Ramsay Health Care

11th November 2022

Ramsay Health Care – Transcript of 1QFY23 Business Update Conference Call

Speakers:

Ramsay Health Care CEO and Managing Director - Craig Mc Nally

Ramsay Health Care Group CFO - Martyn Roberts

Craig McNally:

Good morning it's Craig McNally and I'm joined by Martyn Roberts. As most of you know, Ramsay has had a long association with the veteran community and I think it's important that we remember today of all days for those who have volunteered, sacrificed, fought and died for the freedom we enjoy today.

The purpose of today's announcement is to update you on how the business is tracking post the end of the first quarter, and that's what we committed to do at our FY22 Results Release back in August. I will take the announcement as read, but before we turn to Q&A I'll just touch briefly on some of the key points.

I'm really pleased to say that trading conditions have improved across the quarter in all markets. That was after a COVID-impacted July, and that momentum has continued through October and we see that continuing through the early part of November.

I would like to take the opportunity to thank our staff and our doctors, who have continued to provide the highest quality care to our patients in what has been and continues to be a complex and ever-changing environment.

So in Australia the operating environment did improve across the quarter as a higher level of COVID cases in the community in July declined. We saw that drive an improvement in activity levels and, importantly, a reduction in the costs associated with cancellations and staff absenteeism.

The estimated impact of the disruption caused by COVID in the September quarter was $57.7 million compared to $55 million in the previous corresponding period. The costs associated with COVID declined from $38.7 million in July to $6.1 million in September and the impact in October is expected to be lower again with staff absenteeism getting back close to what it was pre-COVID.

The momentum in the business was, however, interrupted by the additional public holiday in September for the Queen's memorial and the impact of that was estimated to be about $7 million.

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

So when you look at the activity we provided you in the release you will see admission numbers against the previous corresponding period, but it's hard to read true on that because those trends are impacted by the surgical restrictions that were imposed and lifted at various times and at different levels last year. In particular, those that affected our biggest market in Sydney.

The more relevant stats are those versus the pre-COVID levels. Here we saw surgical admissions growing at double digit percentages in the last two months, and that is despite some capacity constraints that we still have in some hospitals due to the staff availability.

You will see that day admissions unsurprisingly have grown at a stronger rate than overnight admissions, and that is a long-term trend. However, we are seeing better momentum in overnight surgery.

Non-surgical admissions have been slower to come back and that is primarily due to slower recovery in mental health and then the lag in post-surgical rehab as surgery numbers increase. Then we've seen lower maternity admissions as well.

Day medical admissions, which primarily include chemotherapy and dialysis, have demonstrated high single digit or double-digit growth over the last four months with overnight admissions starting to recover now.

Mental health admissions, our psych admissions, have been slightly improving with inpatient admissions growing faster than day emissions. As we've talked about before, the reason for that is really a supply driven issue. It's not about the demand. It's about getting psychiatrists back into hospital practice and so we've got a number of initiatives that are looking at that psychiatrist engagement.

Also, pleasingly, the negotiations we've had with health funds over the quarter, particularly Bupa, have been positive and reflect the current inflationary environment and even negotiations we're having currently, regardless of whether the health fund agreements are expiring soon or not, are more positive to try and reflect the impact of those inflationary pressure we're seeing.

Workforce remains the biggest issue and there's a number of measures we have put in place, both short term and medium term, to improve recruitment and retention, with a particular focus on the critical skills gap around operating theatres and intensive care. We've seen positive results from those initiatives, including an expanded international recruitment program, the onboarding of our August graduate nurse cohort and then the launching of a new cadetship program with 140 cadet positions already filled.

In the UK the environment for our business has improved gradually over the quarter with admissions increasing 5% over the quarter compared to the previous corresponding period and we see again that momentum continuing through October. The market does have significant cost pressures, particularly around wage inflation. So managing that will continue to be a priority for us.

