



2019/20 Interim Results Presentation

Thursday, 14th November 2019

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the Mediclinic 2020 half year results presentation conference call. 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 please press star and one from your telephone keypad. I would like to remind everyone that the call is being recorded today, 14th November 2019. I would like now to hand over to conference to your speaker Dr Ronnie Van Der Merwe. Thank you, go ahead please.

Introduction

Dr Ronnie Van Der Merwe

CEO

Good morning, everybody. I'm Ronnie van der Merwe, CEO of Mediclinic International, and thank you very much for joining us on our 2020 half year results audio webcast and conference call.

Patients First

With me today, you have Jurgens Myburgh, our Group CFO; and James Arnold, Head of Investor Relations. Before I get into the actual results and the numbers, I want to make some important points regarding our relentless focus on patient safety, clinical outcomes and patient experience. The very reason this group has successfully existed over 35 years is because of our unified approach to continuous improvement in clinical performance and putting our patients first.

We continue to invest in many initiatives to ensure we remain the clinical leader in the markets we serve, and I'm satisfied with our progress. By way of example, on the page you'll see all our facilities in the Middle East are JCI accredited as well as ISO certified. All our facilities in Switzerland consistently score above the IQM benchmark. 37 of our facilities in South Africa are COHSASA accredited and six facilities in South Africa are on the discovery of top 20 Hospital list, which is more than any of the other major providers.

The significant development during the period under review in this regard is that we announced our vote to board accountability structures and processes to ensure transparency and accountability at all layers of our organization when it comes to clinical performance.

At each of our divisions, we now have independent clinical experts, evaluating our clinical performance on a continuous basis. And these independent specialists then give feedback directly to the Mediclinic International board. There should be no uncertainty with regards to Mediclinic's commitment to high quality care, as is evidenced by this.

Mediclinic Half- Year Results

Financial Summary

Then on to the results on page six, the group delivered solid first half financial performance with all three divisions growing volumes, revenue and EBITDA. The operating performance was complemented by strong cash flow converts – strong cash conversion, and we have maintained our interim dividend at 3.2p per share.

We are reiterating our two – financial year 2020 guidance that we gave back in May at the full year results, with current trading in line with expectations. Jurgens will unpack the numbers in more detail shortly.

Mediclinic Half- Year Results

Operational Summary

And then on to page 7, just an operational summary for the first six months of the year. I'm going to highlight a few things. I'm very satisfied with the progress we have made in adapting the business to the current health care trends and the changing regulatory environments, especially at Hirslanden. A theme, I will talk about later, is our strategic goal to expand across the health care continuum, which is reflected in the performance of all three divisions in this half of the year.

We have significant experience in establishing and managing complex acute care hospitals in different countries. Our reputation and recognition in this regard is very important to us, and this provides the basis from which we are able to grow. Strengthening this position by developing into a more integrated health care system along the continuum of care significantly increases our value proposition to our patients and the markets in which we serve. But I'll come back to this later on – later in the presentation.

Then across the three divisions, this first half, we've seen good operational performance in – for instance, in Switzerland, the Hirslanden 2020 strategic business transformation project is advancing well, and we are seeing tangible benefits there.

In Southern Africa, we successfully opened the new Mediclinic Stellenbosch Hospital and day clinic in addition to establishing the new Centre of Excellence Institute of Orthopaedics and Rheumatology. At the Winelands – Mediclinic Winelands Orthopaedic hospital, which is on the site of the old Mediclinic Stellenbosch.

In the United Arab Emirates, the new Mediclinic Parkview Hospital in south side of Dubai continues to perform very well as it ramps up.

We recently also opened the new ground floor as well as mezzanine floor renovations at Mediclinic Al Noor Hospital in Abu Dhabi, which is transforming that extremely busy hospital significantly.

And with that, I'd like to hand over to Jurgens, who will take you through the financial results in more detail. Thank you, Jurgens

Financial Review

Jurgens Myburgh

CFO

Thank you, Ronnie, and good morning, everyone.

Just before we get into the results, and just by way of context, the Group adopted the new IFRS 16 leasing standard, perhaps rather fitting the end of 1st April 2019. And we're using the simplified approach, so competitive[?] information has not been restated. But for

comparative purposes, our first half results are also presented on a pre-IFRS 16 basis, and we will do the same at year-end.

In the annexes to this presentation, we provide a reconciliation between IFRS and pre-IFRS 16 financial results for the period under review. For the purposes of this presentation, I'll focus on pre-IFRS 16 adjusted results.

Adjusted Group

Pre-IFRS16 Income Statement

Over the page then, on page 9. For the period under review, revenue and EBITDA were up 9% and 4%, respectively, and up 6% and 3% in constant currency terms. The Group's EBITDA margin was 14.7%, which is in line with the expectations. Depreciation and amortization was up 12% in reported currency and 9% in constant currency with the sizable movements in Southern Africa and the Middle East, which I'll elaborate on in the divisional overviews.

