Transcript 3QFY22 Conference Call

29th April 2022

Operator:

Thank you for standing by and welcome to the Ramsay Health Care Conference Call. All participants are in a listen only mode. There'll be some opening remarks followed by a question-and-answer session. If you wish to ask a question, you will need to press the star key followed by the number one on your telephone keypad. I would now like to the hand the conference over to Mr Craig McNally, CEO. Please, go ahead.

Craig McNally:

Thank you and thanks everyone for joining the call this morning. Given the continued volatility in quarter three, we wanted to provide the trading update for the period. This should be - and the details in the trading update should be no surprise given the February half year update we gave, which covered a lot of what we anticipated to happen in the quarter.

We are, however, really positive about what the future is when we come out of the volatile period. We have flagged previously that we see costs escalation early into FY23 and so we're looking really through to FY24 as what will be a normal trading year and we expect all the underlying drivers that support the business and demand for healthcare to be able to deliver back to where we used to be.

Those drivers really, in the short term, are dealing with the backlog of surgical activity which will inevitably come through in all the markets in which we operate. The length of that depending - you know, the length of dealing with that backlog will depend on the circumstances in each market but we're positive we'll see that coming through FY23.

But beyond that, and I think demonstrated by our confidence in the future and the investments we're making to position ourselves in the future, the drivers that we all are aware of in terms of ageing population, growing population, advancements in technology, community expectations et cetera, will all continue to push demand in healthcare and we are - in terms of the evolution of our strategy and positioning ourselves for the future, are really confident, hence the continued investment that we make.

On this call, I'm sure lots of people will want to know about the two significant processes that are underway which is the KKR-led and sought - consortium's offer to the Ramsay Health Care Board and the sale process for Ramsay's Sime Darby. I won't make any comment on them other than to say they are - those processes are continuing and what has been announced previously is still the case.

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I'd like to take the opportunity to thank our staff and doctors again for what they do and they've been fantastic through what has probably been the most disruptive quarter that we've had through the last two years. So they've done a fantastic job in concentrating on caring for our patients and looking after each other. So I'd like to thank them and with that, happy to open up for the 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 your handset to ask your question. Your first question comes from Andrew Goodsall with MST Marquee. Please, go ahead.

Question:

(Andrew Goodsall, MST Marquee) Thanks very much for taking my questions. My first one, just if - you've been a bit detailed about how we got there with the third quarter EBIT in Australia but could you be a bit more expansive with what's happening with the UK? It seems that things are getting worse on the cost level and then in Europe, it does actually look like things are better but they're - just conscious there may be some one-off pieces to those.

Craig McNally:

Yes, I'll start and let Martyn talk about some of the financial detail. So through the quarter, we've still seen a lot of cancellations. So despite what we've seen in terms of increase in referrals, the level of cancellations due to isolation of staff, doctors and I've got to say, to a lesser extent, patients. They're still resolving a lot of short-term cancellation and that has not enabled a lot of flexibility around the cost base as we keep staff engaged. So that's been the primary dynamic in the UK but as we move forward, we're still confident about that volume increase in dealing with what is still a massive backlog of work to be undertaken.

Martyn Roberts:

Yes, so Andrew, it's Martyn. Regarding the UK, you may not have had time to do all of the maths yet but obviously the quarterly result that we've reported, that includes $11.7 million EBITDA contribution from Elysium. So you've got revenue and costs coming in from Elysium in there.

There's also $18.9 million non-recurring item there which was the write-off of some significant amounts of PPE that we bought in the initial phase of the pandemic, which is getting very close to its use-by date that we haven't been able to use. It sounds like a lot - a big number but if you remember the mad panic and scramble that happened in that first few weeks and months of the pandemic, we bought as much as we could get and some of it, we're actually - were the kind of things that were really not appropriate to use anymore.

