

A year characterised by significant investment for Netcare

Issued by [Martina Nicholson Associates \(MNA\)](#)

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It was a busy and productive financial year for Network Healthcare Holdings Limited (Netcare), South Africa's foremost private hospital and healthcare services group. With the acquisitions of General Healthcare Group (GHG) in the United Kingdom (UK) and Prime Cure now fully absorbed, a very different, more mature company has emerged.

The year ending September 2007 has been characterised by significant investment in the South African market. Key focus areas included skills and infrastructure developments to the order of R100 million and R820 million respectively.

Commenting on the results, Dr Richard Friedland, Group Chief Executive Officer of Netcare, said that the company's performance was enhanced by strong, organic growth experienced in the South African market, while the UK ventures had benefited substantially from increased efficiencies.

Financial highlights for the year ending 30 September 2007 include:

- 27% increase in adjusted headline earnings per share
- 20% increase in final reduction of capital per share
- 15% increase in South African revenue
- 14% increase in South African operating profit

"While Netcare will always remain a South African company it is worth noting that 52% of our revenue now comes from our operations in the UK," said Friedland. "We were able to improve efficiencies in that market with the successful transfer and integration of South African intellectual property and skill. This is something we are particularly proud of."

He continued: "At the same time we also learnt a great deal from our UK operations, especially with regard to innovative ways in which to partner with Government in order to improve accessibility and affordability to quality healthcare."

Peter Nelson, Group Chief Financial Officer of Netcare, reported that profits were driven by strong revenue growth of 15% in South Africa and the inclusion of R9 738 million from GHG. "The group operating profit margin expanded from 14,1% to 16,1% as a result of the full year consolidation of GHG, which has comparatively higher margins than those in South Africa."

"Group headline earnings per share increased by 75% to 77,6 cents per share with the South African basic adjusted headline earnings per share increasing by 18% to 77,1 cents per share. The headline earnings per share were impacted by the credit to income due to a change in the UK tax rate and the restatement of the prior year in accordance with the new circular on headline earnings. Discounting these items, core headline earnings per share have increased by 27% to 61,8 cents per share."

• Operational Review

In South Africa achievements for the year included the commissioning of two new hospitals, the acquisition of the remaining interest in Community Hospital Group (CHG) and the awarding of a Public Private Partnership (PPP) concession agreement for the Port Alfred and Settlers Hospitals. In the UK, Netcare's integration of GHG is on track, while at the same time it commissioned three new NHS facilities.

Said Friedland: "We have experienced significant organic growth thereby creating a strong asset base from which to leverage future expansion. This was evident from a 5,9% increase in the number of patients (over one million) admitted to

hospital and treated in our casualty departments. It was encouraging to note a 13,0% growth in self-pay hospital revenue, especially in terms of maternity and casualty admissions.”

“As affordability and accessibility is a burning issue in our sector, average effective price increases in our hospital business remained in line with inflation at 5,7%.”

With primary healthcare being a key strategic focus within Netcare's corporate strategy, the group has invested a substantial amount of time, effort and capital in positioning both Medicross and Prime Cure for future growth. This has resulted in a 9,4% increase in GP and dentist visits with more than 3,5 million patients visiting these facilities. The average effective price increase for this market has remained substantially below medical inflation at 2,6%.

Netcare 911, the group's emergency medical services division, experienced a 5,1% increase during the year in the number of patients cared for. As a result of considerable investment in the group's aero medical fleet coupled with pro-active expansion into greater Africa, the air ambulance hours flown increased by 42,7%.

- Access and affordability

As a responsible healthcare group Netcare is highly conscious of the fact that it owes its success to the communities it serves. Netcare remains strongly committed to the country and the development of its people and recognises the need to improve access to quality healthcare at affordable levels. Apart from having contributed to a great number of corporate social investment initiatives at a total cost of R29 million, Netcare 911 has also assisted more than 15 300 indigent patients at a cost of R18 million during this financial year.

According to Friedland the skills shortage within the healthcare sector remains an issue of concern. “In an effort to address this we have trained 3 200 nurses and 500 paramedics this past year.”

- Driving quality of care

“At Netcare quality underpins each and every aspect of our business. Every patient interaction as well as individual staff competence and professionalism, is therefore monitored on an ongoing basis. As part of this practice Netcare benchmarks itself against the world's best healthcare standards. In terms of infection and mortality rates we have again proved that the quality of care provided in our hospitals by far outperforms the international average,” said Friedland.

- BEE

In August 2007 Empowerdex rated Netcare as a level 5 (BBB) and Prime Cure as a level 4 (A) contributor. It is Netcare's aim to achieve level 4 status in 2008. “We have elevated our Transformation and BEE committee to Board level as we strive to adhere to the principles rather than the mechanics of empowerment. In the year ahead most of our focus and investment will be in improving cultural diversity. We also remain fully committed to the finalisation of the healthcare sector charter process,” commented Friedland.

- Outlook

The strong growth experienced in private healthcare in both the insured and self-pay markets is expected to continue in South Africa. Capacity constraints at a number of facilities have necessitated a review of operating practices. According to Friedland good progress has been made with the restructuring of Netcare's pricing model, where the intention is to convert a substantial portion of the fee-for-service pricing model into an alternative reimbursement and risk-sharing model with funders.

The company is actively engaging with government in formulating the National Health Reference Price List (NHRPL). Netcare remains a committed partner to Government in the transformation of healthcare, and in finding viable new delivery models that will address the critical need to broaden access to quality, affordable healthcare in South Africa.

Said Friedland: "Operations in the UK are on track and well positioned for further growth. Despite a flat private medical insurance market, long-term demographics remain attractive and management is focussed on driving this growth opportunity through a range of initiatives. It is expected that GHG will benefit from the NHS Patient Choice programme and continued local NHS procurement."

The Board of Netcare has declared a final reduction of capital of 18 cents per share representing a 20,0% increase when compared to that of the previous year. Together with the interim reduction of capital of 13 cents per share Netcare paid 31 cents per share, a 15% increase on total capital reductions paid in the last year.

Editorial contact

Martina Nicholson or Petro Lowies on
(011) 469-3016

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