Ramsay Health Care FY22 Full Year Results – Transcription of Webcast Presentation

Craig McNally: Good morning, everyone, and thanks for joining us for our FY22 Full Year Results Presentation and webcast. My name is Craig McNally. I'm the Managing Director and CEO of Ramsay Health Care and I'm joined by Martyn Roberts, our Chief Group Financial Officer.

Today we will provide an overview of our performance for the 12 month period and update on our strategic direction before covering off on the outlook for the Group.

So moving on to the key themes of the year, Ramsay's people and doctors have continued to assist governments across all our regions in dealing with the pandemic through the treatment of COVID cases, the treatment of critical non-COVID patients and also running activities such as vaccination and testing clinics. As we've always done, our people have supported our local communities through crises such as the floods in Australia and the conflict in the Ukraine by providing services and supplies.

I would like to take this opportunity to thank our people for continuing to support our patients and the communities in which we operate, really embodying Ramsay's purpose of people caring for people and I'm really proud of what our people have achieved over the last few years and the role the organisation has played and continues to play in supporting the response to the pandemic.

Throughout the pandemic and consistent with our values we've taken the decision to retain our core hospital operations and staffing levels and while this approach has impacted profitability in the short term, it does mean that we are well placed to ramp

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up our activities and service our patients and communities as volumes start to improve.

We have absolute confidence in the future growth and demand for health care services and so despite the challenges created by waves of COVID we have continued to invest significantly in both organic and inorganic growth strategies to upgrade and expand our facilities and broaden our service profile.

This has included investment in our brown field and green field development pipeline with a number of new projects completed during the year.

We have made two acquisitions of note this year, the mental health services business in the UK, Elysium Healthcare, and the Swedish speciality health care business, GHP Specialty Care. Both businesses build on our existing capabilities and are expected to be EPS accreditive in FY23. The focus is now on extracting synergies and integrating those businesses.

We have continued to build on our digital and data foundations with the aim of leveraging our existing business base and supporting our entry into adjacent health services and we have invested in our Ramsay care strategy, which is focused on driving action through healthier people, stronger communities and a thriving planet.

Importantly, underlying demand for health care services does remain strong in all our regions and the pipeline of elective surgery cases has grown, driving private pay admissions and private health insurance membership. The business remains extremely well positioned to benefit from this demand.

As you would have seen, we have released an update on negotiations with the KKR-led consortium regarding a potential scheme of arrangement to acquire all the shares in Ramsay. There is nothing further that I can say in relation to the proposal at the current time and I won't be taking any questions on it.

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suffice to say that our board is very focused on delivering the best outcomes for our shareholders.

Moving on to our people, workforce retention and wellbeing, combined with recruitment, remain critical challenges in all our markets and are expected to remain the number one focus of the senior management team for the foreseeable future. Our Group-wide people strategy revolves around developing capability, culture and the best people in health care. We have lifted our investment in a range of activities to grow our workforce through things like the graduate programs, cadetships and reskilling programs.

Our priorities really revolve around providing flexible working conditions, more accessible learning and training opportunities, expanding our leadership programs and investing in technology to simplify processes and allow our people to spend more time with our patients.

Moving to the Group performance, the impact of COVID on Ramsay over the last 12 months has been the most significant of the pandemic and it really reflects the increase in cases and community transmission in all our markets. Government mandated surgical restrictions and movement and isolation orders have resulted in lower activity, higher costs and a changing case mix.

As the world has moved to living with COVID our facilities have continued to juggle the impact on activity levels and costs of last minute cancellations by doctors and patients, combined with higher labour costs as a result of staff sick leave.

The result includes initial contributions from Elysium for five months and GHP for two months, which combined contributed $26 million to EBIT. There were a number of non-recurring items in the result, primarily related to transaction costs, inventory writedowns and profit on disposal of assets.

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The Board determined a fully franked final dividend of 48.5 cents per share, which was flat on the interim dividend, taking the full year dividend to 97 cents per share.

Moving to the result in Australia, the Australian business did continue to support governments across the country with both staff and capacity as COVID cases escalated through the year. The impact of COVID on the business accelerated in the second half of FY22 as the Omicron variant spread.

That resulted in significant increases in COVID cases in the community, which grow higher labour costs due to increasing rates of employee absenteeism and a significant decline in activity levels due to the destruction caused by cancellations at short notice by doctors and patients. That also made it difficult to flex costs.

The estimated impact of the disruption across the 12 month period was $264 million, which was net of the $12 million in viability payments which were made by various state governments for the use of our services and capacity at various times through the year.

Turning to the Australian outlook, underlying organic growth in activity is expected to be enhanced by the backlog in surgical activity and to a certain extent non-surgical activity, such as delayed cancer treatment. Our significant investment in new capacity and services over the last two years, combined with new clinician recruitment, will drive further growth.

Earnings in FY23 will continue to be impacted by elevated labour and PPE costs while COVID cases in the community remain high. In July the estimated impact of operating in the COVID environment, including higher labour costs, is estimated to have been $38.7 million.

The business is focused on driving growth in volumes, addressing cost inflation by achieving improved commercial

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terms with payers, building on our strong global procurement advantage and driving productivity back to pre-pandemic levels.

Moving to look at some of the trends in admissions in Australia, all states except Victoria reported lower revenue and total admissions per work day against FY21. The result in Victoria highlights the more severe restrictions in that state in FY21.

While surgical restrictions in Queensland and Western Australia weren't as severe as New South Wales and Victoria those states weren't immune to the disruption, in particular the impact of cancellations at short notice by doctors and patients.

Overnight admissions per work day across all categories continued to be weaker against FY21 and pre-COVID activity levels in FY19. Surgical and psych day admissions were lower than the previous period, reflecting surgical restrictions and isolation orders and in the case of psych concerns about returning to the hospital environment.

Medical and rehab started to see improvements against the previous period in day admissions, medical admissions benefitting from the lifting of movement restrictions and isolation orders on the community.

Turning to the investment pipeline, the business continues to invest in its development pipeline and while some projects scheduled to commence in FY22 have been delayed due to the impact of COVID on the building industry and external approval processes, the pipeline does remain strong and a large number of projects were successfully completed during the period.

The business invested $181 million in its development pipeline and completed projects with a total investment value of $232.5 million delivering 240 net beds, nine operating theatres, 18 consulting suites and three new procedure rooms.

This included the completion of the new Hollywood emergency department in Perth, a surgical expansion at Greenslopes In

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Brisbane, the completion of the stage three development at Westmead in Western Sydney, an expansion of the Pindara Hospital on the Gold Coast and the redevelopment of Beleura Hospital on the Mornington Peninsula in Victoria.

Key delays include the expansions of Joondalup Private Hospital in Perth and our hospital at Lake Macquarie, which are both large, complex developments and approvals have taken longer than originally anticipated.

Spend in FY23 is expected to be in the range of $250-$300 million with FY24 and FY25 investment likely to be in the range of $250-$400 million per annum with investment focused on hospitals in large regional centres, including Wollongong and Port Macquarie.

