24th August 2023

Ramsay Health Care FY23 Webcast Transcription

Craig McNally: Good morning, everyone, and thanks for joining us for our FY23 Results Presentation. I'm Craig McNally and I'm joined by Martyn Roberts, our Group Chief Financial Officer. Today we'll provide an overview of our performance for the 12-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 results today. We've continued to focus on providing the highest quality care to our patients, creating fit for purpose treatment facilities for our clinicians and supporting colleagues, public authorities and local communities impacted by local and regional issues, including the pandemic, natural disasters, and conflict. On behalf of the Board and senior management team, I'd like to recognise their fantastic performance through a period of significant change and thank them for their ongoing efforts.

So, turning to the key themes coming out of the results, the EBIT increase of 14.6% was driven by stronger growth from Australia, Ramsay UK, and Asia, and it was partially offset by reductions in Ramsay Santé and Elysium. The 8.8% increase in NPAT includes materially higher financing costs and a higher effective tax rate.

We are accelerating our digital and operational transformation to improve performance, patient experience, and clinical outcomes, and that's with a particular focus on Australia. We continue to invest in Australia to drive growth and so our Greenfield and Brownfield development programs have been modified to reflect the current construction environment, with also an emphasis shifting to digital and data programs.

Ramsay Health Care Limited
ABN 57 001 288 768
Level 18, 126 Phillip Street
Sydney NSW 2000 Australia
Telephone: +61 2 9220 1000
Facsimile: +61 2 9220 1001
ramsayhealth.com

We will be targeting revenue growth by driving volume, again, above industry growth rates, and negotiating further increases in reimbursement rates to compensate for the higher cost environment. For the Funding Group we are targeting leverage of less than two and a half times, and that is helped with the potential sale of Ramsay Sime Darby, but also increased earnings from the business. That's an improvement from the current position of our leverage of 3.2 times.

In FY24 we expect mid to high single digit top line growth and transformation initiatives in place will help drive margin improvement over time. Albeit in FY24, margin recovery will be slowed by the inflationary cost pressures and an increase in digital and data investment. We're focused on continuing to improve our strong competitive position to take advantage of the positive long-term trends in healthcare.

Moving to the FY23 result which I've said, at the operating level, reflects a gradual recovery in Australia; a strong improvement in Ramsay UK, and that's driven by materially higher volumes and productivity improvement; another good result from Ramsay Sime Darby; and as I said, it's partially offset by lower results from Ramsay Santé and the Elysium. As you can see on this slide, EBIT margins, excluding non-recurring items, did improve from a weak third quarter. Generally, trading in July has continued to follow the improved trends experienced in the fourth quarter.

The Board determined a fully franked final dividend of $0.25 per share, taking the full year dividend to $0.75 per share, which represents a payout ratio of 60%, which is at the bottom of our target payout ratio of 60% to 70%. We believe this balances the needs of shareholders with the company's focus on reducing leverage over time.

Moving to the result in Australia. The operating environment in Australia was stop start throughout the year with a rate of growth slower than was expected. The challenging conditions were felt across the industry and it was pleasing to see in this week's APRA data that, despite the difficulties the business has faced, we have improved our market share of the private health insurance market over the 12 months to the end of June. Certainly, that's more significant when we compare it to 2019. We believe this demonstrates the quality of our hospital portfolio and the outstanding care our clinicians and people provide to our patients.

The less predictable environment added to the complexity of managing labour in an extremely tight market, increasing labour cost ratios to higher-than-normal levels at various points in time. The results have started to benefit from a range of initiatives in this area, with EBITDAR margins in the fourth quarter being 200 bits above margins in the third quarter.

We completed negotiations on a number of health fund contracts during the period at rates that are more reflective of the current environment. However, given the ongoing pressure on labour costs caused by public sector EBA results and generally higher costs, including increases in new state-based levies, things like the mental health levy and the COVID levy which in the full year are in excess of $11 million, we are revisiting our contracts to ensure the higher costs are encapsulated in reimbursement structures going forward.

I'd just like to reiterate that to address the issues impacting the business at the current time, we have accelerated our business transformation programs, and that is an immediate priority.

Just looking at trends in activity. Surgical volume growth reflected the backlog of cases due to surgical restrictions and high levels of cancellations due to COVID in the last few years. Growth was biased towards day and short stay surgery, reflecting the lower level of complexity in the case backlog. We believe addressing both the public and private backlog will take a few years to play through and we are positioning to capture this volume where it makes commercial sense, particularly on the public backlog. Non-surgical volumes started to improve in the second half with rehab and medical admissions growing strongly as activity in the community rose and following stronger surgical volumes. Psych admissions remained below trend, with overnight cases stronger than day admissions.

We continue to look at a range of measures to leverage our expertise in capacity and mental health to grow volume, including the recruitment of additional psychiatrists, and potentially working with the public sector on solutions to address the mental health crisis.

Turning to the investment pipeline in Australia. Spend on projects during the period was $208 million and a number of smaller projects were completed in the period with an investment value of $73.8 million.

Given the escalation in building material costs and other issues that the building industry is facing at the current time, our development program for the next one to two years will be between $250 to $300 million per annum and targeted at the projects in the portfolio.

In the out-of-hospital area we continue to make selective investments in our new and adjacent out-of-hospital services. 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.

We have progressed our digital and data strategy which has multiple streams of work, with the initial investment focused on building our foundations, improving efficiency and productivity, and driving better outcomes for our patients, people, and doctors. This year, we invested $38 million in total, of which $27 million was OpEx. Further to the numbers were released at the interim result, we've now further scoped the projects for the next couple of years and we provided a breakdown of the spend between OpEx and CapEx on this slide.

In FY24, we expect OpEx net of benefits from the various programs we are rolling out to be in the range of $60 to $70 million, or approximately $30 to $40 million higher than in FY 23. At this stage, we expect net OpEx to peak in FY25 at $70 to $80 million, and to become an overall net benefit to the business in FY28. We'll obviously be trying to accelerate this timetable where possible. CapEx associated with current projects is also expected to peak in FY25-26 at between $70 to $80 million.

A large number of projects are all - or I should say, 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 multiple smaller automation projects that create immediate value for the business. This slide reflects, in broad terms, where our investment will be allocated. There are approximately 48 projects currently underway, and these focus on delivering the four multi-year strategic programs which include electronic patient health record; the patient hub project called the Ramsay Health Hub, and that is intended to build out a full end-to-end seamless digital admission process and patient experience; and a predictive insights project which is designed to improve our capability in AI and machine learning to support improved decision making and scenario analysis.

The focus of this work to date has been to deliver better clinical coding and improve their utilisation. We will provide a more detailed view of these projects at an Australian investor session we are planning in early November. Suffice to say, the investment in this area is designed to improve our competitive position and drive the growth of the business in both the immediate and long term.

Turning to the outlook for the Australian business. Our Australian business is uniquely positioned to benefit from the underlying growth in demand for health care services in the future. We have ramped up a range of operational and transformational programs in three broad areas. Firstly, improved revenue management, which will include leveraging technology to streamline processes and improve consistency of coding and billing. Secondly, activity growth, which will include redesigning models of care generally, and targeting increased public work. Thirdly, operational excellence and cost efficiencies. We'll give you more detail on these programs in November.