In terms of the impact of COVID on the business over the quarter, it was £5.7 million, which I think in September itself it was £1.7 million. The big issue in the UK continues to be addressing the waiting lists. So our engagement with NHS England continues to work on strategies to address that.

The Elysium business reported good top line growth, reflecting the expansion and capacity we've put in place. But again, severely impacted by labour shortages, but particularly for Elysium there was a lot of health care workers and competition at that level of staff is significant because they're the lower paid end of the spectrum and we're competing with retail and hospitality for that workforce. So that is challenging and we're using a lot of agency staff in that business at the moment.

On to Ramsay Santé. Again, remembering it's July/August, their summer season, so it's hard to draw a line from that across the rest of the year. But activity levels have started to improve. But, again, not unlike Australia, we've had some capacity constraints because of labour availability and recruitment and retention activities there are, again, the priority, as they are in Australia.

Revenue in the Nordics increased 19.9% on the previous corresponding period, which reflected a 9.6% increase in medical/surgical/obstetric admissions and an increase in specialty care services, which does reflect recent acquisitions. But on a like-for-like basis revenue increased just on 5% over the previous period.

Again, the business in Europe is affected by an inflationary environment and higher personal costs, including agency and interim staff costs, are significant.

So that is a quick snapshot of the business. So I think the positive message there is that as we've come out of COVID and getting into that clear air we are seeing improvements in volume and managing the cost base accordingly then becomes a priority. So I'm confident we're heading in the right direction and happy to take any questions.

Question: **(Andrew Goodsall, MST Marquee)**

Thanks very much for taking my question. Just coming to France as the largest underperformer in this quarter, obviously it's peak holiday season there but the biggest impacts seem to be movement in government assistance. Are you expecting any sort of flow around that? I know we've heard the

Hospital Federation has been chasing some and there has been something allocated. It just seems pretty patchy at the moment on how that has flowed.

Craig McNally:

I think there's two components to that, Andrew. One is the revenue guarantee, and as we said previously, that has smoothed through the year. So that guarantee is in place until 31 December and then there's lots of discussion about what happens post-31 December, but there's no agreement on that.

The other significant piece, which is where it does vary from last year, is the grants related to COVID costs recovery, and they are – what's the best way to describe that – they're inconsistent. So we're not sure where we're going to land in that. So it's hard to draw a line off the first quarter. I think, as we probably said last year, that as we move through the first half we'll get a better picture. So it is around that COVID cost recovery grant.

Martyn Roberts:

I'll just add, at this time last year we were a lot more – we knew what we were getting and so we booked some COVID cost recoveries and we had a little bit flow through from accruals we had made at the prior year end. But this year it's a lot more uncertain. So there's been no accruals made for any COVID cost recoveries in France this year.

Question: **(Andrew Goodsall, MST Marquee)**

So the zero entry on that number and then I guess it's a wait and see whether you get it?

Martyn Roberts:

Yeah. We'll see what transpires over the next quarter.

Question: **(Andrew Goodsall, MST Marquee)**

Got it. Just a second question. You've talked to the October run rate. Just wondering particularly around Australia if you could just be a bit more expansive on what you're seeing out there. What we're seeing in the data is the revenue is ahead of volume, so it sounds like more complex work is getting done and with the agency or premium labour being used what you're seeing in terms of margins and whether you're seeing any return to something we might have seen something pre-COVID or where you sit against those pre-COVID levels?

Martyn Roberts:

Well, we've still got a long way to get back to pre-COVID margins and, as we've said before, the difference in indexation on the top line versus cost basis has been quite different over the last three to four years from pre-COVID levels and, as Craig has alluded to, productivity levels still need to get back to better than pre-COVID and we're on our way to get there.

We're certainly a lot closer than we have been probably in the last two and a half years probably in terms of our productivity in Australia. But we've still got to improve on that to get those margin levels through. We called out the COVID impact in October, which obviously was a lot lower than what it was in July. So that was pleasing, but that still is there. So I think Craig words were we're definitely moving in the right direction, but we've still got a long way to go before getting back to pre-COVID margins.

