: That's great, thanks very much.

Operator: Thank you. And the next question comes from the line of Catherine Cunningham from JP Morgan. Please ask your question. Hello, Catherine, your line is open, please ask your question. Catherine Cunningham, your line is open, please ask your question. Due to nil response, our next question comes from the line of Alex Comer, JP Morgan. Please ask your question.

Alex Comer (JP Morgan): Hello, can you hear me? Hello?

Dr Ronnie Van Der Merwe: Yes, Alex, we can hear you.

Alex Comer: Yeah, yeah, good. So just a couple of – couple of confirmations. Just first of all on the outmigration, I mean, there – I think there was a report in Switzerland put out by some of the government arguing that, you know, you could maybe see 70% of activity move to outpatient. Now, that seems a large, you know – a large number and an exaggeration. But, I mean, can you give us any comfort that we're not going to see another set of therapies sort of pushed to outpatient? I mean, if you look at what's going on, say, in the UK and it's Spire, which I'm sure you understand, and in Switzerland, I mean, how much further could this go and what confidence do you have that, you know, we're kind of going to run off on this? And then secondly just with regard to what you were saying on Hirslanden 2020 am I think you are saying that you've got – you've still got CHF 10 million of costs running through the P&L because of this and they will run off and therefore we need to factor them in on top of the cost saving programme?

Dr Ronnie Van Der Merwe: Alex, thank you. In terms of the outmigration of care in Switzerland, I think the way we think of it is that we need to compare this to other countries and what's going on over – in the rest of the world. So from here onwards it'll probably be an iterative process. What's happening in Switzerland at the moment is the capability to deal with day case surgery is being developed and we are at the forefront of that development very actively. And when those capabilities have been developed there will be a natural migration of procedures that either can be done as day cases already or will evolve into day cases as technology improves over time. So I see this as a – as a wave of catch-up and from here onwards more of iterative process. It's the way the world is going anyway and we are adapting our business across all our divisions to be able to deal with that. But having said all of that, one must also be reminded that we are focused on high – highly specialised, complex work as well in the [inaudible] environment. We do – we do quite complicated cardiac surgery and neurosurgery and other types of surgery as well. And those – many of those types of services are not going to migrate to the day case setting any time soon. So from here onwards more of an iteration.

Alex Comer: Okay.

Jurgens Myburgh: Alex, your – on your second question you’ve heard right, yes. So HIT2020 is currently about CHF 10 million in the P&L, peaking this year and probably next. And then – and then a run-off on the expenses with then potential benefits coming through, which I’m conscious that we haven’t quantified for you and we will do so as we get closer to that.

Alex Comer: But that should provide some additional margin support, correct?

Jurgens Myburgh: Well that’s exactly the point. That’s exactly what we’re saying is that we expect that to support the operating performance of the business in the medium-term.

Alex Comer: And with regard to what – to what Ronnie said, you expect sort of I suppose [inaudible] to continue to go up but then [inaudible] under a bit of pressure as you get [inaudible]. Would that be a fair [inaudible] on the – on the shift from inpatient to day case?

Dr Ronnie Van Der Merwe: Alex, I’m sorry, we struggled to hear you there. Would you mind repeating your question?

Alex Comer: What I was saying with regard to what Ronnie said is logically you would think the [inaudible] fees would continue to grow quite strongly but ward fees would be under more pressure as you have a shorter length of stay and you get, you know, the same operation done but less kind of recovery time and then maybe in a more technological way.

Dr Ronnie Van Der Merwe: I couldn’t follow. Sorry.

Alex Comer: Okay, we’ll – we’ll catch up later.

Dr Ronnie Van Der Merwe: Alex, the sound is coming and going. If you can maybe try once more?

Alex Comer: I was saying that presumably the [inaudible] and surgical fees would continue to grow but ward fees would likely come under pressure as length of stay comes down if you do more kind of day case type work. Is that fair enough or not?

Dr Ronnie van der Merwe: I don’t – I’m not sure whether that’s going to be the case, not necessarily. So we have – on the inpatient side, we have DRGs. On the outpatient side, it’s the TARMED tariff structure at the moment. So the day cases are now, as you know very well, the TARMED tariff structure now it compensates us for day case surgery. Within the TARMED structure, I’m not so sure what the moves will be in terms of the different components of account as such.