We expect the FY24 results to benefit from mid-single digit volume growth, combined with indexation, together with the productivity and other benefits flowing from the programs I've just spoken about. There are factors that will slow margin improvement, including higher digital and data OpEx, the ongoing impact of inflation on costs, in particular labour costs, and the higher state taxes and levies I've just mentioned.

Capping off the Asia Pacific region is our joint venture in South-East Asia, Ramsay Sime Darby, which reported a full strong year result reflecting growth in inpatient activity in our Malaysian hospitals. The equity-accounted after-tax contribution increased 30.1% to $19.9 million. I would note that RSD earnings are seasonally stronger in the first half of the financial year.

Following the release of our ASX announcement in June, we have, together with our partner, Sime Darby, commenced a sale process for RSD, which has resulted in the receipt of a number of non-binding indicative offers. We are in the process of narrowing the number of parties we'll take through to the next stage of the process, and we expect to announce the outcome of the process before the AGM in late November.

Turning to the UK, Ramsay UK. Our acute hospital business reported a very strong turnaround in performance, driven by a 14.4% increase in admissions, a higher level of acuity, and the benefits of improved operating environment. Labour shortages are starting to ease, although the market remains tight in some areas, and inflationary pressures have peaked. The business has done a very good job of offsetting these pressures this year.

After operating in line with budget for the first five months of ownership, Elysium had a disappointing year with acute labour shortages in non-clinical staff in particular, resulting in materially higher labour costs and lower occupancy due to the difficulty in staffing facilities. The business has invested in centralising recruitment and training facilities to fast-track on-boarding and training and improve retention rates, which is proving to be successful. As a result of these initiatives, vacancy rates have started to decline, assisted by an improving labour market in the UK and a growing offshore recruitment pipeline lowering agency costs. Labour as a percentage of revenue has declined to 68% in July from the FY23 full year ratio of 72.5%.

In accordance with the accounting standards, the carrying value of Elysium's physical sites was reviewed at year end, resulting in a $20.5 million impairment of the carrying value of three of the sites in the 84-site portfolio.

Turning to the outlook for the UK. Ramsay UK is expecting mid to high single digit volume growth in FY24, driven again by both NHS volumes as well as private pay, that continues to grow as a segment of the market. The new hospital at Kettering, which is called Glendon Wood, has opened in the last few weeks, which is also expected to contribute to top line growth.

Elysium's focus this year will be continuing to reduce vacancy levels, replacing agency workers with permanent staff, and lifting occupancy levels. Their performance is expected to improve over FY24. The business has a strong relationship with the NHS, and the underlying demand for mental health services supports the medium-term outlook for the business. NHS tariffs for the year commencing 1 April 2023, were finalised in mid-August.

The final tariffs for both businesses are in line with our expectations.

Turning to Ramsay Santé. We're off to a slow start post the Northern Hemisphere summer. Activity levels did pick up with growth in both surgical and non-surgical activity, and higher volumes in its allied and primary health services in the Nordic region. Support from government in all its regions introduced in response to COVID declined 28% to $290 million. Even so, tariff increase for the year commencing 1 March is 5.4%, with the follow up care and rehab tariff at 1.9%.

The business does not believe these tariffs compensate them for the cumulative impacts of inflation over the last few years. Ramsay Santé is working with the industry to ensure the French Government understands where the cost challenges exist, to better inform future tariff settings.

The Nordic region reported a strong result, driven primarily by businesses acquired in FY22, including GHP that contributed revenue of $314 million or $269 million more than in the prior period. The EBIT result had the benefit of non-recurring items of $43.1 million, including profit on asset sales of $55.3 million in total as the business continues to optimise its portfolio. The Nordic result was impacted by a decline in COVID related activities such as testing, as well as lower volumes and average level of acuity at Saint Goran Hospital. Absenteeism due to sickness and staff shortages impacted capacity utilisation, although this improved in the second half of the year.

Turning to the outlook. In the short-term, Ramsay's Santé's priorities will be to continue to implement programs to address significant inflationary cost pressures and invest in its agreement on quality of life at the workplace to address the labour shortages that remain a key issue in some areas.

The French government has extended the revenue guarantee to 31 December 2023, with the safety net structure now reduced to

70% of any shortfall experienced, reflecting the decline in COVID cases in the community. The Nordics will be focused on the integration of recent acquisitions, the continued development of an integrated digital platform, and resolving the performance at Saint Goran.

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, imaging, prevention, and outpatient and at home services, as well as strengthening the base hospital network and exploring new payer opportunities.

As I've said, while skill shortages have eased globally, challenges remain across the health care workforce, notably in training and recruiting the next generation of workers while retaining and engaging our people. The key priority areas of Ramsay's workforce strategy include providing flexible working conditions, more accessible learning and training opportunities, expanding our leadership programs, and investing in technology to simplify processes and allow our people to focus on providing high quality care.

Through the year, we've built on our successful programs with new and expanded initiatives for local and international recruitment. I'm pleased to say that it's starting to show results. In Australia, vacancies, turnover and time to fill are all down over the past 12 months. We are recruiting nurses locally and internationally. We're also growing our leadership capability at all levels of the business. Efforts in our UK acute hospital business have seen the clinical vacancy rate drop from 13% to 9% over the year. Elysium opened a new recruitment hub in January and has onboarded more than 447 net FTEs including 197 international healthcare workers.

Our sustainability strategy is showing progress across the board with our net zero ambition on track to reduce scope 1 and 2 emissions by 42% by 2030. Our efforts to reduce emissions include a greener theatres campaign. Most of our hospitals are in the process of greatly reducing the use of the anaesthetic gas, desflurane, in favour of gases with lower emissions.

We know we can't reach our targets alone. This year we have achieved our goal of getting at least 40% of our suppliers to complete sustainability assessments. We are on track to reach our 2026 target of 80% of suppliers.

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

Martyn Roberts: Thanks very much, Craig. Good morning, everyone.

As Craig has outlined, the 12% increase in revenue reflects improved surgical and non-surgical activity across all regions combined with a $767 million increase in revenue from recently acquired businesses. During the period, all regions felt the impact of high inflation, particularly in labour costs, along with labour shortages in key areas, which impacted capacity utilisation. In addition, the first quarter of the year was impacted by the COVID environment.

As the decision to conduct a sale process for RSD was made before the end of June, the business has now been classified as a discontinued business and an asset held for sale. The segment note in the accounts only represents continuing businesses for both this year and last year. However, there is a table in the OFR that gives you the segment earnings inclusive of RSD for a proper comparison with previously reported figures.

The result includes non-recurring items which we have given you more detail on in the OFR. The EBIT contribution this year from these items was a positive contribution of $42.1 million compared to a negative $60.5 million contribution in the prior period. I would note that when you strip out the impact of these in each of the halves, EBIT in the second half of the year was only down 1.5% on the first half, reflecting more acute seasonality in Australia this year and a weaker half from Elysium.