Craig McNally:

Just to add a little bit more colour to that, until we get the non - so managing labour is obviously the biggest impact on costs for us. So managing productive labour hours, so if those people who are actively working with the activity, so activity is increasing, until we get the non-productive hours around absenteeism back to where it was pre-COVID we're not going to get back to where we were.

Martyn Roberts:

Yeah, and also mix is a factor as well. So the non-surgical is obviously a higher margin than the surgical and, as you've seen in the data, that's quite a – Craig talked about that – there's quite a lag behind the surgical volume. So we need to get that mix back up again as well.

Question: **(Andrew Goodsall, MST Marquee)**

I wasn't expecting you to get back there but just incrementally whether with that extra volumes that are coming though or higher utilisation whether you're getting a bit of leverage come back just on a straight up basis.

Martyn Roberts:

Yeah, yeah.

Question: **(David Low, JP Morgan)**

Thanks very much. If we could just start with staffing, and certainly there's plenty of anecdotes out there that staffing is the challenge. Craig, what is your expectation of how quickly things can improve, how are we going with the borders coming down with the recruitment of graduates; when do you think that we can perhaps get back to more normalised availability of key staff?

Craig McNally:

That's a good question. Look, I think it's post-Christmas. I think the increase in international recruitment is tangible, but it takes time for that to deliver and it's not the biggest component. There's a couple of aspects to it. We're probably not seeing the departures from the sector that we thought we might. So that has slowed down.

When we look at our recruitment, our recruitment is strong. We're not in an ideal position but we're certainly in a much stronger position than we probably even thought we were going to be 12 months ago. But all these initiatives, they all contribute and some take longer than others.

So the graduate nurse program we've spoken about extensively, that will pay dividends over the next couple of years rather than this six months, for example. So I'm really positive about it, but I think we're into next year to get it to a more normalised position.

Question: (David Low, JP Morgan)

I'm actually quietly pleased that you say next year, by which you mean after Christmas. So frankly, in the second half of this year you think staffing will improve materially or meaningfully?

Craig McNally:

Yeah, I think it will. Well, we're already seeing it but it will take a while to get back to where we're comfortable with it.

Question: (David Low, JP Morgan)

Just one other question then. I noticed the comment there in the briefing today that you expect gradual improvement, and I understand that, and activity should pick up and we've got to be a little cautious with seasonality.

But it strikes me that the profitability could improve quite a lot more meaningfully from Q1 and if we look at the COVID costs in July, we look at the Queen's birthday holiday, add that back, you're at a much more reasonable – well, much better profit level. Is it reasonable to assume that the operating profit can improve much more quickly than revenue?

Martyn Roberts:

Well, improve versus what I suppose; what is the basis? As Craig said last year, things were all over the place with lockdowns and surgical restrictions and all that kind of stuff. But I think gradually going forward, as we've always said, volume is the great solver for margins. So if the volume improves and we see this lag recovery that we saw in October in non-surgical continue to improve through, then there's no reason why that shouldn't be the case.

We had a massive COVID impact in July and then less so in August and then less so again in September. We're keeping our eye on this current little wave that's happening. We've heard that Queensland are now recommending wearing masks in indoor settings et cetera. So there's always that caveat in terms of what happens. But in the absence of COVID then, yes, gradually we should be able to continue to keep on improving.

Craig McNally:

I think what we've said previously as well, just concentrating on getting the business back to the operating metrics that we've been good at for a long time, which we really did lose over the last couple of years as volumes came down and we maintained staff levels. So those operational efficiencies weren't anywhere near where they needed to be. So we're just getting better at those disciplines again.

