Ramsay Health Care

1HFY23 Webcast Transcript

23rd February 2023

Craig McNally: Thank you. Good morning, everyone and thanks for joining us for our FY23 First Half Results Presentation webcast. I'm also joined by Martyn Roberts, our Group Chief Financial Officer. Today we'll provide an overview of our performance for the six-month period, an update on our strategic direction, before covering off on the outlook for the Group.

I'd like to start by thanking Ramsay's people and clinicians who have delivered the result today. The focus has been on providing the highest quality care to our patients and supporting colleagues and local communities impacted by regional issues such as natural disasters and conflict. On behalf of the Board and senior management team, I would like to recognise their contribution in a challenging environment and thank them for their ongoing efforts.

Turning to the key themes in the business at the current time, the momentum in activity we reported in our first quarter trading update continued into the second quarter. While the December, January trading period was impacted by the resurgence in COVID cases and a spike in flu cases in the northern hemisphere, combined with doctors taking extended summer leave in Australia, I am pleased to say that we have returned to a positive momentum in activity levels in late January and into February.

In response to the industry-wide labour shortages, we have implemented a range of measures across the regions over the last 18 months. There's been a particular focus on critical skills gaps and we're starting to see the benefits with vacancy levels declining from their peaks. In particular, in Ramsay Santé, where vacancy rates are down 69% from the peak in January '22. While the situation has improved, recruitment, retention and development of employees remains a key focus.

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During the six month period, we successfully completed negotiations with health funds both in Australia and the UK at rates that are more reflective of the current environment. We continue to work constructively with public health authorities in each of our regions to assist with reducing backlogs and returning systems for the provision of timely quality health care.

We're working with all stakeholders to ensure the higher cost of operating in the current environment are reflected in the setting of public sector tariffs. We continued to invest in brownfield and greenfield expansion and redevelopment opportunities although the pace has slowed due to the bottlenecks in planning and building sectors.

We've also pursued our digital and data initiatives designed to drive growth in the business and enable transformation of business processes to improve operating efficiency. We are in a strong position to take advantage of the long-term dynamics driving the health care sector, leveraging the benefits of global collaboration and insight to establish communities of best practice to adapt to our local markets.

As you can see from this slide, each region has a range of initiatives running in parallel to reduce vacancy rates, tackle critical staff shortages and retain our key talent. It's pleasing to see that there's been an improvement in vacancy rates as a result. However, there's no easy fix to these issues which have been exacerbated by COVID and they will remain our primary focus for the foreseeable future.

Our priority areas include providing flexible working conditions, more accessible learning and training opportunities, expanding our leadership program and investing in technology to simplify processes and allow our people to spend more time with our patients.

Moving to the Group performance. All our regions experienced growth in surgical activity over the six-month period. This continued to be more heavily skewed to day surgery, primarily

because a large proportion of deferred surgery during COVID was lower acuity day surgery and there has also been an acceleration of the trend towards day surgery in some elective specialities in France.

Non-surgical admissions have seen a more mixed picture with France and the UK seeing some growth and Australia still seeing a slower recovery, in particular in mental health day patients. Changes in mix compared to pre-COVID continued to impact margin recovery over the half. The estimated direct impact of COVID on the results in Australia and the UK combined was $66.8 million in the first quarter. This declined to an immaterial impact in the second quarter. We expect there will be residual COVID-related costs in the business while the virus continues to circulate in the community.

The result includes a number of non-recurring items which we've called out. The key one this period was a profit on the sale of a property in the Nordics portfolio. On an after-tax and minority interest basis, the contribution to the result was $19.3 million.

The Board determined a fully franked interim dividend of $0.50 per share, up 3.1% on the prior period, representing a payout ratio of just over 60%. You'll also notice that we've reinstated the DRP as an additional option for shareholders. As we move towards a more normalised operating environment, the Board is of the view that a target payout ratio of 60% to 70% of statutory net profit is appropriate.

Moving to the result in Australia. In Australia, the operating environment improved progressively across the first five months of the period driving an improvement in activity levels and, importantly, a reduction in the costs associated with patient and doctor cancellations and staff sick leave.

In line with the rest of the health care sector, the Australian business has continued to be impacted by staff shortages in selected hospitals and within specific critical skills. This has limited capacity utilisation in some hospitals. In response, we

introduced several initiatives to address this challenge. These programs are having an impact with vacancies declining 20% to 30% since March ’22 and staff turnover is declining from the peaks.

We have completed negotiations on a number of health fund contracts during the period at rates that are more reflective of the current environment, ensuring that we are adequately reimbursed for higher costs across the business.

Turning to the outlook. Following the expiring of the COVID viability agreements, Ramsay has agreed new contracts with state governments on commercial terms for public work moving forward. Given the large backlog of public work, we expect increasing demand from the public sector in the coming years. While the amount of work we receive will depend on the funding provided for these programs, we believe these agreements will deliver additional volume and assist with managing theatre utilisation and labour costs.

COVID cases in the most recent wave peaked in late December and the business has seen a decline in staff absenteeism through January. We did see doctors take extended summer holidays after several years of COVID curtailed breaks, however, we are seeing an increase in activity in February.

In the medium-term, we will continue to focus on investing in our strategically important high-value hospital network to ensure that our facilities meet the future demand for health care services. We’ll also invest in our new and adjacent out-of-hospital services, including our day surgery strategy, our Ramsay psychology clinics, Ramsay Health Plus our allied health clinics, Ramsay Pharmacy and in our in-community service, Ramsay Connect.

This strategy is designed to extend our relationship with the patient, making health care more seamless for them and creates a referral channel for our hospital network. Our digital and data strategy will support all of these channels to ensure they are as

efficient and productive as they can be while also improving the patient outcome and experience.

Given the impact of COVID in the first half of FY22 and in this half, a comparison of activity trends between the two periods is of only limited value. An assessment of the progress of the recovery in the market can be made to an extent looking at activity levels compared to the first half of FY20, which was pre-COVID.

Total admission per work day for the six month period increased 3.6% on the first half of FY20 with day patients increasing 6.5%, recovering more quickly than overnight patients, which declined 2.2% due to non-surgical overnight patients being down.