Below the EBIT line, non-cash mark to market movements in both Ramsay Santé and the Funding Group's debt facilities made a $26.8 million positive contribution this year compared to $34.1 million in the prior period. Excluding these items, net financing costs - if you exclude AASB16 leases - increased 71.5%, reflecting higher base rates and higher average drawn debt across the period compared to the prior period.

FY24 total net interest expense - including AASB16 leases - is currently forecast to be in the range of $570 million to $600 million, subject to movements in base rates, of course. If a sale of RSD does occur, it is expected that the proceeds would be used to pay down drawn debt, which would reduce this range further.

Our tax rate was also higher in the year at 33.2% compared to 29.6% in the prior period due primarily to the non-deductibility of some interest costs in the UK.

Operating cash flow increased 79% on the prior year, reflecting an improvement in the operating environment and the change in working capital as Ramsay Santé converted French government receivables under the revenue guarantee scheme to cash. Cash flow includes receipts from the sale of non-current assets and businesses of $66.3 million offset by the acquisition by Elysium of adolescent mental health services facilities for $68 million.

We have included this next slide to remind people about our funding structure. The consolidated Group is really made up of two entirely separate balance sheets with their own capital structures. You've got the Ramsay Funding Group which is basically everything except Santé - i.e., Australia, the UK, and our equity accounted share of profit for RSD - and then you've got Ramsay Santé.

Ramsay Santé has its own covenant light debt facilities which have no recourse to the Funding Group and are secured by assets on its own balance sheet. The Funding Group does not contribute capital to Ramsay Santé for working capital or CapEx needs. Indeed, Santé's acquisition last year of GHP was fully funded by their own debt facilities.

Moving to leverage, on this slide, we have given you the Funding Group net debt and leverage ratios on a AASB117 basis, which is the ratio that's used by banks and Fitch. As Craig said, we finished the year with Funding Group leverage of 3.2x. We are targeting a ratio of less than 2.5x which we would expect to achieve through the use of the potential proceeds from the sale of RSD and through organic growth.

We've also included the Consolidated Group leverage both pre, and post-AASB16, although as I have said, Ramsay Santé is separately self-funded by covenant light debt facilities secured against their balance sheet with no recourse back to the Funding Group. There are in fact no debt facilities provided to the Consolidated Group as such.

The weighted average cost of our consolidated debt has increased from 3.24%, excluding CARES, at the beginning of FY23 to 4.73% at the end of June 2023, which is reflective of the increase in base rates over that period. At 30 June, approximately 73% of the Consolidated Group debt is hedged at an average base rate of 2.57%.

Turning to the Funding Group debt profile, and post 30 June we have repaid $1 billion of the facilities that were due to mature in the first half of FY25 with new committed revolving bank loan facilities which mature in the first half of FY26. These were refinanced at similar margins to the facilities they were replacing. Over the next six months, we will commence a process to extend the tenor of each of the $500 million tranches of the sustainability linked loan, which mature in the first half of financial year '25, '26 and '27 by a further two years each.

Facilities considered surplus to requirements will be terminated upon completion of refinancing activities scheduled during the next few months.

Moving to capital expenditure in more detail, total spend across the regions was $772 million with declines in spend by Ramsay Santé and the UK acute hospital business offset by a full year of the Elysium business and higher spend in Australia. 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. FY24 spend is now expected to be in the range of $890 million to just over $1 billion and will include higher digital and data CapEx in Australia.

I will now hand you back to Craig for some comments on strategy and the outlook.

Craig McNally: Thanks, Martyn. As I've said, we are well positioned to benefit from the strong industry tailwinds driving long-term growth. I think you see that positioning manifesting in the relative performance against peers in each of our markets. The long-term growth will be driven by technology and clinical developments, growing and ageing populations and the associated risk or a rising incidence of chronic conditions, which is also resulting in increasing health costs for governments as we see rising healthcare expenditure as a proportion of GDP. That creates commercial opportunities to partner for private healthcare providers.

As we leave behind the disruption of the last few years, we are recalibrating our long-term strategy and positioning in the market. While we remain committed to our strategy of creating an integrated digitally enabled healthcare services platform, the emphasis of our investment program will evolve with changes in the market.

The priority is to continue to strengthen our core hospital business through a series of transformational programs and by investing in a wider range of services that feed into and support the core, driving an improved outcome for patients. This will drive top-line growth and an improvement in margins over time. We remain disciplined about M&A and we're not considering any material offshore acquisitions at the current time.

Turning to the immediate outlook, we expect Group FY24 earnings will reflect mid-single digit top-line growth driven by low to mid-single digit growth in activity levels combined with higher reimbursement rates which are not currently reflective of the inflationary environment. As we saw in FY23, margin recovery will be slowed by ongoing cost pressures that are not fully reflected in reimbursement structures, combined with an increase in digital and data OpEx investment which is an important plank for our future growth.

In the short term, our focus is on improving the performance of the Australian business and returning the Elysium business to a stable platform from which it can take advantage of the growth opportunities in the mental health services market.

On slide 26, there's some guidance around the various metrics for FY24, which I'll leave you to read. Before we open up for questions, I'd just like to reinforce that while, in the short term, we have to cycle through the impact of inflationary cost pressures, the quality of our portfolio combined with our industry-leading talent gives us great confidence that we're well positioned to take advantage of the forecast growth in demand for healthcare services. With that, I'll open up for 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're on a speakerphone, please pick up the handset to ask your question.

Your first question comes from David Low with J.P. Morgan. Please go ahead.

Question: (David Low, J.P. Morgan) Thanks very much. Craig, if I could just start with a clarification, at the start of the presentation, there's a slide that says top-line growth mid to high-single digit. At the outlook page, it says mid-single digit top-line growth. Which one should we be using?

Craig McNally: The mid-single digit.

Craig McNally: Yes.

Question: (David Low, J.P. Morgan) Okay. Maybe I'll go on to other questions, but if at one point I can get a clarification.

You've talked about health fund negotiations or you've talked about the rates not covering cost inflation. Can you give us a sense as to where negotiations are at now, whether you are seeing some success, whether you're confident that negotiations through this year will lead to a rate environment that's more in line?

Craig McNally: It's always challenging as you know, David. Certainly, the engagement with most health funds through this year has been positive. As we've cycled through negotiations that were due anyway plus going back to the table early with most funds, there's been a positive engagement. You've seen other results and commentary around the industry. But it's still not where it should be. There is some reluctance from one or two funds in particular and so that will be more challenging.

