lenmed
Embrace every day

Preliminary statements

for the year ended 28 February

2018

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Commentary

Performance review

The past financial year was challenging for Lenmed and the sector at large. South Africa's economic woes persisted for much of the year, with growth lagging far behind our sub-Saharan, fellow emerging markets and global peers by some margin, with unemployment reaching record high levels. The newly elected leadership of the ruling party has a tough task at hand to reign in corruption, provide policy certainty and improve business confidence.

Despite these difficult trading conditions, Paid Patient Days (PPDs), on a like for like basis, remained static compared to last year, with Revenue per PPD increasing by 10%. This mainly resulted from a focused drive for more complex and high-end disciplines at our facilities. These results underscore not only Lenmed's resilience, but also serves as a good litmus test of our operational strategy against our peers.

The Group's revenue increased by 42.0% from R1 558.5 million to R2 220.8 million. The major reason for the increase was the R498.9 million increase in revenue arising from the Lenmed Ethekwini Hospital and Heart Centre (EHHC) acquisition. Further strong increases came from Zamokuhle, Randfontein and Kathu Private hospitals with all recording higher than 40% increase in revenue

The Group continues to use the concept of normalised earnings before interest, taxation, depreciation and amortisation (EBITDA), as well as normalised headline earnings, as measures to provide shareholders with consistent and comparable reporting. Normalised earnings before interest, taxation, depreciation and amortisation (EBITDA) increased by 46% to R399.1 million (2017: R272.7 million). The Group's normalised EBITDA margin increased to 18% from 17.5% in the prior year. On a segmental basis, the EBITDA margin for South African hospitals was 18% (2017: 19%), while the EBITDA margin achieved for the rest of the African operations was 18% (2017: 15%).

Core Headline Earnings at R162.6 million (2017: R174.0 million) decreased by 6.5% against the prior year. This was attributable to primarily the large increase in the financial expense of R65.5 million, arising from increased borrowings. These borrowings were incurred to finance the Royal Hospital and Heart Centre (RHHC) hospital which cost the group R408.4 million. Additionally, the group financed the acquisition of the increase holding in EHHC through debt financing.

The EHHC results are no-longer equity accounted which resulted in the large decrease of share of profits from associates. The remaining equity accounted earnings arose due to the Group's 30% investment in Lenasia Renal Centre and 40% in Renal Care Holdings. The two companies achieved satisfactory earnings of R1. 6 million which was 29% higher than the prior year.

Finance costs amounted to R105.2 million, which was substantially higher than the previous year. The Group continues to invest heavily in the future of the business, with R324.6 million spent on capital expenditure. In line with IAS 23 "Borrowing Costs", as well as the Group's accounting policy, R21.5 million (2017: R23.4 million) was capitalised due to interest incurred on the capital spend at the new hospital in Kimberley which opened in July 2017.

The Group's property, plant, equipment, furniture, fittings and vehicles increased in value to R2 825.8 million (2017: R2 605.7 million). These increases are due to the previously mentioned expansion projects.

During the financial year under review, Lenmed obtained a R1.4 billion composite facility from Rand Merchant Bank to allow it to continue its expansion projects. Interest bearing borrowings (excluding shareholder loans) increased from R902.5 million to R1 262.5 million.

Lenmed's total interest bearing debt to equity ratio (excluding loans from minorities) has increased to 60.6% (2017: 35.0%). The interest ratio coverage decreased in line with increased debt levels to 3.5 times (2017: 6.6), with cash flow from operations to net interest expense dropped from 7.7 times to 3.8 times. This should be the peak of the borrowing cycle in the group and debt levels will decrease over the forthcoming years.