As you can see in the graphs surgical activity has rebounded more quickly than non-surgical activity increasing 7.4% compared to the first half of FY20. Mental health admissions have been the biggest drag on non-surgical volumes due to a reluctance by both patients and psychiatrists to come back into a hospital setting. We are working on a number of initiatives to address this and are seeing some early success.

Total admissions per workday in January were 9.4% above the Omicron-impacted prior period and 2.3% above FY20 with the trends improving across the month. As I've said, we are seeing improving trends in February.

Turning to the investment pipeline in Australia. Spend on projects during the period was $101 million including on the Northern Hospital, which is pictured here, due for completion as planned at the end of the year. The business continued to invest in its development pipeline and while some projects scheduled to commence in FY23 have been delayed, such as Wollongong, due to the impact of COVID on the building industry and external approval processes, the pipeline remains strong. There was a number of smaller projects completed in the half year period with a net investment of $54.3 million.

We continue to expect the development pipeline to be elevated for the next few years with new projects recently approved including a $180 million redevelopment of Warringal Hospital in Victoria which will see this facility almost double in size to be a 290-bed facility. Stage one of the three stage project is expected to be completed in mid-2024 which will include two new operating theatres. We have also recently approved a $30 million expansion of the Port Macquarie Hospital which will include a new operating theatre, on-site radiology services and new medical consulting suites.

We have commenced investment in our new digital and data strategy which has a number of streams. With the initial investment focused on building our foundations, improving efficiency and productivity and driving better outcomes for our staff, doctors and patients. Today we have provided you with estimates of the net cost of our initiatives over the next few years based on current investment plans. These investments will underpin the long-term growth of the business and will deliver significant benefits over time.

A large number of projects - or a number of large projects are already underway, while additional key projects are scheduled to be launched over the next 18 months. We have also delivered a number of smaller automation projects that create immediate value for the business.

The multi-year projects that have commenced include an electronic health record project where we’re currently short-listing vendors; a patient hub project which will build out a full end-to-end seamless digital admission process and patient experience; and a predictive insights project designed to improve our capability in AI and machine learning to support improved decision making and scenario analysis. In FY23 the focus of this work is to deliver better clinical coding and improved theatre utilisation.

Capping off the Asia Pacific region is our joint venture in South-East Asia, Ramsay Sime Darby, which reported a strong half year result principally reflecting growth in inpatient activity in our Malaysian hospitals. The equity accounted after tax contribution increased 51.9% to $12 million.

Turning to the UK. Ramsay UK, our acute hospital business, reported a good turnaround in performance with the operating environment improving progressively over the period despite further small waves of COVID and a severe flu season. Admissions over the six-month period increased 10.3% over the prior period with growth in admissions in all payor channels. NHS volumes increased by 11% and private volumes increased by 9%.

An impairment of $6.2 million taken in FY18 relating to the performance of one of our hospitals, was reversed in the period due to sustained improvement in performance over the past few years. The result in the prior year included a negative contribution from non-recurring transaction costs of $24.7 million. Removing the impact of non-recurring items, EBIT increased from a negative $10.7 million to a $22.1 million contribution.

Elysium, our UK mental health business, which was acquired on 31 January last year, performed in line with our expectations in the first six months of ownership. However, while the business reported a 17.4% increase in revenue for the first half of FY23, it has been impacted by labour shortages which became more acute moving into the second quarter reflecting the skew of their staffing mix to lower paid non-clinical workers in demand by many businesses across the UK economy and allied health workers equally in short supply across the stretched UK health system.

This has resulted in increased agency use with higher rates as well as the one-off costs of addressing the recruitment structure. Elysium have invested in a series of initiatives over the last few months and position applications and appointments have

increased significantly from January. In March, the business will open a centralised recruitment and onboarding hub which is expected to accelerate the time taken to bring new people through the induction process and into the business.

Both our businesses have strong partnerships with the NHS, which combined with the underlying market demand for acute hospital care and mental health services, will drive growth in the medium term. Ramsay UK also expects to benefit from the growth in the privately insured market with success in open market tenders with a number of insurers over the last 12 months. Both businesses will continue to invest in their facility footprints where demand for new capacity is identified and repurpose or upgrade facilities to meet changes in the market.

In the short term we expect both businesses to improve as volumes continue to grow and the benefits of management initiatives start to flow through, despite the acute inflationary pressures in the UK and ongoing staff shortages.

Turning to Ramsay Santé, where after a slow start post the northern hemisphere summer, activity levels did pick up across the half. The French result includes $93.8 million in revenue guarantee payments which is flat on the prior period and $112.7 million in cost support, an increase of $41.9 million. The cost compensation includes additional salary increases for staff which Ramsay Santé passes through and partial support for the significant impact of inflation on general operating expenses.

The Nordics business received $12.6 million of government-funded COVID cost support down on the $25.2 million of revenue and cost support in the prior period. The Nordics result was impacted by a decline in COVID-related activities, such as testing, as well as lower volumes and average level of acuity at St Göran hospital. Absenteeism due to sickness and staff shortages impacted capacity utilisation.

The recently acquired GHP business combined with a number of other small acquisitions made last year in the Nordics

contributed $177.9 million in revenue and $18.8 million in EBITDA. GHP's results have a seasonal bias to the second half of the fiscal year. The business is currently trading in line with expectations at the time of the acquisition.

Ramsay Santé's EBIT result includes non-recurring items of $45.3 million compared to $12.6 million in the prior period. Removing the impact of non-recurring items, EBIT declined 27.2% on the prior period reflecting the inflationary pressures on costs, in particular labour costs, the impact of labour shortages on capacity utilisation, a change in the mix of activity and the decline in COVID-related activities such as testing.

Turning to the outlook, in the short term Ramsay Santé's primary focus will be to continue to develop strategies to meet the dual challenges facing the sector, firstly the significant inflationary pressures and the critical labour shortages.

The French government has indicated that it will extend the revenue guarantee from 1 January to 31 December '23. This is yet to be confirmed by decree and the details of the structure are yet to be finally determined.