Question: **(Saul Hadassin, Barrenjoey)**

Good morning. Thanks for taking my questions. Craig, just wondering, you gave some detail on momentum regarding overnight surgical admissions in October. Can you tell us what that growth rate was? I know you gave it for the quarter. Just wondering if it has improved into October. And the follow up to that question is if it's still sort of low single digit, every time I've seen it is, where do you think all that overnight surgical work has gone?

Do you think it's just sitting out there waiting to come back and hence you have a huge backlog of work to be done? Thanks.

Craig McNally:

This is pre-COVID. Yeah, I'm just clarifying that number. Short answer is we are seeing - well, we're seeing an improvement in overnight work. Without generalising too much, the growth in day procedures is faster than the growth in overnight and that's been the case and it is exacerbated by the catch up because a lot of the work that was deferred was the lower acuity work which is a more significant proportion of day work.

So that sort of trend is what we would anticipate. Has any surgical work disappeared? I think probably some has. I think realistically when we were sort of looking at the early days of COVID and what was happening with surgical restrictions and what we anticipated to come back into the system, I don't think anyone assumed that 100% of the activity would come back.

So some have been lost because people have either recovered, passed away, not accessed the system. It's just really hard to quantify what that proportion would be, Saul. So…

Craig McNally:

Sorry, short answer to your question. Yes, as we talk to the doctors, there's backlog that still needs to be addressed.

Question: **(Saul Hadassin, Barrenjoey)**

And just following up from that part then, I guess what capacity utilisation are you running at with your current nursing availability? In other words, can you give us an estimate of what that percentage is and that comment around improving into second half fiscal '23, does that effectively suggest by the end of fiscal '23, you might be back to running at the same utilisation levels that you were maybe in a pre-COVID environment?

Craig McNally:

Yes, I think short answer to that is yes. It does vary across the geographies. So we've got some hospitals that are really - and I'm going to say Victoria more than any other state, where recruitment is more difficult.

So we've got some hospitals and I'll call out Warringal as one where we've got sort of permanently two theatres shut at the moment out of 11 theatres because we can't recruit the theatre staff there.

But we've got other hospitals where we've got full complements of staff and so we've got the capability to keep increasing volumes as those volumes come through.

So it really is site specific almost.

Question: **(Steve Wheen, Jarden)**

Thank you. Good morning, Craig and Martyn. Just wondering about your commentary around staffing, particularly indicating that it is improving. I'm just wondering how much of that is a result of the negotiations with the health fund that they're starting to be able to help compensate for some of the inflationary pressures that are coming through the staffing line?

Craig McNally:

Unrelated I'm going to say, Steve. So the initiatives we put in place on staffing were there regardless of what the pricing we got back from [unclear] health fund. So the negotiate - the reality of it is we negotiate the EBAs and you know, as I talked about before, we've got some EBAs on foot and others that are coming up for negotiation.

And so we anticipate what might happen with EBA negotiations and we factor that into the pricing discussions we have with health funds. But we don't - our ability to recruit and retain isn't affected by what the outcome of the health fund agreement is.

Question: (Steve Wheen, Jarden)

Yes. Got it. But from a cost perspective, has the arrangements with say some of the insurers actually going to help us in the back half of this year to see that leverage return to your business?

Craig McNally:

Absolutely. You know, the better the outcome of those health fund negotiations are, the flow through to earnings will be a direct one. And so if we continue to reflect the inflation that's in our cost base in those health fund agreements, yes, we should be better off.

Question: (Steve Wheen, Jarden)

Great. Second question that I had was just - just on France and obviously looking at the quarter, it's certainly a quarter that you wouldn't want to try and annualise for the French business because of that seasonality effect.

I'm just trying to get a feeling for what the magnitude of seasonality is in that quarter that we can sort of contemplate for the rest of the half. Is that something that you can talk to to just kind of help us to put it into some perspective?

Craig McNally:

Steve, I mean as we saw last year if you recall, there was a massive difference between the two quarters in the half and to some extent, as I said, before that to do with accruals for COVID and confidence on level of getting COVID cost recoveries et cetera.