Operating profit was flat to £137 million. Net finance costs increased by 7% to £29 million due to the increased finance charges in the Middle East following the opening of Parkview Hospital in Dubai. The effective tax rate for the group in this period was 21.7%, which was reduced by recent Swiss tax reforms in which several cantons decreased their statutory tax rates.

Non-controlling interest increased due to the combination of – in Switzerland of La Colline and des Grangettes from 1st October 2018, offset by the expansion of the new Mediclinic hospital in South Africa, which Ronnie mentioned earlier.

Both adjusted earnings and adjusted earnings per share were flat at £76 million and 10.3p per share, respectively, and the interim dividend per share is maintained at 3.2p per share, in line with our full year dividend policy of paying 25% to 35% of adjusted IFRS earnings per share.

Group Revenue

Analysis

Over the page, looking at the divisional revenue analysis, you'll see, and you'll note the currency tailwind in both the Swiss and Middle East numbers. Hirslanden and Southern Africa's revenues reflected contributions from des Grangettes in Switzerland and Intercare in Southern Africa. For the second six months, these are largely in the base now.

In the Middle East, revenue growth was driven by the ramp-up at the Parkview Hospital in Dubai and the continued gradual improvement in the Abu Dhabi business via Mediclinic Airport Road delivered a strong performance.

Adjusted Pre-IFRS 16 EBITDA

Analysis

At an EBITDA level, both Switzerland and the Middle East had broadly stable margins, while Southern Africa saw a reduction in margin in line with expectations, reflecting our planned increase to clinical personnel and expansion across the continuum of care.

Hirslanden*Pre-IFRS16 Financial Overview*

Turning then to each division individually – division individually, starting in Switzerland. Hirslanden grew revenues by 5.5%, including the contribution from des Grangettes, which was acquired in October of last year. Inpatient revenue was up 3%, and admissions up 5%. Outpatient revenue was up 16% and now contributes 21% to total revenue. Excluding the contribution from Grangettes, revenue was down 1.2% in the period under review, with inpatient admissions down 0.5%, both in line with expectations. This highlights the ongoing impact from outmigration, which from 1st January 2020, will be fully in the base. Excluding the effects of outmigration, we have seen modest growth in inpatient volumes during the first half period.

We will provide an informed update on volumes for next year once we are through the fourth quarter of the year, which will be the first quarter when outmigration is fully in the base.

EBITDA was up 3% to CHF 121 million with the margin broadly stable at 13.9%, supported by the acquisition of Grangettes, a strong focus on operational performance and ongoing cost management initiatives. On an activity adjusted basis, labour costs were broadly flat and supply costs were down CHF 5 million year-on-year. Our collaboration with Sana is starting to deliver benefits by securing lower-cost product pricing.

The progress we've made rolling out HIT2020 to our Zurich hospitals is also contributing to the saving due to better master data and benchmarking capabilities. We reiterated the EBITDA margin guidance at around 15% for the full year. This year, we have seen several cantons reduced their tax rates in line with corporate taxation reform taking place across the country. As a consequence, we expect Hirslanden's full year effective tax rate to be between 17% and 18%. The division converted 86% of EBITDA into cash generated from operations due to improved revenue cycle management.

In October 2019, Hirslanden completed the sale of the small 28-bed Klinik Belair hospital for a total consideration of CHF 14 million. As a result, in the first half, Hirslanden recognized a reversal of impairment charge in relation to the Klinik Belair property of CHF 6 million, which is excluded from adjusted earnings. The modest revenue growth guidance for the full year incorporates the removal of Klinik Belair in the second half of the year.

Mediclinic Southern Africa*Pre-IFRS16 Financial Overview*

In Southern Africa, as over the page, revenue increased by 7%, with bed days sold up 2.7%, in line with expectations, and average revenue per bed day up 4.2%. Excluding Intercare, revenue growth was 5.7%, bed days sold was up 0.3%, and revenue per bed day sold was up 5.4%. EBITDA increased by 2%, with the adjusted EBITDA margin in line with expectations at around 20%.

The margin reflects business decisions to further enhance clinical quality and to expand across the healthcare continuum with the Intercare acquisition and new Mediclinic Stellenbosch hospital and day case clinic, both incorporating leasehold properties and as rental charges. We reiterate the EBITDA margin guidance at around 20% for the full year.

Depreciation and amortisation increased by 15%, mainly due to increased spend on hospital infrastructure upgrades and medical equipment. For the full year, we expect D&A to be up around 10%, and for this above inflation increase to persist into the next financial year, following the upgrade cycle that we are currently going through in this division.

The Southern African division converted 106% of EBITDA into cash generated from operations, mainly due to improved collections compared to this time last year.

Mediclinic Middle East

Pre-IFRS16 Financial Overview

Over the page, then, on to the Middle East, revenue was up 8.2% for the reporting period. In Dubai, revenue growth of 11% was supported by the continued strong ramp-up of the new Parkview Hospital. This impacted the performance at City Hospital, more so than anticipated, due to the independent doctors that set up practices at Parkview in addition to City Hospital. We've already initiated several plans to address the impact, including the onboarding of new doctors at City Hospital.