As we highlighted last year, we are focused on growing our day surgery capacity both within hospitals and through standalone day facilities with several new sites approved this year and others under construction.

We have opened 11 new Ramsay psychology clinics in Australia over the last 12 months and we have got plans to establish 20 more of those clinics in the next two years. Our Hospital in the Home business is expanding and we are now delivering care to the equivalent of a 104 bed virtual hospital through our business Ramsay Connect.

Following the appointment of our new Global Chief Digital and Data Officer, the Australian business has developed a five year strategic digital roadmap to guide investment around four transformational themes. The creation of an integrated ecosystem for patient-centric care, which includes the development of our digital front door. Clinical excellence through digital and digi physical care, including the rollout of electronic patient health records and investment in AI and analytics to support clinical outcomes.

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Leveraging our data to drive our actions, decisions and improve clinical outcomes and the creation of a digitally enabled operating environment streamlining activities and giving our nursing and clinical staff time back with the patient. Investment in the Australian digital and data strategy and cyber security in FY23 will be in the order of $30 million to $35 million which we expect to largely be expensed given the nature of most of the spend is software as a service. We expect investment in future years will be significant as the plan is implemented.

Turning to the UK, Ramsay UK, the acute hospital business reverted to its traditional pre-COVID operating arrangements with NHS England for the first half of the year and that's where we get paid for the activity we actually undertake. Following the Omicron driven rise in hospitalisations prior to Christmas, the NHS England approached Ramsay to enter into a new volume-based agreement to cover the period 10 January to 31 March 2022 and the business during the time was also able to treat private patients.

The UK was impacted by the same COVID factors as the Australian business resulting in approximately 30,000 episodes of care cancelled at short notice across the year. The estimated impact of costs related to operating in the COVID environment was GBP30.6 million. These costs did decline over the year but remain above pre-COVID levels. Demand from private patients continued to grow representing over 28% of total admissions in FY22 and within this, self-paid admissions was the fastest growing segment, albeit from a low base.

The result includes $26.2 million of transaction costs and an $18 million write down of inventory. Capital expenditure in brownfield and new developments of the period was $46 million with projects including the completion of Bucksaw Hospital in Chorley, the third hospital the business has opened during the pandemic. We were really pleased to complete the acquisition of Elysium on 31 January. We believe the business has a strong

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strategic fit with Ramsay's existing mental health businesses and the business contributed $284 million in revenue and $23 million in EBIT for the five months of ownership.

Turning to the outlook for the UK. Subject to the impact of further waves of COVID, Ramsay UK is expected to benefit from its strong partnership with the NHS, combined with private patient growth to drive an increase in activity levels. We are actively working with the UK Government and the NHS around the model for the delivery of additional capacity over the medium to long term to address the ever-expanding public waitlist for elective surgery and non-surgical services.

The business will benefit from new facilities opened over the last 18 months combined with a new two theatre day surgery facility expected to be commissioned in the second half of FY23 at Kettering and a new theatre being developed at New Hall. The FY23 UK result will benefit from a full 12 month contribution from Elysium. The Elysium result is expected to benefit from an increase in average paid beds driven by brownfield developments and higher average occupancy levels.

We do expect both businesses will continue to be impacted by inflationary pressures and significant labour shortages impacting some parts of the workforce and that will make it difficult to operate completely at full capacity. The business is investing in new recruitment programs to support the business as demand returns.

Onto Europe. Ramsay Sante maintained its commitment to taking care of COVID patients in Europe and has continued to support Government to manage the pandemic through both COVID testing and vaccinations. The business continued to be impacted by the additional costs associated with operating in the COVID environment. The costs were mitigated to an extent by the COVID related subsidies received both in France and the Nordics countries.

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The Nordics business reported strong growth in earnings, a combination of underlying organic growth and the benefit of acquisitions. Excluding the impact of a number of non-core items, EBIT from the Nordics grew 14% on the previous period. Consistent with its strategy to enter adjacent health care service markets, Ramsay Sante made a number of acquisitions in the Nordics region, the most significant being the acquisition of GHP based in Sweden.

Turning to the European outlook. While COVID is expected to continue to impact the operating environment while cases are high in the community, Ramsay Sante remains focused on supporting Governments in its regions to address the COVID pandemic. Pursuing its strategy of moving further along the patient pathway through investment in adjacent services, optimising the hospital and clinic network in France through brownfield investment. Extracting the synergies from recent acquisitions in the Nordics and selectively seeking further bolt-on acquisitions to optimise its primary care and speciality health care platforms.

Developing and supporting new policies to attract and retain our people. Improving the efficiency of our back-office support systems to support the growth in the business and investing in our digital platform to support and grow demand for our services. Following the recent rise in Omicron cases, the French Government has indicated that a new revenue decree providing support for private hospital operators will be issued for the period covering 1 July to 31 December 2022.

Moving to Asia and the equity accounted contribution from our joint venture. Ramsay Sime Darby increased 41.7% to $15.3 million. That primarily reflects the contribution from the Bukit Tinggi Medical Centre in Malaysia which was acquired in May 2021. As we announced on 22 March this year, we are together with our partner Sime Darby currently exploring a potential sale of the joint venture and those discussions continue.

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We are proud of the progress we have made on our Ramsay cares sustainability strategy. Programs implemented this year have focused on investing in our people, upskilling in key areas including leadership and mental health support training. A major milestone for the business has been establishing a Group wide commitment for science-based targets to achieve net zero greenhouse gas emissions by 2040. We have already established a number of programs to support achieving this target.

Now I will hand over to Martyn to run through the financials in more detail.

Martyn Roberts: Thanks very much, Craig and good morning, everybody. Turning to the P&L. The components of total revenue are slightly distorted, primarily due to the UK business moving back to it's pre-COVID commercial arrangements with the NHS, which saw its revenue contribution move from revenue from Government funded support contracts back to revenue from patients. The growth in total revenue was 3.3% but as you can see the strength of the Australian dollar in particular against the Euro means that in constant currency terms total revenue increased 4.6%. This primarily reflects good growth in the Nordics region and initial contributions from Elysium and GHP.

While we don't report core and non-core profit anymore, there were a number of items that impacted the EBIT result totalling $60.5 million compared to $34.1 million in the prior period, the most significant being transaction costs, profit on asset sales and inventory write downs. Profit before tax includes a $26.7 million benefit from two items in the net interest line. The net upfront costs of the early repayment of two fixed rate loan facilities of $7.4 million, offset by a master market on a swap arrangement in Ramsay Sante's debt facility of $34.1 million.

The effective tax rate for the period was 29.6%, compared to 31% in the PCP, primarily reflecting the lower corporate tax rate

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in France flowing through Ramsay Sante. We currently expect our effective tax rate to be around 30% in FY23. Moving to cashflow and the significant movement in working capital is a result of an increase in trade and other receivables as funding from the French Government provided under the revenue guarantee scheme reduced and more usual invoicing and payment patterns with customers resumed.

Cash capital expenditure increased significantly reflecting the strong development pipeline. The large movements in divestment and financing cashflows reflects a repayment of the amount held in escrow at 30 June 2021 for the Spire transaction combined with the acquisitions of Elysium and GHP.

