



# ASX Announcement

24th August 2023

## Ramsay announces FY23 EBIT increase of 14.6% and accelerates transformation plans

- **8.8% increase in NPAT driven by stronger performances from the Australia, Asia and the UK acute hospitals business offset by reductions in Ramsay Santé and Elysium and higher finance costs and tax**
- **Accelerating digital and operational transformation to improve performance, patient experience and clinical outcomes particularly in Australia**
- **Revenue growth targeted by driving volume and negotiating further increases in reimbursement rates to compensate for a higher cost environment**
- **Initiatives in place will drive margin recovery over time albeit FY24 will be impacted by inflation, higher digital and data investment and increased funding costs**
- **Targeting <2.5x Funding Group leverage<sup>1</sup> from potential sale of Ramsay Sime Darby<sup>2</sup> and increased earnings from 3.2x at 30th June**
- **Ramsay is focused on continuing to improve its strong competitive position to take advantage of the positive long-term trends in healthcare**

<sup>1</sup> Funding Group - excludes Ramsay Santé. Banking covenants and the Fitch rating are based on the rolling twelve month Funding Group earnings profile and net debt on AASB117 basis

<sup>2</sup> Refer ASX announcement 28th June 2023

## Group Financial Highlights

	A\$m	%chg on pcp	chg (%) cc <sup>1</sup>
Total revenue and other income less interest income	15,339.1	11.6	11.4
Earnings before interest and tax (EBIT) including discontinued operations <sup>2</sup>	1,021.3	14.6	13.2
<b>Statutory Net Profit after minority interests</b>	<b>298.1</b>	<b>8.8</b>	<b>5.1</b>
Final Dividend per share (cps)	25.0	(48.5)	-
Full Year dividend (cps)	75.0	(22.7)	-
Franking (%)	100.0	100.0	-
Fully diluted earnings per share (EPS) (cps)	124.8	7.5	-

<sup>1</sup> Constant currency

<sup>2</sup> On 28th June 2023 Ramsay announced that together with its partner Sime Darby Berhad (Sime Darby), a decision had been made to explore the possibility of realising a sale of its 50:50 joint venture in Asia, Ramsay Sime Darby (RSD). As a result of this decision the investment in RSD has been re-classified as a discontinued operation and as an investment that is 'held for sale'

Growth in total revenue reflects an increase in activity across all regions led by growth in surgical admissions and a gradual recovery in non surgical admissions. Total revenue includes full year contributions from businesses acquired in FY22 including Elysium Healthcare (Elysium) and GHP Specialty Care (GHP) (\$767m increase compared to the pcp).

EBIT includes a positive contribution from non recurring items of \$42.1m (\$60.5m negative contribution in the pcp) the primary contributors being asset sales in Ramsay Santé \$55.3m offset by a \$20.5m impairment taken on 3 properties in the 84 site Elysium portfolio.

Group EBIT (inclusive of discontinued operations) increased 14.6% on the pcp reflecting the improving operating environment in Australia, the UK acute hospital business and Ramsay Sime Darby (RSD). The positive results were offset to an extent by lower earnings from Ramsay Santé and Elysium. Underlying Group EBIT (ex-non recurring items) increased 2.9% on the pcp.

Whilst 2HFY23 statutory NPAT was significantly below 1HFY23 due to increased interest and tax costs and a negative contribution from non-recurring items, EBIT before non-recurring items for 2HFY23 was only 1.5% below 1HFY23 due to acute seasonality factors in Australia and a lower performance from Elysium.

The rate of recovery in earnings across the Group was slowed by staffing shortages and inflationary cost pressures in particular labour costs. The estimated direct impact of operating in a COVID environment in Australia and the UK combined in 1QFY23 was \$66.8m. The direct impact has declined to an immaterial level with residual costs expected to continue in the business for the foreseeable future.

Net financing costs increased 34.4% to \$474.3m. Net financing costs (excl. AASB 16 lease costs) increased 100.1% on the pcp reflecting the impact of rapidly rising base rates and higher drawn debt over the period. Net financing costs includes net positive swap mark to market movements of \$26.8m (\$34.1m in the pcp). Removing the impact of mark to market movements costs increased 71.5%.

The effective tax rate increased from 29.6% to 33.2% primarily due to a higher tax expense in the UK.

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The business continued to invest in expanding its services footprint and building its digital and data capability to improve the patient, employee and doctor experience and drive productivity. Investment in brownfield, greenfield and growth projects across the Group was \$380m and investment in digital and data was \$107m (\$83.7m was expensed). Total capex for the year was \$772m.

