

A photograph of a smiling African family. A woman in a blue and white striped headwrap and a man are looking up at a young child who is holding a green toy airplane. The child is wearing a light blue shirt with small dark stars. The background is bright and out of focus.

Interim Results for the six months ended 31 August 2022



lenmed
Embrace every day



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Performance review

The business has noted a robust performance for the first six months of the financial year, despite a disruptive environment and the impact of the flooding experienced in KwaZulu-Natal (KZN). The Group improved upon the strong results generated in the first half of last year, notwithstanding the significant Covid admissions which were experienced during this comparative period, when the third Covid-19 wave caused exceptional volumes of higher acuity admissions, especially in Gauteng and the Northern Cape.

In line with our growth strategy, we have successfully concluded the acquisition of Matlosana Medical Health Services (Pty) Ltd (MMHS) with effect from 1 August 2022. This acquisition adds an additional 288 beds to the Group's base and is anticipated to contribute an additional 10% to the Group's annualised EBITDA. As a result, we consolidated MMHS into these Group results from 1 August 2022.

Group Revenue improved by 8% to R1 868.0 million compared to R1 730.8 million in the same period last year. This improvement is attributable to an increase in Paid Patient Days (PPDs) of 10%, and a marginal decrease in the Rand per Patient Day (RPPD) of 2%. The growth in PPDs is predominantly due to an 22% increase in total admissions (18% excluding MMHS), positively impacted by a 30% increase in surgical admissions (25% excluding MMHS) compared to the same period last year. Importantly, the high volume of Covid PPDs in the comparative period have largely been replaced by non-Covid PPDs, indicating a return to normality for the Group. It is also encouraging to note that admissions and PPDs for this interim period (excluding MMHS) are 16% and 15% higher respectively, as compared to the second half of the last financial year.

Reported earnings before interest and taxation, depreciation, and amortisation (EBITDA) improved by 9% to R329.2 million from R302.9 million in 2021 (7% excluding MMHS), with management estimating that the disruptions caused by the flooding in KZN during the period, cost the Group a further 1.5% to 2.5% of EBITDA growth.

It is pleasing to note that EBITDA from core operations increased by 14% to R332.8 million from R290.9 million in 2021 (13% excluding MMHS). EBITDA from core operations excludes:

- extraordinary profits achieved in the comparative period at our Mozambique operations from Covid testing in the pathology business;
- high margin corporate contracts in Mozambique during the comparative period, relating specifically to Covid solutions which have come to an end at the start of the current financial year;
- once off transaction costs relating to Howick and MMHS;
- once off business development costs relating to primary care centres in Mozambique; and
- the increased cost of water and electricity during 2022 as a direct result of load shedding and deteriorating municipal service delivery.

This performance indicates a normalisation of the business and case mix in a post-Covid environment with EBITDA margins at circa 18%.

Net interest expense decreased to R54.9 million (2021: R64.8 million) for the first half of the year. This 17% decrease on the prior year is largely attributable to:

- increased business performance and normalisation of margins;
- an enhanced focus on cash collection and general working capital management over the last 2 years; and
- tighter governance around capital expenditure.

In line with the Group's growth strategy, we have accelerated the roll out of internal growth initiatives during the last 6 months with several high-acuity projects being planned and/or committed to during this period.

In addition to the investment in our own facilities, the Group funded the MMHS transaction from internally generated cash. During the period under review, we have also increased our funding lines with RMB to retain sufficient funding headroom in support of the Group's future growth aspirations. At 31 August 2022, the Group's gearing level (Net Debt to EBITDA for the last 12 months) was at 2.0 times. Following the funding and implementation of the MMHS transaction, the gearing level is expected to peak at 2.3 times, which is still well within sustainable and manageable levels.

Cash generated by operating activities as a percentage of EBITDA was lower than our targeted 90% – 95%, largely due to timing of cash flows at the end of the period. Collection trends are in line with previous periods and we anticipate meeting target by the end of the financial year.