Activity levels are improving following the decline in COVID cases from a recent wave over the Christmas/New Year period. Nordics will be focused on the integration of recent acquisitions. The continued development of an integrated digital platform and resolving the performance of St Göran.

In the medium term Ramsay Santé will continue to focus on its strategy to become an integrated digi-physical health care business, attracting and retaining patients through the delivery of a contiguous health services pathway. This will encompass investment in new services, including select investment in primary care, prevention services and outpatient and at-home services as well as strengthening the base hospital network and exploring new payer opportunities.

We continue to make progress on many fronts within our Ramsay Care's sustainability strategy, which has the strong

support of our people. We have made good headway on our climate change targets, which are incorporated into our sustainability link loans.

We launched our global responsibility sourcing policy during the half and external sustainability assessments have now been achieved for over 40% of our global spend and we are on track to meet our target assessments on 80% of our spend by 2026.

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

Martyn Roberts: Thanks very much, Craig, and good morning, everyone. As Craig has outlined, the 9.8% increase in revenue reflects improved surgical activity levels combined with a contribution from recently acquired businesses of $560 million. All regions felt the impact of high inflation, in particular labour costs, along with specific costs relating to operating in a COVID environment, including higher staff absenteeism and patient and list cancellations at short notice.

As Craig mentioned, the result includes non-recurring items which we have given you more detail on in the review of results of operations in 4D. The after tax and minority interest contribution this year was $34.4 million compared to a negative $33.1 million contribution in the prior year. The main components this year were the profit on the sale of property in Ramsay Santé and the non-cash mark to market of swaps in the Ramsay Santé debt facilities.

Operating cash flow increased 146.2% on the PCP, reflecting an improvement in the operating environment and the change in working capital. Net financing costs, ex IFRS 16, and excluding the impact of swap mark to market movements in this year and last year, increased 39% reflecting higher base rates and higher average drawn debt across the period compared to the prior year.

Full year total net interest expense, including AASB16 leases, is currently forecast to be in the range of $430-$460 million, subject

to movements in base rates and mark to market movement in swaps.

Cash flow includes receipts in the sale of land and property in the Nordics at $55.7 million and the acquisition by Elysium of two UK-based child and adolescent mental health service facilities for $68.1 million. There is a deferred payment associated with the sale of the property in the Nordics of $30.5 million, which is classified as a non-current asset.

Moving to leverage, on this slide we've given you the Funding Group net debt leverage ratios on a AASB117 basis and a Consolidated Group leverage both pre and post-AASB16. It's the Funding Group metrics which are used by our bank and Fitch.

As we noted in our first quarter results released, the Funding Group lenders agreed to increase the maximum allowable leverage ratio within the Funding Group banking covenant from three and a half times to four times to take into account the short term impact of COVID. We ended the six month period at just over 3.5 times and we expect that as the operating environment normalises our leverage ratio will decline.

Reflective of the current environment the weighted average cost of our consolidated debt has increased from 3.24% excluding cares at the beginning of FY23 to 4.3% at the end of January 2023. With regard to our funding, we continue to explore opportunities to diversity the Funding Group sources of financing and extend the duration of its debt.

Moving to capital expenditure in more detail, total spend across the region has declined 4.2% on the prior year to $370 million, driven by decline in spend in Ramsay Santé and the acute hospital business in the UK after a high level of investment in the past two years.

Spend in Australia was above the prior period but below our previous forecast due to the impact of building approval delays and other related bottlenecks. Our full year spend is now

expected to be lower than forecast and is currently at $705-$810 million. We continue to expect that CapEx will be at elevated levels for the next few years.

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 our strategy despite all the distractions of a difficult operating environment. We believe we are in a relatively unique position amongst our global health care competitors and this means we're well placed to win share and benefit from the growing demand to health care services across all delivery platforms.

Our strategy is divided into four pillars and is 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 through organic growth, brown field and green field expansion and strategic acquisitions.

The 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 experience for our patients and clinicians.

The third pillar is about extracting the highest potential value from the business through operational excellence. Building on our strong global advantage and strategic sourcing 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 leverage our scale.

Now turning to the trading outlook, underlying earnings growth for the remainder of FY23 will benefit from the additional capacity created over the last few years, combined with full year contributions from Elysium and recent acquisitions in Europe.

Capacity utilisation is subject to our ability to cover labour force shortages in critical areas. Our focus remains in driving the synergies from recent acquisitions, realising the growth opportunities and improving returns.

The path out of COVID is not expected to be smooth as the health care services sector continues to be impacted more than other industries. Ramsay continues to focus on negotiating improved terms with payers through the inflationary environment and COVID-related costs, leveraging the Group's global scale in procurement and driving efficiency and productivity improvements.

I believe the outlook for the Group remains strong, despite the short term environment remaining variable. Our world class hospital network, combined with our outstanding people and clinicians, give us confidence that we are well placed to take advantage of the positive long term dynamics driving the health care industry. We continue to expect a gradual recovery through FY23 and more normalised conditions from FY24 onwards.

I will now open for questions.

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

Question: (Lyanne Harrison, Bank of America) Hi, Martyn. Thanks for taking my questions. Can I start with inflation and your cost pressures that you're seeing currently? So what I'm hearing based on your comments is that you're continuing to see inflation broadly and more particularly in labour.

So can you provide some colour on what you saw in terms of labour rates increments through the first half and how that compared with broader national wage increases that we've seen and particularly for those critical areas have you seen wage costs increase more significantly than the rest of your general employees?

Craig McNally: I'll take that initially and Martyn can chip in if he needs to. It really is hard to over-generalise and particularly when we're looking at different markets. There is no doubt that we're seeing increased pressure on wages, as all industries are. We're not seeing anything out of kilter with what we see across all the markets. There are elements, and you've called out some of the critical skills areas, but there are elements and geographies where there is a bit more pressure.

But when we look at that and we make our assumptions about where that wage growth is heading we are looking at the negotiations we have with payers, whether they are private insurers or we're lobbying for government tariff increases, we are absolutely mindful of where wage inflation is going. So we are looking to neutralise that but those negotiations obviously still need to occur in many respects.