Subsequent events

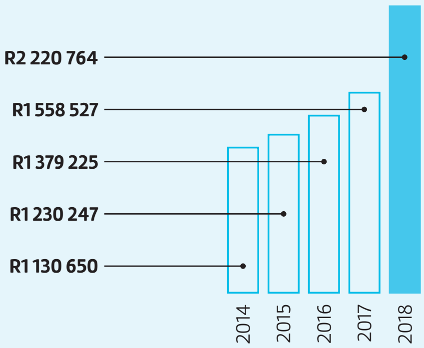
The directors are not aware of any other matter or circumstance arising since the end of the financial year, not otherwise dealt with in the Group and company financial statements which significantly affects the financial position at 28 February 2018 or the result of its operations or cash flows

Outlook

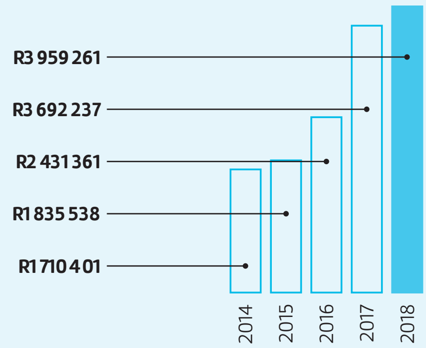
We remain optimistic that the improved business sentiment will set the economy onto a positive trajectory increasing employment. Demand for quality private healthcare services are expected to remain strong due to the ageing medically insured population and southern Africa's 'quadruple burden of disease'. We will strive relentlessly to fulfil our vision of being a relevant and growing hospital group championing exceptional patient experiences and clinical outcomes, while remaining true to our roots, the communities and the people we serve.

Five-year review* Figures in R'000

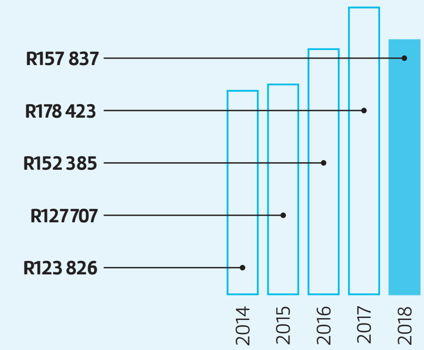
REVENUE
five-year CAGR **27%**



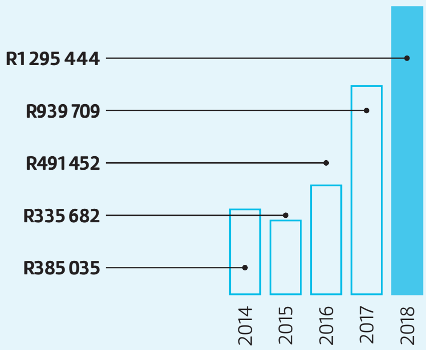
TOTAL ASSETS
five-year CAGR **22%**



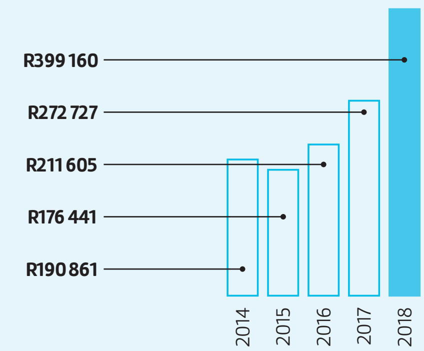
HEADLINE EARNINGS
five-year CAGR **12%**



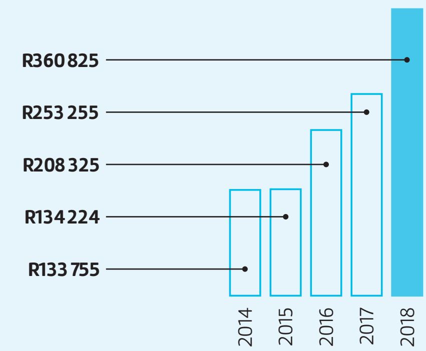
TOTAL INTEREST-BEARING DEBT
five-year CAGR **26%**



NORMALISED EBITDA
five-year CAGR **25%**



CASH FLOW FROM OPERATIONS
five-year CAGR **34%**



* Calculated based on 2013 as the base year.