Moving to capital expenditure in more detail. Total spend across the region has increased 8.7% on the PCP to $733 million, driven by the increase in the development pipeline in Australia. This is lower than original expectations reflecting delays in external approvals and general building activity in Australia. This does not reflect cancellations of projects. Spend in FY23 is expected to be in the range of $0.85 billion to $1 billion. Spend in FY24 and FY25 is expected to remain high due to additional projects combined with those delayed projects.

I have already covered off the main movements on the balance sheet for the period, being the movement in working capital associated with the return of funds from the French Government and the repayment of funding associated with the Spire transaction and recent acquisitions. Leverage at the funding Group level increased reflecting recent acquisitions combined with lower earnings due to COVID related issues. Obviously leverage metrics do not reflect the benefit of a full 12 month contribution from the recently completed brownfield development.

During the period, Fitch revised its methodology for assessing leverage to total gross debt including lease debt to operating

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EBITDA. Remembering that this is only rating the funding Group position. Our estimate of this metric at 30 June is 4.88x. With that, I will now hand you back to Craig for some comments on strategy and the outlook.

Craig McNally: Thanks Martyn. We have continued to invest in and make progress against the strategy that we outlined at the Investor Briefing in December last year. Our strategy is divided into four pillars and it's guided by our vision to be a leading integrated health care provider. The first pillar is growing, modernising and leveraging our world class hospital network to strategically grow our existing market share and that's through organic growth, brownfield and greenfield expansion and strategic acquisitions.

Our second pillar is to move purposefully into new and adjacent services, focused on moving along the patient pathway, retaining that patient relationship by providing coordinated care using our data and digital capabilities to improve the experiences for our patients and clinicians. The third pillar is about extracting the highest potential value from the business through operational excellence and that includes building on our strong global advantage in strategic sourcing, which will continue to be one of the key areas of focus. Finally, the fourth pillar is about reinforcing Ramsay's strong organisational foundations to underpin the strategy and ensure we can leverage our scale.

Now, turning to the trading outlook. Over the last two fiscal years we have invested approximately $2.7 billion to expand and upgrade our well positioned world class hospital network and move strategically into adjacent services. We are confident that this investment is underpinned by the long-term trends driving health care demand. In the near term, the industry does continue to be under pressure from a high level of COVID cases which result in highly restrictive guidelines around the patient pathway, together with the flow on impact on the workforce which impedes the recovery in volumes and productivity. It is promising,

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however, to see the recent declines in cases and hospitalisations in all our markets.

In common with most industries, we are experiencing inflationary cost pressure across our businesses. We will be negotiating improved terms with our payers to reflect this. To this end it was pleasing to reach agreement with BUPA for a new three year contract and we look forward to working constructively with our health funds and governments to effectively manage through the current inflationary pressures.

Ramsay believes the outlook for the Group remains strong. Our world class hospital network, combined with our outstanding people and clinicians, gives us confidence that the business is well placed to take advantage of the positive long-term dynamics driving the health care industry. We expect a gradual recovery through FY23 and more normalised conditions from FY24 onwards.

Now, just before we go to questions, I have just been informed that we have received a letter from the KKR consortium regarding the indicative proposal. We placed a halt on trading in order to review and inform the market prior to any trading occurring, so there's nothing further I can add or provide at this time. With that, I will go to questions.

Operator: Thank you. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star two. If you are on a speaker phone, please pick up the handset to ask your question. Your first question comes from David Low with JP Morgan. Please go ahead.

Question: (David Low, JP Morgan) Thanks very much. Craig, I guess the letter from KKR casts a shadow over everything but we will wait for detail on that one.

Craig McNally: Yes.

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Question: (David Low, JP Morgan) On the COVID costs…

Craig McNally: Unfortunately.

Question: (David Low, JP Morgan) Yes. On the COVID costs, I mean my quick calculations are the amount that you've specified for July is actually higher than the average we saw over the half. I calculated about $25 million a month and it looks like $38 million-ish in July. (1) Is my maths right and (2) does that tell us that the COVID costs are actually higher currently and the impact at least over the next few months might be slightly worse than we've seen in average over the period so far?

Martyn Roberts: Hi David, it's Martyn, I'll answer that one. It's not just costs, just to be clear, so that's the impact. Of the $264 million about $50 million was the inflated costs that we have been talking about since the start of COVID, those type of costs we have been talking about. The remainder is activity that's been curtailed as a result of COVID and as the cases have been so much higher in the second half of the financial year, that's why the impact has been higher in the second half of the financial year.

Combined with some surgical restrictions in January and then in WA in March and April, but particularly in Q4 with the extreme amount of COVID cases in the community, the patients, doctors, cancelling activity and also restrictions where we have had to close down wards or not take in admissions in mental health facilities while there have been outbreaks, et cetera. All of that is included in that number. We had that huge wave in July, hence the larger number in July that you have seen.

Those inflated costs which we've talked about for ages in terms of inflated PPE, screening at the front of the hospital, changes in catering and those kinds of things, they're still roughly around the $4 million to $5 million a month in Australia and they have been similar for some time and they were around about that in July as well. What we have seen in the UK where those costs were about GBP3 million a month in the first half, they've come down

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to sort or GBP1 million to GBP2 million a month, so that gives us some encouragement. There have recently been some announcements around even further reduced testing of staff, et cetera, in the UK which is one of the bigger costs. So yes, that's just to clarify that for you.

Craig McNally: Yes and just to add a little bit of colour to that, Martyn has highlighted July was a particularly high month in COVID cases in the community and that's reflected in absenteeism. Absenteeism costs are particularly high for July but we are seeing some improvement through August. That's a small period of time but a positive sign in terms of as community cases come down, the impact on workforce, et cetera, does reduce.

Question: (David Low, JP Morgan) Great. I guess that's what I was looking for to understand how things are trending. Look, the only other question I had, probably for you Craig, is big picture. I mean standing back, COVID has been with us for a while now and we've seen the outlook commentary gradual improvements and better, well hopefully, normal in 2024. Has there been changes do you think in the way health care is going to be provided as a result of the pandemic? Are there any challenges or opportunities that you can now see this far in where Ramsay can do better or perhaps will be more challenges than they were in the past?

Craig McNally: Look, I'm going to say not materially, but it does demonstrate - so as we look at what we're doing around patient experience and integrating services becomes increasing important. When we, you know, just a small part of the business, we look at what's happening with Ramsay Connect and I mentioned we've now got services to the equivalent of a virtual hospital of 104 beds. Those things, whilst that will not make a financial contribution at all really, they're just important parts of the way the model will be integrated and provided.

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What we see with a lot of that is it's not necessarily substituting for inpatient care. As we look at growth in demand for health care services, all parts of the system are increasing. There's increasing demand on all segments, well generally all segments in the system and what we've said for quite some time is that we see faster growth rate in the less acute services and we'll continue to see that. So it's how we provide that.

Question: (David Low, JP Morgan) Great, thank you.