A full year dividend of 25.0cps was determined down 48.5% on the pcp taking the full year dividend to 75.0cps representing a payout ratio of 60% of full year Statutory Net Profit.

## CEO and Managing Director Craig McNally

"We are pleased that the business environment is now recovering from the disruption of the last few years and while the rate of growth has been slower than we expected and the trajectory inconsistent we have seen patterns of activity improve over the last twelve months. I would like to take this opportunity to again thank our employees, patients and clinicians for continuing to support the business through what has been a demanding period for the healthcare industry globally.

"As we emerge from the restrictions of the last few years we have taken the opportunity to recalibrate our strategy to drive growth and returns into the future. We are accelerating investment in digital and operational transformation programs with the priority being to improve the performance of our Australian business and return Elysium to a profitable base from which to grow.

"We will continue to proactively engage with our public and private payor groups, including seeking out of cycle benefit increases to better align reimbursement structures with the higher cost environment.

"While we expect volumes to grow in the mid-single digits in FY24, inflationary cost pressures not fully reflected in reimbursement arrangements, investment in our digital and data programs and higher interest costs will slow the rate of margin recovery.

"We remain confident that we are well placed to take advantage of the long term trends driving the healthcare industry, and will continue to evolve our portfolio of activities and businesses to ensure that we leverage our scale in the sector to capture share and drive improved returns for shareholders."

## Regional Results

Asia Pacific	A\$m	%chg on pcp
Revenue from patients and other revenue	5,682.9	6.6
Share of Profit from Asian JV, Ramsay Sime Darby	19.9	30.1
<b>EBIT including discontinued businesses</b>	<b>576.4</b>	<b>23.3</b>

- The result in Australia benefited from growth in volumes on the pcp and FY19 (pre COVID) across all categories except psychiatry (psych) and maternity. The operating environment gradually improved over the 12 month period as disruptions caused by COVID and workforce shortages started to normalise, however momentum in activity was inconsistent
- Revenue growth was driven by a 4.7% increase in admissions per work day vs pcp (5.8% vs FY19) with surgical and rehabilitation (rehab) admissions reporting the strongest increase. Growth was weighted to day admissions with an increase of 5.4% on the pcp (10.3% vs FY19) compared to growth in overnight admissions per work day of 3.4% (-2.7% compared to FY19)
- EBIT grew 23.3% on the pcp benefiting from volume growth, the reduced impact of COVID cases in the community and the diminishing effect of labour shortages on capacity utilisation in the business. Margins gradually benefited from improved activity and operational leverage, as well as programs introduced to better manage labour costs
- EBIT includes an increase in digital and data operating expenses of \$20m compared to the pcp, and an \$8.9m increase in global head office costs. The result included a positive contribution from non-recurring items of \$13.9m primarily reflecting net profit on asset sales of \$11m
- Removing the contribution from non recurring items and the increase in global overhead costs, EBIT in Australia increased 12% on the pcp and includes a stronger contribution in 4QFY23 compared to the 3Q.
- Negotiations with a number of health funds have been completed over the last twelve months. Negotiated rates of indexation and contract terms have been more reflective of the inflationary environment at the time of contracting. Given the ongoing escalation in costs, in particular wage increases and government charges and levies, the business will continue to have a proactive dialogue with key stakeholders around reimbursement models.
- Ramsay Sime Darby reported a 30.1% increase in its equity accounted contribution to \$19.9m driven by a 18.4% increase in EBIT over the pcp reflecting growth in Malaysia offset by lower earnings in Indonesia due to the benefits of COVID related activities in the prior year. Underlying activity in Indonesia is starting to return as the operating environment normalises.

UK	A\$m	%chg on pcp	chg (%) cc <sup>1</sup>
Total segment revenue and other income	1,941.2	46.9	49.4
<b>EBIT</b>	<b>63.8</b>	<b>344.0</b>	-

<sup>1</sup> Constant currency

- The EBITDA contribution from Ramsay UK, the acute hospital business increased from \$45.4m to \$171.1m driven by a 14.4% increase in volume, reflecting growth in both public and private sector volumes, combined with less disruption from and better management of the operating environment as COVID cases in the community declined

- Elysium's performance was significantly impacted by clinical and non-clinical staff shortages which resulted in higher labour costs and reduced occupancy levels. The performance of the business improved in 4Q FY23 as labour costs started to reduce and occupancy improved. Elysium's result includes a non cash impairment of 3 of the 84 sites within the Elysium portfolio of \$20.5m (£10.9m).
- Both businesses faced significant inflationary cost pressures and labour shortages prevalent across the UK market
- Non recurring items in the current year made a negative contribution of \$14.9m (non recurring costs of negative \$44.4m in the pcp). This includes the impairment in the Elysium portfolio.
- Removing the impact of non recurring items the UK EBIT result increased 318.5% on the pcp to \$78.7m.
- NHS tariffs for the year commencing 1st April 2023 were finalised in mid August. The final tariffs are in line with expectations.