In Abu Dhabi, revenue growth of 4.4% was supported by the excellent performance at Airport Road Hospital as we continue to benefit from the business and operational alignment initiatives that we implemented in the recent years.

Across the division, given the lack of tariff increases, revenue growth was driven by inpatient admissions, which were up 9.2% and outpatient cases up 5.5%. EBITDA increased by 10% to AED 155 million, with the EBITDA margin at 9.6%. We reiterate EBITDA margin guidance at around 14% for the full year and target 20% over time.

Depreciation and amortisation increased by 25% to AED 91 million, mainly due to the additional charge for Parkview Hospital, which is an owned property – a property. On a full year basis, we expect an increase of around 10%, with Parkview already in the base for the second half.

Net finance costs increased due to the discontinued capitalisation of borrowing costs following the opening of Parkview Hospital. We expect annual normalised net finance costs to be around AED 50 million. The division converted 109% of EBITDA into cash generated from operations, mainly due to improved collections. This notwithstanding, we continue to be cautious on our expectations for cash conversion in the Middle East due to structural differences in that market that I've highlighted before.

Group

Balance Sheet Summary

On to the balance sheet, with a key change from an accounting perspective was the addition of right-of-use assets and lease liabilities with the adoption of IFRS 16. During the period, Hirslanden reduced its secured debt facilities by a total of CHF 86 million, with a CHF 50 million scheduled repayment and CHF 36 million optional repayment.

We expect to make an additional optional repayment in the second half of the year, further reducing the division's gross debt.

At the period end, the Group's leverage ratio was 3.5x, reflecting net debt incurred. With the adoption of IFRS 16, the leverage ratio is approximately one turn higher. All covenant

calculations on borrowing facilities at divisional level have been or are in the process of being done, reflecting frozen GAAP provisions, which means that these liabilities are not included – the IFRS liabilities are not included in covenant calculations.

Our recent financial performance has resulted in return on invested capital below our weighted average cost of capital and currently at 4.7%. More on this later.

Group

Cash Flow Summary

Over the page on cash flows, I pointed out, cash flow conversion improved at each of the three divisions, which resulted in group cash flow conversion of 98%, in line with our annual target of 90% to 100%. The capital discipline across the group, coupled with the reduction in expansion capital expenditure at Mediclinic Middle East, resulted in lower capital expenditure for the group. In combination, this increased the free cash flow after these statements of the group to over £80 million for the half year.

Group

Capital Expenditure

Over the page, on page 17, the Group remains focused on return-oriented investments across the health care continuum. Capital expenditure guidance in constant currency has been marginally reduced for the full year at around £200 million, some 14% down on the prior year. The year-on-year decrease largely results from the commissioning of the Parkview Hospital and continued focus on capital discipline.

Improving Medium- Term

Free Cash Flow Generation

And then on page 18, finally, before I hand back to you – to Ronnie. In our group, we have a focus – a financial focus on profitable growth, cash flow and returns. Through strong cash flow generation and disciplined spending our aim is to, in the medium term, improved free cash flow across the group, to fund incremental growth across the healthcare continuum, while maintaining our position of responsible leverage. And the execution of this financial strategy, combined with the adoption of technology and operating discipline and innovation, we expect to drive the business to improved asset utilisation and improving over time our return on invested capital.

With that, I thank you very much for your time, and I'll hand over to Ronnie.

Strategic Delivery

Dr Ronnie Van Der Merwe

CEO

Thank you, Jurgens. I'm on page 20. Since I took over as CEO in June last year, 2018. I've been working closely with our entire Mediclinic International senior executive team to develop and formulate a clear and coherent strategy for the Group, one which we believe will deliver long-term success for our Group.

Company Strategy*Purpose, Vision & Values*

Our purpose is very important to us because it connects the internal motivation of our employees, and bear in mind, most of them are healthcare employees with Mediclinic releasing for existence. This unleashes their full potential to drive our business forward.

Our vision is to be the partner of choice that people trust for all their healthcare needs. It's a broad vision. It's something we believe is attainable. And this vision is supported on page 21 by seven strategic goals. I will highlight three important ones for the purposes of today.

Company Strategy*Group Goals*

We are strengthening our core competency of multidisciplinary specialist orientated at acute care inpatient services, by developing into an integrated service provider along the continuum of care, which is our first goal. It reduces fragmented care. It improves our value proposition, and it provides us with the opportunity to take advantage of all sorts of new developments in the arena of healthcare, and we are very excited about this.

Secondly, we are very focused on improving our value equation. We aim to provide superior clinical outcomes and outstanding clinical experiences in the most cost-efficient manner and in the right health care setting. We are quite – feel quite strongly about the care settings, and that will play a big role in future in our business. That was goal number two.