But the big issue is you've seen a significant shift in margin from the provider sector to the health funds. We've certainly outperformed the rest of the industry, but the commentary on the industry and from our competitors is very much that there's a

	tipping point where the health funds have got to come to the party. It's important and we will be at the forefront of that. We can't let the current trajectory continue for the industry, irrespective of what our position in that is.
Martyn Roberts:	David, it's Martyn here. Maybe you're cross-referencing our Australian outlook, which has mid-single digit volume growth, and then our Group outlook, which has low to mid-single digit volume growth. That's because Ramsay Santé is forecasting low-single digit volume growth if that makes sense. Maybe that's where the confusion is.
Question:	(David Low, J.P. Morgan) Yes, I think one of the early slides does seem to be talking about the Group. It says mid to high and then the outlook says mid. It's fine. We'll work through that one. I've got one other topic if I could. Just on the NHS tariffs and particularly with the Elysium business, I'm trying to understand that what we saw in the June quarter, is that reflective of a higher tariff? Are we confident that the Elysium business can move back into a profitable contribution in FY24?
Craig McNally:	I'll answer the second part first. Absolutely, yes. The Elysium business will continue and improve. It had a reasonable start to FY23. It had a poor middle of FY23, the second and third quarters particularly, and then a much stronger recovery in FY24. And we anticipate that will continue to be the case. The full increase in tariffs - Elysium just doesn't have one tariff negotiation, it's got two or three main positions - are not - as you get into the back end of FY24, the last quarter, they are reflected at the tail of that but not fully reflected. Probably at a very marginal level, there's still the resolution of the doctors' dispute with the NHS that will then have a small flow-on effect still to come.
Question:	(David Low, J.P. Morgan) All right, thank you very much for that. I'll get back in the queue.

Craig McNally: You're welcome.

Operator: Your next question comes from Lyanne Harrison with Bank of America, please go ahead.

Question: (Lyanne Harrison, Bank of America) Yes. Good morning, Craig. Good morning, Martyn.

Can I start with labour? Obviously, you said labour markets are improving. But in terms of your overall business, are there some markets that are more challenged than others and any particular skillsets - obviously you called out Elysium and non-clinical, but can you provide some colour on some of the other markets as well?

Craig McNally: Yes, at a macro level, not from country to country necessarily. It's more within geographies, so regional areas are more challenged. That's always been the case. They're more challenged in particular skilled areas, whether it be operating theatre nurses or intensive care nurses. That remains the case. That's an issue that's been around the industry for a while, certainly exacerbated by COVID, but certainly in a much better position.

We've talked previously about some of the longer-term strategies that we're putting in place to grow our own more so not relying on the industry to deliver everything for us. I think we said as we lifted things like the graduate nurse program in Australia, that would be at least a couple of years to deliver for us. That's still the case. We're into the second year of that increased grad nurse cohort.

Just recognising whilst the labour issue is not as critical as it might have been foreseen to be through COVID, it's still an issue that will face the industry going forward. We've got to be continually looking at how we recruit and retain staff, how we develop our own staff, how we target specific skills, how we use those skills at the top of their licence, all those issues that still apply.

Question: (Lyanne Harrison, Bank of America) Okay. If we try to quantify that a little bit, how should we think about it in terms of how much is that labour constraint restricting capacity or resulting in underutilisation of capacity? How much can Ramsay expand capacity if that labour was available?

Craig McNally: No, it's moved through that period where it was a real impact on capacity to now it's at the margins.

Question: (Lyanne Harrison, Bank of America) Okay.

Craig McNally: In terms of capacity restriction, we don't think of it like that. There are pockets from time to time that you've got to address, but that's normal business.

Question: (Lyanne Harrison, Bank of America) Okay. Just one more, coming back to David's comment about growth in different markets, France you called out being low-single digit volume growth in '24. What are the key challenges that you're seeing in that market?

Craig McNally: I'm going to say it's no different to any of the other markets. Certainly, labour challenges, pricing, and the impacts on inflation in all markets mean that you've got to deal with the pricing issue. As I called out in the presentation, Ramsay Santé, we still believe the 5.4% tariff increase, that wasn't sufficient to catch up on the inflationary environment for the last couple of years, so that's an ongoing exercise. Industry negotiations and our own negotiations with government will continue on that. I think like all markets, it's to recognise that the cost base has risen and is rising and then to have that reflected in pricing.

Question: (Lyanne Harrison, Bank of America) Okay. Thank you. I'll leave it there.

Craig McNally: Yes. No, I was going to say - sorry, just on France, one of the challenges - and it's a bit of a different structure than Australia - is in that staffing recruitment in the specialised areas. Pharmacist is a particular challenge that we see more so in France than we do in other markets.

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

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

Question: (Andrew Goodsall, MST Marquee) Oh, good morning. Thanks for taking my questions. Just speaking with France for a moment, obviously the margins there are still poor and declining, but what we're finding from a forecasting point of view, it's very hard to separate the interplay between subsidies and the underlying trading. Just trying to get a sense of where we are in that cycle, where the subsidies revert back to immaterial and underlying trading steps up. I don't think we saw it in the fourth quarter, but just do you think we're sort of - or could you characterise what that looks like in your view and when that might take place?

Martyn Roberts: Yes, Andrew, so your line's a bit scratchy, but I think I got the question. Yes, look, the fourth quarter was relatively subsidy-free, let's say, and we were trading off the new tariff that had come in from earlier in the year. It's probably more reflective of where the margin of business is at, going forward than certainly any of the previous quarters which I agree were lumpy and all over the place. But I think as Craig has said, the idea is to try and get those subsidies baked into tariff rather than the one-off lump sums that we get, because (a) it does make it very unpredictable and (b) it obviously doesn't stick in the base so you just have to keep doing it over and over and over again. So that’s really the key negotiation that Pascale is leading for the industry.

Question: (Andrew Goodsall, MST Marquee) That’s terrific. Just Elysium, obviously you’re expecting an FY24 turnaround. Just to try and get a sense whether that's a more backend loaded just in terms of your progress there?

Craig McNally: As we come - I mean it will increase over the year, no doubt but as we come out of quarter 4 for FY23 and we certainly saw improvement, that was tangible. That continued through July and so you know, it's we expect that performance to increased from now.

Question: (Andrew Goodsall, MST Marquee) Would you put that July performance - or just in terms of getting in positive EBIT territory, would that be still not there yet but maybe second half?

Craig McNally: No, no, no, that was [inaudible]. It's positive EBIT.

Martyn Roberts: Yes, positive EBIT now. Yes.

Question: (Andrew Goodsall, MST Marquee) Okay. Okay, excellent. Then just finally, Australia looks like it's going well. When we listen to the insurers, they're still talking a tough story on claims. I think Medibank's out there today saying they saw a 2.6 or something like that in terms of their forecast. NIB was a bit higher, I think but just yes, I guess where are you in some of those major negotiations and is the 2.6 wrong or do you need to tough it out a bit more with them?

Craig McNally: Well, we don't intend to tough it out any longer than we have to.

Question: (Andrew Goodsall, MST Marquee) Tough it out, I was going to say punch it out. Maybe that's the better way to put it.

Craig McNally: Yes. No, no, I'll probably just reiterate the comments I just made that the health funds need to recognise and I think you're seeing some of that come from a number of health funds. They're recognising that the cost base for hospital has increased and so the environment for negotiating agreements is different. However, when you get to the table, things can be a little different and so we don't intend to sit back and just live with what we have.