Craig McNally: The other piece will be the relationship that we have with the public sector, so what we provide for them. So what we're seeing with that is we're moving out of the COVID relationships if you like into what those longer term relationships will be – (1) they are on a more commercial basis but, (2) it gives us a bit more flexibility in the way we provide some of those services as well.

Question: (David Low, JP Morgan) Great, thank you very much.

Craig McNally: You're welcome.

Operator: Thank you. Your next question comes from Chris Cooper with Goldman Sachs. Please go ahead.

Question: (Chris Cooper, Goldman Sachs) Good morning, thank you. Just on the commentary around the hope to renegotiate terms with payers. Medibank I believe is locked away for the next 18 months or so. Bupa is obviously now locked away for three years. I would imagine governments could be a little cumbersome to deal with in this climate. Could you just give a little bit more detail on your hopes and expectations there please?

Craig McNally: Yes, actually some of the governments have been pretty good in addressing short term issues. We're seeing the NHS revisiting tariff and pricing as a result of wage inflation. Those discussions are happening in France as well. So there is a reaction to the pressures that the broader system is under. So whilst I always think that price inflation does lag a bit and we've got systems

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that we have in place to drive that. You've just got to keep getting better at forecasting what cost inflation looks like. That's been challenging obviously.

The health fund issue - you are correct in saying that the nature of those agreements or the timing of those agreements is what they are. My view on that - and to be really clear - we didn't go out of contract or terminate the agreement with Bupa lightly. It wasn't just a negotiating tactic. It was a position that we won't have agreements with health funds unless they're in our best interests going forward and they are sustainable. We need to reflect on both sides. So if we're in a position where we have agreements that we're sitting on at the moment that aren't in our best interests going forward, then I'm not reluctant to terminate those agreements before the expiration of them.

Question: (Chris Cooper, Goldman Sachs) Okay. Thank you. Perhaps one for Martyn just on cash flow and balance sheet. Not all of this is within your control I guess - but I guess much of it is as well. Clearly lots of movement in the year. Just really after some sort of commentary on when we get back to normal cash conversion, balance sheet metrics that we were accustomed to seeing prior to the pandemic. I know there's a lot of working capital movements that we need to think about here. You don't seem to be shy in investing CapEx dollars at the moment. So just in broader, medium term thoughts around cash flow and balance sheet Martyn would be great.

Martyn Roberts: Yes, as you've identified it is an EBITDA issue, not necessarily a debt issue. That's a short term COVID impact as we see it. From a cash conversion perspective you've highlighted the main issues there. We've called out for quite some time that we were getting money in advance from the French government and that had to normalise at some stage, and it did during the period. So I would say our working capital levels at the end of the period returned to somewhat of normality across the Group.

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Yes, you're right, we're not shy in our strategy of investing in brownfields for the future because we do see all those underlying tailwinds that Craig talked about in the future. They're long term investments. They're not just investments for the next year or two. They will be there for quite some time. So from an operating cash flow perspective, all those weird movements around Spire and French government, they've all normalised now. The acquisitions are done. So we should be moving back to some kind of normality in cash conversion. The biggest variable obviously is what our EBITDA is going to be and we're not obviously in a position to be able to give you any forecast around that.

Question: (Chris Cooper, Goldman Sachs) Thanks very much.

Operator: Thank you. Your next question comes from Andrew Goodsall with MST Marquee. Please go ahead. Andrew your line is now live.

Question: (Andrew Goodsall, MST Marquee) Sorry, apologies. Just wanted to ask around - is there a jurisdiction that you would be looking at that gives you some encouragement around the profile of recovery? I'm thinking Nordics did quite well. So perhaps COVID has been handled a bit different there. Or some people suggest Western Australia in Q3 was what we could look like when we recover. Just to give us a sense of what that recovery or return to normal looks like in the cadence of operations at that time?

Craig McNally: Thanks Andrew. The - look, there's been so much volatility and not a lot of clear air in any jurisdiction to be frank. So there have been short periods where we've had clear air. We've still had workforce issues. But when we've had that limited clear air, the recovery of volumes is encouraging. But I'm also encouraged that markets will move to operating in a COVID environment going forward. Just this week the UK announced that it will stop asymptomatic testing on staff and patients - the healthcare providers. So that's an encouraging step forward and an

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indication that the markets will look to - if that's successful for the UK. I'm hoping we'll see that transition to other markets. There's a desire to get back to the normal operating practice and not have all the constraints that sit around COVID, but really if you look, you've called out the Nordics and the way that business has performed through COVID has been really positive but it's really difficult to draw a line off anywhere and say yes, that's what we think the future looks like.

Question: (Andrew Goodsall, MST Marquee) Perhaps another way to think about it, if you look at the provisioning for deferrals by the private health insurers, is it your sense that they're in the right ballpark in terms of what the backlog looks like?

Craig McNally: Andrew, it's not for me to comment on their provisions.

Question: (Andrew Goodsall, MST Marquee) You could certainly say they're under-provisioned but I guess....

Craig McNally: They have their own reasons and there's no consistency in those either.

Question: (Andrew Goodsall, MST Marquee) Yes, okay but it's clear that everyone agrees there's a backlog and I guess it's just now a matter of trying to get some clear air and take advantage of that. Final one from me. The French Government extension of payments, I guess just trying to understand if that's a certainty and if it is, what's the quantum or is it going to be broadly similar or lower?

Martyn Roberts: Yes. Andrew, it's Martyn. It's not been decreed yet but this has been quite typical over the last 18 months whereby they inform us that it's going to happen and then during the period that it applies to normally about halfway through that period they issue a decree. There's no reason for us to suspect that's not going to be the case going forward. We have been told that it's going to be in place through to December. The terms of that obviously haven't been confirmed. It may be different; it may not be. I think

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the general principle of it will be similar that it's a revenue guarantee scheme but whether that applies to the same amount of business or the same remit or not, we don't know yet. We don't know the detail but it should be similar.

Question: (Andrew Goodsall, MST Marquee) Okay. That's great. Thank you very much.

Craig McNally: I'll just add to that. I think running off the previous comment I made about public work, I just think the - and we've spoken about the [unclear] last two years. I think the relationship we've built with payers through COVID will bring improved performance to the Group down the track, and if I use France as an example, the new authorisations that we get in France as a result of that stronger relationship point positively to the future.

Question: (Andrew Goodsall, MST Marquee) Thank you very much. Appreciate it.

Craig McNally: You're welcome.

Operator: Thank you. Your next question comes from Lyanne Harrison with Bank of America. Please go ahead.

Question: (Lyanne Harrison, Bank of America) Good morning all. If I could come back to that - to David's question around COVID impact, and so obviously saw that a little bit higher in July of this year, but also you mentioned that the UK for example is lower and commented about the no longer asymptomatic testing in the UK. But to what extent is some of that seasonal? If we look into the next six months, should we expect the COVID impact cost in Australia to reduce and then in other areas in the northern hemisphere to start increasing as they head into winter?

Craig McNally: If I had a crystal ball and I could tell you what was happening with the next COVID wave, I'd probably be retired doing something else. I think what's happened though, not to be facetious about it, is that everyone's better understanding what the impact of the waves are and so managing them better.