The third one is digitalisation technology, which we are using now to improve current care processes and establish new services to our patients. And we believe there's a lot of opportunity, and we've started to make progress on digitalisation. Those are three very important ones. Not that the others are not important, but for the – in the interest of time, the others are more self-explanatory, and I thought I'd highlight the first three.

I just also want to highlight that the attainment of these goals are supported by some transformation drivers that we are also working on, internally, namely innovation, sustainable development, diversity and inclusion and leadership development. Those are all important building blocks for us in order to drive our goals forward.

Unified Approach To*Leverage Scale and Unlock Value*

Then on slide 22, our strategy execution is further supported by another important aspect of our business, and that is our unified approach of strong internal collaboration across the Group. We know what we want to achieve as a Group, and we are making good progress in leveraging the opportunities created by our scale and our diverse footprint.

Hirslanden Continues to Make*Good Progress on Key Initiatives*

On slide 23, page 23, I'm going to look at each of the divisions, and I would like to highlight some examples of where we are making good progress against our strategic goals. So firstly, in Hirslanden, it's quite a busy slide, but we've done a lot in the last six months in that part of the world. And as I've already said, the new management team in Switzerland is doing an

excellent job in adapting the business to the current healthcare trends and a changing regulatory environment.

I'm very confident in their ability to deliver on all the key initiatives. We've set ourselves a challenge of improving the profitability of all inpatient insurance groups as half of our inpatient business in Switzerland is generally insured anyway. Another focus is developing our competencies in profitable by-pass surgery, making good progress there as well. We are satisfied with the performance at our two established facilities. Those are day case surgery facilities in Bellaria and Zurich and in the train station in Lucerne. We've recently appointed a day case clinic manager to drive the rollout of our day case surgery clinics in that country. And like I said, day case clinics represent lower care settings, taking up more limited floor space and requiring significantly less CAPEX and inpatient facilities. For example, the entire Lucerne facility required CHF 4 million to fit up.

Another area where we have made significant progress over the last six months is in the area of partnerships and collaboration. In the past month, we've announced two significant public-private partnership agreements in the cantons of Geneva and Baselland, respectively. Operating as part of an integrated health care system, we see it as vital to be able to work alongside other health care providers in the public and private sector to deliver future growth opportunities and the best possible care for patients in those markets. In Geneva, along with the University Hospital, we are going to establish the largest day case surgery facility in Switzerland, with a total of ten theatres opening in 2023.

In Baselland, we announced that next – early next year, we will establish the centre of excellence joint venture in orthopaedics and musculoskeletal care. In both cases, Hirslanden will run their operations and endorsement of our expertise in Switzerland. We – today, we announced that we are also in advanced discussions with Medbase, the largest or the large Swiss primary health care provider and part of the Migros Group – the Migros Group is Switzerland's largest retail company – to create a framework from which to develop across the continuum of care. This is aiming at leveraging Hirslanden acute care and day case surgery expertise and competencies with Medbase's primary care expertise and representation across Switzerland. A very exciting development and one that will strengthen our position as the leading private healthcare provider in Switzerland.

Hirslanden

New Day Case Surgery Clinic

On page 24, you can see some images of the Neo guide day case clinic at the train station in Lucerne. Those of you at the Capital Markets Day in 2018, would have seen this as a building site. It's now an impressive and highly functional facility, which is performing quite well.

Delivering Incremental Growth

In Southern Africa

On page 25, we jump to Southern Africa. Our strategic focus here in Southern Africa, given the macro environment is to deliver incremental growth over the medium term. We operate a very efficient, centralized and standardized business in Southern Africa across our 53 hospitals and also our nine-day case clinics and our five sub-acute hospitals.

Similar to Hirslanden, we are focused on leveraging our acute care hospital expertise in highly specialised medicine to successfully expand across the care continuum. And the Mediclinic strategy to strategically co-locate our day case learnings with our busiest hospitals is already delivering positive results for that division. Both doctors and patients are very supportive of this approach and insurers are also recognizing the benefits thereof. It's testament to the team, and there are efforts that Mediclinic is the only major health care provider in Southern Africa to have been included in all the recent major medical insurance or medical scheme networks.

Partnerships and collaboration opportunities will also be part of the growth strategy in Southern Africa. In Stellenbosch, we formed the centre of excellence with the Institute for Orthopaedics and Rheumatology at the site of our previous hospital in Stellenbosch. We believe that more opportunities like these in both the public and the private sectors will present themselves in the future. It is our responsibility as an integrated system provider, offering value-based care, to investigate these and to deliver solutions for all stakeholders in the markets we serve. We have invested more this year to enhance our clinical standards and staff across this division. Additional full-time clinical directors at our busiest hospitals have been appointed, which strengthened our ability to provide high-quality, cost-effective care in those facilities.

As mentioned in the beginning of the call, Mediclinic Southern Africa has six hospitals in the most recent discovery, our top 20 hospital patient feedback survey. And this is the biggest representation of any of the large hospital groups in the industry. Mediclinic Panorama, our first hospital in Southern Africa, has now been on the list for the fifth consecutive years. Certainly, setting the standard for our other hospitals, and the competition is – they are all competing to get there.