You know, we have to and absolutely determined to get health fund benefits at the level that reflects what happened to the cost base. Now, what - how that transpires, as I said, there are some health funds who are very, very engaged in recognising how to address that issue. There are one or two who aren't.

Question: (Andrew Goodsall, MST Marquee) Okay and final one, it's probably a bit of detail but with the back and forth around prosthesis reform, I know hospitals have not been happy with where that's landed. Just yes, your quick thoughts on that?

Craig McNally: Yes, look, it's still a consultation process and certainly - oh there's two aspects to it, really. There's just the reduction in prosthetic price which is essentially a pass-through. Has a benefit for health insurers in terms of lowering the claims they pay for prosthesis but the biggest - sort of the biggest impact is on the suppliers themselves about what's happening with pricing. Ours is essentially is a pass-through as we've talked about many times.

Then you've got the change in the structure and so what happens with the general misc category, there's a negotiation around that. The real issue there and I've been really clear about it before is, if it then becomes a bundled payment and it's not included in the prosthetic list itself, then that's a negotiation with the health funds. We will absolutely seek recovery of that.

Now, we're in a better position than most to get that. I understand that but there's a lot of lobbying going on from all parts of the system on the exact consultation process and so it's still yet to land but we will make sure that for our business, whatever the change in the structure is, the pricing reflects that.

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

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

Question: (Sean Laaman, Morgan Stanley) Good morning, Craig. Good morning, Martyn. Hope you're both well.

Craig McNally: Yes, thanks, Sean.

Question: (Sean Laaman, Morgan Stanley) Craig, I'm just wondering how you think the government thinks about the current situation? So, we've got the insurers reporting give or take high teen gross margins. High single digit net margins. I guess there's some inherent inefficiencies gained from the pandemic in those margins such as more rehab and psych in the home or cheaper sites or alternate care. But then I expect that sort of claims come back and start to erode those margins somewhat.

Do you think moving forward, that the government will potentially move away from permitting sub-3% price increases and think more single digit? At the risk of sort of disrupting participation in the overall system or do you think better indexation essentially has to flow down from the fairly generous margins that the insurers are reporting today?

Craig McNally: Well, there's challenging questions, thanks, Sean. So, what do I think? Certainly, insurers are living the life at the moment and so I think one of the challenges for government and this is a much - sort of deeper issue is that the Federal Government and the Federal Department of Health are only legislate around health insurance. There is no private hospital sector of the Health Department and so they've just introduced - and to their credit, they've introduced a new role to be sort of a liaison as much as anything else, I think, on the private sector.

So private hospital sector needs to - and it happens every change of government, every change of minister. Needs to make sure that we're educating government about what the issues are around healthcare and what's happening in the system because they can get a very distorted view if they're just looking at their own legislative controls. So that's the first piece.

I answer to your question about where do I think government will land on capping premium increases? I'm not sure but I think there is a general recognition that can - keeping them below 3% in this inflationary environment is going to be really difficult. Now, where that lands, I'm not sure but there are many other reform issues that need to be considered as well.

Now, you know, we've gone - we went through years of getting to the gold, silver, and bronze banding structure. That hasn't been successful because all you're seeing is health funds having strategies to push people down into silver and bronze where they don't have to pay things and gold policies increasing at much higher rates as part of that strategy.

So, I think there's lots of opportunity to engage on reform but absolutely, and my previous point was, that the margin shift from the provider side of the industry and I'll talk our own book but the industry's book, really. We're the people who take the risk of providing services and employing workforce and are under the most pressure from the inflationary environment, particularly around workforce. The margin shift from the provider side to the insurer side is something that we can't continue with.

Question: (Sean Laaman, Morgan Stanley) Sure, thank you, Craig. I appreciate that answer and you called out good growth in day hospitals, I think, today. Do you think there's more an opportunity for Ramsay to build more day hospitals or standalone ambulatory surgical centres, as they call them in the US?

Craig McNally: Short answer is no and I'll use an example. I'll use a couple of examples, really. I've said for many years that the economics around developing new capacity in the standalone day surgery or short stay surgery environment are really difficult. Now, we picked up Orange Private Hospital which was a new build in the last couple of years. You know, driven by property developers as it often is to then get operators to pick up the lease build going forward.

That business went bust in two years and so it fell into our lap. It works for us because somebody else has taken the pain on the investment. We can then integrate that with our private hospital in Orange but you'll see - you haven't seen a lot of new capacity build in - there's been the odd one but you haven't seen a lot of new capacity build in that sector because it - the economics don't work.

So, then you have to look at what does work? There's certainly a shift to day surgery and it's been much greater in the last couple of years than the trend was previously. That's partly - well I'm going to say mostly, COVID driven because what we're not seeing is, we're not seeing things that materially you would have done as an inpatient shifting to being done as a day patient. We are seeing more things that were always done as day patients being done as day patients.

So, we need to be - we need to get better at being convenient, being efficient in providing those services and that's part - that's been part of our strategy for a couple of years but I - when I look at our increase in market share in day surgery compared to the increase in market share for the standalone day surgical sector, we're still grabbing market share over and above those.

So, we can point to Medibank's no gap growth from - I think today's announcement was 600 procedures to 2,300 procedures. That's about 0.4% of our surgical activity. It's probably about 0.1% of the surgical activity in the sector. It's just not an issue.

Question: (Sean Laaman, Morgan Stanley) Sure and one final one, Craig. How reliant are you on graduate nurses? You know, they are material portion of the overall nurse base every year?

Question: (Sean Laaman, Morgan Stanley) Have there been any sort of restrictions to intake as a result of the pandemic? So young nurses not wanting to actually enrol in the program because of whatever reason across the pandemic?

Craig McNally: No, overall - well I'll start with the first part of your question. Out of about 17,000, 18,000 nursing staff we have in Australia, we took an intake of 800 grad nurses last year. That'll be the same again this year. So, in our system over a two-year grad nurse cycle, we'll have 1,500-odd grad nurses out of 18,000 nursing staff.

So that's the sort of proportion and we've been able to fill those grad nurse cohorts. So, we haven't seen that people aren't coming into them because there's an aversion to nursing or the pandemic's had an influence on that but you've got to look at those things over the longer term as well and not take the data point from this year or next year.

Question: (Sean Laaman, Morgan Stanley) Awesome. Thanks, Craig. That's all I have.

Martyn Roberts: Before we move on, just to clarify, David's earlier question, you should take the outlook from our outlook slide which is mid-single digit top line growth. That's our outlook for top line growth. Just to clarify.

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

Question: (David Stanton, Jefferies) Morning, team, and thanks very much for taking my questions. I wonder if I could get your commentary just in the face of what Martyn just said there? Can you talk to utilisation in 2024 - F24 to date in your Australian base business hospitals? How is utilisation compared to say, I don't know, 12 months ago?

Craig McNally: I'll let Martyn maybe talk about the details, but what we've seen in terms of volume, we are continuing to see volume increases, albeit not in maternity services. They are still declining but in every other subsector of the way we look at case mix, we've seen volume increases certainly in July but generally for FY23. Some have been greater than others. Surgical activity, obviously. I mean rehab gets called out. Our rehab growth is really strong, and particularly into July.