Over the last six months there hasn't been - we've had EBAs negotiated in Australia, we've had wage increases in Europe and UK more particularly. So there is a mix of impact in the six month period. Likewise, there's a mix of impact on pricing. So some of the negotiations have been completed which reflect that, but other negotiations, and if I reflect on French tariffs, the French tariffs which were issued nearly 12 months ago, didn't really anticipate the increase in inflationary costs that we saw, particularly through the second half of the year. Sometimes there's a bit of a lag and I'm going to say more generally there's a bit of a lag. Sometimes we are able to adequately predict in advance. So it's a mixed bag. Do you want to add anything, Martyn?

Martyn Roberts: As you quite rightly pointed out, labour inflation is by far and away the biggest number for us. We're not seeing inflation in PPE, for example. Where it probably should have gone down, it has probably stayed flat. Then other costs are more insignificant and we've generally done a pretty good job in procurement to try and curtail any inflationary pressures there.

As Craig said, probably the highest wage inflation is in France and we got some compensation for it but it didn't cover the whole inflation. So there's that lag that Craig said.

Craig McNally: Yeah, and for France calendar '23, because they run in calendar years, wage inflation there was mid-threes, around mid-threes.

Question: (Lyanne Harrison, Bank of America) Thank you. Since you mentioned the negotiations you're having with, or you have had or having with private health insurers and also with government, to the extent that they're neutralising this inflation I'm assuming that it's not full coverage of inflation given that you mentioned the lag.

But how do you also factor in, particularly for those multi-year agreements where we can see that inflation is not going away, how are you factoring that in with the negotiation process to say, well prices – or inflation costs are still going to go up over the next – you know, whether it's one or two or three year agreements that you have?

Craig McNally: I should - just a nuanced message. You know, negotiations don't always absolutely line up with inflation but they are more reflective of the inflationary environment. So you – we just do our best to anticipate what inflation is going to be. What the – you know, we have muti-year agreements, as you say, with health funds but we have multi-year agreements on EBAs in Australia so we have some line of sight on what we think will happen over the next few years.

We make assumptions about where we think inflation is going to be and we spend a lot of time working on those assumptions and making them as robust as we can. Then you get down to the negotiation and so we have one-on-one negotiations with health funds, we have industry negotiations with governments on tariffs and obviously we – given what has been a steep increase in inflation through this year, those negotiations take on a different tone than they have in the past.

I think we've called out on health funds in Australia that those agreements that we had that were mule-year, that did not reflect the inflationary environment that we've entered into. We would re-negotiate those and we're in the process of doing that.

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

Craig McNally: You're welcome.

Operator: Your next question comes from David Low with JP Morgan. Please, go ahead.

Question: (David Low, JP Morgan) Thanks very much for taking my questions. Just if we could start with the – what you're seeing domestically in the start-up to 2023? I notice you said that there was a protracted decline through more holidays but things have picked up in January and February.

Where I really want to go with the question, Craig, is just to understand what you think is likely in terms of activity levels versus pre-COVID levels and perhaps if you could touch on the business' ability domestically to handle higher demand. Could we see grater utilisation through this calendar year?

Craig McNally: Yes, okay. Thanks, David. I think the last part of the question is the most important piece. So we absolutely saw doctors taking more extensive leave, really from mid-December through January. That is not what we've seen historically. Pre-COVID or through COVID, obviously. I think that's just reaction to this is the first opportunity everyone's had to get overseas and have a long holiday. So I think it's understandable.

What we have seen since – really since school's gone back and since the Australia Day long weekend ostensibly, is a strong increase in surgical volumes particularly. It is the staff availability that is the constraining factor. So anecdotally as we talk to doctors and as we analyse other data points in the industry about specialist consultations as a proportion of GP attendances et cetera, they all point to demand coming back. Our conversations with doctors are really positive.

The constraining - if there is a single constraining factor, it is the availability of operating theatre nurses. So we've been working on that for some time. Our general recruitment strategies reflect the need for us to address any shortages in critical areas but also what we're doing around training staff. So internal training and the grad nurse program is an example of that. We're into the second year of that increase in numbers and they'll be into speciality training such as operating theatres. So that will deliver an increased supply of workforce for us.

So I'm not avoiding quantifying it but if we get the supply side right in terms of staff availability, then we should see surgical volumes back at premium levels that we probably saw coming out of the restrictions in FY20.

Martyn Roberts: I might just add that the most recent reference point would be the 10% and 12% increases on pre-COVID in the surgical volumes that we had, that we reported in our first quarter result, that were in September and October for all those – that little wave of COVID came in December and the surgeons all went on holiday. So that's the most recent activity and we're probably at slightly better staffing levels than we were back in September and October as well. Give you some indication of what can be done.

Question: (David Low, JP Morgan) Thanks, Martyn. My other question for you, just on interest costs, can you give us some sense as to what interest costs are likely to be in the second half into FY24? Perhaps touching on the degree of hedging. I'd like to understand, was the swaps benefit booked into that interest line and sort of broadly, do you think consensus is capturing the likely interest costs well in their numbers at the moment, please?

Martyn Roberts: I would say consensus is probably a bit all over the place for interest costs. We've given you our estimate for the full year, which includes the AASB 16 leases. So the current average cost of debt across the Group is currently 4.3%. You'd have to make your own assumptions as to where base rates go to then

	extrapolate that through into the back end of this year and into FY24.
Question:	(David Low, JP Morgan) Sorry, I must have missed it if you've given an estimate. Have you given a dollar estimate?
Martyn Roberts:	\$430 million to \$460 million.
Question:	(David Low, JP Morgan) Great. Perfect. Sorry, excuse me, I missed that. All right.
Question:	(David Low, JP Morgan) Thank you very much.
Martyn Roberts:	Oh, in terms of hedging, I mean we're – our hedging goes out 4.5 years and it steps down gradually. We're normally well above 50% for the first 12 months.
Question:	(David Low, JP Morgan) Perfect, thanks.
Operator:	Your next question comes from Mathieu Chevrier with Citi Group. Please, go ahead.
Question:	(Mathieu Chevrier, Citi Group) Yes, good morning, Craig. Good morning, Martyn. Thanks for taking my question. You talked about more normalised trading conditions in FY24. How should we think about margins across the year for different businesses?
Martyn Roberts:	A very wide question. I mean, in terms of margins, the result has got a lot of moving parts in it in this last six months. Our focus is on improving margins going forwards. You'd probably – the Q2 is the best indicator of that, albeit in Santé, you've got a whole bunch of non-recurring items and we booked pretty much all the COVID-related support in the second quarter rather than the first quarter. But yes, I mean to tell you what margins are going to be going forward would be a forward-looking statement that we haven't given. Suffice to say we are focussed on improving our margin going forward and when volumes come back, that's always good for margin. When the mix of hirer acuity work comes back, that's always good for margin. Mental health comes back, that's good

for margin and as we said, we're trying to offset our cost inflation with negotiations with our payors.