Mediclinic Southern Africa

New Hospital and Day Clinic

So on slide – or page 26, I just wanted to highlight the new Mediclinic Stellenbosch hospital and the day case clinic, you will see a picture of it there that we opened in June, having moved from the old location where the Institute for Orthopaedics and Rheumatology is now located. Those of you joining our December site visit, we'll get to see this new facility, which has been performing well since opening.

Executing Our Middle East

Growth Strategy

And then we go on to the Middle East, on page 27, where we are delivering on our growth strategy. As Jurgens mentioned earlier, we are seeing growth in both Abu Dhabi and in Dubai. And our growth in Abu Dhabi is a result of a number of focused strategic and operational initiatives that we implemented since the Al Noor acquisition. I'm comfortable with the momentum we are building in that market, and it's very good to see.

In a moment, I'll show you two major projects we've invested in there, which will support our continued growth. But first, another matter. And that is the critical success factor in our business. Everywhere we do business is the ability to attract and retain key clinical staff as our business grows.

In the Middle East, we have a very well-developed international human resource function, recruitment function that supports the recruitment process, and we continue to leverage our clinical reputation and employer of choice status in that region to draw new and good talent.

Finally, it's important to mention that the regulatory environment in the UAE continues to mature, and we are ensuring that we keep up with all these changes. This includes the establishment of a centres of excellence, the reporting of quality indicators in the public domain, participating in health information exchanges in both those two emirates in which we function as well as the implementation of diagnosis related groupings, or DRG, tariff models in both those markets or of the eminent and also electronic health record systems. We are fortunate as an international group to have access to different competencies and expertise we have in all our divisions.

We ensure that we continue to deliver the international clinical standards of patient expect and work collaboratively with insurers and government to take the health care sector in the region forward as a trusted partner.

Mediclinic Middle East

Abu Dhabi: New Cancer Centre

On page 28, just a quick look at two projects in Abu Dhabi, first one is the Airport Road Hospital. It has developed very strong reputation amongst doctors and patients, and we are going to build on this with the opening – we are going to build on this reputation and momentum that we've been able to achieve with the opening of the new wing as well as a comprehensive cancer centre in the middle of next year. You can see the picture there.

Mediclinic Middle East

Abu Dhabi: Renovated Hospital

On slide 29, the Mediclinic, our newer hospitals and other hospitals in the city of Abu Dhabi, the major innovation upgrades to the ground and mezzanine floors has been completed. These newly renovated areas repositions this hospital in that region, and it is already one of our busiest hospitals as we speak.

Then the last page, to finish. Before handing over to questions, I would like to make a couple of points. Firstly, we've had a solid start to the financial year, and we are satisfied with the impact of our operational initiatives. We are also making good progress in executing against our group strategy, which I firmly believe will create long-term value for our stakeholders. All three divisions are successfully adapting their businesses to the changing health care environment and the health care environment is changing quite rapidly at the moment. We are supplementing our acute care specialist orientated inpatient offering by expanding across the care continuum, and we're making good progress on that. And lastly, our value equation is central to our business, and we will continue to deliver cost-efficient quality care in the most appropriate settings that meets our clients' expectations. And we will do all of this through profitable growth and enhancing our returns.

And with that, I would like to hand over to the operator so that we can take your questions.

Q&A

Operator: Thank you. We will now begin the question and answer session. If you wish to ask a question by the phone lines please press star one on your telephone keypad and wait for your name to be announced. Once again, that is star and one from your telephone keypad. Thank you.

Thank you. And your first question comes from the line of Kane Slutzkin, please ask your question. The line is open.

Kane Slutzkin (UBS): Morning gents. Just a few questions, please. Just on Switzerland, with the outpatient setting gaining momentum with obviously outmigration. Just curious as to what you're seeing on the insurance front. I understand insurers aren't really playing in that space. Correct me if I'm wrong, I think there was one product out there. But what developments are you seeing in this regard?

And then just on the UAE, you obviously seem to be building some momentum. And previously, you spoke a lot in Abu Dhabi about the fact that volumes were lower, but the average revenue per case was higher which seem to speak to the patient mix strategy you have there. I'm just wondering whether – how is that going? I do note – obviously, you've got high volumes, is that coming at the expense of mix? Usually, in the appendix you guys show us that mix, I don't see that this time around.

And then just last question, just on your page 1 of your release, you guys continue to invest along the continuum of care, and you list a couple of growth initiatives. One of which is radiology. I just want to confirm that that's not pertaining to South Africa, or is it? If you could just confirm for us, please?