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In the Australian context I think most state governments have recognised that the hard line of surgical restrictions didn't really have the benefit that they thought. I think people are just getting better at understanding what those impacts are, and for a next COVID wave if it comes then people are better prepared. The consequence of some of the decision around restrictions, lockdowns, et cetera have resulted in people getting delayed access to health care and I don't think anyone sees that as a good thing, so I think we'll see improvement in that.

Question: (Lyanne Harrison, Bank of America) Then my next question is on I guess investment in greenfield and brownfield sites, so in '22 about $370 million of that, the majority going into Australia. In terms of the balance, can you talk a bit - I couldn't find it in the notes - can you talk about the remaining [unclear] million or so in terms of which regions were they invested into and into what types of greenfield or brownfield sites?

Martyn Roberts: You broke up a bit there. Was the question in terms of what was the balance invested in outside of Australia?

Question: (Lyanne Harrison, Bank of America) That's correct.

Martyn Roberts: It was pretty split between UK and France and the Nordics where we continue to work on our cluster strategy in France. We do have obviously investments outside brownfields and greenfields in the UK and France around imaging equipment, that kind of stuff. Particularly in France we do invest a fair amount of money on that. You'll see on slide 18 we've given you a split there of the CapEx by region, so you can have a look at that and we've got a split by type as well if you want some further information. You can see there Australia was 42% of the total CapEx, UK was 12%, and Europe was 46%.

Question: (Lyanne Harrison, Bank of America) Okay. Thank you very much.

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Operator: Thank you. Your next question comes from Saul Hadassin with Barrenjoey. Please go ahead.

Question: (Saul Hadassin, Barrenjoey) Good morning Craig and good morning Martyn. Craig, I just wanted to ask you about the ability to actually achieve or to do catch-up work noting the pent-up demand. How much of an issue is it as it relates to staff shortages in general, and I know you've touched on this particularly in France, but across regions if volumes do indeed come back or demand for particular elective surgery comes back, in what position are you to increase theatre utilisation? In other words, how much of this is just having staff come back and being sick with COVID or isolating as opposed to actually needing more staffing on the ground across the different regions?

Craig McNally: If I go back to - I've got to think about which timeframe - FY21 and we had surgical volumes that are a 7% or 8% premium to what they had been previously. We could manage with the staff we have.

There is a - don't underestimate the significance of the impact of absenteeism in the workforce. That has been running at particularly high levels and that has been the major constraint. So if we look at our - we've been recruiting well. There has been turnover in the business but we've been recruiting well.

Even in recruiting we've still got workforce issues simply because of absenteeism. That's not to say that going forward that the industry still isn't under pressure and people making decisions about working less, not necessarily leaving the workforce, but part-timers working less time.

So we're trying to track that. The overall issue that's been the most constraining for us is workforce absenteeism. So that comes back. We've got more capacity.

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Putting aside COVID infections in the community resulting in closure of capacity, if we get back to a position where we've got that workforce back in we will still have all the workforce challenges that we had leading into COVID.

So the strategies we have around workforce and Australia, as an example, it will be 800 graduate nurses that we recruit into the business this year that will hold us in good stead in the future, the upskilling program, the cadetships and particularly for enrolled nurses are all things and decisions and investments that we've made understanding that workforce pressures are going to continue.

So not trying to say once absenteeism is back into a manageable level everything's okay. It's the combination of all those things we think hold us in good stead.

Question: (Saul Hadassin, Barrenjoey) Thanks Craig and just one more from me, the commentary around the digital strategy in Australia and that spend. Do you have a sense yet of how material that spend is going to be over the next five years in total dollars, just noting the $30 million to $35 million targeted for ’23.

Then any estimation of what the returns could look like in terms of benefits that flow through off those dollars invested?

Martyn Roberts: Yes. Hi, it’s Martyn. We haven't called out. We were just getting started. So yes, we do have a roadmap. We do have a plan clearly. We've made some estimates what that might look like, but we are going through that process right now.

The returns will vary depending on the project. So some of the investments that we'll be making will be foundational in the early period, which may not have a huge amount of return, but that then enables us to do all the other significant investments that we want to do that will give us productivity improvements, that will give us new revenue streams, et cetera, which will have very good returns.

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So this is a long program with probably as we've said, a five year roadmap of investment, which then will have increasing returns and benefits out the back end of that. What it looks like, we've gone to market, we've been looking for different systems, et cetera.

So it's pretty early days in terms of knowing what the costings are, but this initial investment is to really get us started.

Question: (Saul Hadassin, Barrenjoey) Great. Thanks Martyn. Thanks Craig.

Operator: Thank you. Your next question comes from Gretel Janu with Credit Suisse. Please go ahead.

Question: (Gretel Janu, Credit Suisse) Thanks. Good morning all. Firstly, just in terms of cost inflationary pressures, can you give some outlook for what you expect in terms of nurse wage inflation in the different regions for FY23, as well as consumable costs? Thanks.

Craig McNally: Look FY23 whilst there's upward pressure on wages, generally, most of our arrangements for FY23 are locked away. So as we come out of arrangements that depending on where the state of the economy is and the general industry, we anticipate there will be upward pressure and we'll respond to that.

One of the responses will be how we deal with our payers, whether they be governments or health insurance but for FY23, no significant material change from what you already understand.

So Australia, we've got the EBA structures. For the UK we've seen the national minimum wage increase in the UK, which has had a flow on effect. We've seen, as I said before, I think we've seen a good reaction from the NHS to recognise that, and then increase pricing.

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Similar in France. We look back at France for the last year and the significant increase in wages for nursing staff, which was then recovered through an increase in tariff.

I just think those dynamics continue and there will be some timing issues in some of that but I think what we're going to see for the next few years.

Question: (Gretel Janus, Credit Suisse) Great and just in terms of consumable costs, anything that we should be aware of there from an inflationary perspective?

Martyn Roberts: Well, I mean, it's not as significant a cost as personnel costs, which is by far and away our biggest cost. Then add on to that prosthesis, which is managed through certainly in Australia the listing from the schemes there.

Certainly we are seeing PPE is not coming down at all. So that's still at inflated levels. In Europe gas prices in particular are having a big impact. Fortunately in our acute business in the UK, we've got - we're still on historical agreements on electricity and gas that we haven't - we've been able to avoid some of those massive increases. Not so much in lithium around UK business. So that's been good.

So it's a mixed bag across the globe, I would say for us. We've got a significant procurement activity where we're always focusing on those type of things and trying to offset them.

We've got direct manufacturing connections through into China. So we get a pretty good line of sight in terms of what's happening in terms of those kind of things that we can then have conversations with our other suppliers.

Craig McNally: Just to add that, I think broader procurement strategy. We've got a large range and a diversified base of suppliers. So how we engage with each of those. I mean they're competitive amongst themselves so we need to look at what our global procurement leverage is and continue to work on that.

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Question: (Gretel Janus, Credit Suisse) Great. Thank you. Then just in terms of your slide 8, the admission trends in Australia, just looking at psych and rehab in particular there. So consistently weak.