Question: (Mathieu Chevrier, Citi Group) Yes and just in terms of relative to pre-COVID in FY24, do you think you can get back there especially in Australia or do you think it'll take a little longer?

Martyn Roberts: Well I mean FY19 is becoming an increasingly long time ago and our business is quite different now in terms of the breadth of activities we've got. The brownfield developments we've done. So getting back to FY19 becomes less and less of a relevant benchmark. We obviously have that in sight in our plan over the next few years. We won't be there in FY24 but the idea is, we're more focussed on improving our margins year in, year out, as I said.

Question: (Mathieu Chevrier, Citi Group) Understood and then sorry to go back again in history but on the three years before COVID, your Australian revenue growth was about 5.5%. How should we think about the revenue growth over the next two to three years, taking into account that there's a backlog in the systems, there's the contribution from the CapEx that you've completed and then there's also the contributions of the public work that you're doing in inflation.

Martyn Roberts: Well I mean for obvious reasons, we haven't given any guidance on revenue increases going forward. It's going to be a combination of all the things you just said. The one thing that probably will be slightly different than pre-COVID is the revenue rates indexation as we've talked about already on the call where that is more reflective of the cost inflation that we've got in our cost base.

From a volume base, yes, we – the plan is to obvious grow with the market and take market share from the brownfield activity that we've done and invest it in a – over the last three or four years we've continued to invest and will continue to do so in the future. The other thing – the other positive for us…

Question: (Mathieu Chevrier, Citi Group) Okay…

Martyn Roberts: Sorry, the other positive for us versus pre-COVID has been the – I think it's nine quarters now of consecutive increases in private health insurance participation in Australia. So you've got a record number of people in Australia now with private health insurance and so that should be a positive for us as well.

Question: (Mathieu Chevrier, Citi Group) Great. Thanks very much.

Operator: Your next question comes from Andrew Goodsall with MST Marquee. Please, go ahead.

Question: (Andrew Goodsall, MST Marquee) Thanks very much for taking my questions. Just I know you've had a few questions now already on the forward bookings coming off February. Just trying to understand whether all states are back running at the same run rate or whether there's still some laggards across the mix of the country by state?

Craig McNally: It's generally similar on the – I think we've got it – a bigger constraint in Western Australia on staff absenteeism. That's a bit higher than the rest of the country and because we're still giving COVID leave. I mean the – we follow the State Government. The State Government is still giving COVID leave, that's due to expire at the end of March but they've still got yet to make that decision. So in Western Australia, for example, we've had over 100 people in the last week off with COVID leave where it's been next to nobody in the rest of the country.

In Victoria, you know, Victoria's probably in a general sense, under more pressure from staff shortages. So it's – whilst I say it's generally the same across the country, I think they're the things to call out.

Question: (Andrew Goodsall, MST Marquee) Okay, sounds like a bit of work to do in several states to get back to the same run rate still. Just while we're on the states, the agreements with the public sector, are they more progressed and flowing in some states versus other?

Craig McNally:	Yes, I think that's absolutely the case and I think that's just going to be the nature of the beast going forward, Andrew.
Question:	(Andrew Goodsall, MST Marquee) So again, would there – would you still see some opportunities that just haven't crystalised yet from some states?
Craig McNally	Oh yes. No, absolutely.
Question:	(Andrew Goodsall, MST Marquee) Yes.
Craig McNally:	I think as I called out in the speech, we certainly anticipate more but it will – it won't be consistent across states. I think some states will be more progressive than others.
Question:	(Andrew Goodsall, MST Marquee) Okay and just switching to France, obviously their results out overnight and you've talked to the guarantee being extended to '23. They didn't talk to the tariffs, so just any thoughts there and they also mentioned that the compensation for nursing salaries fell below. So just any comments on those two?
Craig McNally:	Yes, so tariff negotiations are underway currently. They're fairly robust and I think there's probably been some media speculation about where those increases are being negotiated at. So – which is sort of around the 5% is where we'd like to see them but I think they are – it's an industry negotiation and both the private and public hospital sector are aligned in the negotiation. So we'll get some clarity on that, hopefully in the next month but it's a pretty robust negotiation.
Question:	(Andrew Goodsall, MST Marquee) Any – is that tariff – I mean, I know the number you gave today was a grossed up number, didn't include those nursing salaries but yes, is that – would that tariff at 5% include nursing salaries or is that a separate piece…
Craig McNally:	Don't hold the 5% because that's just the media speculation on where…
Question:	(Andrew Goodsall, MST Marquee) Okay. Well, whatever the number is on the tariff, is that expected to plug any gaps in nursing? Sorry, it was just…

Craig McNally: Absolutely. It's trying to address the inflationary environment, which is predominately around wage increases.

Martyn Roberts: But as we've seen, Andrew, there have been other one-off payments into the industry to compensate for either cost inflation or wage inflation or COVID cost and those kind of things. So, we won't know the tariff until probably mid-March, I think they're telling us. Which is a bit later than normal.

But there could be other things after that, potentially, that may include all those things, it may not.

Craig McNally: I think the principle of the negotiation is trying to get to a simpler start…

Martyn Roberts: An all in bucket.

Craig McNally: An all in bucket, rather than the different lumps of money that come elsewhere. So, I think that's part of the difficultly of the negotiation.

Question: (Andrew Goodsall, MST Marquee) Final one from me, just the Nordics seem to have landed a couple of good contracts. Will they make a difference in the fourth quarter? Or is that too early?

