lenmed

Embrace every day

Preliminary Statements

for the year ended 28 February 2019

Contents

Performance review

In an environment when simply maintaining last year's performance is praiseworthy, we can feel justifiably proud of how well our Lenmed people performed under such trying circumstances. The Group has delivered an impressive operational performance, proving the resiliency of Lenmed's business model once more. Despite extremely trying trading conditions, overall growth in Paid Patient Days (PPDs) of 8% was noted. PPD growth in our South African facilities was 8.7% higher than prior year, reducing to 3.4% excluding the effect of our new Royal Hospital and Heart Centre in Kimberley. Revenue per PPD increased by 6.1% across the Group, with increased theatre utilisation and better case mix noted, offset by stricter managed care interventions and reduced neonatal admissions in South Africa.

The Group's revenue increased by 14.7% from R2 220.8 million to R2 546.1 million. Strong increases came from Royal, Zamokuhle, Randfontein, Kathu and Maputo hospitals with all recording greater than 20% 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 tools. The Group's Normalised EBITDA margin decreased marginally to 17.5% from 18% in the prior year, mainly as a result of the Kimberley facility not reaching optimal utilisation. On a segmental basis, the EBITDA Margin for South African Hospitals was 17% (FY2018: 18%), whilst the EBITDA Margin achieved for the rest of Africa operations increased to 18% (FY2018: 16%), on the back of stronger performances at both units, coupled with the full year effect of the rental reduction in Botswana.

In order to align the Group to the rest of the industry and to more fully reflect the cost of the land and buildings in the Group, the Board has decided to carry this category of asset at historical cost less accumulated depreciation and less any impairment losses. This amends the current accounting policy, where land and buildings are carried at their current market valuations. This change in the accounting policy has resulted in the following amendments: Land and buildings in 2018 as a result of the revaluation of prior periods has been decreased by R303.6 million while the revaluation reserve of R230.5 million and deferred taxation attributable to the revaluation of R75.6 million has been extinguished. The income statement in 2018 and 2019 has resulted in an increase of R1.2 million in profit before interest and taxation and R0.9 million after tax.

Core Headline Earnings at R142.6 million (2018: R163.4 million) decreased by 12.8% against the prior year. This was primarily attributable to the large increase in the finance costs of R36.0 million, arising from increased borrowings. These borrowings were incurred to finance the Royal Hospital and Heart Centre hospital, which cost the Group R408.4 million, as well as the current year capital expenditure as noted below. Additionally, in line with IAS 23 'Borrowing Costs', finance costs of R21.5 million in 2018 were capitalised due to interest incurred on the capital spend at the new hospital in Kimberley, which opened during the previous financial year. The Group's results were also impacted by an increased depreciation charge due to the full impact of the RHHC being felt in the current year. The depreciation on the SAP implementation was also debited to the income statement for the first time and amounted to R4.9 million.

The Group generated R423.6 million from operating activities (2018: R360.8 million), reflecting a 17.4% improvement in cash flow during the current year. This was due to strong cash flows from the operations of the hospital. The Group's cash generated by operating activities as a percentage of normalised EBITDA improved from 98% to 100%. This strong result exceeds the Group's target of 90% and reflects the initiatives that have been successfully achieved through our centralisation of key functions

This Group obtained a composite borrowing facility of just over R1.6 billion from Rand Merchant Bank during March 2019, of which R1.2 billion had been utilised at year end. The additional unutilised portion of the facility will allow the Group head room to look at further acquisitions and any further capital expenditure.

Lenmed's net interest bearing debt to equity ratio (excluding loans from minorities) has decreased from 60.6% to 54.9%. The interest ratio coverage decreased in line with increased interest payable to 2.7 times (2018: 3.5), with cash flow from operations to net interest expense dropping from 3.8 times to 3.2 times. The Rand Merchant Bank facility is at a lower rate and, combined with lower capital expenditure levels, should result in improved ratios in 2020. The Group, despite significant borrowings, believes it can adequately repay the current debt.

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 2019 or the result of its operations or cash flows

Outlook

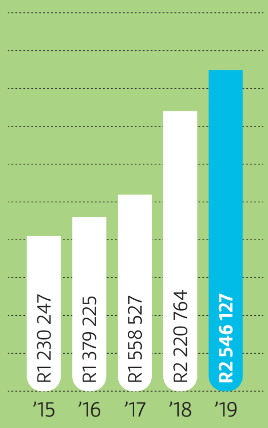
Forward planning in a highly unpredictable environment is about hoping for the best outcome, while preparing for the worst. Our planning is in place for various scenarios, so that Lenmed can react swiftly and appropriately when required.

We are optimistic that the newly elected government will provide the policy certainty and climate required to improve investment sentiment, setting the economy onto a positive trajectory to increase formal employment. It is imperative that we leverage off our ability to be agile and innovative and become a disruptive force in this market.