Although you did have some improvement in rehab recently, but I guess, do you think that for this two types of mix that will be structurally weaker going forward now versus pre-pandemic?

Craig McNally: Sorry, I missed the specifics of that I think Gretel.

Question: (Gretel Janus, Credit Suisse) So psych and rehab…

Martyn Roberts: Just rehab [unclear].

Craig McNally: Rehab and psych.

Martyn Roberts: I think what we're seeing is - I could go on for a while about these two, but I think generally what we're seeing is no lack of demand for psych. So psych is really a supply side issue at the moment and getting - well supply side and getting people comfortable with the environments again.

So getting psychiatrists and looking at the models for engagement with psychiatrists is something we've been working on for a while anyway as shortage of psychiatrists continue in the system.

So it's about getting our models of care right but there is no question there is unmet demand in psychiatry. What we're seeing in rehab is we're seeing a change in the case mix in rehab and rehab is too easily lumped under the one heading.

So what we're seeing and we've seen it for a little while, and probably accelerated at the moment is more neuro rehab, more reconditioning, particularly for cancer patients. We're seeing less of the high functioning orthopaedic rehab.

We're seeing a lot more low functioning orthopaedic rehab where people are more compromised and that's a reflection of

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demographics. Rehab volumes have a link to surgical volumes as well.

So as surgical volumes have come down, rehab volumes have come down. So I think and I know this goes against what health funds would want to say is that growth in rehab will continue.

It just won't be the same patient/case mix that you saw in rehab five years ago. So it's still very positive about rehab and positive about mental health in the long term. Once we get the supply side structure organised properly.

Question: (Gretel Janus, Credit Suisse) Great. Thank you very much.

Craig McNally: You're welcome.

Operator: Thank you. Your next question comes from David Bailey with Macquarie. Please go ahead.

Question: (David Bailey, Macquarie Group) Yeah, thanks. Morning guys. My question is just around investments. So just in terms of the capital you're deploying just if you think it will support your market position over the medium for longer term.

Then maybe focusing on Australia, ongoing investment at key sites, do you remain confident in the characteristics of those catchment areas of those sites such that you'll see ongoing demand for services?

Craig McNally: Short answer is yes. I mean, we do a lot of work as I think you appreciate in developing business cases and it starts with what the catchment needs are from a healthcare provision point of view, what are the solutions that we can put in place?

That's just not hospital capacity or hospital services as we look at regions, how we integrate services. So we don't take a short term view on what the next two or three years looks like. We're always trying to forecast beyond that.

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With that we've made those investment decisions, which reflects the confidence we have in that analysis.

Question: (David Bailey, Macquarie Group) Do you think that improves your position over the medium to longer term?

Martyn Roberts: From a competitive position you mean?

Craig McNally: I do think some of our competitors are struggling and struggling financially. The things that we always look to bring to bear and leverage are the quality of the portfolio.

We have the types of services that we provide, the level of complexity. Nobody else is going to match a 920 bed teaching hospital as Hollywood is. It's how we leverage that.

One example is putting an emergency department into Hollywood to better manage direct referrals into that business. We have the capacity and the expertise to execute on those things.

That comes with the portfolio, the quality of the people we have, the engagements with doctors that we have, the investments we make in teaching and research, which makes us an attractive organisation to work with.

It's all of those things that come into play and probably even more exacerbated when there's pressure.

Question: (David Bailey, Macquarie Group) Thanks and then just in terms of day hospitals, a bit of a focus there. Just wondering if the strategy is organic growth or you potentially look to M&A as well?

David McNally: A little bit but not substantially. Our position on day surgery is not inconsistent with what it's been for a little while. Day surgery is growing. It has been growing as a proportion of surgical activity for 20 years.

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So we are looking at how we enhance the day surgery activity we have in the existing facilities and well over 60% of our procedural activity is done on a daily basis.

So it's a significant part of our business already. I think we've got 45 day surgery units within our hospital portfolio in Australia. So we'll continue to invest in that and enhance that so that they're slicker, there's better patient experience that will help us manage costs as well.

Then we'll look at locations that we think have potential for growth and so growth corridors that don't exist currently or we don't have a footprint in currently. Maybe a day surgery is an option for that and we've made a couple of decisions as I said in the presentation around some new day surgery, standalone day surgery facilities.

It won't be a proliferation of those in the short term and one that the economics around them is very difficult and that hasn't changed much. Strategically we think that's something we'll see rolling out over the next five years or so and continue with that. So I think that's where we're at with that.

Question: (David Bailey, Macquarie Group) Great. Thanks.

Operator: Thank you. Your next question comes from Sean Laaman with Morgan Stanley. Please go ahead.

Question: (Sean Laaman, Morgan Stanley) Good morning, Craig. Good morning, Martyn. I hope you're both well. My first question…

[Over speaking]

Question: (Sean Laaman, Morgan Stanley) Good to hear. My first question comes around the public sector backlog and Ramsay's potential role in helping alleviate that situation.

Would you view Ramsay as an operator taking up contracts to operate public hospitals themselves, or using some of your

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capacity in your private hospitals to service that public sector backlog?

How does the doctor incentives work in that situation, i.e. if a doctor in theory might not be able to charge a co-payment when they're servicing a public patient. How does that actually work?

Craig McNally: Okay. There is no simple answer to that Sean, unfortunately. So what is happening is that engagement with state governments and some state governments in particular has increased around what the medium term future looks like.

So in mental health, we've got some good examples. There's an arrangement that we've agreed this year with Victoria to provide 24 beds in Melbourne for public patients and then additional capacity for day patient and outpatient.

In Western Sydney we've got an arrangement with South Western Sydney LHD to provide eight to 12 patients a day for public patients. Then another range of services for outpatients.

They're centred around particular issues; around women's health, eating disorders et cetera. So those arrangements I continue to see happening.

In the more mainstream picture and where the bigger volumes are around surgical activity, predominantly - well, I'll come back - I don't see managing of public hospitals on the agenda in the medium term I think.

There's a couple of examples and we've seen in our own portfolio where governments have taken those facilities back at the completion of the contract terms. I don't see government launching into that.

However, what I do see happening is they will engage with private hospitals and operators like ourselves to use existing capacity. They'll also look for longer term arrangements where specific capacity could be developed.

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I'm not saying will be but could be developed to deal with public patients particularly. So it will be a mix of things, but there's no question that the engagement with the public sector has increased.

As we go back and reflect on the things we talked about over the last couple of years about a recognition that the private hospital sector has capacity and capability to do more than what maybe thought initially.

I think we're seeing that reflected in those discussions now. That's just
not - I reflect on the Australian context, but we see the same happening in in Europe as well much, much stronger relationships. I called out the increase in authorisations in France as an example of that. So positive.

Question: (Sean Laaman, Morgan Stanley) Right. Got it. Thanks Craig. My second question, I know it's not directly in your wheelhouse, but it is related. I'm assuming by your early comments that the arrangement with Bupa was successful on the Ramsay side.

Then we note just more broadly, the insurers have forsaken price increases, given what's happened with activity, I guess, at least until November.

Then we've seen restoration of participation in the system since the pandemic began, so more people having hospital treatment coverage, which would be good for you and the industry.