Europe	A\$m	%chg on pcp	chg (%) cc <sup>1</sup>
Total revenue from patients and other income	7,396.7	11.0	-
Income from government grants	290.2	(27.8)	-
<b>EBIT</b>	<b>381.1</b>	<b>(15.3)</b>	<b>(17.8)</b>

<sup>1</sup> Constant currency

- During FY23 Ramsay Santé continued to support public health systems in treating patients, with the level of COVID hospitalisations lower than in the prior period.
- Revenue from patients increased 11% reflecting a 4.4% increase in volumes with growth across all activities. Acquisitions made in FY22, in particular GHP, contributed \$304m in revenue.
- Payments received under the French Government's revenue guarantee structure combined with support from governments in all its regions to cover the increased costs of the operating environment including the impact of inflationary cost pressures was \$290.2m (€186.6m) compared to \$401.9m (€258.9m) in the pcp. Payments declined as hospitals returned to more normal activity patterns reducing the reliance on the guarantee.
- The Ramsay Santé EBIT result includes non-recurring items of A\$43.1m compared to \$24.1m in the pcp including profit on asset sales of \$55.3m.
- The result reflects the impact of inflationary pressure on costs, in particular labour costs, over the last few years that have not been fully captured in annual tariffs, the impact of labour shortages on capacity utilisation, a change in the mix of activity and the decline in COVID related activity such as testing.
- The impact of staffing shortages improved significantly over the 12 month period and is now limited to specific geographies and skill sets.

## Outlook

### Group Outlook

Ramsay is uniquely positioned to win share and benefit from the growing demand for healthcare services underpinned by changes in demographics, clinical and technological advancements and high demand for healthcare services requiring governments and the private sector to work more closely together. **The current environment dictates some change in the emphasis and focus of the long term strategy.**

In light of higher development costs and disruption in the building industry combined with some of the trends that have emerged through COVID, **investment in the pipeline of opportunities will be modified to ensure disciplined capital allocation and focused execution of the strategy with Australia being the key priority for investment.**

**The emphasis of the Australian growth strategy will shift towards investment in digital and data platforms to drive and support growth and improve the efficiency of the business.** Investment in the physical footprint will be focused towards treatment and diagnostics capacity in addition to investment in out of hospital activities to create a more integrated health care experience for patients.

**Australian earnings in FY24 are expected to reflect mid single digit volume growth as the market continues to recover. A range of initiatives have been introduced to improve near term performance** focused on driving top line growth, improving revenue management, and operational excellence and cost efficiencies, designed to offset the ongoing pressure on costs, in particular labour costs.

In FY24 **Ramsay UK is forecasting volume growth in the mid to high single digits driven from both the public and private sector** while continuing to target higher acuity activity. The business will continue to focus on functional excellence and operational efficiencies to offset ongoing cost pressures.

**The performance of Elysium is expected to improve in FY24 off a stronger 4QFY23 performance (pre-impairment right of use asset)** driven by a reduction in staff vacancy rates resulting in lower labour costs combined with a focus on other costs, higher occupancy and higher reimbursement rates. A failure to improve profitability would result in the deterioration of Elysium's financial outlook in the near-term and may adversely impact its valuation.

**Ramsay Santé is currently forecasting top line volume growth of low single digit in France and better in the Nordics supported by the acquisitions made over the last years.** The business will continue to focus on integrating recently acquired businesses and licences and self funding the build out of its regional out of hospital services to support its strong core hospital business. Margins will continue to be impacted by the cumulative impact of the higher cost environment that is currently not fully reflected in the annual tariff set for the year from 1<sup>st</sup> March 2023. Reflecting rising base rates and higher drawn debt, net interest expense is expected to be materially higher than FY23.

In June 2023 Ramsay announced, in conjunction with its 50:50 joint venture partner Sime Darby Berhad, that it was exploring the sale of the RSD. **A sale process was commenced which has resulted in the receipt of a number of non-binding indicative offers. Ramsay and Sime Darby are in the process of narrowing the number of parties we will take through to the next stage of the process.** We expect to announce the outcome of the process before the AGM, noting that there is no certainty that a sale process will result in a completed transaction.