Ronnie Van Der Merwe: Thank you, Kane. I'm going to kick off. Jurgens is going to support. Jurgens you can prepare for the next one. To question number two. I'll deal with question number one. So that's about the day case surgery sector in the Swiss environment and how that's developing. So just to remind everybody that anything – not anything, any treatment in which a patient do not stay overnight in the hospital is regarded as a day case or an outpatient treatment in Switzerland. And then, as a result of that is only being remunerated by way of TARMED, which is a tariff structure and pricing system, particular or peculiar only to outpatients. The price points are significantly lower than what you would have received in doing those cases as inpatients. And the cantons do not contribute to the payment of those accounts in contrast to what happens on an inpatient basis.

So TARMED is the structure for outpatient care, and it's paid for by general insurance only, not at sale. It's a supplementary insurance products are not playing in that field. They don't cover that services and neither does the cantons themselves, but the supplementary insurance companies have seen a decline in their value proposition because many of the type of procedures that they've been covering in the past that inpatients are not impatient any longer. And in terms of enhancing their value proposition, they are investigating whether to put together products that could cover day case surgery. The discussions are still continuing. And at the moment, there are no products that we've seen being launched. I think there's one. But we are reasonably positive that this will, in some shape or form – in the next year or two, we will see some products to that regard on the market to cover day case surgery.

Jurgens, the second question was...

Jurgens Myburgh: Yes. Just on your Abu Dhabi insurance mix, you're right. We have shared with you in the past, it's not in there. But the reason why it's not in there is – it's basically stabilised. If you remember, the key drivers of that in the past were the ramp-up of the Zika insurance component. Following the co-payment and then the termination of that. And so, we saw that ramp up and that ramp-up is stabilised. And at the same time, we implemented the basic plan strategy is – particularly in the Airport Road Hospital in the beginning of last year. And so that's already in the base as well.

So, if you look at the mix, that's stabilized at around 20% for basic and, let's say, around 80% for the other two, split more or less 50-50. And so, we haven't seen a particular shift. We will continue to monitor opportunities in the market for us to continue with that strategy, but for the time being, we haven't seen any further changes. But yes, we have seen volumes up. We have seen volume growth. You would see a split up in the presentation that the growth in the Abu Dhabi healthcare is 4% over 6% last year. And so, we continue to see volume growth. And I think you have to also read across the fact that we didn't have tariff increases. And so that would, to some extent, also read across into the revenue per night. But we have seen good volume growth, 9% and 5% across the base, which is driving a lot of our revenue growth.

Ronnie Van Der Merwe: My third question is, continuum of care, radiology specific in South Africa. So, I just want to make one or two very general comments on this. Radiology is big for us in the Middle East. We run numerous radiology facilities in the United Arab Emirates as well as in Switzerland. And we are very well versed in to operate those facilities and that kind of services. Similarly, to lab. We do a lot of pathology lab work in both those divisions.

In the South African division, we are not involved in that for various structural reasons. And at the moment, our focus is on – in terms of the continuum of care, in Southern Africa is through Intercare, looking at primary care, sub-acute hospitals, etc. We have a very close working relationship with radiologist practices that are in our hospitals. And should there be an opportunity in the future, by mutual agreement, we would be able to – be willing to look at that, but nothing important at the moment.

Operator: Let us proceed to the next question. It comes from the line of Roy Campbell. Please ask your question; the line is open.

Roy D. Campbell (Morgan Stanley): Two questions, please. You made mention of the ex-outmigration inpatient growth or marginal growth that's coming through, if you can give us any type of indication of the patient mix within that growth?

And then secondly, in South Africa and the recent network deals that you've been included in. Can you maybe just give us a – some sort of indication what the requirements of those networks, in particular, in pricing? Is there a significant amount of discounting that needs to happen in order to get included with those? And maybe just some sort of indication of what the more meaningful metric deals that you are including on?

Jurgens Myburgh: Thanks for your time and your questions as well. So, on the underlying growth. So, what we have done – let's just take a step back. So, the analysis that we did, we said maybe they hospitals, which is basically half of our portfolio that have really been on outmigration in some shape or form and compare those on a like-for-like basis. And then secondly, look at the entire portfolio and strip out the cases that have out-migrated and look

at the underlying volume. And so, what we've seen is in the inpatient environment, some modest growth in that.

I don't want to read across directly into the insurance mix, but your question is a good one. What – the way I'll answer that question is to say that if you look at our insurance mix, you would have seen it track year-over-year. But that does include Grangettes, which does have a slightly higher supplementary insurance mix. So, if you exclude Grangettes from the insurance mix, you would have seen that it's probably down 1-2% in the underlying business, which is in line with our expectations, given the dynamics of outmigration of care. And also, this is the first half, which seasonally for us is the least busy half as well.

So, what we've seen is in line with our expectations. But I think once we've been through the fourth quarter of our financial year, in the first quarter of the next calendar year, we've bid a line of sight on like-for-like volumes and probably be able to give you a slightly more informed view of the future.

Ronnie Van Der Merwe: Right, on to SIE, South Africa network deals. We are very well positioned in terms of network deals due to our sustained focus over the last few years of becoming as efficiently as we possibly can. So, we've been actively managing our length of stays of our inpatient as well as our levels of care. And when evaluated as a so-called efficient hospital group, which really comes down to cost per event for the interest of the medical schemes we are – we look good. We are regarded as an efficient group. And therefore, we are well positioned to be able to be included on those network deals.