It is the lowest quarter in the year. It's been a long time since we've had a normal year so I'd be loathe to give you a number in terms of what that seasonality looks like. But as we saw last year, I think wait until we've got the half year numbers for France in particular because it is all over the place.

Question: **(Steve Wheen, Jarden)**

Just to try and parse that out a little bit further, the accrual process that you put through last due to your ability to see some tangible reimbursement from the French government, was that evenly across the half or is it in a particular quarter that we need to be mindful of?

Craig McNally:

I don't recall but it - well, it's certainly much more even than what we've got now. We've got zero. But yes, I couldn't tell you off the top of my head, Steve. But I don't think it was too wildly different between the quarters as far as I remember. Yes.

Question: **(Mathieu Chevrier, Citi)**

Yes, thank you. Good morning Craig and Martyn and thank you for taking my questions. My first one is on your agreements with the private health insurers that you've renegotiated in the quarter.

So for the Australian business, do you expect that these will, over time as the activity normalises, allow your margins to return to pre-COVID levels?

Craig McNally:

There's lots of impact on margin, as we've talked about many times. But no question that the better you do on a pricing negotiation, the more that is a tail wind to margin.

Whether we get back to pre-COVID margins depends on a number of factors. Volume not being the least of them. Just on the agreements, I'll just reiterate. What has been important for us this year is to get the health fund agreements that we were negotiating and also that the agreements that we're currently on foot anyway, to get them all to reflect the change in the cost environment that we see.

Question: **(Mathieu Chevrier, Citi)**

Understood. And then looking at France and the UK, do you expect that your negotiations there with especially the governments will allow for some similar outcomes to be shown in terms of margins and you expect there as well, your margins to return to pre-COVID levels?

I mean over time as the activity normalises and you would expect the funding environment to be able to compensate for higher bridge costs?

Craig McNally:

Yes. Complicated. I mean it's not just a simple negotiation with the governments on tariffs because the tariffs apply industry wide. So it's not a Ramsay negotiation as such.

And you'll see some sort of public statements made in France which are positioning those negotiations at the moment. But what we are seeing and to be fair to both the French and UK governments, that they are recognising the cost inflation in the sector and tariffs are increasing.

I won't say to the level that we're all happy with but they're certainly - there's a recognition of you know, particularly wage pressure, the upward pressure on wages and there's no secret that energy costs in Europe are escalating which has an inflationary effect on other suppliers as well.

Now, we'll always push for higher tariff increases than we get anyway but that's an ongoing exercise.

Question: **(Mathieu Chevrier, Citi)**

Understood and just maybe one final one for Martyn. I don’t know if you've given a D&A guidance before. I don’t think you have. Could you give us a sense of where that should be relative to FY22?

Martyn Roberts:

Depreciation and Amortisation?

Question: **(Mathieu Chevrier, Citi)**

Yes please.

Martyn Roberts:

Yes, no, we haven’t given a guidance on that, no.

Question: **(David Low, JP Morgan)**

Thanks very much. Craig, if I could turn to some of the press speculation that we've seen. I was just wondering you could comment at all on the two issues that are out there.

One that Ramsay is considering selling some of the Australian hospitals and that would have some implications for debt. And then I see yesterday there was talk that the French hospital, the French business, could be sold to a management buyout. Anything you could add on either of those topics please?

Craig McNally:

I'm surprised it took so long into the call for that [unclear].

Thank you, David. Look, lots of speculation now. There's been a few articles both here and in France and really, I think it's come - it's originated from what were options that were being canvassed through the KKR offer process.

About what Sante might look like and I think that's continued to be fuelled by investment bankers looking to broker a deal somewhere. From our point of view, the structures that we have for the international businesses particularly are things that the Board looks at from time to time.

And we've got our Board strategy sessions in another month or so and we'll look at that again and think okay, what are the options about the way we hold those businesses?