So once you back out that $18.9 million, the EBITDA for Q3 was $37.1 million, which is certainly better than Q2 and you back out Elysium, you have $25.4 million. That's better than Q2. So we - it's still nowhere near what it was in the prior year, mainly because of the massive increase in furloughing and disruption to staffing that we've had to double employ people and back fill them and in terms of the disruption through the cancellations that we've been talking about on a few of these calls so far.

So there's some small green shoots there. Certainly, the team are managing to re-book a lot of the cancellations now, so getting into a good rhythm of being able to do that but still a long way from getting back to normal. I hope that answers your question.

Question: (Andrew Goodsall, MST Marquee)

Sorry, just in France, it looks like things are improving. If you could just - any additional colour you can add there?

Martyn Roberts:

Yes, look, I mean, I think as we said on the Q1 call, it is quite lumpy quarter to quarter. Mainly because of the revenue guarantee scheme and the accruals there. It's still pretty challenging in terms of volume and staff shortages, albeit the staff shortage issue seems to be getting slightly better currently.

But yes, the result in the Nordics actually was very strong within that result. We haven't split it out, you'll see that when we get to the full year but the Nordics is performing particularly strongly and the France business from an EBIT perspective kind of evens out when you get to the half.

Question: (Andrew Goodsall, MST Marquee)

Okay and then - on a very, very short term but just what your order book looks like going in to the fourth quarter? Just get a sense of whether activity levels are up and we know, of course, COVID's still pretty disruptive out there but just whether - 4Q on 3Q, proportionally, the benefits you're seeing flow into that Q4?

Craig McNally:

Yes, so I think what we're seeing is increased surgical activity. However, particularly in Australia but we're talking about France at the moment, April will not be good. Easter running into ANZAC Day has seen a lot of people - particularly doctors, take leave and we saw that in France as well where doctors were taking leave over Easter. They don't have ANZAC Day, obviously but they - so putting aside that period which will depress April, what we're otherwise seeing is those volumes coming back into the system.

Question: (Andrew Goodsall, MST Marquee)

Terrific and the cost base? Seeing it getting any better or just still being knocked around by COVID?

Craig McNally:

Still being knocked around by COVID, absolutely. We've still got capacity restrictions because of workforce and I should have said at the outset, workforce remains the biggest issue we have in all of our markets. But it certainly very positive signs of improvement in France.

Question: (Andrew Goodsall, MST Marquee)

Great. Thank you. Thanks very much.

Craig McNally: You're welcome.

Question: (Gretel Janu, Credit Suisse)

Thanks, good morning. Just in terms of Australia, I'm just trying to work out the impact of cancellations and staff absenteeism there. So are you able to quantify like you have for the UK, the level of cancellation or more alternatively, can you give some colour on the utilisation that you were running at in the quarter for those periods and particularly the states that weren't impacted by surgical restrictions?

Craig McNally:

Yes, I mean I'll start with surgical restrictions were one issue and they certainly are reduced activity but there was a lot more impact than I - as I sort of alluded to. The quarter was more disrupted than any other quarter we've had through COVID. Really because of the high rates of infection in the community, which then translated into lots of isolations for staff, doctors and patients.

We don't have the - I can't tell you the absolute cancellation numbers in Australia but the impact and - of isolation in particular was - I'll say the same thing, it was more significant in that quarter than we - by a long way than we've seen in other quarters. Then…

Question: (Gretel Janu, Credit Suisse) So going - sorry?

Craig McNally:

No, no, I was just going to then go onto April for Australia. It was severely impacted by the holiday period.

Question: (Gretel Janu, Credit Suisse)

Yes, so sorry, just going forward, I guess, do you have any degree of confidence that it will improve in the coming quarter outside of April and the holidays there?

Craig McNally:

Yes. Confident of certainly the surgical activity increasing and we - when we - just got to caveat that with, we’ve still got a - rates of infection in the community which are resulting in staff absenteeism and hence reduction in capacity.