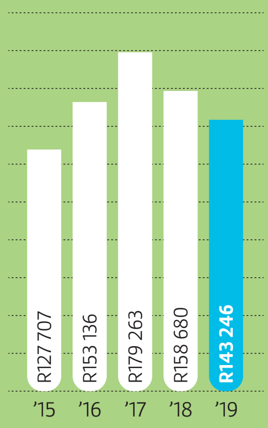
*Five-year review**

Figures in '000

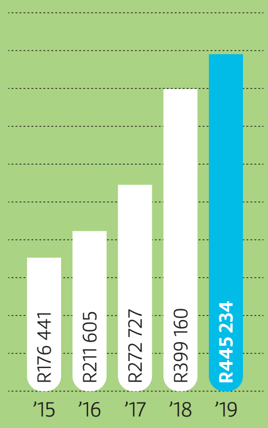
REVENUE
five-year CAGR* 18%



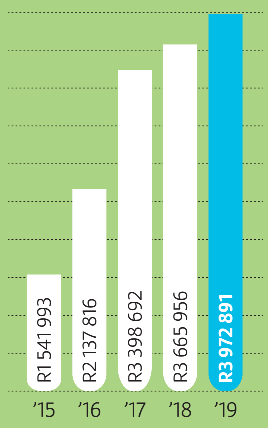
HEADLINE EARNINGS
five-year CAGR* 3%



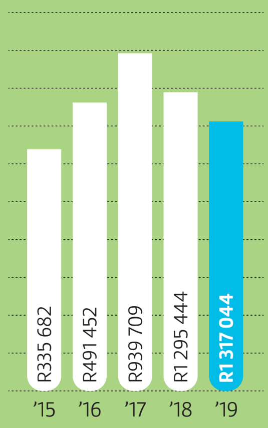
NORMALISED EBITA
five-year CAGR* 18%



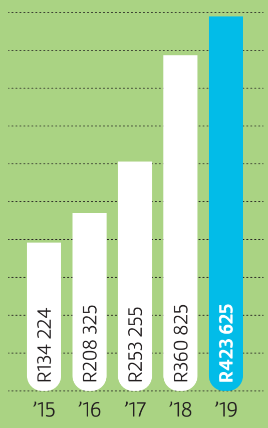
TOTAL ASSETS
five-year CAGR* 22%



TOTAL INTEREST BEARING DEBT
five-year CAGR* 28%



CASH FLOW FROM OPERATIONS
five-year CAGR* 26%



* *Calculated based on 2014 as the base year. Prior years restated as per note 2.*

Statements of comprehensive income

	Group	
Figures in R'000	2019	Restated 2018
Profit and Loss		
Revenue	**2 546 127**	2 220 764
Cost of sales	**(715 256)**	(642 592)
GROSS PROFIT	**1 830 871**	1 578 172
Other income	**80 563**	77 729
Share of profit of share in associates		
Operating costs	**(1 547 764)**	(1 315 803)
PROFIT BEFORE INTEREST AND TAXATION	**363 670**	340 098
Share of profit from associates	**1 850**	1 628
Investment income	**4 422**	8 680
Finance costs	**(141 206)**	(105 205)
PROFIT BEFORE TAXATION	**228 736**	245 201
Taxation	**(53 242)**	(54 390)
PROFIT FOR THE YEAR	**175 494**	190 811
Other comprehensive income		
Items that may be reclassified subsequently to profit and loss		
Foreign currency translation reserve	**76 182**	(37 920)
Total other comprehensive income	**76 182**	(37 920)
TOTAL COMPREHENSIVE INCOME	**251 676**	152 891
Profit for the year attributable to:		
Non-controlling interests	**32 735**	32 570
Lenmed Investments Ltd equity holders	**142 759**	158 241
	175 494	190 811
Total comprehensive income attributable to:		
Non-controlling interests	**35 577**	35 412
Lenmed Investments Ltd equity holders	**216 099**	117 479
	251 676	152 891