Jurgens Myburgh: I think, Alex, the dynamic – the likely dynamic in future is – and as I’ve said earlier as well, is about capacity utilisation. I think there are probably three things to it. Firstly, in the outpatient environment, adapting the facilities to be able to cope with outpatient surgery in an efficiency way, in an efficient manner. And Ronnie spoke about that during the presentation.

Secondly, I think you’re right, length of stay will come down in the inpatient environment. But as Ronnie pointed out, we also do highly specialised medicine and high acuity work. But I think it’s likely to come down. But in a DRG environment, that could be a slight – it could be a slight benefit.

And then finally, who knows, in a couple of years one might have to adapt your infrastructure through the changing environment. But key amongst us will be the – your ability to attract

and retain the doctors and also to attract the patients to your hospitals. And that we've been able to do and we'll continue to seek doing.

Alex Comer: Okay, thanks.

Jurgens Myburgh: Thank you, Alex.

Dr Ronnie van der Merwe: Thanks Alex.

Operator: Thank you. And the next question comes from the line of Hassan Al-Wakeel from Barclays. Please ask your question.

Hassan Al-Wakeel (Barclays): Thank you for taking my questions. Three from me please. So firstly on Switzerland. With the mix of generally insured patients continuing to rise, what mix are you assuming as part of your guidance? Secondly also on Switzerland on the outmigration of care, as a follow-up to the earlier question, what were the financial impact of the Federal list converging to the more extensive canton[?] lists with 11 to 18 procedures and do you see this happening? And then thirdly on the Middle East. I'm trying to understand the weaker revenue growth in the UAE relative to expectations, at least both in full year '19 and as part of the outlook. I know you don't split out the platforms but you have provided the revenue for Parkview. So could you comment, please, on the Abu Dhabi performance and the business as it stands today? And is Dubai continuing to grow in the mid-single digit range with margins around 20% excluding Parkview, of course? Thank you.

Dr Ronnie van der Merwe: Jurgens, will you deal with the first one, and I'll deal with the second one.

Jurgens Myburgh: Yes. So Hassan, good morning. And let's start with the Middle East question just on revenue growth. As you know, we don't split out the Abu Dhabi and the Dubai regions. Yes, we did report Parkview because we said we would and we show quite clearly the benefit that Parkview had flowing through the numbers. I would say if you look at the Middle East environment, more broadly speaking, we've always said the economy and also competition in that environment. But for us, the compounding effect of the lack of tariff increases has probably informed quite a bit of the revenue growth or potentially that revenue growth being slightly less than we would have wanted it to be.

You would have seen we did break out also the Airport Road Hospital in terms of the changing dynamic that we have on insurance mix there, which is quite positive. So whereas we continue to drive volumes at a very operational level per hospital in terms of the dynamics of what procedures, developing the cancer centre at the Airport Road Hospital, ramping up our Parkview Hospital. So that all drives volume growth.

And then you have the tariff growth, which is in two parts, firstly on an annual increase, and secondly also the changing acuity mix, as well as the changing insurance mix in that business. And if you combine that, that informs how we think about our revenue growth going forward.

So – and when you think about this year, if you look at the EBITDA growth, excluding Parkview, the EBITDA growth was 13%. So the effect of the increasing revenue whatever source that may come from on the cost base and the operating leverage that that provides us with, is quite positive. So that's on the Middle East. Remind me please of your first question?

Hassan Al-Wakeel: That was in terms of the mix of generally insured patients.

Jurgens Myburgh: Yeah. So the mix change in this year was probably accentuated by in part the acquisition of [inaudible] being in the base in full but also the outmigration of case. So as I said, in looking forward, we looked at the impact that that has had on the average revenue per admission and we modelled that on the next financial year as well. So we've looked at a similar impact on average revenue per case for next year as we did it for this year.

In the medium term, we do expect that number to change gradually and we'll probably look at it more or less at the same per annum in that insurance mix change. I'll hand to Ronnie on the outmigration.

Dr Ronnie van der Merwe: Then on the number of procedure groups and I want to emphasise that these – the list of six of the authorities in Switzerland is not procedures. It's procedure groups. It's quite wide. It entails many more procedures than just six. All the – well, many cantons have – all the cantons are now using the six. And then many of them have also extended this to 11 as you mentioned.