I'm wondering the role of this progressively lower price increases that we have seen on premiums over the last five years. We are now sitting on zero, essentially.

I'm wondering if we get to the next round of negotiations, if the government has a view or what your view is if we see a bump up beyond say the 3% something that we've seen on private health insurance premiums or not. If we don't see it do you think the industry broadly has to eat margin?

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Craig McNally: Okay, again, a complex question with not a simple answer. I think what is important is to grow the pie. For both insurers and providers it's important to demonstrate the value of private healthcare.

So I think that's something that we need to be collaborating on and not just between insurers and private hospitals, but also with government and public systems about the value of increasing the pie.

The obvious example is access into public hospitals has become more difficult and will continue to increase. So waiting lists whilst they're not front and centre in the media in Australia, they are increasing.

So that is an incentive in itself for the people to take out private health insurers. We've seen that as you rightly point out reflected in eight quarters of increased participation.

So then, what does the community bear in terms of premium increase? That's certainly something more for the insurers to answer. All I'll say is what I said before. The circumstances in the industry and particularly around the inflationary environment are not what people could reasonably forecast and so there are agreements in place that don't reflect that. We've got to sit down and renegotiate those that are existing or upcoming to reflect those environments. We've also got to take cost out of the system and hence our digital and data strategy. One of the real objectives of that is to streamline processes and to take out processes that are redundant so that we play our part in sort of making sure that the system is more efficient. So lots of elements of that but – and it is complex otherwise it all would have been resolved easily some years ago but as the environment changes, then you need to be flexible about the way we think about that.

Question: (Sean Laaman, Morgan Stanley) Great. Thanks Craig. Thanks Martyn. Appreciate your time.

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Craig McNally: You're welcome Sean.

Operator: Thank you. Your next question comes from Steve Wheen with Jarden. Please go ahead.

Question: (Steve Wheen, Jarden) Good morning Craig. Good morning Martyn. Just prompted by your comments about the impact on – of the current environment on your competitors, particularly in Australia. I just wonder if you could give any colour around doctor recruitment in that context and certainly in light of you continuing to spend, from the CapEx perspective, whether that's sort of putting you in a better light to attract and retain some of these doctors to operate in your theatres?

Craig McNally: Yes. Doctor recruitment is an art, not a science, but I think what is important is we see the doctors as our partners and so we engage with them on that basis to understand what's happening in their business, how we can help them. Certainly, how we can make ourselves attractive for them to come to us. Investment is one of those things. We have more surgical robots since – in our business than anybody and so as we look at the next generation of doctors and the way they're training has been undertaken, it's important that we keep investing in technology that allows them to practice effectively and efficiently.

We do invest more in teaching and training and research than anybody else in the sector and that's not just because we're bigger. On a pro rata basis, we certainly invested a lot more. That's important for doctors. So all of those things are things that we – you know this is all before COVID and we're prioritising before COVID. Probably our ability to keep doing that should hold us in good stead going forward. Again, reflecting back on the quality and complexity of our portfolio, we've got big, complex hospitals that have got significant clinical

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infrastructure that doctors want to be part of. So growth in those facilities tends to be higher than growth in other facilities as well.

Question: (Steve Wheen, Jarden) So is that manifesting at the moment with an increase in the doctors that are utilising your services versus last year or pre-COVID?

Craig McNally: Yes. No, we – oh, we continue to recruit doctors and how is it manifesting? It's hard to tell when the volume isn't where it should be. So we get – we're certainly – you know engagement with our doctors is – that they – well, (1) their activity is compromised by staff absenteeism in their own practice and their own isolation from time to time. But if you try and look past that, we've got more doctors and we've got more capacity. We've got state of the art operating theatres, we've got state of the art - other facilities. We've got nursing staff and other clinicians who are highly trained. So they're the things that doctors look for.

Question: (Steve Wheen, Jarden) Yes, great. Understood. Hey, just again, back on the arrangements with the payers. With the most recent signing, you've always schooled us that not to look at the headline sort of indexation number. It's more around the conditions that are agreed upon as to where there is transfers of risk. I wonder if there's been any movement in more recent negotiations where you have been able to achieve some wins from the risk perspective that lies embedded within some of the conditions in these arrangements.

Craig McNally: Yes. Look, you know I don't talk about the specifics of any of those agreements but I think there is a – what we've seen is an increased willingness if you like and that's both parties have a look at increasing collaboration and I think sort of reflected that in some of the announcements with the HCF agreement for example.

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But also, there's a recognition that we need to streamline the agreements and sort of the business rules that sit in that that don't actually add any value. They're all sort of processes that cost money that are unnecessary. So you know there is certainly improvement on that side rather than just the indexation as well.

Question: (Steve Wheen, Jarden) Excellent. One final one from me. Just you know with the backdrop of the offer that can't be spoken of, I wonder if…

[Over speaking]

Question: (Steve Wheen, Jarden) Sorry?

Craig McNally: No, sorry. I was just saying which offer was that?

Question: (Steve Wheen, Jarden) Sorry [laughs]. I just wonder if this has started to change your perspective on – say on a leaseback in your own right and your ability to maybe monetise some of the uncapped value that sits on your balance sheet with regards to these properties?

Craig McNally: Yes. Look, I think irrespective of that process, and we won't talk about it, it's business as usual for us and so – and you've seen that in the investments we've made. We've talked from time to time about sale on leaseback and what our position would be and we've certainly been assessing the benefit of a – you know I'll let Martyn talk about the more specific issues but the issues for us have really been about leakage and that and where the short term benefit is against the long term benefit and capital gains tax leakage and stamp duty leakage has been significant considerations for us.

But we've been looking at should we have a smaller portfolio where we minimise that leakage and what does that look like? You know so it's something that – it's probably been considered more regularly than it was in

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the past for us and that's not necessarily as a result of any offer process.

Question: (Steve Wheen, Jarden) Excellent. Thanks Craig. Thanks Martin.

Craig McNally: You're welcome.

Operator: Thank you. Your next question comes from John Deakin-Bell with Citigroup. Please go ahead.

Question: (John Deakin-Bell, Citigroup) Thank you. Craig, just interested. On that Slide 8, you've got the trends in admissions and the surgical admissions are kind of where they were in 2019. Since then, you've opened a lot of brownfields and increased the capacity of your network in Australia. Can you just give us a sense of how much spare capacity you've got and then you know assuming it all gets better in let's say 2024, what are the limiting factors to actually being able to fill that capacity, whether that's nursing staff or surgeons? Just to give us a sense of where you might get in a year or two?

Craig McNally: What can I tell you John? Certainly, physical capacity. I mean – and we're still making investments as you've seen in the presentation in developing theatres so that that's site specific about where we're coming under forecast pressure for the next few years about where we see in our activity moving. So that will continue to be the case and so when we look out the next three or five years about where do we need additional theatre capacity, we'll develop that.

But in the short term, we've got capacity to take on surgical volumes that are higher than they were in FY19 and we've got a reasonable amount of capacity of that. The constraining factor is workforce and so - absenteeism and then one of the areas where workforce has been challenged is more critical care areas. So ICU,

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operating theatres are the two areas that we find most challenging in recruiting skilled staff and so developing our own is a really key component of that.