Statements of financial position

	Group		
Figures in R'000	2019	Restated 2018	Restated 2017
Assets			
Non-Current Assets			
Property, plant and equipment	**2 738 129**	2 522 208	2 300 911
Goodwill	**312 888**	312 888	315 052
Intangible assets	**26 573**	18 969	–
Investment in associates	**4 497**	5 607	4 429
Deferred taxation	**67 208**	60 352	46 857
	3 149 295	2 920 024	2 667 249
Current Assets			
Inventory	**63 749**	62 398	38 837
Trade and other receivables	**666 519**	600 693	517 716
Current tax assets	**22 454**	17 571	6 860
Cash and cash equivalents	**70 874**	65 270	168 030
	823 596	745 932	731 443
TOTAL ASSETS	**3 972 891**	3 665 956	3 398 692
Equity and Liabilities			
Equity and Reserves			
Stated capital	**426 006**	426 006	422 407
Other Reserves	**141 067**	73 140	111 901
Accumulated profits	**1 240 260**	1 111 540	1 135 994
Non-controlling interest	**169 747**	135 434	202 694
	1 977 080	1 746 120	1 872 996
Non-Current Liabilities			
Long term liabilities	**1 017 651**	1 054 930	774 722
Loans from minorities	**42 496**	63 832	102 347
Deferred taxation	**236 520**	220 765	203 991
	1 296 667	1 339 527	1 081 060
Current Liabilities			
Trade and other payables	**359 687**	320 921	270 101
Current portion of long term liabilities	**150 349**	112 511	87 331
Provisions	**56 646**	47 666	36 376
Current tax liabilities	**12 065**	4 221	10 455
Bank overdraft	**120 397**	94 990	40 373
	699 144	580 309	444 636
TOTAL EQUITY AND LIABILITIES	**3 972 891**	3 665 956	3 398 692

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 2017	422 407	230 259	105 167	6 734	1 134 401	1 898 968	202 883	**2 101 851**
Change in accounting policy	–	(230 259)			1 593	(228 666)	(189)	**(228 855)**
RESTATED BALANCE	422 407	–	105 167	6 734	1 135 994	1 670 302	202 694	**1 872 996**
Change in accounting policy	–	–	–	–	842	842	(1)	**841**
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 related to subsidiary	–	–	–	–	(182 694)	(182 694)	(99 350)	**(282 044)**
Change in non-controlling interest							–	**–**
Issue of share capital	3 599	–	–	–	–	3 599	–	**3 599**
BALANCE AT 1 MARCH 2018	426 006	–	67 727	5 413	1 111 540	1 610 686	135 434	**1 746 120**
Profit for the year	–	–	–	–	142 759	142 759	32 735	**175 494**
Other comprehensive income	–	–	73 340	–	–	73 340	2 842	**76 182**
Dividends	–	–				–	(305)	**(305)**
IFRS 9 Transition adjustment					(10 831)	(10 831)	–	**(10 831)**
Share-based payment accrual	–	–	–	(5 413)	–	(5 413)	–	**(5 413)**
Additional investment related to subsidiary	–	–	–	–	(3 207)	(3 207)	(960)	**(4 167)**
BALANCE AT 28 FEBRUARY 2019	426 006	–	141 067	–	1 240 061	1 807 334	169 746	**1 977 080**
Note	1							

Statements of cash flows

	Group	
Figures in R'000	**2019**	Restated 2018
Cash flows from operating activities		
Profit for the year	**175 494**	190 811
Adjustments for:		
Finance costs	**141 206**	105 205
Income tax	**53 242**	54 390
Depreciation and amortisation	**82 798**	53 500
Interest income	**(4 422)**	(8 680)
Loss on disposal of property, plant and equipment	**684**	–
Share-based payment (reversal)/accrual	**(5 413)**	(1 321)
Income from associates	**1 110**	(1 178)
Foreign currency translation adjustments	**(6 025)**	(23 572)
Operating cash flow before working capital changes	**438 674**	369 155
Working capital changes		
Increase in inventory	**4 551**	(13 864)
Increase in trade and other receivables	**(51 770)**	(88 329)
Increase in trade and other payables and accruals	**32 170**	93 863
Cash generated by operating activities	**423 625**	360 825
Interest income	**4 422**	8 680
Finance costs	**(141 206)**	(103 825)
Income tax paid	**(42 611)**	(67 590)
NET CASH FROM OPERATING ACTIVITIES	**244 230**	198 090
Cash flows from investing activities		
Property, plant and equipment acquired	**(169 331)**	(300 311)
- to maintain operating capacity	**(80 980)**	(28 947)
- to expand operating capacity	**(127 886)**	(295 673)
- Instalment sale agreements (non-cash)	**39 535**	24 309
Intangible assets acquired	**(12 538)**	(12 594)
Proceeds on disposals of property, plant and equipment	**5**	–
Business combination effected	**(3 550)**	(10 404)
NET CASH UTILISED IN INVESTING ACTIVITIES	**(185 414)**	(323 309)
Cash flows from financing activities		
Proceeds from equity issued	**–**	3 599
Net loans (repaid)/raised	**(72 064)**	278 763
Loans raised	**60 243**	565 354
Loans paid	**(132 307)**	(286 591)
Acquisition of minority interest in subsidiary	**–**	(316 298)
Non-controlling interests share buy-back	**(4 167)**	–
Dividends paid	**(306)**	–
NET CASH UTILISED IN FINANCING ACTIVITIES	**(76 537)**	(33 936)
Decrease in cash and cash equivalents	**(17 721)**	(159 155)
Translation movement	**(2 082)**	1 778
Cash and cash equivalents at beginning of the year	**(29 720)**	127 657
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**(49 523)**	(29 720)

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), Interpretations adopted by the International Accounting Standards Board (IASB), the IFRS Interpretations Committee (IFRIC) of the IASB, 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. These policies have been consistently applied to all years presented, unless otherwise stated. They have been prepared on the historical cost basis.