So we’ve got to see that cleared but despite that, we’re seeing increase in surgical bookings, absolutely. We’re seeing a slower return in non-surgical activity and I think as we’ve talked about many times, medical activity, we really need to see - not that I’m wanting it to happen but a flu season come through which’ll see respiratory admissions increase again.

Psych, still a bit slower to recover and that’s related to as much as anything else, psychiatrist absenteeism and there’s rehab, there’s a direct correlation with the increase in surgical activity about how quickly rehab recovers.

Question: (Gretel Janu, Credit Suisse)

Great. Thank you very much.

Craig McNally: Welcome.

Question: (Sean Laaman, Morgan Stanley)

Thank you. Good morning, Craig. Good morning, Martyn. Hope you’re both well. My question relates to nurse supply and I’m wondering if the pandemic has - there’s been some learnings in there with respect to better managing nurse supply and rostering? Is there a positive as we exit the pandemic?

The second part to that is, what is your current view on nurse supply versus pre-pandemic and do you think you can get back to pre-pandemic numbers in nurse supply?

Craig McNally:

Okay, there’s a lot in that. I don’t want to be too simplistic on it but we’ve got a range of initiatives that are both short-term and medium-term in terms of workforce and we’ve talked about them previously. We're doubling down - I mean, we've always invested a lot in staff development and creating flexibility in rosters for our workforce because flexibility is a big issue for nursing staff.

I'm not sure that COVID has resulted in a change in our view on those practices. I think what it has done is, we've lost productivity. I think one of the important things for us as we move into a more normal environment is getting back to those disciplines that will deliver greater productivity. So targeting back to productivity levels as FY19.

Not to labour the point and we - the decision we made, which was the correct decision, was to not make any staff redundant or reduce their hours. With lower activity, obviously that resulted in significantly less productivity. We'll get those disciplines back.

I think when we talk to our staff and understand where they're at and there's certainly COVID-related fatigue in all of our markets regardless of the level of COVID patients that we've serviced directly in different markets. We've got to be conscious of how we manage through to that normal level of productivity and the messaging we're getting back is really around flexibility more - and we do a lot of it anyway but increased development and education opportunities for our staff. So amongst a range of other things that we're doing but yes, very, very conscious. Top of mind as I say regularly, it is the most important issue for us in all of our markets.

Question: (Sean Laaman, Morgan Stanley)

Thank you, Craig and one quick follow up, if I may? I know it's a smaller piece of the overall pie but just your commentary on the volumes in rehab? I'm wondering if you think of episodes of rehab as a ratio to whatever - orthopaedic surgeries or whatever it is that - do you think that's seen some permanent shift down as a result of the pandemic or would you expect rehab to rebound to ratios similar to pre-pandemic?

Craig McNally:

It's easy to lump rehab together. I mean, there are different types of rehab and that's always important to understand. So when you look at orthopaedic rehab and as we've talked about many times, that patient cohort that is generally healthy, we're seeing that referral to an inpatient rehab program decline anyway for that cohort of patients.

What we are seeing though is - with hips and knees, there is more - there are more compromised patients and patients who are getting their joint replacements at a later stage of that deterioration, who will require inpatient rehab but I think overall, what we'll see, orthopaedic rehab decline. Not dramatically but continue to decline as a proportion of the rehab we do.

The other rehab that we do continues to increase. Whether that's cardiac rehab, prehab - you know, rehab for cancer. Neuro rehab. All of those areas are increasing anyway. So it's too easy to bundle rehab together as a generic service. There are components of rehab that will see change in terms of mix and growth rate.

Question: (Sean Laaman, Morgan Stanley)

Got it, Craig. Most appreciated, thank you.

Question: (Saul Hadassin, Barrenjoey)

Yes, good morning, Craig. Good morning, Martyn. Sorry, just following up on your commentary around activity into May. Just looking at consensus at a Group level for EBIT for second half fiscal '22. There's a doubling of EBIT on consensus forecast. You did $190 million first quarter - sorry, third quarter. The implied fourth quarter's about $400 million.