So medical patients, you know, non-surgical patients stronger in the second half than they were in the first half. Again, strong through July. So Australian volumes for July just continuing that trend coming out of quarter 4.

Question: (David Stanton, Jefferies) Understood. So, it’s fair to say that you know, your bigger base hospitals are nice and full compared to, say, even 12 months ago?

Craig McNally: Well, then we get into utilisation. They've got more activity going through them, no doubt. We're also getting better, as we always do. You always think you've hit a ceiling on productivity and how efficient you're using capacity, but you always find ways to keep improving that. Part of that is related to the transformation projects we've got going on, in particular with the digital and data work. I called out some of the automation projects and some of those have shown some immediate success that give us some more efficiency and get our people focused on the right things.

I’ve probably used that the half - whilst we're doing more surgical procedures, and looking at the Australian context, we're not doing as many after-hours lists, so we're not doing as much in the evenings and in the weekends, but we're still processing more work, so we're getting better utilisation through the main part of the week. That aspect, I think we see that in other things like cath labs, and probably beds is the lesser of those.

Question: (David Stanton, Jefferies) Understood. You mentioned, at least for me something reasonably new, that you're wanting to do more public work in Australia in your private hospitals, particularly in surgery and I think you said psych as well. Bottom line, is that lower margin than straight private work, please?

Craig McNally: No. It was through the COVID period, but we have recut those agreements. They are now commercial arrangements that we have with the states, and we'll only do it on that basis. We do recognise that the public volumes will increase for us. It’s still low in the scheme of things, in terms of the overall proportion of the work we get, public volumes are still, at best, mid-single digits, but probably a bit lower than that. Sorry, public volumes in our private facilities, not in our public facilities, so not like the Joondalup's of the world. It will increase but increase off a low base.

Question: (David Stanton, Jefferies) Understood. Last one from me. Martyn, wouldn’t want you to feel left out. You've talked to an overall interest expense number for 2025, can you talk to how that will hopefully decrease, and if so for 2024 - can you talk to…

Martyn Roberts: Four…

Question: (David Stanton, Jefferies) Yeah, correct, sorry. Can you talk to how that, hopefully, will change and hopefully go down into 2025, or should we be thinking the same kind of number? What are the puts and takes for 2025, I guess?

Martyn Roberts: Well, firstly, the biggest part of that is AASB 16 leases. If we're getting new facilities et cetera over time, then that will have impact. Certainly, one of the reasons why it was slightly higher than what we guided for FY23 was Ramsay Santé reduced the threshold for their AASB 16 lease accounting, so we had a bit of a jump there in their AASB 16 lease number.

In terms of finance costs, things we called out, 73% of FY24 interest is fixed at the rates we've given you. Beyond FY25, the balance there is, yes, you've got slightly less amount of hedging for FY25 than that but at reasonable levels, and so it is relatively locked in at the amounts we've got currently. The benefit of having as much hedging as we've had over the last probably 12 to 18 months is probably we’ve been paying lower interest than we would have done if we hadn't have hedged it. Clearly, that support, the take of that is that because you're hedged, you may not benefit as much from rates when they go down when they

	come back. If they do start coming down in FY25, we will get a small benefit from that but we'll also be running off the fixed rate that we've got now.
Question:	(David Stanton, Jefferies) To that extent, it sounds like we should be looking at a 2025 in line with 2024, is that unreasonable?
Martyn Roberts:	Well, we haven't given guidance for the FY25 interest, it's a long way away.
Question:	(David Stanton, Jefferies) Thank you very much.
Operator:	The next question comes from Mathieu Chevrier with Citi. Please go ahead.
Question:	(Mathieu Chevrier, Citi) Good morning. Thanks for taking my question. My first one was just on the inflation or indexation, sorry, adjustments we should be expecting in Australia in F24.
Craig McNally:	Well, we never say what price indexation will be, other than to say that we're going to continue to push it to recover margin and reflect the impact of the inflationary environment, and that's the cumulative impact of the inflationary environment.
Question:	(Mathieu Chevrier, Citi) Okay. On the volume, I mean, mid-single digit volume, that's probably in line with the volumes you were seeing pre-pandemic. Do you think we're going to see higher growth eventually, or do you think that we're seeing that already?
Craig McNally:	Well, look, I think what you see, you take a longer-term perspective and you look at the way that demand will increase as demographics change and the rates of intervention for different demographic groups impact overall healthcare demand, and no doubt it increases. You then look at how you service that. We've talked a long time about the rates of growth for non-hospital services, for the less acute services, will probably grow at a higher rate than the more acute services. We have to look at

how we provide that whole range of services, how we integrate them, so I think it's reflective of what we see in the medium term.

Martyn Roberts: I'll just add. In Australia we've said mid-single digit volume growth. I think with the Group, we've said low to mid-single digit because we see lower than that growth in activity, certainly in France which is a very big market for us. In Australia, part of that mid-single digit volume growth is a catch up from the impact of COVID in July and August last year, where volumes were restricted with that last big wave of COVID. Then you've got a certain amount of capacity that we've added on as well. Certainly, industry growth wasn't mid-single digit volume growth pre COVID at all…

Craig McNally: No, but it reflects our strategy and expectation that we will continue to grow above the industry.

Martyn Roberts: Growth rates, yeah.

Question: (Mathieu Chevrier, Citi) Understood. Then just on France, I mean, you got a payment of about $45 million there for inflation. Do you think that will repeat in F24?

Craig McNally: As we said before that some intense lobbying going on to try and get that, but we'd rather get that built into the tariff rather than these one-off payments which you just have to, to your point, keep getting year on year if you want to keep up with the inflation when it’s not a very productive way of going about business.

I mean, to a certain extent, the 5.4% tariff increase we had in France at the start of the year was some way to go toward that but we don't think that's reflective of the last two years inflation and that's why the industry is going back to try and get some more. We'd rather it come through tariff. If it did come through a one-off COVID payment, of course we'd take it, but we're trying to get a bill into the tariff.

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

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

Question: (Saul Hadassin, Barrenjoey, Analyst) Morning, Craig. Morning, Martyn. Thanks for taking my question. Just one for you, Craig. In the outlook commentary, you referenced trends that have emerged through COVID and this modification of your approach to CapEx, I'm just keen to explore that a bit more. You mentioned earlier on in the Q&A about high growth in day surgery, that's been evident for quite some time. What do you mean by trends that have emerged? Is there a reflection of sort of slower recovery and overnight case mix? Is it psych? Is mental health not going to come back anywhere near where it was in terms of inpatient admissions? Just some context would be great for that commentary.

Craig McNally: Well, it's not all related to COVID. Getting down into the detail of that, certainly from the construction industry side where we're just seeing that our ability to spend that Brownfield CapEx being constrained, so there's a bit of a slowdown in that. In that, we always look at what we think the longer-term growth rates will be, and so what capacities do we need to put in place? Hence, we're still investing in Brownfield. We've got the Greenfield coming up in Northern Hospital.