Tax increased significantly as the assessed loss of Maputo Private Hospital was fully utilised at the end of December 2021. Going forward, our earnings in Mozambique will be taxed at a rate of 32%.

In keeping to our commitment to shareholders, the Group paid a dividend of 3.5 cents per share during July 2022. This dividend is in line with our dividend policy of paying at least 10% of head line earnings attributable to shareholders annually.

Prospects

We are pleased with our achievements to date and are optimistic for the remainder of the financial year with the first half's momentum carrying into the early months of the second half of the financial year. The operating platform has stabilised and is primed for growth. Our various initiatives are gaining momentum and we are hopeful that these will contribute positively to case mix, revenue and profitability over the short term to medium term.

While the economy remains under pressure with a subdued growth outlook for the sector, Lenmed is ideally positioned to take advantage of well-considered growth initiatives. We continue to execute on our growth strategy, in a responsible and sustainable manner, actively seeking to increase our market share, acquire attractive businesses and diversify our revenue base. We thank all of our stakeholders for their support and commitment to the Group.



Condensed Statement of Comprehensive Income

		GROUP		
	Note	Unaudited six months ended 31 August 2022	Unaudited six months ended 31 August 2021	Audited year ended 28 February 2022
Figures in R'000				
Profit and Loss				
Revenue	4	1 868 045	1 730 852	3 386 123
Cost of sales		(580 136)	(541 962)	(1 064 916)
GROSS PROFIT		1 287 909	1 188 890	2 321 207
Other income		66 574	88 343	203 131
Operating costs		(1 109 234)	(1 044 641)	(2 122 736)
PROFIT BEFORE INTEREST AND TAXATION		245 249	232 590	401 602
Share of profit from associates		1 681	1 890	3 553
Investment income		4 154	1 155	2 482
Finance costs		(59 089)	(65 970)	(126 019)
(LOSS)/PROFIT BEFORE TAXATION		191 995	169 667	281 618
Taxation		(46 685)	(31 060)	(33 926)
(LOSS)/PROFIT FOR THE PERIOD		145 310	138 607	247 692
Other comprehensive income				
Items that will not be reclassified subsequently to profit and loss				
Foreign currency translation reserve		17 679	(16 641)	3 778
Cash flow hedging reserve for interest rate hedging instrument		3 139	6 801	14 375
Total other comprehensive (loss)/income for the period		20 812	(9 840)	18 153
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		166 128	128 767	265 845
Profit/(loss) for the period attributable to:				
Non-controlling interests		13 528	13 499	26 469
Lenmed Investments Limited equity holders		131 782	125 108	221 223
		145 310	138 607	247 692
Total comprehensive income/(loss) for the period attributable to:				
Non-controlling interests		17 069	9 971	24 361
Lenmed Investments Limited equity holders		149 059	118 796	241 484
		166 128	128 767	265 845
Earnings per share (cents)		18.57	17.63	31.18



Headline Earnings

	GROUP		
	Unaudited six months ended 31 August 2022	Unaudited six months ended 31 August 2021	Audited year ended 28 February 2022
Figures in R'000			
(Loss)/Profit for the period attributable to Lenmed	131 782	125 108	221 223
Add/Less: Loss/(profit) on disposal of assets	–	–	24
Add/Less: Currencies gains and (losses)	628	3 307	–
	132 410	128 415	221 247
HEADLINE EARNINGS/(LOSS) PER SHARE	18.66	18.10	31.18

Normalised EBITDA

	GROUP		
	Unaudited six months ended 31 August 2022	Unaudited six months ended 31 August 2021	Audited year ended 28 February 2022
Figures in R'000			
EBITDA	329 163	302 915	533 671
Loss on disposal of assets	–	–	33
Currencies gains and (losses)	873	4 593	–
	330 036	307 508	533 704