Statement of comprehensive income

Figures in R'000	GROUP 2018	2017	2017*	% Change
Profit and Loss				
Revenue	**2 220 764**	1 558 527	1 558 527	42%
Cost of sales	**(642 592)**	(416 981)	(416 981)	
Gross profit	**1 578 172**	1 141 546	1 141 546	38%
Other income	**77 729**	268 364	59 362	
Operating costs	**(1 316 972)**	(976 106)	(976 106)	
Profit before interest and taxation	**338 929**	433 804	224 802	51%
Share of profit from associates	**1 628**	28 474	28 474	
Investment income	**8 680**	5 358	5 358	
Finance costs	**(105 205)**	(39 710)	(39 710)	
Profit before taxation	**244 032**	427 926	218 924	11%
Taxation	**(54 063)**	(87 616)	(40 799)	
Profit for the year	**189 969**	340 310	178 125	7%
Other comprehensive income				
Items that may be reclassified subsequently to profit and loss				
Foreign currency translation reserve	**(37 920)**	(77 185)	(77 185)	
TOTAL OTHER COMPREHENSIVE INCOME	**(37 920)**	(77 185)	(77 185)	
TOTAL COMPREHENSIVE INCOME	**152 049**	263 125	100 940	51%
Profit for the year attributable to:				
Non-controlling interests	**32 571**	(554)	(554)	
Lenmed Investments Ltd equity holders	**157 398**	340 864	178 679	(12%)
	189 969	340 310	178 125	
Total comprehensive income attributable to:				
Non-controlling interests	**32 091**	(7 473)	(7 473)	
Lenmed Investments Ltd equity holders	**119 958**	270 598	108 413	11%
	152 049	263 125	100 940	
Core Headline Earnings**	**162 590**	173 963	173 963	(7%)

* Without the fair value increase arising on consolidation of Lenmed Ethekwini Hospital and Heart Centre.
** Core Headline earnings is defined as headline earnings without currency fluctuations as it is group policy not to hedge foreign earnings.

Core Headline Earnings Reconciliation

Figures in R'000	GROUP 2018	2017	2017*	% Change
Profit for the year attributable to Lenmed	**157 398**	340 864	178 679	(12%)
Add/(Less): Loss/(Profit) of disposal of assets net of taxation and minority interests	**439**	(256)	(256)	
Less: Fair Value uplift on associate investment in EHHC net of taxation	**–**	(162 185)	–	
Add/(Less): Currency losses and gains	**4 753**	(4 460)	(4 460)	
Core Headline Earnings	**162 590**	173 963	173 963	(7%)

Statement of financial position

Figures in R'000	Note	GROUP 2018	GROUP 2017
Assets			
Non-Current Assets			
Property, plant and equipment		**2 825 788**	2 605 660
Goodwill		**312 888**	315 052
Intangible assets		**18 969**	–
Investment in associates		**5 607**	4 429
Deferred taxation		**50 077**	35 653
		3 213 329	2 960 794
Current Assets			
Inventory		**62 398**	38 837
Trade and other receivables		**600 693**	517 716
Taxation		**17 571**	6 860
Cash and cash equivalents		**65 270**	168 030
		745 932	731 443
TOTAL ASSETS		**3 959 261**	3 692 237
Equity and Liabilities			
Equity and Reserves			
Stated capital	1	**426 006**	422 407
Other Reserves		**303 399**	342 160
Accumulated profits		**1 109 105**	1 134 401
Non-controlling interest		**135 624**	202 883
		1 974 134	2 101 851
Non-Current Liabilities			
Long term liabilities		**1 054 930**	774 722
Loans from minorities		**63 832**	102 347
Deferred taxation		**286 056**	268 681
		1 404 818	1 145 750
Current Liabilities			
Trade and other payables		**320 921**	270 101
Current portion of long term liabilities		**112 511**	87 331
Provisions		**47 666**	36 376
Taxation		**4 221**	10 455
Bank overdraft		**94 990**	40 373
		580 309	444 636
TOTAL EQUITY AND LIABILITIES		**3 959 261**	3 692 237