Craig McNally: Do you want to say that again? I probably didn't get the gist of that.

Question: (Andrew Goodsall, MST Marquee) Sorry. The Nordics look like they've landed a number of good contracts that - and whether they make a difference in the fourth quarter this financial?

Craig McNally: I mean there's, generally, a role of tender processes, as you appreciate, in the Nordics and they contribute from time to time. So, we should see some growth moving forward in the Nordics from that.

Question: (Andrew Goodsall, MST Marquee) Okay. Thank you.

Craig McNally: I think - as I called out in the speech, the biggest issue in the Nordic you know primary care's going strongly. Just the reimbursement structures around St Göran to reflect the increase in - the inflationary environment.

So, those discussions are happening at the moment. That's important for the Swedish performance.

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

Craig McNally: You're welcome.

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

Question: (Gretel Janu, Credit Suisse) Thanks. Good morning all. I just want to go back to labour firstly.

Just to understand the labour vacancy levels and where do they stand currently, relative to pre-COVID levels? Because I understand they're down from peak, but just trying to understand that. How much do you think labour is constraining your overall utilisation at this point? If you weren't constrained, what is the revenue growth you can get to? Thanks.

Martyn Roberts: Hi Gretel. Was the question about percentage of agency in Australia?

Question: (Gretel Janu, Credit Suisse) Agency, but then also, overall vacancy levels as well.

Martyn Roberts: Yes, so agency in Australia's always been very low and is probably no more than 3% currently. So, it's pretty insignificant. We've called out that it was a big impact in the Elysium result, but in Australia it's a very small number.

Hard to put a number on what the opportunity is if we were fully staffed. Suffice to say, it's over and above some of those peak volumes that we had. As I called out before, the 10%, 12% incremental surgical volumes that we had versus pre-COVID in September, October give you an indication of what's possible, even when we did have staff shortages.

I think we've called out that the peak of the vacancies in Australia was back in March '22. We're 20% to 30% lower than that now and improving continually through. So, we will see a progressive improvement in terms of what we can achieve.

Question: (Gretel Janu, Credit Suisse) But how far relative to pre-COVID? Is there a vacancy level still now?

Multiple speakers: Still above.

Martyn Roberts: Still significantly above.

Craig McNally: But as of now we're 22% down from where they were.

Martyn Roberts: Yes.

Question: (Gretel Janu, Credit Suisse) Understood. Then just on a - sorry.

Craig McNally: [Unclear] sorry, I was - just to the decline in vacancy rates continue. Whilst we're down 20% to 30%, that isn't where we think we stop.

Question: (Gretel Janu, Credit Suisse) Understood. Then just on Elysium as well. The EBITDA margin, at this point in time, is well below what the margins were at the time of the acquisition. I understand the factors there.

But I guess, how are you viewing this acquisition now and its ability to reach the return targets that you initially set out?

Craig McNally: Still really positive about it. It was a tough second quarter from a cost point of view and a staff shortage point of view. Demand for the services is still strong. There's a couple of other factors.

We've undertaken some brownfield projects. We're doing some retooling and changing case mix in some facilities. So, that's put a case burden on Elysium in the short-term, but as those ramp up that will - they will deliver.

Despite the disappointment - really, it was a disappointment in terms of where we finished the second quarter - still really positive about what Elysium will deliver.

Question: (Gretel Janu, Credit Suisse) Understood. Thank you.

Operator: The 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. I'm just wondering…

Martyn Roberts: Yes, well, thank you Sean.

Question: (Sean Laaman, Morgan Stanley) Great to hear. Well job managing the business across a pandemic. I mean I see myself…

Craig McNally: Thank you.

Question: (Sean Laaman, Morgan Stanley) …as just a rugby touch judge running up and down the sidelines waving my flag, but I'm not playing the game. So, I can't imagine how hard it would be.

Craig McNally: Thanks.

Question: (Sean Laaman, Morgan Stanley) Well done. With respect to, I guess, borders opening and that, I'm just wondering if you could give us a sense of freeing up the crossflow of across borders of staff? If that may be providing a benefit to your recruitment plans in the future?

Craig McNally: I think it does. It's certainly better than it was when the borders were closed. I think Australia's still got a way to go though. We're still not as competitive as other markets in the world, in terms of a process to get people in.

I think the government's recognised that and, hopefully, they do something about that. But we are seeing increased numbers of people cross borders. Certainly UK and Australia. Elysium particularly, there's been a significant effort to recruit international healthcare workers, so we're seeing good results from that. I think as we look at - I called out in the speech to a certain extent - the next three months look really positive for onboarding people.

Question: (Sean Laaman, Morgan Stanley) Sure. With respect to the cost inflation as it pertains to staff and getting some - or trying to bleed the payers a bit more - where you sit today, do you think there's been a - or will be a - complete offset of that wage inflation?

Or do you think you'll have to be eating some as we get back to more normalised levels?

Craig McNally: It's hard to know. We certainly have that objective. I wouldn't say we're bleeding the insurers. They're pretty strong financially, so they can share that effort around a bit.

We're always in negotiation. They don't want to pay us as much as we want us - for them to pay. It's the tension in that negotiation that always delivers the result.

Question: (Sean Laaman, Morgan Stanley) Sure. Thanks Craig. Maybe lastly - just given where leverage sits - just your thoughts on M&A going forward?

I think you mentioned other adjacencies. Maybe give us a flavour for what and where some of those adjacencies could be?

Martyn Roberts: There's nothing material on foot at the moment. We continue to look. I think, as we've said in the past, the most obvious gap in our portfolio is radiology and imaging in Australia.

We have those inhouse in our other markets. That's something we'd like to pursue in Australia. I think there's still, probably, opportunities in terms of bolt-ons in Santé, in Elysium, but nothing of any great significance or huge materiality that we're currently looking at at the moment.

Question: (Sean Laaman, Morgan Stanley) Great. That's all I have. Thank you gentlemen.

Craig McNally: Thanks Sean.

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

Question: (David Stanton, Jefferies) Good morning, team. Thanks very much for taking my questions. In terms of - just to follow up on Sean's question - is it fair to think that we - you should be seeing at least costs, and maybe costs plus increases, for your new PHI contracts in Australia?