But those are, for us, the ones that we have quite a big exposure to. So a lot of that extended list is what we are exposed to right now in any case. I would suggest that this is going to be gradual and eventually we will not even talk about a list of six or a list of 11. This is by natural evolution will eventually filter its way through the industry. It does give us time to adapt obviously, and over the next year or two or three we will be fully adapted to this new setting of care and we will be able to manage it quite efficiently.

Hassan Al-Wakeel: And if I can follow-up, what were the financial impacts of that move be from the six to the 11 or the more exhaustive list of 18?

Jurgens Myburgh: Hassan, so the way we – we haven't factored that because there's no indication that we have currently that it will move to 13 on the Federal level, so we haven't factored that into the guidance. It's possible that that happens in the medium term. We've reflected some of that into our thinking. But for us that margin around the 15%, as I said earlier to Alex, will then be supported by our initiatives to adapt and be more profitable, as Ronnie indicated in the presentation, on these procedures.

So it might change and I can give you – we can think about the answer on that. But then as we adapt to it, that changes as well. So what we are actually – where we're headed towards is to be sufficiently profitable in the outpatient environment whether it's six or 13 procedures.

Dr Ronnie van der Merwe: And just to add to that, at the price point, the current price point, if you have a critical mass of volume through a unit at any given time, you can make a decent margin on it.

Hassan Al-Wakeel: Thank you. And if I could just follow-up on comment on the UAE, you highlighted tariff. You highlighted macro. You also mentioned competition. I wonder if this is changing or have you noticed any material change over the last six months on that front?

Dr Ronnie van der Merwe: Not really, no. We are a high-quality provider. We have established a cancer – comprehensive cancer centre in Dubai, as an example, that has really made big changes to that environment. It allows the population of Dubai to have access to, first, shall we call it, world class comprehensive cancer care.

Our hospital – city hospital in Dubai is established itself with a reputation of such level that local emirati people use that hospital instead of going overseas for care. That's a good indication of the reputation we've built ourselves. So we focus on being a high-quality provider. Obviously we look at the cost efficiency around that as well. And that's what we will continue to focus on and that's how we will be building our business in the Middle East. But I can't say that we've seen any changes in the last six months on the competition.

Hassan Al-Wakeel: Thank you very much.

Jurgens Myburgh: Thank you, Hassan.

Operator: Thank you. And the next question comes from the line of Mathew Menezes from Citi. Please ask your question.

Mathew Menezes (Citi): Good morning, everyone. Thanks for the call. So a question on Swiss CAPEX that level that you're running at, at the moment 2019 and your guidance for 2020. How sustainable do you think that is, because it's clearly way below historic levels and has a massive impact on your free cash flow? And if you do get cost savings that comes through it, you get some EBITDA margin gain, so EBITDA gains over time or you're just going to reinvest that into back into CAPEX those gains? Thanks.

Jurgens Myburgh: Yeah, good morning. Thank you, Mathew. I think, as you say, we – and I said it in the presentation. We've reduced our CAPEX in line with the changing broader environment. And obviously, as I've said in the earlier iterations as well, we have to align our CAPEX through the OPEX that we're able to generate. But the reverse is also true. To the extent that we do then see an uplift in our OPEX and our operating cash flows, we have to continue to invest in our business and maintain our facilities. It's extremely important.

I think the point here, and you've raised it, is that we have been able to reduce our CAPEX. We have been able to, in the second half, achieve some of the savings that we sought to achieve. And as a consequence of that, we've had CHF70 million of free cash flow to equity in that business, which we regard as positive.

Mathew Menezes: So I guess then when the cycle turns in your favour, do you – are you kind of underspending now and you're overshoot going forward or just more normalisation going forward?

Dr Ronnie van der Merwe: Maybe Mathew it's a change in the shape of CAPEX because if you look at this year versus next year, you'll see that our maintenance CAPEX is increasing by – I think, it's 30% to 40% year-over-year. So it's also changing the shape of that CAPEX into more maintenance as opposed to expansion. And so it could be a prioritisation as well.

Mathew Menezes: Okay, cool. Thanks very much.

Dr Ronnie van der Merwe: Thank you.

Operator: Thank you. And the next question comes from the line of Andre Bekker from Arqaam Capital. Please ask your question.