The Group changed its accounting policy for the determination of the carrying amount of land and buildings from the revaluation method to the cost method. The change in accounting policy has been accounted for retrospectively and the comparative statements for 2018 have been restated. Refer to note 2 for further information.

Adoption of new and revised accounting standards

The Group has adopted the following accounting standards in the preparation of the consolidated financial statements which have been effective from 1 January 2018 (refer to note 2):

- IFRS 15 Revenue from contracts from customers
- IFRS 9 Financial Instruments

All new and revised standards that became effective during this period were adopted and where material is highlighted in note 2. 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

Figures in R'000	No of Shares	2019	2018
1. Stated capital			
Authorised			
1 000 000 000 (2018: 1 000 000 000) ordinary shares at no par value			
Issued			
709 533 909 ordinary shares at no par value (2018: 709 533 909 ordinary shares)		**426 006**	426 006
Share reconciliation			
Balance at the beginning of the year	709 533 909	**426 006**	422 407
Ordinary shares issued during the year	–	**–**	3 950
Share issue expenses	–	**–**	(351)
	709 533 909	**426 006**	426 006

During the year under review Nil (2018: 1, 975 million) shares were issued by the company.

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. Change in accounting policy

2.1 IAS 16 Property, plant and equipment – Land and buildings

The Group changed its accounting policy for the determination of the carrying amount of land and buildings from the revaluation method to the cost method. Due to the significant fluctuations in the valuation of land and buildings as well as their specialised nature the change to the cost method will result in the financial statements providing more reliable and relevant information.

The change in accounting policy has been accounted for retrospectively and the comparative statements for 2018 have been restated. Land and buildings and depreciation have been restated for all periods described below:

	2019/02/28	2018/02/28	2017/03/01
Decrease in depreciation	1 169	1 169	–
(Increase) in deferred tax expense	(327)	(327)	–
Increase in profit for the year	842	842	–
(Decrease) in land and buildings carrying amount	(301 242)	(303 580)	(304 749)
(Increase) in deferred tax	74 913	75 567	75 894
(Decrease) in revaluation reserve	–	–	(230 448)
Adjustment against retained earnings at the beginning of the year	–	–	1 593

Notes to the Consolidated Annual Financial Statements continued

2.2 IFRS 9 Financial instruments

IFRS 9 addresses the accounting principles for the financial reporting of financial assets and financial liabilities, including classification, measurement, impairment, derecognition, and hedge accounting. IFRS 9 replaces the earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. The standard is mandatory for accounting periods beginning on or after 1 January 2018 and has, therefore, been adopted by Lenmed for the year ended 28 February 2019. The Group has applied the standard retrospectively as at 1 March 2018 with no restatement of comparative information for prior years. IFRS 9 replaces the 'incurred loss' model of IAS 39 with a forward looking 'expected credit loss' model to measure impairment losses on financial assets. The majority of the Group's financial assets are trade receivables, for which IFRS 9 requires the simplified approach to be applied, measuring the impairment loss allowance based on lifetime expected credit loss. Further to this, as a practical expedient, Lenmed has applied a provision matrix assessing historical credit losses per aged bucket of trade debtors and overlaid this with Lenmed's assessment of general economic conditions to estimate expected future losses. There is an opening movement to retained earnings R10.83 million and an adjustment of R16.4 million to current year earnings to align to the new standard. This has had the effect of increasing the doubtful debt provision from R56.1 million to R82.4 million.

2.3 IFRS 15 Revenue from Contracts with Customers

The core principle of the new standard is to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard also results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improves guidance for multiple-element arrangements. The company performed an impact assessment and concluded that IFRS 15 Revenue does not impact materially on the Group revenue. The presentation and disclosure requirements in IFRS 15 have been updated.

Our hospitals

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Daxina Private Hospital
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Ethekwini Hospital and Heart Centre
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Queen Nandi Drive, Durban,
KwaZulu-Natal
T. +27 31 581 2400 F. +27 31 581 2699

Kathu Private Hospital
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La Verna Private Hospital
1 Convent Road, Ladysmith, KwaZulu-Natal
T. +27 87 087 2600 F. +27 36 637 4889

Maputo Private Hospital
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T. +258 21 48 3905 F. +258 21 49 3680

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Shifa Private Hospital
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Zamokuhle Private Hospital
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