Craig McNally: David, I think I answered that as best I could for Sean's question. Our objective is to have price increases that are more reflective of this environment. That's a robust discussion our - if we can

	get better than that, fantastic. But they're not, as you appreciate, straightforward negotiations at any time.
Question:	(David Stanton, Jefferies) Understood. If all the complete renegotiation or renegotiation with every PHI is 100%, where are you now? Are you at 80%, 60%, somewhere around there?
Craig McNally:	Yeah. I'm not sure if - we're at - we are well progressed on the normal timetable. So, that rolls around. On some of the - a couple of the health fund agreements that we are bringing forward to negotiation, we are well progressed on one of those and early days on another.
Question:	(David Stanton, Jefferies) So, there's a bit of water to go under that bridge. Moving on though, you talked to residual costs continuing in Australia. Can you, potentially, estimate those for us? The impact or the EBIT impact of those for us for the second half of FY23, please?
Martyn Roberts:	We've said that they're immaterial for us now. That really comes about because it becomes more and more grey in terms of what is COVID related.
Question:	(David Stanton, Jefferies) Sure.
Martyn Roberts:	We're not in any lockdowns, we're not in any surgical restrictions et cetera. So, we want to move away from ascribing any dollars to that. To be honest, the staff shortages and inflation are probably more material challenges that we've got than direct COVID costs. There'll still be the minimal - inflated PPE et cetera, but it's immaterial now.
Question:	(David Stanton, Jefferies) So, very small residual costs going forward?
Martyn Roberts:	Yes.
Question:	(David Stanton, Jefferies) Then you also mentioned in Australia, you signed these new public hospital contracts, which has been

	mentioned in a question. Just want to check, are they material to earnings at any stage? Potentially FY24 onwards?
Craig McNally:	Not in the immed – not in the short-term. Whether they…
Question:	(David Stanton, Jefferies) Fair enough.
Craig McNally:	…in a few years' time, become more material. All volume is…
Question:	(David Stanton, Jefferies) Sure.
Craig McNally:	…there's a tailwind, so it's positive volume coming in.
Question:	(David Stanton, Jefferies) Understood. My last question - one I always ask - can you tell me how many operating theatres you've - you plan to open for '23 and for '24 in Australia, please? Do you have that number?
Martyn Roberts:	We haven't said how many for '24. In '23, we've given you the number for the first half.
Question:	(David Stanton, Jefferies) That's it? Okay. Thank you.
Martyn Roberts:	Sorry. It is - if I gave you a number, it'll be wrong tomorrow because the projects are moving around us quite a bit, as we've said, due to approvals and builders falling over et cetera. So, we've given you the broad CapEx number. But to give you a specific theatre number would be, probably, remise of us to do that.
Question:	(David Stanton, Jefferies) Thank you.
Operator:	Your next question comes from Saul Hadassin with Barrenjoey Capital. Please, go ahead.
Question:	(Saul Hadassin, Barrenjoey Capital) Good morning, Craig. Good morning, Martyn. Just a couple questions from me. The first one just on France, I'm just trying to understand or get some context around the extension, potentially, of the revenue guarantee. I mean modelling the earnings for this region's proving quite challenging. You've mentioned that there is the notion that the revenue will be extended in terms of that guarantee. What happens on the cost side and that cost support?

	Is there an expectation that will continue to come through this calendar year? Is that totally separate to the discussions around that revenue guarantee?
Craig McNally:	Totally separate. Well, I say totally separate. In principle separate because the cost recovery stuff is being bundled into the tariff negotiation. So, depends on where that falls out, and then what other sort of grass will come through the year. They're always hard to predict. So, first thing to settle is tariff and what that is attempting to cover, and then address what it doesn't cover.
Question:	(Saul Hadassin, Barrenjoey Capital) On that basis, the margin outlook for that division, as that government support washes away, do you think if that tariff rate ends up being at around about that 5% level, would be enough to preserve the second quarter margin that you delivered for Santé?
Craig McNally:	Okay, I'm going to reiterate, I should never have said 5% because it's not my number, that was just the media speculation number.
Question:	(Saul Hadassin, Barrenjoey Capital) Sure.
Craig McNally:	So I've lost the rest of the question, having to answer that.
Martyn Roberts:	The margin.
Question:	(Saul Hadassin, Barrenjoey Capital) Just the outlook for the margin in that region.
Craig McNally:	Yes, look I mean it's so critical, as you can appreciate, on the outcome of the tariff negotiation and if the tariff negotiation is where it should be, what we are seeing in the business is improving volumes. So whilst it's a real positive to get the revenue guarantee as a safety net through to the end of December this year, what we anticipate seeing through the year is continued increase in volumes so that when the – our concern was always when the revenue guarantee came off, where that gap was. We've got a year of working through that, so we're

pretty positive about where we should come out of that. As volumes increase, then they're a tailwind to margin.

Question: (Saul Hadassin, Barrenjoey Capital) Thanks Craig. Then just one other, I know you're not really wanting to give a percentage growth rate for February, but you look at volumes where they are in Australia now for the last few weeks, the insurers are continuing to say it's a benign claims environment. .

When you look back, say, at where admissions were in February/March of 2020 and you assume historic CAGR of volumes admission, say 3%, do you think your volumes are looking like they have grown at a rate of 3% on that basis or do you think you're still below where they would have otherwise been since COVID.

Craig McNally: If you had that trajectory from start of FY20, then they haven't caught up to that yet. Again, I think what we've called out is, again, strong surgical volume increase and a bit more concern around non-surgical, particularly mental health and we particularly called out mental health day cases. So mental health is still affected by, as I said, the psychiatrists' willingness to come back to the full hospital practice that they had, but it's also patients' reluctance. The patients' reluctance still centres around the COVID restrictions, so still having to wear a mask in a mental health facility isn't conducive to that environment. So those things have to repair themselves.

But the biggest issue is supply of psychiatrists. So just going back to the original question around growth, just to differentiate between surgical and non-surgical growth.

Question: (Saul Hadassin, Barrenjoey Capital) Great, thanks for that, that's all I had.