Statement of changes in equity

Figures in R'000	Stated capital	Revaluation reserve	Foreign currency translation reserve	Share-based payment reserve	Accumulated profits	Equity attributable to Group	Non-controlling interest	Total
Balance at 1 March 2016	219 843	230 259	178 076	3 414	830 512	1 462 104	31 304	**1 493 408**
Profit for the year	–	–	–	–	340 864	340 864	(554)	**340 310**
Other comprehensive income	–	–	(70 266)	–	–	(70 266)	(6 919)	**(77 185)**
Share-based payment accrual	–	–	–	3 320	–	3 320	–	**3 320**
Full control of subsidiary	–	–	(2 643)	–	(36 975)	(39 618)	526	**(39 092)**
Change in non-controlling interest							178 526	**178 526**
Issue of share capital	202 564	–	–	–	–	202 564	–	**202 564**
Balance at 1 March 2017	422 407	230 259	105 167	6 734	1 134 401	1 898 968	202 883	**2 101 851**
Profit for the year	–	–	–	–	157 398	157 398	32 571	**189 969**
Other comprehensive income	–	–	(37 440)	–	–	(37 440)	(480)	**(37 920)**
Share-based payment accrual	–	–	–	(1 321)	–	(1 321)	–	**(1 321)**
Additional investment in subsidiary	–	–	–	–	(182 694)	(182 694)	(99 350)	**(282 044)**
Issue of share capital	3 599	–	–	–	–	3 599	–	**3 599**
Balance at 28 February 2018	426 006	230 259	67 727	5 413	1 109 105	1 838 510	135 624	**1 974 134**
Note	1							

Statement of cash flows

		GROUP	
Figures in R'000	Notes	**2018**	2017
Cash flows from operating activities			
Profit for the year		**189 969**	340 310
Adjustments for:			
Finance costs		**105 205**	39 710
Income tax		**54 063**	87 615
Depreciation and amortisation		**54 672**	52 619
Interest income		**(8 680)**	(5 359)
Profit on disposal of property, plant and equipment		**–**	(663)
Fair value adjustment on investment in associate		**–**	(209 002)
Capital issued in respect of long service awards		**–**	405
Share-based payment (reversal)/accrual		**(1 321)**	3 320
Income from associates		**(1 178)**	(28 474)
Foreign currency translation adjustments		**(23 575)**	(15 596)
Operating cash flow before working capital changes		**369 155**	264 885
Working capital changes			
Increase in inventory		**(13 864)**	1 290
Increase in trade and other receivables		**(88 329)**	(114 097)
Increase in trade and other payables and accruals		**93 863**	101 177
Cash generated by operating activities		**360 825**	253 255
Interest income		**8 680**	5 358
Finance costs		**(103 825)**	(39 710)
Income tax paid		**(67 590)**	(76 144)
NET CASH FROM OPERATING ACTIVITIES		**198 090**	142 759
Cash flows from investing activities			
Property, plant and equipment acquired		**(300 311)**	(397 150)
– to maintain operating capacity		**(28 947)**	(85 165)
– to expand operating capacity		**(295 673)**	(347 900)
– instalment sale agreements (non-cash)		**24 309**	35 915
Intangible assets acquired		**(12 594)**	–
Proceeds on disposals of property, plant and equipment		**–**	1 921
Increase in Investment in associates		**–**	(124 800)
Business combination effected		**(10 404)**	–
Additional consideration for investment in subsidiary		**–**	(2 850)
NET CASH UTILISED IN INVESTING ACTIVITIES		**(323 309)**	(522 879)
Cash flows from financing activities			
Proceeds from equity issued	1	**3 599**	202 159
Net loans (repaid)/raised		**278 763**	268 373
Loans raised		**565 354**	704 433
Loans paid		**(286 591)**	(436 060)
Full control in subsidiary acquired		**–**	(98 860)
Additional investment in subsidiary	2	**(316 298)**	–
NET CASH (UTILISED IN)/GENERATED BY FINANCING ACTIVITIES		**(33 936)**	371 672
Decrease in cash and cash equivalents		**(159 155)**	(8 448)
Translation movement on cash and cash equivalents of foreign entities		**1 778**	1 234
Cash acquired on acquisition		**–**	28 475
Cash and cash equivalents at beginning of the year		**127 657**	106 396
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**(29 720)**	127 657

Accounting policies

1. Basis of preparation

These preliminary consolidated statements that are not audited have been correctly extracted from the audited annual financial statements that PKF Durban have issued an unqualified opinion on. The results have been prepared under the supervision of Vaughan Firman CA(SA).