Just wondering the ability to generate that type of operating profit in that quarter, just considering all things like seasonality and the one-off costs in 3Q. Just your sense of how much is 3Q an implicit run rate of that Group EBIT into 4Q?

Martyn Roberts:

Yes, well I don't think it's appropriate for us to comment on consensus but what I can say is, we've called out the $89 million of COVID impact in Q3 so that certainly takes us below the prior year, as you'd have seen.

As Craig's just said, April has been pretty disrupted from people taking leave et cetera, there still will be some COVID impact on our results, albeit, not so much through cancelations. I mean, WA is still - we're still in restrictions during April, that will have come off now so we kind of get into May with no surgical restrictions around the country; that's good. But we've still got impacts from COVID, whether it be inflated PPE costs, inflated staff costs, lots of sick leave and that kind of stuff, so we're still going to be disrupted.

Doubling the profit, well, I can't tell you what the number's going to be, but you've seen quarter in, quarter out, we've been very subdued in terms of our activity. Last year, the Q3 and Q4 weren't so bad in terms of the period over the last two and half years, they were probably some of our better quarters in Australia because we were relatively COVID free in most of the big states, and so, you can make your own assumptions around all that, but it's still going to be impacted going through Q4.

Question: (Saul Hadassin, Barrenjoey)

Yeah, noted. Thanks for that. Just a follow up and related to the cost base and inflation on that, particularly in Australia, as you go into contract renewals with insurers, any sense of - or any discussions that you've had with any of the payers as to their willingness to effectively look to pass on or pass through or look, or cover off on that medical inflation versus what - where rates were struck over the last two to three years?

Craig McNally:

Yeah, without going into the details, there's no question that there's pressure - upward pressure on cost base, the insurers have had a windfall gain and are in a much stronger financial position, and I'm not going to talk about individual negotiations and the level in that. But our tolerance for compromising on issues that we may have compromised in in the previous period, is much less and we have a particular resolve that we need to protect our business and we'll do whatever we need to do in those negotiations.

They're always robust. We've had some good negotiations and relationships over the last 12 months, but as we move forward, our view is that they need to recognise what the future looks like, and we'll be pretty strong on what we need to do.

Question: (Saul Hadassin, Barrenjoey)

Great. Thanks guys.

Question: (John Deakin-Bell, Citigroup)

Thank you. Craig, I'm just interested in getting your views on the pent-up demand in Australia. If we do some rough numbers of assuming the market will have grown procedures from a 4% per annum in '20 and '21 and so far in '22, and look at what's actually being done, it appears there's probably at least a 5% gap, so 5% of the procedures that would have been done haven't been done. Can you just give us a feel for where you think it is at in Australia and again, I think we talked about this at the half year, but how long it might take to play out for all those patients to come back and get treated?

Craig McNally:

Yeah, okay. Our view is that there's probably more than 5% that have not been done. Then in terms of how long it takes for treatment, I am still of the view that - and particularly given workforce issues, that we'll see a higher level over, but not sort of a ridiculously high level. So when I say lower for longer, I'm still saying that what we'll see is higher surgical volumes over what we saw pre-COVID, and that will be for a - it's much more sustainable when it's over a longer period of time than trying to deal with it all very quickly.

I think when we look at, sort of, implications of workforce, doctor appetite, that that will be the profile that we see going forward.

Question: (John Deakin-Bell, Citigroup)

Yeah. Thank you. Can we just talk about wage inflation for nurses? I understand you've got a range of EBAs but these are staggered. But, I mean, just generally, it's not really a discussion we've had in your industry for a number of years. Can you just talk to us about how you would think about that over a two to three year period?

Craig McNally:

Yeah. You're right what you point out, John, that we've got a range of EBAs across Australia over different time periods of when they mature.

Where the indexation has been, and there's more than just a straight wage indexation, but where that has been over the last year or two, has sort of been in that 1.5% to 2.5% indexation range. So when we look at a position that we have currently, we're very secure for want of a better term, in terms of understanding what the impact on the business will be. As those - and I'm getting to your - the point of your question - as those EBAs come to the end of their life in the next year to three years, what's the environment going to look like. So, it's hard - absolutely hard to predict that.