**Ramsay expects growth in earnings in FY24 to be driven by:**

- Mid single digit top line growth driven by higher volumes and higher reimbursement levels;
- Margin recovery will be slowed by ongoing inflationary pressures across most costs which are not fully reflected in reimbursement structures;
- An increase in digital and data opex investment in Australia of \$34-44m over FY23 (total opex \$60-70m);
- Depreciation and amortisation is expected in the range of \$1.0bn - \$1.1bn;
- Net interest expense (incl. of AASB16 lease costs) is expected to be in the range \$570-600m reflecting higher average base rates<sup>2</sup>;
- The effective tax rate is expected to be ~30%;
- The balance sheet is expected to de-lever through a combination of organic growth and proceeds from the potential sale of Ramsay Sime Darby;
- Investment in brownfield and greenfield projects in Australia is expected to be \$250-300m focused on expanding hospital treatment capacity and its out of hospital services footprint;
- Group capex is expected to be \$0.89-\$1.02bn; and
- The dividend payout ratio is expected to be in the range of 60-70% of Statutory Net Profit

For further details please refer to the Operating and Financial Review in the Appendix 4E

The release of this announcement has been authorised by the Ramsay Health Care Board of Directors

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## ABOUT RAMSAY HEALTH CARE

Ramsay Health Care (Ramsay) provides quality healthcare through a global network of clinical practice, teaching and research. Ramsay Health Care's global network extends across ten countries, with over eleven million admissions and patient visits to facilities in more than 530 location. Ramsay was founded in 1964 by Paul Ramsay AO (1936-2014) and has always focused on maintaining the highest standards of quality and safety, being an employer of choice and operating the business based on a culture known as 'The Ramsay Way' and our purpose of 'people caring for people'. Ramsay listed on the Australian Stock Exchange in 1997 and has a market capitalisation of A\$12.3bn<sup>3</sup> and an enterprise value (EV) of A\$17.4bn<sup>1</sup> (EV of A\$23.4bn inclusive of lease liabilities). The Ramsay Group employs over 89,000 people globally. Ramsay's operations are split across four regions:

### Australia

Ramsay Australia has 74 private hospitals and surgical centres in Australia and is the country's largest private hospital operator. Ramsay operations include mental health facilities as well as the operation of three public facilities. In addition, Ramsay has established the Ramsay Pharmacy retail franchise network which supports 60 community pharmacies and 40 in-hospital dispensaries. Ramsay Australia admits more than one million patients annually and employs more than 33,000 people.

### Europe

Ramsay Santé is the second largest private care provider in Europe. It operates 443 multidisciplinary hospitals and clinics and 130 primary care centres across five countries. In France, Ramsay Santé has a market leading position, with 154 acute care hospitals and clinics. In Denmark, Norway and Sweden, Ramsay Santé operates 225 facilities including primary care units, specialist clinics and hospitals. Ramsay Santé also operates a 93-bed hospital in Italy. Ramsay Santé employs around 36,000 staff and its facilities treated approximately ten million patients in FY22. Ramsay Health Care owns 52.79% of Ramsay Santé which is listed on the European financial markets' platform Euronext.

### UK

Ramsay UK has a network of 34 surgical centres in England providing a comprehensive range of clinical specialities to private and self-insured patients, as well as patients referred by the NHS. Ramsay UK cares for over 200,000 patients per year and employs more than 7,200 people.

<sup>1</sup> Refer ASX announcement dated 28th June 2023

<sup>2</sup> Does not assume the sale of RSD

<sup>3</sup> Closing price as of 22nd August 2023

Ramsay acquired Elysium Healthcare in January 2022, a leading independent operator of long-term medium and low secure hospitals and complex care homes for individuals with mental health conditions. Elysium has 84 operational sites across England and Wales. The business employs approximately 6,600 people.

### **Asia**

In Asia, Ramsay Sime Darby Health Care Sdn Bhd operates three hospitals in Indonesia and four hospitals in Malaysia, employing more than 4,000 people. Ramsay Sime Darby is a 50:50 joint venture arrangement with Malaysian multinational conglomerate Sime Darby Berhad.

### **Disclaimer**

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While Ramsay currently believes the forward looking statements have a reasonable basis, these forward looking statements have been based on current expectations about future events, are not certain and are subject to risks, uncertainties, contingencies and assumptions that could cause actual results to differ materially from the expectations described in such expressed or implied statements. Ramsay will not be liable for the correctness and/or accuracy of the information, nor any differences between the information provided and actual outcomes, and reserves the right to change its projections from time to time. The Ramsay Group undertakes no obligation to update any forward-looking statement, subject to applicable disclosure requirements .