These preliminary consolidated statements are prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), comply with SAICA financial reporting guides as issued by the Accounting Practices Committee, Financial Reporting Announcements issued by the Financial Reporting Standards Council and the Companies Act of South Africa. They have been prepared on the historical cost basis except for revalued land and buildings and the fair value adjustment to investments in associate.

All new and revised standards that became effective during this period were adopted and did not lead to any material change to accounting policies. The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that may affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Notes to the Consolidated Annual Financial Statements

1. Stated capital

Figures in R'000	No of Shares	2018	2017
Authorised			
1 000 000 000 (2017: 1 000 000 000) ordinary shares at no par value			
Issued			
709 533 909 ordinary shares at no par value (2017: 707 558 909 ordinary shares)		426 006	422 407
Share reconciliation			
Balance at the beginning of the year	707 558 909	422 407	219 843
Share premium reclassified to stated capital		–	–
Ordinary shares issued during the year	1 975 000	3 950	202 564
Share issue expenses	–	(351)	–
	709 533 909	426 006	422 407

During the year under review 1,975 million (2017: 62,478 million) shares were issued by the company as follows:

Doctors – 1 975 million shares

This share issue relates to a subscription for shares by doctors who currently practice at our facilities. During the year 21 doctors were issued shares at R2 per share.

The directors are authorised, in terms of the company's Memorandum of Incorporation, to issue and allot any of the unissued share capital for any purpose and upon such terms and conditions as they deem fit.

2. Business combination

2.1 INCREASE IN INVESTMENT IN SUBSIDIARY

During the year the Group increased it's investment in Lenmed Ethekwini Hospital and Heart Centre (Pty) Ltd (Ethekwini hospital) by acquiring 23.11% from the Industrial Development Corporation (IDC) for R313,471 million. This included both the shares and shareholders loans held by them. As at 28 February 2018, the Group owns of 76.72% of Ethekwini Hospital.

Figures in R'000	2018	2017
Net asset value of Ethekwini hospital at 31 July 2017	429 901	–
Non controlling interest of 23.11%	99 350	–
Consideration paid	310 608	–
Shareholder loan acquired	34 256	–
Shares	276 352	–
Additional control transferred to accumulated profits	177 002	–
Acquisition-related costs costs		
Commission and legal costs	2 863	–

Our hospitals

Ahmed Kathrada Private Hospital
K43 Highway, Extension 8, Lenasia Gauteng
T. +27 11 213 2000 F. +27 11 852 8910

Bokamoso Private Hospital
Plot 2435, Mmopane Block 1, Gaborone, Botswana
T. +267 369 4000 F. +267 369 4140

Daxina Private Hospital
1682 Impala Street, Lenasia South, Gauteng
T. +27 11 213 7000 F. +27 11 855 1039

Ethekwini Hospital and Heart Centre
11 Riverhorse Road, Riverhorse Valley Business Estate,
Queen Nandi Drive, Durban, KwaZulu-Natal
T. +27 31 581 2400 F. +27 31 581 2695

Kathu Private Hospital
Frikkie Meyer Street, Kathu
T. +27 53 723 3231 F. +27 53 723 3389

Royal Hospital and Heart Centre
Cnr Welgevonden and Jacobus Smit Street,
Royldene, Kimberley
T. +27 53 045 0350

La Verna Private Hospital
1 Convent Road, Ladysmith, KwaZulu-Natal
T. +27 36 631 0065 F. +27 36 637 4889

Maputo Private Hospital
Rua do Rio Inhamiara, Sommerschield II, Maputo, Mozambique
T. +258 21 488 600 F. +258 21 49 3680

Randfontein Private Hospital
Ward Street Ext, Randfontein, Gauteng
T. +27 11 411 3000 F. +27 11 411 3134

Shifa Private Hospital
482 Randles Road, Sydenham, Durban, KwaZulu-Natal
T. +27 31 240 5000 F. +27 86 559 7043

Zamokuhle Private Hospital
128 Flint Mazibuko Street, Hospital View, Tembisa, Gauteng
T. +27 11 923 7700 F. +27 11 924 2149

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