In terms of trends in activity, still there's a lot of un-serviced mental health patients there, and that's a supply issue more than a demand issue. As we get different models of care and some of the recruitment activity for psychiatrists continues to grow, and where we've been able to increase the number of psychiatrists that admit to the hospitals, we've seen growth in inpatient activity. I think mental health is a much more complicated subsector of health care. It's still very fragmented. For our mental health business, it's how we how we integrate inpatient acute services with day programs, with the outpatient psychology piece, that's a longer-term trend, so we still see growth in mental health, absolutely.

	I'm not sure the other trends you're referring to.
Question:	(Saul Hadassin, Barrenjoey, Analyst) I guess it’s specifically…
Craig McNally:	Yeah. I was going to say, the thing I missed which is the key piece, when we look at Brownfields, we've had a trend away from inpatient bed capacity, for example, that will continue to be the case with more of that spend being on engine room stuff. The digital and data spend will increase and become a bigger proportion of our Australian CapEx, obviously, but CapEx in the other markets as well. That reflects the ambitions, not just because of COVID - COVID accelerated some of this, obviously - but our ambitions about how we position the business to provide better patient experience, to engage with clinicians more, to provide better clinical outcomes by using our data more effectively - all those things we just need to up the ante on.
	The things that we've been doing, when we look at the transformation programs, we've got in place around revenue management and cost efficiency and driving volumes through better engagement, they’re all things we've done in the past and we've done well in their own context. Lifting the focus, the amount of resources and investment we put into accelerating those programs is probably the key message out of that.
	Sorry, you were going to say something else?
Question:	(Saul Hadassin, Barrenjoey, Analyst) No, it's okay, that's fine. Thanks, Craig.
Craig McNally:	Okay.
Operator:	The next question comes from Steve Wheen of Jordan. Please go ahead.
Question:	(Steve Wheen, Jarden, Analyst) Good morning, Craig and Martyn. Just wanted to understand whether or not you've been able to - with being caught out, I guess, by surgeon behaviour in January and perhaps April as well - whether you've been able to

	pass any of the risk back onto them to actually stop them from cancelling their theatre lists at such late notice? I mean, it seems too, they have a free option over that activity, so just wondering if you've been able to change some of the behaviour there by putting some risk back onto them?
Craig McNally:	No, we haven't put any risk back onto them. I don't want this to be on the front page of the paper - story of the doctors. What we've seen, and we certainly called out in the first half and we saw it in January, increased leave from doctors - and they've smashed me since then about saying that - but what we've what we've seen is it isn't just doctors. We saw an increase in leave as the whole economy and the opportunity to travel opened up again. I'll go through what we've experienced with some of the markets who are ahead of that. We had a similar profile in Europe, and that settled back down to what is now a normal practice - fully anticipate that to be the case in the Australian context. I think, overlaying that also, you've just got a change in perspectives about work life balance between all sectors of the community and that was accelerated through COVID. The industry has always said, in the future we'll need more doctors to service similar volumes, that will still be the case. Doctor recruitment is critical, but I wouldn't say we're ever going to be in a position where we're trying to penalise doctors or get doctors to take risk. What we have to do, and what we did to an increasing extent in the UK as cancellation rates rose significantly there, is just have processes so we identify that as quickly as we can. That we've got some mechanisms to backfill as quickly as we can and just utilise that capacity and resource better, and I think that has been the case.
Question:	(Steve Wheen, Jarden, Analyst) Okay. I wanted to, Martyn, one for you just to make some clarifications around the interest. It's not entirely clear to me why that interest cost is so much higher

than, I guess, the top end even of what you've guided to three months ago. You did mention something about the lease…

Martyn Roberts: Yeah.

Question: (Steve Wheen, Jarden, Analyst) …but was that the only reason?

Martyn Roberts: No, there was a couple of things. It was mainly Ramsay Santé. They've got some unaffected - this is getting into accounting stuff now - they've got some ineffective hedges in their business, so you do get a bit of variability in their mark to market some of their swaps. That didn't come into the number that we forecasted at the third quarter, so that was an impact. Also, I said, they reduced the threshold of the amount that they would do AASB 16 lease accounting across their leases, and so that did move some of their cost line from rent down into depreciation and therefore AASB 16 lease interest. So, there are a couple of items there that were a bit unforeseen when we at the third quarter.

Question: (Steve Wheen, Jarden, Analyst) Okay. From the point of view of the covenants that you've given a bit of a grace period on, the cost associated with that and maybe even any additional costs from, I guess, attempting to do the bond, I'm just trying to understand, is there elements of that interest expense…

Martyn Roberts: No.

Question: (Steve Wheen, Jarden, Analyst) …that might not be there going forward? Finally, have you included any expectation in your FY24 interest guidance around the proceeds from the sale of Sime Darby?

Martyn Roberts: Yeah. Well, the answer to the last question is no. I think, as I called out in my speech, clearly if we do sell Ramsay Sime Darby, we’ll use that to pay down debt and that will significantly change our interest line, but no, that's not in that guidance.

In terms of the additional costs, from being above the three and a half times limit that we were at at December, it's a permanent increase in our covenant to four times. The restriction on that is, if we are between three and a half to four, it was an extra 10 basis points on our interest, so pretty minimal additional interest cost. Clearly, ending the year at 3.2, that will have only applied to the last six months, that won't apply to this financial year. Then the cost of setting up the AMTN and the EMTN program were immaterial in the whole scheme of things.

Question:	(Steve Wheen, Jarden, Analyst) Okay. One final one. Just back on Ramsay Santé and, I guess, your commentary around the subsidies. Are you basically saying that the revenue guarantee, whilst it's been extended to 31 December, is really of no benefit to you given the reduction in the safety net?
Martyn Roberts:	Sorry, just say it again.
Question:	(Steve Wheen, Jarden, Analyst) I'm just trying to understand, is the revenue guarantee helping you in the first half of 2024, or are you back at a levels where you actually don't need the revenue guarantee and it's just the underlying business that's actually driving your results?
Martyn Roberts:	Obviously, the cute answer is, it depends on the amount of activity we have in the first half of FY24. I think in FY23, we only claimed €89 million for the revenue guarantee, and that would have probably been more in the first half than the second half. So, as activity starts to improve, clearly, we require less and less of it. It is a slightly reduced guarantee as well. With this you only get 70% of the gap. Yeah, I think the reason why we're not anticipating it extending beyond the end of December is by virtue of the fact that we're going to be a position where is going to end up being immaterial amounts anyway, and so there's no point in the government having it there in any case.
Craig McNally:	I think the nuance of that is it's a facility-by-facility assessment. So, some hospitals might be a little slow in the ramp up, so that -

might be a little bit. Martyn's right, that by the time we get to 31 December we're certainly positive about where the overall recovery in the business is to be able to not be reliant on it at all.

Question: (Steve Wheen, Jarden, Analyst) Got it. Okay. Thanks very much.

Craig McNally: Volumes are increasing, as long as we're in a static position there.

Question: (Steve Wheen, Jarden, Analyst) Yeah. Okay. Thanks, Craig. Thanks, Martyn.