Condensed Statement of Financial Position

	GROUP		
	Unaudited six months ended 31 August 2022	Unaudited six months ended 31 August 2021	Audited year ended 28 February 2022
Figures in R'000			
Assets			
NON-CURRENT ASSETS			
Property, plant and equipment and investment property	3 068 656	2 724 923	2 846 080
Right-of-use assets	174 201	179 112	185 168
Goodwill	549 373	308 527	308 528
Intangible assets	39 917	19 495	43 758
Investment in associates	11 254	8 234	9 896
Deferred tax	64 473	80 570	80 691
	3 907 874	3 320 861	3 474 121
CURRENT ASSETS			
Inventory	97 519	73 592	73 582
Trade and other receivables	1 023 874	951 396	892 460
Taxation assets	15 121	15 555	10 782
Cash and cash equivalents	505 460	164 842	201 279
	1 641 974	1 205 385	1 178 103
TOTAL ASSETS	5 549 848	4 526 246	4 652 224
Equity and Liabilities			
Equity and Reserves			
Stated capital	426 006	426 006	426 006
Other Reserves	178 319	134 469	161 042
Accumulated profits	1 703 806	1 490 231	1 596 857
Non-controlling interests	281 073	240 558	244 563
	2 589 204	2 291 264	2 428 468
NON-CURRENT LIABILITIES			
Long term liabilities	1 122 027	1 060 842	989 763
Loans from non-controlling interest	29 395	26 450	21 921
Lease liabilities	193 052	197 775	205 970
Deferred taxation	238 348	225 535	230 491
	1 582 822	1 510 602	1 448 145
CURRENT LIABILITIES			
Trade payables, other payables and provisions	1 177 422	547 791	596 510
Current portion of long term liabilities	98 000	110 815	111 294
Current portion of loans from non-controlling interests	–	10 879	10 762
Current portion of lease liabilities	16 070	7 588	10 697
Taxation liabilities	24 665	19 795	2 830
Current portion of derivative financial liabilities	–	14 879	4 358
Bank overdraft	61 665	12 633	39 160
	1 377 822	724 380	775 611
TOTAL EQUITY AND LIABILITIES	5 549 848	4 526 246	4 652 224



Lenmed Investments Limited and its subsidiaries

(Registration Number 1980/003108/06)

Condensed Statements of Changes in Equity

GROUP

Figures in R'000	Stated capital	Cash flow hedging reserve	Foreign currency translation reserve	Accumulated profits	Equity attributable to Group	Non- controlling interest	Total
BALANCE AT 31 AUGUST 2021	426 006	(10 713)	145 182	1 490 231	2 050 706	240 558	2 291 264
Profit for the period	-	-	-	96 115	96 115	12 970	109 085
Other comprehensive income/(loss)	-	7 574	18 999	-	26 574	1 420	27 994
Dividends	-	-	-	-	-	(306)	(306)
Change in ownership without loss of control	-	-	-	10 511	10 511	(10 079)	432
BALANCE AT 28 FEBRUARY 2022	426 006	(3 139)	164 181	1 596 857	2 183 905	244 563	2 428 468
Profit for the period	-	-	-	131 782	131 782	13 528	145 310
Other comprehensive income	-	3 139	14 138	-	17 277	3 541	20 818
Acquisition of subsidiary	-	-	-	-	-	19 441	19 441
Dividends	-	-	-	(24 833)	(24 833)	-	(24 833)
BALANCE AT 31 AUGUST 2022	426 006	-	178 319	1 703 806	2 308 131	281 073	2 589 204