Their network deals at the moment is pretty much around pricing. And discounts and not so much about clinical performance. It's something we are driving there towards, but I suppose the market will get there. It's work in progress, but at the moment, it's more about the financial metrics around network deals. And as I started off saying is because of our sustained focus on that aspect of our business, we are well positioned. That doesn't mean we're going to be able to be on every single network at every single time. That doesn't really work that way. But the majority of them and the bigger ones we have been able to get on.

And we put quite a lot of effort into our very close working relations with the medical scheme, so also to try and understand what their problems and challenges and market needs are and whether we can come up with solutions.

Operator: Let us proceed to the next question. It comes from the line of Hans Bostrom.

Hans Bjorn Eskil Bostrom (Crédit Suisse): I have a couple of questions, particularly in Switzerland. I'm excited to hear about your PPP initiatives. Obviously, it's quite some time away before, I presume this Geneva project will start, but could you give us a sense of how this will work financially for you? Are you sharing revenues? Or are you contracting a management fee? Any type of guidance on that would be interesting to hear.

And secondly, I'm also battling a bit with your comments about are you talking about – well, talking about lower acuity and payer mix in, as I understand it, legacy hospitals, is that the case? Yes, you are seeing volume growth rate. I'm just thinking about how we should think about this going into the next year or so, if this is a sustainable trend?

And thirdly, there's also a comment about flexible regarding property ownership. And you did mention two hospitals in South Africa, which are clearly now rented. Are we to expect that

Mediclinic will take a more, should I say, capital lean approach to your ownership of hospitals going forward?

Jurgens Myburgh: Good morning and thank you for your questions. I'll start with the -- your question on Geneva, PPP. Firstly, you're right. It is -- it will be a while before that comes to fruition. But the structure of it is a joint venture between ourselves and the university hospital. And so -- and we will be tasked with the management of it. But the construct of it obviously is very much in the form of a joint venture. So, we will obviously participate in our half of that joint venture. And as we get closer to the time, both with this one as well as Baselland, I think we will be able to give you better and more constructive guidance on exactly how we expect the financials to come through on that.

On the third question of property ownership. I think the key point here is that we continue to have the philosophy of property ownership. As I've indicated in many instances that we think it provides us with financial flexibility, as well as operating flexibility to be able to run multidisciplinary acute hospitals across our portfolio. But as we expand across the continuum of care, I think both the corporate structure as well as the property ownership aspect of it, requires us to be flexible in our approach.

And I think this is -- if you cast your mind, and Ronnie mentioned it earlier, to our new facility at the Lucerne train station, which is in Bahnhof, that is a property that we don't own. And we don't have to own it. And so, I think that's the point around the flexibility. We -- if you look at Parkview Hospital, it's a 180-bed hospital and at a cost of AED 680 million, it's owned. It's Mediclinic-owned. So, I think it's just about being flexible and being agile in our approach, not only with respect to property ownership but also the structures that we enter into to collaborate across the continuum of care.

Ronnie Van Der Merwe: Good. Thank you, Jurgens. The second question was about the decrease in acuity and patient mix in Switzerland in patients. So, I just want to quickly summarize. First, we've got two types of mixes in Switzerland on the inflation side. The one is the payer mix, which is supplementary versus generally insured. And we've seen over many years that there's a slow decreasing trend with regards to the supplementary insurer part. Any there any reasons for that regulatory reasons as well as the supplementary insured population is the numbers have decreased slightly over the years? So that's still continuing.

We are obviously focusing very hard on that, and we are doing our best to attract supplement insured patients to our facilities. And we seem to be -- depending on the type of hospital, the cantons in which we are. We are reasonably successful at that. Then there's another mix, and that is the case mix of the cases. In other words, the acuity, the clinical acuity. We've seen a slight decrease in the period under review, and it's mostly as a result of cardiac characterisations that has had migrated out of inpatients because it's on many of the Cantina list so cardio characterisations are now done as day cases. And therefore, it's excluded from inpatients, those are high acuity procedures, and therefore, we've seen a slight decrease in case mix. We don't foresee that our acuity case mix will decrease in future. We believe it will stabilize.

Hans Bjorn Eskil Bostrom: And if I may, just follow-up on the health migration trend generally. I mean, you talk about your HIT2020 program and other factors, it seems, shoring up profitability. But how should we think about the margins within the growing outpatient

business? Are they within reach of the inpatient business at all? Or given the reductions we've had in tariffs and so forth?

Jurgens Myburgh: It's a good question. I guess, it depends on – if you look at the way that structurally, we're in the process of responding to outmigration I think eventually, about half of our portfolio will have single standing day case clinics, and the other half will have some form of a hybrid, where the day cases will be done in the inpatient environment, but just more efficiently. So I guess it would depend firstly on the structural solution, but at the same time, I think the point is that we continue to drive at the cost – the cost for us and the cost of us for these procedures and aim to get that in line with – or at least an improvement over time with our existing business.