Andre Bekker (Arqaam Capital): Good day guys. Just three questions to start. Firstly, can we possibly unpack the South African outlook a little bit in more detail? You've mentioned margin decline of 100 basis points. Can you tell us what the impact of intercare is versus the new Mediclinics Stellenbosch facility? Second question is with regards to

Hirslanden outpatient revenue growth. Can you give us any sense of what the volume growth has been in outpatients? And then finally, the Middle East. In the Middle East your cash conversion ratio there. Can you unpack the late receipts and your expectations for cash conversion in FY2021 going forward? Thank you.

Jurgens Myburgh: Thank you, Andre. So Ronnie, shall I start on the South African margin?

Dr Ronnie van der Merwe: Yeah.

Jurgens Myburgh: As you said, it's probably about 1% low year-over-year. The contributors to that, as I've said, firstly investment in personnel both in increases as well as an increase in the number of personnel, specifically clinical personnel. And then also increased investment in ICT, which we regard as very important in that business. So that would probably be one half of that delta year-over-year.

The other half of the delta is intercare and the lease charges for intercare and then Stellenbosch ramp-up and then also the lease charges with respect to the Stellenbosch Hospital. So that's the second half of the 1%. So I hope that answers your question.

Andre Bekker: Yes.

Jurgens Myburgh: On Hirslanden outpatient, that's not something that we – we don't break that down. But if you look at the outpatient numbers, if you exclude Grangettes, as I said on the call earlier, I think our outpatient revenues were down more or less 1% year-over-year. If you take into account what we lost through the TARMED tariff adjustment which was, let's say, 7% to 8% of that number, it would tell you that volumes were actually – well, they were probably up – probably positive around 3%, 4%, 5% but we don't break out that number specifically. We don't report on that. But broadly speaking, I would say activity was probably up around that low single-digit number.

Andre Bekker: Yeah, thank you.

Jurgens Myburgh: Middle East cash conversion. I think structurally that number is probably lower for now. And when I talk about our expectations in the Middle East, we would all want that number to be higher but we also realise that there are environmental and structural considerations for us and that gets us to the 70%. But the focus for us is to work with the funders there and to improve on our debtors days, get the debtors days down to be able to improve our cash conversion, because if you look across the group, we are nearly 100% with the other two divisions and that 70% in the Middle East, which clearly is a number that we want to improve on.

But that's a process. I don't think that's necessarily going to happen overnight. I see that as a process.

Andre Bekker: Okay. Thank you, Jurgens.

Dr Ronnie van der Merwe: I would just like to add a comment on the Swiss outpatient activities. At the moment, we report 20% of our revenue to be coming from outpatient activities and I want to just highlight that that is a combination of pure outpatient, radiology, oncology, consultations, lab as well as day care surgery. So it's a combination of those two segments. We don't split them out at the moment but – so it's just so that gives the perspective. But the activities level there is in line with what Jurgens said.

Andre Bekker: Okay, thank you very much. If I may, just a follow-up question. I noticed in results note that Hirslanden outpatient team is evaluating sort of several opportunities. Does this comment relate to possible acquisitions within outpatient clinic space or what exactly are you trying to imply with that comment?

Jurgens Myburgh: I'm going to have – so few things, Andre. So we would look at organic expansion. We just recently completed the train station project near the clinic of St. Anna. And so similar projects to that would be the first consideration. The second consideration would be the continued adoption of our hospitals to be able to improve the efficiency with which we do the procedures. And I want to iterate again, as Ronnie said in the presentation, throughout our hospitals we have made progress but you can always improve on that and so that would be a second element.

And then thirdly, we would look for opportunistic acquisitions if we think it adds to our business model and if it comes with the right returns. But these would be small. You're not talking about big numbers. These would be small numbers.

Andre Bekker: Okay. Thanks so much, Jurgens.

Jurgens Myburgh: Thank you.

Operator: Thank you. And the last question comes from the line of Hans Bostrom from Credit Suisse. Please ask your question.

Hans Bostrom (Credit Suisse): Good morning, gentlemen. I had two or three questions as well. On the 2.2% lower revenue per admission in Switzerland, would you be able to break down what is the impact of the payer mix and what might be other factors contributing to that? And then on Jurgens earlier comment and interesting on the strategy you talk about Mediclinic no longer being just a acute care company and you get on your comments about integrating care chains but you are looking at other types of care modalities. If you wouldn't mind elaborating a bit more about that? And thirdly, I'm curious as to your comment about the dividend policy being continued on the introduction of IFRS 16 and the widen – as I'm understanding wider range of 25% to 35% debt and payout ratio if you wouldn't mind just giving us some understanding why that is? Thank you very much.