Condensed Statement of Cash Flows

	GROUP		
	Unaudited six months ended 31 August 2022	Unaudited six months ended 31 August 2021	Audited year ended 28 February 2022
Figures in R'000			
Cash flows from operating activities			
OPERATING CASH FLOW BEFORE WORKING CAPITAL CHANGES	306 920	331 280	533 704
<i>Working capital changes</i>			
(Increase)/decrease in trade and other receivables	(58 792)	13 200	84 271
(Increase)/decrease in inventory	(3 524)	3 446	8 638
(Decrease)/increase in trade and other payables	(78 452)	22 572	36 349
CASH GENERATED BY OPERATING ACTIVITIES	166 152	370 498	662 962
Investment income	4 154	1 155	2 482
Finance costs	(52 556)	(65 968)	(124 654)
Income tax paid	(18 554)	(15 457)	(22 949)
NET CASH FROM OPERATING ACTIVITIES	99 196	290 228	517 841
Cash flows from investing activities			
Property, plant and equipment acquired	(63 000)	(49 080)	(150 127)
Proceeds on disposal of Property, plant and equipment	-	-	231
Intangible assets acquired	(4 515)	(4 515)	(9 487)
Investment in subsidiary	-	(20 300)	(50 300)
NET CASH UTILISED IN INVESTING ACTIVITIES	(67 515)	(73 895)	(209 683)
Cash flows from financing activities			
Net loans (repaid)/raised	95 852	19 986	(59 198)
Lease liability paid	(6 146)	(2 911)	(10 348)
Non-controlling interests rights issue	-	-	453
Dividends paid	(24 833)	-	(306)
NET CASH GENERATED BY FINANCING ACTIVITIES	64 873	17 075	(69 399)
Increase in cash and cash equivalents	96 554	233 408	238 759
Effect of exchange rate changes on cash and cash equivalents	8 728	(1 734)	2 825
Cash and cash equivalents at beginning of the period/year	162 119	(79 465)	(79 465)
Cash acquired on acquisition	176 394	-	-
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD/YEAR	443 795	152 209	162 119



Accounting policies

1. Basis of preparation

These condensed unaudited consolidated interim financial statements for the six months ended 31 August 2022 have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), IAS 34 Interim Financial Reporting Standard, 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. These policies have been consistently applied to all periods presented, unless otherwise stated. They have been prepared on the historical cost basis, unless otherwise stated. This report was compiled under the supervision of Fredre Meiring CA (SA). The Board takes full responsibility for the preparation of these financial results. The accounting policies used in the preparation of these results are in accordance with IFRS and consistent in all material respect with those of the previous annual financial statements.

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. The interim results have not been reviewed or audited by the Group's external independent auditors, PKF Durban.

2. Condensed Segment Information

Consistent with the Group's internal reporting, the chief operating decision maker, being the EXCO, views the Group's operating results as a single segment and makes the decisions about resources to be allocated and assesses performance accordingly.

The IFRS 8 required information about the group as a single segment for profit or loss, including specified revenues and expenses, and assets and liabilities have already been discussed elsewhere in these interim results.



Notes to interim financial statements

3. Business combination

3.1 Details of acquisition

On 29 July 2022, Lenmed acquired 100% of Matlosana Medical Health Services (Pty) Ltd (MMHS) in order to diversify our revenue streams and extend our footprint to the North-West province of South Africa.

3.2 Assets acquired and liabilities recognised at the date of acquisition

Recognised amounts of identifiable assets acquired and liabilities of MMHS

	Unaudited six months ended 31 August 2022
Figures in R'000	
Non-current assets	202 782
Current assets	260 552
Liabilities	(88 834)
TOTAL IDENTIFIABLE NET ASSETS	374 500
NCI, based on their proportionate interest	(19 441)
	355 059
GOODWILL	240 846
TOTAL CONSIDERATION PAYABLE	595 905

The goodwill of R241 million is attributable to the potential high profitability of the acquired business. It will not be deductible for tax purposes.

3.3 Impact of acquisitions on the results of the Group

Revenue since acquisition included in results	36 531
Profit or loss since acquisition included in results	2 410

4. Revenue

An analysis of revenue is as follows:

Non-tariff	1 324 204
Tariff	543 841
Total revenue	1 868 045

There were no outstanding performance obligations at year end.