But the rest of it is just speculation and sort of off the back of what were considerations that were being undertaken when we weren't sure where the KKR offer process was going to land.

Question: **(David Low, JP Morgan)**

So to be clear, there's no intention to exit the French/European operations at this point? I mean we did see that Rothschild was…

Craig McNally:

Correct. That's absolutely correct. Absolutely correct.

Martyn Roberts:

There's no process going on. There's no data room being prepared or things that have been written in the paper.

Craig McNally:

Yes, we're not in discussions with anybody. You know.

Question: **(David Low, JP Morgan)**

Okay and sorry, just to confirm the other one. I mean I know that the Australian property, there are some challenges there with capital NP capital gains taxes et cetera but there were some properties that could be sold and that might be useful given the debt levels are a little elevated in the current environment. Do you have any intentions on that front?

Martyn Roberts:

Yes, I think we've been quite open that we've been exploring what something in that area might look like and we continue to do that. But there's no decision to do anything at this stage.

Craig McNally:

No, it is complicated and there has to be a good reason to do that. It's the right thing for us to explore that and see what it looks like.

Martyn Roberts:

It's just further optionality down the track.

Question: (David Low, JP Morgan)

So it's something that you'd consider but it doesn't sound like it's a priority. Would that be the right way to frame it?

Martyn Roberts:

Yes.

Craig McNally:

Yes, I think that's fair enough, yes.

Question: (Gretel Janu, Credit Suisse)

Thanks. Good morning all. Just firstly, just continuing on from that conversation just before just in terms of the balance sheet. So I understand that the covenants had been raised. But given the high leverage, are there any implications for your CapEx profile [unclear]?

Martyn Roberts:

No, so the raise in the maximum covenant as you would have saw, previously it was 3.5. We were at 3.3 for the 12 months to June. The next test is for the calendar year to December.

You know, we just wanted to make sure that we had the flexibility if there was further COVID off the back of what we saw in July to make sure we wouldn't be breaching anything and rather than asking for waivers, it was a much better solution with our bankers and to cope with any other future kind of ways it might come.

Clearly our intention is to stay within the 3.5 and probably a little bit lower if we could be. But you know, COVID impacts are there. So that's what we've done with the banks.

It's not restricting our brownfield program. What is restricting our brownfield program is the length of time it's taking to get approvals for various different things. That does seem to be a lot slower.

And also with the increases we're seeing in construction costs we're taking the team a little bit longer to work their way through what the right developments are, can we do some value engineering to save costs on that to make sure that the business cases backup et cetera.

So that does tend to take a little bit longer. But there's no projects being cancelled or canned or purposely deferred because of where our balance sheet is at.

Question: **(Gretel Janu, Credit Suisse)**

Understood. Thanks. And then just going back to staffing as well, what's happening there from an EBA perspective and are you seeing wage pressure there?

Craig McNally:

We are. No doubt. You know, we've got EBAs that are on foot currently but those that are being negotiated - I mean we've got a couple of administrative increases that were given that sort of roll on year on year. But there's no question there's more upward pressure on wages.

Question: **(Gretel Janu, Credit Suisse)**

So when do your EBAs expired or are up for next renewal?

Craig McNally:

They're staggered. So there's EBAs that are sort of negotiating regularly. But the big ones have been put in place. You know, New South Wales, Victoria. We had administrative increases flow through Queensland and WA. So it's probably Queensland that's probably next up on nurses. But we have a myriad of EBAs around different staffing categories.

Question: **(Gretel Janu, Credit Suisse)**

But you haven't seen any of those big nursing ones come through in the past quarter yet? Or the past six months? Is that correct?

Craig McNally:

No, we've had - well, we've had WA sort of on foot at the moment. And so that's sort of being resolved. But the increases are - the increases in Australia are not where we see the increases in Europe for example. And they're not way out of whack with where we've been historically but they're higher.

ENDS