Jurgens Myburgh: Thank you, Hans. So on the 2.2%, I would say the majority of that is insurance mix change. There are some other tariff changes that always happen and always occur within that. But the majority of that would be the insurance mix change. On your question around the dividend policy, it really is just to – and please note that we didn't move the 25%. So we've just broadened the range proactively to say that through the extent that IFRS 16 has an impact on the earnings per se but not on the cash, maybe we should – maybe that could have an impact of what the dividend looks like relative to the earnings.

And so proactively to allow us into that situation, we've just broadened the range but we're not – there's no change to the policy itself. It really was triggered by IFRS 16 and its potential impact on earnings per share which is not – which doesn't have a cash impact.

And you would have seen in the notes and in some of the detail that the impact on IFRS – of IFRS 16 on our business is not that material but still it's just a proactive management of the difference between earnings and cash.

Dr Ronnie van der Merwe: On your second question, Hans, about the strategy and the comment about us not being only in acute care business any longer. The way we look at it is that we are really very proficient at running acute care inpatient hospitals, specifically high-end, highly specialised type of care and we have got quite a number of powerhouses, if I can call it that, big hospitals with high profiles that do very complex work and do it extremely well. And that is something that we will continue with because that is the core of our competencies if I can call it that way. That's the number one competency of Mediclinic and we will not do anything to compromise on that competency.

However, there are opportunities for us to strengthen our positions in that regard and that is to get involved in other care settings as well. And that is first and foremost to strengthen the positions of our big acute care hospitals and also to generate additional revenue. But the main focus is on providing our patients and their families with different care settings and a seamless movement of patients and their clinical information over long continuum of care in the different care settings.

So if you look at it for instance – just give you an example of intercare that we've invested in intercare on a day case clinics, so are we. But intercare has another competency and that is their sub-acute facilities. Obviously in the South African context but it's more long-term care. It's post-acute, that means it's – when patients come out of hospital and they have long-term rehabilitation or we look after in the longer term, those facilities then cater for those kind of patients. So that's the care setting. And we believe there are advantages in creating such a system where we provide acute care as well as post acute care and also pre-acute care. And that is what we will be focusing on in future as to broaden our scope of services and our care settings in order to improve our value proposition.

Hans Bostrom: And would you – coming onto Switzerland, is a very large market for post-acute case. Is that the market you would entertain the idea of entering?

Dr Ronnie van der Merwe: We will be looking at continuum of care – the principals of continuum of care. As I explained it now, we will be looking at opportunities to that regard in all the markets we are in.

Hans Bostrom: Great. And can I go back to the question regarding the payer mix, insurance mix. I mean, one imagines that the reduction in tariff in some inpatient procedures are continued to be done on an inpatient basis but paid now on an outpatient rate would be a contributor to this decline of 2.2%. But do you mean that that's not particular significant then?

Jurgens Myburgh: No. Hans, the – that procedure now sits in the outpatient revenue bracket. So when I unpack inpatient activity, it excludes that now. So that lower tariff is actually reflected in the outpatient environment if I can put it that way. So what I'm comparing is kind of like-for-like if that makes sense.

Hans Bostrom: So could you give us a sense of how, A, the revenue base of procedures done actually on an inpatient basis but paid on an outpatient basis is? I'm trying to square the whole 4% to 5% or 3% to 5% volume growth rate than in the outpatient business that you gave earlier, whether that contains also [inaudible]? New base of inpatient procedures that weren't part of it previously, if you see what I mean.

Jurgens Myburgh: It does. That's exactly right, is that it includes what is previously been categorised as inpatient is now outpatient. So that volume growth would partially reflect sum that we're going into the patient environment.

Hans Bostrom: Okay, thank you.

Jurgens Myburgh: Okay. Thank you, Hans.

Operator: Thank you. And this concludes our Q&A session. Please continue.

Dr Ronnie van der Merwe: Thank you very much. That's all I have to say. Thank you for your time and for listening to us and your interest in our business. We really appreciate that. Thank you. Jurgens, anything else?

Operator: Thank you, ladies and gentlemen. That does conclude our conference for today. Thank you for participating. You may all disconnect.

[END OF TRANSCRIPT]