As we look as where we are relative, and lots of people call out New South Wales and the industrial action that nurses have been taking over the last few months in New South Wales, on a relative basis, we're ahead of where the public sector is. They've got a bit of catch up, they didn't give indexation last year as much as they would normally do. That saved - that gives us a position where we're not concerned that we're going to be out of the market going forward.

But what we're looking at, and it gets back to Saul's question on health fund negotiations, we'll be having a view on what we think the wage environment's going to look like into the future, certainly in the period that the health fund contracts will roll and we will factor that into our negotiations and so we'll be looking for recovery of whatever we think the wage indexation will be.

Question:(John Deakin-Bell, Citigroup)

Thank you. Just a follow on from that, do you have any sense that a potential Labor Federal Government would have a different view about private health insurance price increases than the current government?

Craig McNally:

No, I think it's - I wouldn't say there's nothing between them. But no, the discussions we've had with both sides of politics, there isn't much between them, to be honest. They're very - I've got to - I'll be clear, Coalition and Labor are both very supportive of the balance that exists in this system and so don't - explicitly don't want to do anything to jeopardise the balance between public and private. But they'll always have some things at the margin that they'll want to do differently.

Martyn Roberts:

We probably should add, Craig, that we've got the 0.05% superannuation increase on top of those figures that you were…

Craig McNally: Yes.

Martyn Roberts:

…talking about before coming through and a couple of states, there are some payroll tax increases, as well.

Craig McNally: Yes.

Question:(John Deakin-Bell, Citigroup)

Right. Thanks for your time.

Craig McNally: You're welcome.

Question:(Lyanne Harrison, Bank of America)

Hi, good morning, all. Can you give us some colour on what you've seen from different geographies as to public to private transfer volume?

Craig McNally:

Public to private transfer volume was the question?

Question:(Lyanne Harrison, Bank of America)

Yes, that's right.

Craig McNally: Okay, [inaudible].

It varies greatly between markets. I'll just do a quick run around the markets and the - I'll start with Australia. We are seeing more - we're doing more public patient activity but certainly, there's a small part of the volumes we undertake, there's still a lot of private catch-up to do.

But the states - and not all states but some states are - we're well progressed in negotiations about what the future looks like and not just what the next 12 months looks like. So, I anticipate we'll continue to do more public volume but it will still be always the less material piece of what we do in Australia, putting aside the public hospitals that we operate, like the [inaudible].

In the UK, we'll - we've seen an increase in private work, both private health insurance and self-paid, but as we move forward, the greater increase is going to be in NHS volumes, so that will continue to be the most significant part of our business but we'll continue to look at how we grow the private part of our business as well.

In France, they're all public patients and we'll - I don't see a big shift in balance between the volumes that are going to public and private. It's not a cost issue, as I think we've talked about before. The private sector gets paid about 20% to 25% less than the public sector for doing the same amount of work, so it's not an economic issue, it's really about where volumes go and how you market that. But I don't see that changing much.

Then Scandinavia, it's a public market, although what we've done with the acquisition of GHP, which went unconditional last week, that gives us access to more of the private market, in Sweden, particularly.

Question:(Lyanne Harrison, Bank of America)

Thank you very much.

Craig McNally: You're welcome.

Craig McNally:

Okay, thanks very much. I'll just re-emphasise the points I made at the start of the call. We're still in a - have been certainly through Quarter 3 and we're still over the next short period of time going to be in a period where volatility will continue, particularly around workforce-related issues and isolation effects. However, we are still extremely positive about what the future is.

We will continue to invest and we're making investment decisions all the time about what the future looks like and looking beyond what the COVID impacts are. I know you've heard me say this before but it's absolutely where we're at. So, we're very positive about FY24 and beyond. I thank you all for your time this morning.