Craig McNally: Thanks.

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

Question:	(Steven Wheen, Jarden) Yes, good morning. I just wanted to follow up on Saul's question on France. I totally agree, it's a bit of a black box to actually try and forecast that region and so the first part of this is with a consent decree that guarantees your revenue, does the tariff really play a part in that? Because my understanding of the consent decree is it's just guaranteeing the amount of revenue that was being paid to you pre-COVID. Maybe there's some indexation.
Martyn Roberts:	I was going to say, that's the point. So the guarantee takes the volume or the revenue from 2019 and then has indexed that every year since and so whatever the tariff indexation is, should be applied to that revenue guarantee, so it is quite important.
Question:	(Steven Wheen, Jarden) Yes, go it. Okay and so then as you say, that will then determine whether or not the additional support payments for staff and costs, so that's all mixed in together as to whether it does or it doesn't cover that, is that correct?
Martyn Roberts:	That's what Craig said earlier, is our hope is that we get an all-in kind of tariff increase that covers everything, but our experience to date would suggest that it maybe doesn't and then we get these one-off benefits that as we booked in Q2 for compensation for inflation, compensation for wage inflation and all sorts of other things.
Question:	(Steven Wheen, Jarden) Okay and so that only…
Martyn Roberts:	[Unclear] by that, it's obviously less predictable.
Question:	(Steven Wheen, Jarden) Yes, okay. So then if you think about that decree and then roll forward to when the decree won't be there, I mean you had an expectation for the second half of this year that the decree wouldn't be there, are the volumes at a level whereby you would be able to deliver an improvement in your EBITDA for that region? I guess that's the disconnect, right, is whether or not we're back in the volume perspective to kind of allow us to compensate for the loss of the decree.

Craig McNally: So what we're seeing is not dissimilar to what we see in Australia, stronger recovery in surgical volumes and non-surgical volumes recovering a bit more slowly, albeit I think non-surgical volumes are recovering more quickly in France than they are in Australia. But the surgical and non-surgical volumes have a different rate of recovery. .

So we forecast, I mean I'm not going to be blasé about it, but we forecast where that growth is occurring through calendar 2023 given that the revenue guarantee will be there right through calendar 2023, so pretty confident where we end up at the end of that. So if the revenue guarantee expired last December, then we'd have a bigger gap to fill than we are projecting that we'll have in December 2023.

Martyn Roberts: I might just add that we called out that we received $93.8 million of revenue guarantee in the half. That was the same as what it was in the prior period, so that shows that some hospitals were below where they were in 2019, but I mean that's 94 million on a revenue of $2.5 billion. Yes, it's very helpful, but it's becoming less material, but it does show you that there was that big wave in July obviously that would have been the predominant reason for that small shortfall and it's on a hospital-by-hospital basis, not done in aggregate across France. .

So it does say that some hospitals are still slightly below 2019 in that half. If we don't have any more big waves like we had in July and things get back to normal, then we probably should start to hopefully get off that revenue guarantee scheme at some stage, if things start to normalise.

Craig McNally: We'll take the revenue guarantee while it's there.

Martyn Roberts: It's a great guarantee, yes.

Question: (Steven Wheen, Jarden) Understood. Last question was just around the rationalisation of some of the hospitals in Europe. I just wonder if there's any other ones that you've identified that we might see in the next half or next year.

Craig McNally: Nothing material that springs to mind, Steve. There might be a few little things, but nothing material.

Martyn Roberts: Yes, we've obviously got the big project in Norway, so we acquired – so we've got a hospital with a bit of land next to it for car parks, we acquired the whole site. We sold off the bit with the car parks, that was a big profit on sale, but we also leased back the hospital as part of our overall development project that we're doing there. That will be bigger but yes, I think as Craig said, we're always looking at the portfolio, but nothing of any great materiality that we're considering.

Craig McNally: There are some projects that are underway, there's a project in Marseilles that's a multiyear project that will progress through the year, but they're things that are on foot. I can't think of anything material that's new.

Question: (Steven Wheen, Jarden) Sorry, you just reminded me of something and that you'd be disappointed if I didn't ask, just about the sale of the lease back.

Martyn Roberts: Why did I say that?

Question: (Steven Wheen, Jarden) You did indicate that you were looking at a potential process at your full year result, I just wondered what your updated thinking is on that front.

Martyn Roberts: Yes, I think what we said was we were looking at how we might go about a process, we never said we were looking at doing a process. I think as we've said before, we've done a huge amount of work on looking at it in Australia and the outcome is that to reduce anytime a significant capital gains tax bill you end up with a structure that, to be honest, is far too much disruption for the benefit that it would provide. So we've paused any consideration of that for the foreseeable future.

Question: (Steven Wheen, Jarden) Great, thanks guys.

Operator: Once again, if you wish to ask a question, please press star/one on your telephone. Your next question comes from David Bailey with Macquarie. Please go ahead.

Question:	(David Bailey, Macquarie) Yes, thanks. My question is just around the balance sheet and CapEx, so commentary that it's expected to be lower than $705 million to $810 million, first question is, is how much lower? Then secondly, does the current level of leverage constrain your ability to deploy capital into CapEx projects in the second half of 2023 and 2024?
Martyn Roberts:	Yes, thanks David, I may have mumbled my words there. So the point nis that the $705 million to $810 million is our current forecast. It's lower than our previous forecast.
Question:	(David Bailey, Macquarie) Okay so in terms of the actual level of leverage, 3.5 times, is the plan just to let that delver naturally as cash flows improve or is there anything else you're considering over and above that to get that level of gearing down?
Martyn Roberts:	No, the main focus is on the operational performance de-levering over time. We're not doing anything specific in terms of any financial activities to try and boost that. We do see that 3.5 as the high point. We got the extra wriggle room from our banks, which was good but yes, our absolute focus is now on that reducing as we improve our operational performance.
Question:	(David Bailey, Macquarie) That's it from me, thanks.
Operator:	There are no further questions at this time. I'll now hand back to Mr McNally for closing remarks.
Craig McNally:	Okay, thank you. Thanks everyone for your attendance and again, I'd like to thank all our people for what they do. So thank you.