Operator: Next question comes from Chris Cooper with Goldman Sachs. Please go ahead.

Question: (Chris Cooper, Goldman Sachs, Analyst) Good morning. Thank you. Craig, a clarification on your outlook commentary. The way you described margins is that the recovery will be slowed. Can I just confirm we should interpret that to mean you do expect margins to expand in each region, but perhaps at a lower rate than you expected this time last year?

Craig McNally: We certainly expect - I'll let Martyn do the nuance - we certainly expect underlying trading margin to increase as volumes increase, as we get productivity and transformation programs moving through, but there will be some dampeners on that. The digital and data spend in Australia, for example, doesn't have a benefit in FY24 so it's a headwind to the margin. The inflationary environment and getting, working through the process and the cycle of getting increases from our payers doesn't translate from day one of FY24, so you've got that still as a headwind to margin. There's certainly initiatives that we're undertaking that that underlying margin continues to grow. As we've said previously, that's a multi-year target for us to get margins to where we think they need to be.

Martyn Roberts: Yes, when we talk about margin recovery, we do anticipate Group margins from year-on-year should improve. The biggest one being Elysium of course, where we would expect to go from virtually zero margin for the year if you add back non-recurring items, to a more profitable position, similar to where it had been before.

If you look at the Q4 run-rate, I think there if you look at Australia, I think as Craig said, any benefits we might get from volume growth will be offset by data and digital costs. In Ramsay UK they had really quarter 4, which is probably reflective of where we would see things going forward.

Ramsay Santé had an unexpected, as I said before, kind of margin. Their Q1 is always very low though, when they're all on holidays. So, I wouldn't take that as a run-rate for the whole year. But it's not a bad run-rate to look at.

Question: (Chris Cooper, Goldman Sachs, Analyst) Okay, so your commentary there, Martyn, on Australia specifically, you said that the fourth quarter run-rate you mentioned you expect volume growth to continue to help in fiscal '24 of course. But that'll be offset by the additional cost investment. You're suggesting sort of margins in Australia should be flat-ish in '24, but you see upside in the UK driven by Elysium?

Martyn Roberts: That's not what I said, but the first part of what I said was worth it.

Question: (Chris Cooper, Goldman Sachs, Analyst) Understand, okay, thank you. While I've got you, can I just get an update on labour productivity across the business? I know your preferred metric is productive hours per in-patient day. When you were speaking to us in May, you indicated you were seeing a level around about 5% lower than pre-COVID. Can I just an update on that, have you seen any progress there in the final quarter and into fiscal '24?

Martyn Roberts: Yes, productivity back then would have probably been the reverse, it would have been higher - or worse than pre-COVID, let's say. Certainly, the last couple of months the Team have got that back down to kind of pre-COVID levels. Some we're seeing some good activity there. That's largely a result of some of the cost improvement initiatives that we have called out in the release.

So there has been some very focused activity on looking hospital-by-hospital at where roles we need and the hours we need. So that is bearing some fruit. So, I'd say we're back around pre-COVID levels now. That's the objective for the rest of the year as well, so we need to keep focused on it.

Question: (Chris Cooper, Goldman Sachs, Analyst) Got it. Final one on interest expense, Martyn. You mentioned the sale of the JV if it goes ahead would be used to pay down debt directly. You also said just now, that would significantly change the interest expense line. Could you just give us some sensitivities there on what significant means in that context?

Martyn Roberts: I'll let you try and work that out. I'm not going to give away what we think we're going to get for the sale of the business. It's not done yet, so that might be a bit preliminary to start talking about that.

Question: (Chris Cooper, Goldman Sachs, Analyst) Okay, thanks a lot.

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

Question: (David Bailey, Macquarie) Yes, thanks, just following on from Chris' question. For the Group for '24 do you expect the EBITDA margins to improve or contract?

Martyn Roberts: We haven't given guidance on margins. What we said is that margin recovery will be curtailed in FY24 by inflationary impacts and the costs on digital and data.

Question: (David Bailey, Macquarie) Fair enough. Digital benefits coming through in '28. Thinking about Elysium, do you expect to meet your return on invested capital hurdle for that business? If so, when, and what are the moving parts to get there?

Martyn Roberts: Well, the - if you remember our investment hurdles for acquisitions are a return on invested capital of 10% in year 5. That's a long way away. Certainly, that was what we signed off on, on the business plan. Clearly, we have had a bump in the road. The first six months we are bang on track of our business case, which obviously would have been extrapolated out to hit that target.

We have had this short period where we have been really hampered through recruitment of people, and therefore occupancy. But certainly, the plan is to get that back up and firing over the next couple of years. But we're still early days yet, and the target for that metric is in year 5.

Question: (David Bailey, Macquarie) Got it. Maybe just in terms of some structural changes. Do you think there's been a structural change in rehab is the first question? Then in terms of specialist behaviour, do you think that some of the more established specialists are looking for a more - just maybe without fewer hours, and then just the younger guys coming through are wanting more of a work-life balance. Is that a headwind going forward?

Craig McNally: Okay, I'll take the first piece on rehab. No, as I indicated before, our rehab is recovering strongly. I mean you get back to a more fundamental sort of analysis about rehab isn't just rehab. So, when we've talked over a number of years about changing the case mix in our rehab to be less dependent on those mobile orthopaedic patients who were admitted to in-patient programs from some doctors, and other doctors didn't admit them.

So, we have got much less reliance on orthopaedics in our rehab businesses generally. But also particularly on those mobile orthopaedic patients, which then is, the corollary of that is, we are increasing other areas of rehab. Whether it's cancer rehab, neuro rehab, pre-hab, all of those things. Rehab is getting more acute, so the case - the acuity of our rehab patients is increasing.

But we are seeing strong growth in rehab. We have said before, we think that will be the case into the future as the population ages, and you get more muscular-skeletal deterioration. So, I've never subscribed to, and I still don't subscribe to, other people's theories about rehab is in decline.

On doctor behaviour, I think I called out before, doctors are no different from everyone else in society. There is more work-life balance comes into new generations of the workforce. Doctors are the same. So as a sector, and as a health care sector generally across all countries, training more people is going to be important, and so a workforce for the future. About whether that's doctors or nurses or allied health professionals, or others, there's a lot of work goes into trying to project that. So, I wouldn't isolate the doctors.

Question: (David Bailey, Macquarie) Thanks.

Craig McNally: You're welcome.

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

Craig McNally: Okay, thanks everybody for your time. The message I want to leave you with is - recovery is continuing. We are seeing volume growth. We have got a range of initiatives in terms of the way we run our business. So, the transformation sort of agenda moving forward, we have upped the ante on that. So, you'll see us talk about that a lot more. I've sort of flagged that in November we'll do a much more detailed presentation of where digital and data is, as a component of that.

We're very focused on leverage. So, our ambition to sort of have that funding Group leverage at below 2.5-times is a very real one. So, I'll leave you with the message that things are improving. We want to see that improvement accelerate through FY24 and beyond. So again, thanks for your time, bye.

[END OF TRANSCRIPT]