But that – I think that's very much a work in progress, but the broader points around our margins, as we indicated in May as well is that, Ronnie just indicated, that the insurance mix is changing, and we expect will continue to change. We expect that the outmigration will continue to take place as well across the portfolio, but at the same time, our own internal efficiencies and cost management as well as HIT2020 and other aspects will then provide support for our operating performance as well.

And hence, I guess, from a medium-term perspective, that we expect to be where we are this year.

Operator: Thank you. Let's proceed to last question for now, that is Steph Erasmus.

Steph Erasmus (Avior Capital Markets): Thanks for the presentation. Just four questions from my side. From a South African perspective, and the focus on moving along the continuum of care. Given the HMI's findings regarding creeping mergers as well as the competitions' commission disallowance of your Klerksdorp acquisitions. Can you maybe just talk us around how you see the sort of regulatory environment, allowing for you to move down the continuum of care in South Africa? Then also a South African related question, also related to the network list. Can you give us an indication of how much of your South African revenue is sourced from alternative reimbursement methods?

Then third question is around Switzerland and the exposure to Zurich. So, my understanding is that there's 17 outpatient procedures that need to be performed in outpatient setting in Zurich compared to the mandated six. So, can you just walk us through that? And just to reiterate what your exposure is to Zurich?

And then lastly, in the Middle East, what are your views around slowing oil price and longer-term Middle East fundamental slowing? And then just the risk of perhaps of corporate tax being introduced? That's it.

Jurgens Myburgh: Thank you, Steph. It's a handful. Okay.

Ronnie Van Der Merwe: And you do the second one and then we will see after of that.

Okay. Continuum of care in the regulatory environment in Southern Africa. So obviously, with regards to hospitals and hospital licenses and hospital activities, we are constrained over there because of our size. But in terms of other related businesses along the continuum of care, we don't see huge problems in terms of us getting regulatory approval to invest in other aspects of the health care continuum at this point because we are very small. If we have any position in small positions at the moment. So, we don't believe that, that will be a constraint.

On the networks – Jurgens, can you remember what that – I just heard before Jurgens answer. And now it's a very important question that people really value, but it also has a lot to do with what is the definition of alternative reimbursement model. And I've seen many different variations and definitions. So, these numbers are not always comparable, but do you have a number for it? The most basic one?

Jurgens Myburgh: Yes. It's approximately 28% of our revenue. We regard as being on some form of alternative reimbursement model.

If I can just come back to the point on networking. You would have noticed over time that we don't comment on individual networks and ups and downs on individual metrics. And I think it's important. I think we drive the balance of our volume growth and our tenant growth over time. And you would have seen in our SA business, if you exclude Intercare, our revenue per bed day was up 5.4% for this half year. And so, we continue to drive the balance of our volume growth and our tariff growth. And this network information is part of that dynamic, but we don't comment on each of these individually. But yes, it's 28% of our SA revenue that's on some form of ARN.

In Switzerland, your question is a good one. So, our exposure in Zurich is – I mean, we have in-park and we have our flagship hospital, Clinic Hirslanden. And so, it's a sizable portion of our business. But – and yes, it is on a more extensive out-migrated list. But I will – I'll say this, that about half of our portfolio is already on an out-migrated list. And what I mean by that is that the – some of the cantons pre-applied the outmigration lists and Zurich is one of them. And so, if you look at where we are currently, the outmigration from a Zurich perspective and some of these other cantons, representing about half already – is already in the bag, so it's already in our numbers. So, the outmigration that we're going through at the moment is the federal list and that started on 1st January of this year. And that obviously will be in the base, as I said, as of 1st January from next year.

And then your final question on the Middle East. I've many times highlighted that we are conscious of the fact that the Middle East economy, although it's growing, it's not growing at the same pace that it has previously. We're also conscious that government are looking at ways to stimulate the economy in that environment as well. And we would look to play our part in that as well. But yes, I think it's the same in any territory is, if you are looking for growth, you're looking for areas of growth within your business and you would look to work within the economic environment that presents itself and look to grow market share as we have with the Parkview Hospital.

I think on taxes, I don't know, there's nothing concrete that we know of that indicates the implementation of taxes, of course, VAT was implemented a while back, and that's at 5%. Although we're zero-based, it does inform also inflation and other economic metrics. But other than that, there's nothing that I'm aware of at the moment.

Operator: Thank you. And we have no further questions at this time. Please continue.

Ronnie Van Der Merwe: Thank you very much and thank you very much for your time and your interest in Mediclinic, and for listening to us. And if you have any further questions or in need of any further clarifications, please contact James Arnold directly. And hope to see most, if not all of you, in December in Cape Town. Thank you very much.

Jurgens Myburgh: Thank you.

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

[END OF TRANSCRIPT]