COMPANY INFORMATION

Country of incorporation

South Africa

Nature of business

The provision of private patient healthcare, through management and ownership of hospitals and other related health services

Executive directors

Mr P Devchand

Mr A Devchand

Mr F J Meiring

Non-executive directors

Mr M G Meehan (lead independent)

Ms B Harie (independent)

Ms N V Simamane (independent)

Mr V Firman

Prof B D Goolab

Dr G Goolab (independent)

Registered address

2nd Floor Fountainview House,
Constantia Office Park,
Corner 14th Avenue and Hendrik Potgieter Road,
Constantia Kloof, Johannesburg, 1709

Postal address

PO Box 855
Lenasia, Johannesburg, 1820

Auditors

PKF Durban, Chartered Accountants (SA)

Registered Auditors

Practice number – 906352E

2nd Floor, 12 on Palm Boulevard

Gateway, KwaZulu-Natal, 4319

Company secretary

Mr W Somerville

2nd Floor Fountainview House,

Constantia Office Park,

Corner 14th Avenue and Hendrik Potgieter Road,

Constantia Kloof, Johannesburg, 1709

Registration number

1980/003108/06

Bankers

Rand Merchant Bank

Transfer secretary

Singular Systems (Pty) Ltd t/a Equity Express

7 Junction Road, Bramley, Johannesburg, 2001

Ahmed Kathrada Private Hospital

K43 Highway, Extension 8, Lenasia Gauteng

T +27 87 087 0642 F +27 11 852 8910

Bokamoso Private Hospital

Plot 2435, Block 1, Mmopane, Along the Molepolole Road,
Gaborone, Botswana

T +267 369 4000 F +267 369 4140

Daxina Private Hospital

1682 Impala Street, Lenasia South, Gauteng

T +27 87 087 0644 F +27 11 855 1039

Ethekwini Hospital and Heart Centre

11 Riverhorse Drive, Riverhorse Valley Business Estate,
Queen Nandi Drive, Durban, KwaZulu-Natal

T +27 31 581 2400 F +27 31 581 2699

Kathu Private Hospital

Frikkie Meyer Street, Kathu

T +27 87 158 2700 F +27 53 723 3389

La Verna Private Hospital

1 Convent Road, Ladysmith, KwaZulu-Natal

T +27 87 087 2600 F +27 36 637 4889

Maputo Private Hospital

Rua do Rio Inhamitanga, Sommerschield II, Maputo, Mozambique

T +258 21 48 3905 F +258 21 49 3680

Randfontein Private Hospital

Lister Road, Lower Ward Street Extension, Randfontein

T +27 87 087 2700 F +27 11 411 3134

Shifa Private Hospital

482 Randles Road, Sydenham, Durban, KwaZulu-Natal

T +27 87 087 0641 F +27 86 559 7043

Zamokuhle Private Hospital

128 Flint Mazibuko Street, Hospital View, Tembisa, Gauteng

T +27 87 087 0643 F +27 11 924 2149

Royal Hospital and Heart Centre

Corner Welgevonden and Jacobus Smit Street,

Royldene, Kimberley

T +27 53 045 0350

Howick Private Hospital

107 Main Street, Howick, 3290

T +27 33 330 2456 F +27 33 330 2650

Wilmed Park Hospital

Corner Amestis and Marmer Streets, Wilkoppies, Klerksdorp, 2571

T +27 18 468 7700 F +27 18 468 7718

Sunningdale Hospital

12 Van Ryneveld Street, Wilkoppies, Klerksdorp, 2571

T +27 18 462 7536

Daleside Day Hospital

12 Van Ryneveld Street, Wilkoppies, Klerksdorp, 2571

T +27 18 464 1009

Parkmed Neuro Clinic

94 Bishop Desmond Tutu Street, Naserhof, Klerksdorp, 2571

T +27 18 462 3072

The Bank Hospital

Block F6, Shippi Road, Cantonments, Accra, Ghana

T +233 302 739 373



www.lenmed.com