So as part of our – you know for example, our graduate nurse program. The second year of that two year program is really focused on people selecting where they want to work if there's a subspeciality they want to work in. So we're training a lot more operating theatres – theatre staff for ourselves so that will hold us in good stead over the next few years. So we'll just continue to do that as I said to answer a question previously. That's an ongoing process despite recovering absenteeism levels.

Question: (John Deakin-Bell, Citigroup) Thank you. Just Martyn, on the UK and France, you commented that in the UK that inflation was about 5% and then France, you referred to significant inflationary costs pressures. Assuming the volumes get back to normal at some point, can the EBIT margins get back to where they were pre-pandemic? Or have these inflation impacts precluded that from happening and the margins in '24 or '25 will be lower than where they were in 2019?

Martyn Roberts: Yes. I think as I said before, the key factor there is wage inflation. So who knows where – I mean, we're seeing forecasts of general inflation in the UK being almost – predicted to be up around 18% with some of the reporting come out yesterday. So - but that's across general costs. It's the wage inflation that's going to be the most important and as Craig said, the NHS have been recognising that and some of that's been reflected in tariff and that's really the biggest variable in terms of getting back to decent margins is what that indexation looks like on the top line.

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Certainly we're focused on productivity and – around our own costs. But the challenge - People always saying yes, people say back to pre-COVID levels. Well, FY24/FY25 is a long time since pre-COVID so the world has changed and our business has changed. We've opened three hospitals during COVID in the UK. So the biggest part as I said before is managing our own productivity and then negotiating as much as we can with Government or payers to make sure that those costs are being reflected within our indexation.

Craig McNally: I think – sorry, just to add to that. When we look at how those negotiations happen. I mean, in Australia, we negotiate just as a Ramsay entity with our payers but when we look at what's happening with industry negotiations in France, the private hospitals are very in line with the public hospitals so that gives some strength in those negotiations which is not dissimilar in the UK. So the Government responses that I've alluded to a couple of times have been more positive so I think that's good.

Question: (John Deakin-Bell, Citigroup) Great. Thanks very much.

Operator: Thank you. Your next question comes from David Stanton with Jefferies. Please go ahead.

Question: (David Stanton, Jefferies) Good morning team and thanks very much for taking my questions. Perhaps we could start just in Australia. I'd be very interested to hear given what you've called out in terms of wages. Your rates of casuals or agency now into '23 – FY23 – compared to pre-COVID levels. Where – if you could give us some kind of number where you were in percentage terms on a given shift pre-COVID and where you might be now, that would be greatly appreciated. Thanks.

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Craig McNally: I probably can't give you an absolute number, David. I'll talk to you about the trend in what's happening. I think through COVID we've held everybody's hours, whether they be part time, casual or certainly full time. There's been a classification issue as well in the industrial climate. People who were casuals doing regular shifts have moved from being casuals to permanent part timers by election. Those things will change the numbers from what they were historically.

What we do see and I did touch on it a moment ago is people looking to reduce hours and so we need more people in that part time and casual group to give us the flexibility and so we need that flexibility to get back to those operating disciplines that we had pre-COVID and getting productivity back into the system. We don't see any concerns about the mix between full time and part time and casual, but I can't give you the absolute numbers.

Question: (David Stanton, Jefferies) Fair enough. I mean we have heard pre-COVID, your competitors were talking about pre-COVID they were at 5% and now they're at 25% casuals/agency. Can you comment?

Craig McNally: Well, no, we don't have anything that looks like that. Particularly when you're thinking about agency, agency usage through the pandemic was actually reduced and we've always been pretty good at managing agency hours down. I'm going to say the exception of that is just when absenteeism does go up, there's more demand for agency, but the numbers of nursing staff working in agency is less than it was partly because of closed borders and international nurses not coming to the country.

Which in itself is an issue that needs to be addressed and one of the things we will be pushing at the Job Summit next week is Australia has just got to become more competitive with the rest of the world on recruiting skilled workforce. We look at what we can do internationally and we are miles behind in Australia.

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Question: (David Stanton, Jefferies) Understood and for our records, a question I always like to get, is how many operating theatres do you think you will open in Australia in F23?

Craig McNally: Did we say that?

Kelly Hibbins: No.

Craig McNally: I don't think we've got them here. I don't have it in…

Martyn Roberts: It's not in the…

Craig McNally: …the deck David but…

Kelly Hibbins: David, in the Investor Presentation before Christmas we had the [unclear] operating theatres for the next few years. I'll just have to update that because of some of the delays, but that's still - none of those projects have been cancelled so you can take it from that.

Martyn Roberts: There were nine in FY22, new theatres...

Question: (David Stanton, Jefferies) Yes.

Martyn Roberts: …with $181 million of spend and $250 million to $300 million in 2023.

Kelly Hibbins: Yes.

Martyn Roberts: Yes.

Question: (David Stanton, Jefferies) Okay. Kelly, maybe we can have a chat offline. Then finally team, you have been previously talking about investing in health care adjacencies and given it is business as usual for you, as you previously said, where are we? Where is Ramsay at with that in terms of has that changed really, that thought changed during the COVID period that we've been through? Thank you.

Martyn Roberts: No, it hasn't. Our view on that hasn't changed so that is part of our strategy moving in to new and adjacent services and as

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Craig called out earlier, day surgery strategies is part of that, our out of hospital community work sits as part of that, so the Ramsay Psychology, Ramsay Connect, our pharmacy, Allied Health, all those types of things are what we are focused on. I mean obviously in the UK and France we have very strong imaging businesses and that's always been on our consideration set in terms of moving into that. I think what we've said is anything that is on campus that is patient facing is under our consideration, so our view hasn't really changed on that at all.

Craig McNally: Yes and I think it's reflected in Europe. We have moved from 130 primary care centres to 170 in one year, so that's been good growth.

Question: (David Stanton, Jefferies) You did mention previously patient transport being something you were looking at in France. Is that still on the agenda?

Craig McNally: That's fallen way down the agenda David.

Question: (David Stanton, Jefferies) Fair enough, fair enough. Thanks team.

Craig McNally: Thanks.

Operator: There are no further questions at this time. I will now hand back to Mr McNally for closing remarks.

Craig McNally: Okay. Thanks everyone for your time. Obviously, we've got some other work to do post this, but I just want to leave you with the message that whilst the result really does reflect the situation and circumstances around COVID, we are still extremely confident about what the future is for us. Hence that you see the investments we are making, but not just investing in our physical capacity in terms of brownfields and greenfields but that is certainly part of what we do, but the other investments we have made, the digital and data strategy positioning us for the long-term, the investments in IT specifically around our workforce and teaching and research investments.

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We are very positive about what the future looks like post-COVID and that is driven by the things we generally talk about. Demand for health care services is going to increase as a result of demographic changes, growing populations, ageing populations, new technologies, all that still is in flight. So, thank you for your time.

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

[END OF TRANSCRIPT]

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