



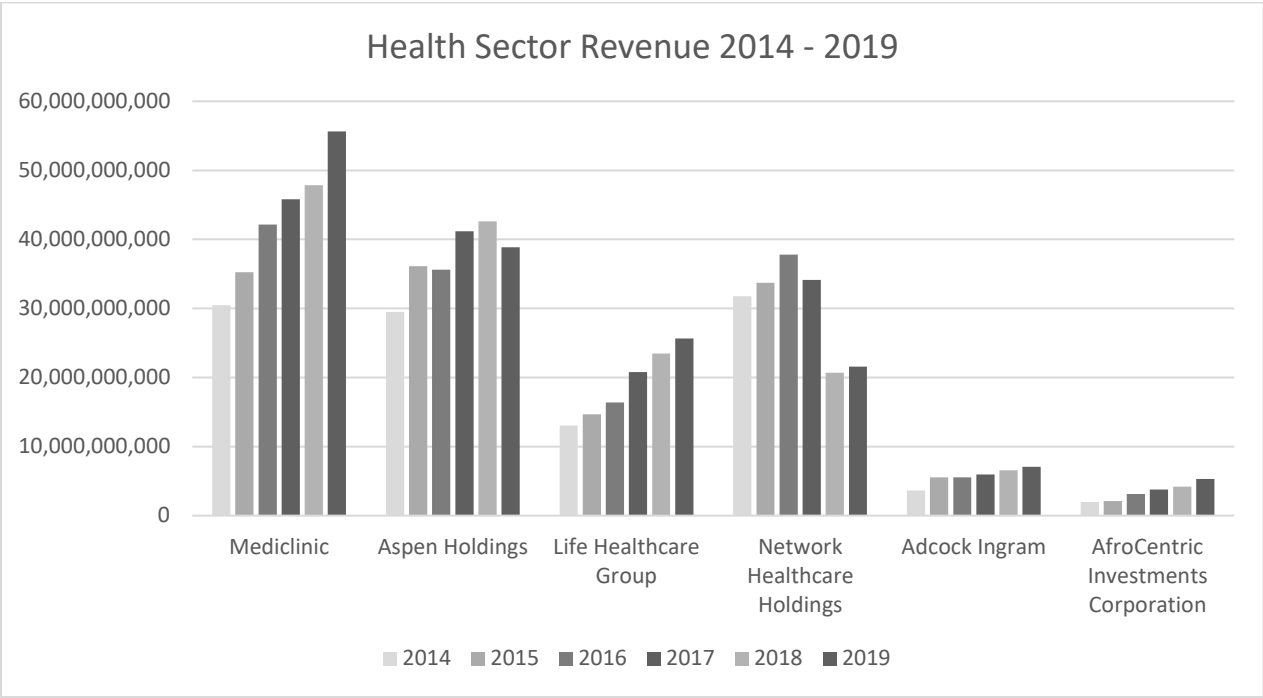
2020 Sector Report: Health

Introduction

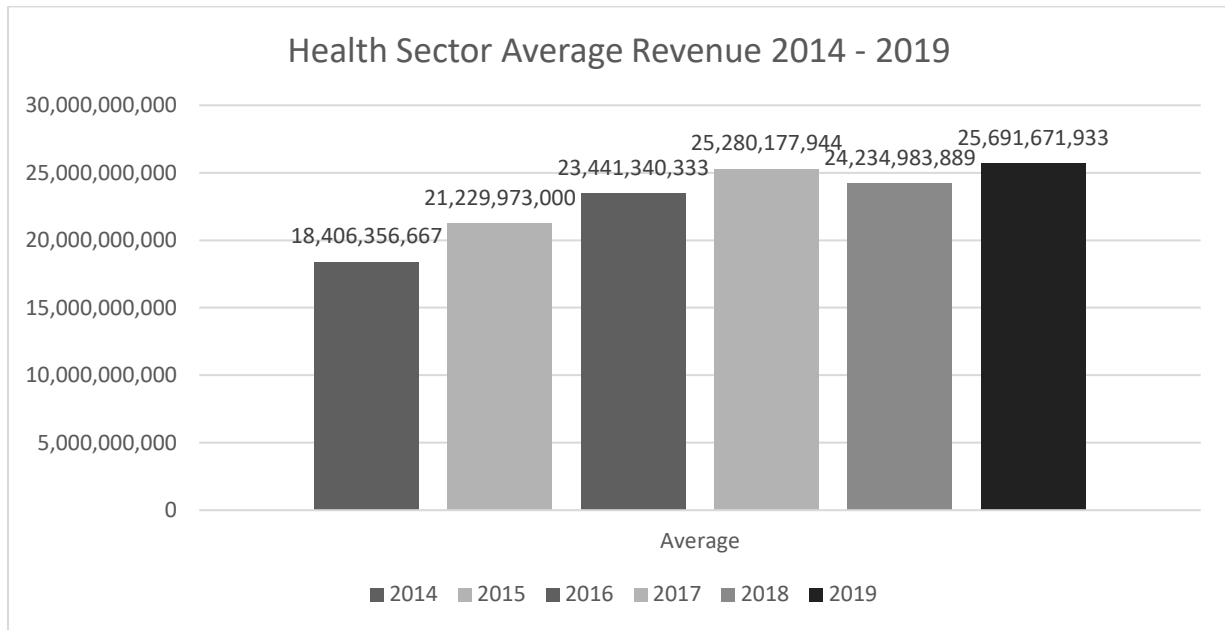
This report analyses six companies in the Health Sector: Afrocentric Investments Corporations, Life Healthcare Group, Mediclinic and Network Healthcare Holdings (Netcare) which comprise half of the JSE Health Care Equipment and Services sector. Adcock Ingram and Aspen Holdings are included on the Johannesburg Stock Exchange' Pharmaceuticals and Biotechnology listing. Afrocentric Investments Corporations is an investment holding company and is included in this sample because it is substantially invested in healthcare providing services and products to that sector.

Revenue

Mediclinic continued maintaining its comfortable lead in the Health Sector accruing a revenue amount of R55 billion – a 16% increase from the 2018 reported revenue of R47 billion. Most of the Health sector reported positive changes in revenue with Afrocentric Investment Corporation reflecting the highest increase in revenue in the 2019 financial year of 25%. Only one company, Aspen, had a decrease in revenue of 8% from R42 billion in 2018 to R38 billion in the 2019 financial year.



On average, the health sector in the 2019 financial year reported its highest revenue of R25,6 billion in the six-year period from 2014-2019. This was a 6% increase from the 2018 average revenue of R24,2 billion. Adcock and Afrocentric Investments Corporation grossed the lowest revenue figures respectively, and this has an effect on the overall average revenue of the sector.

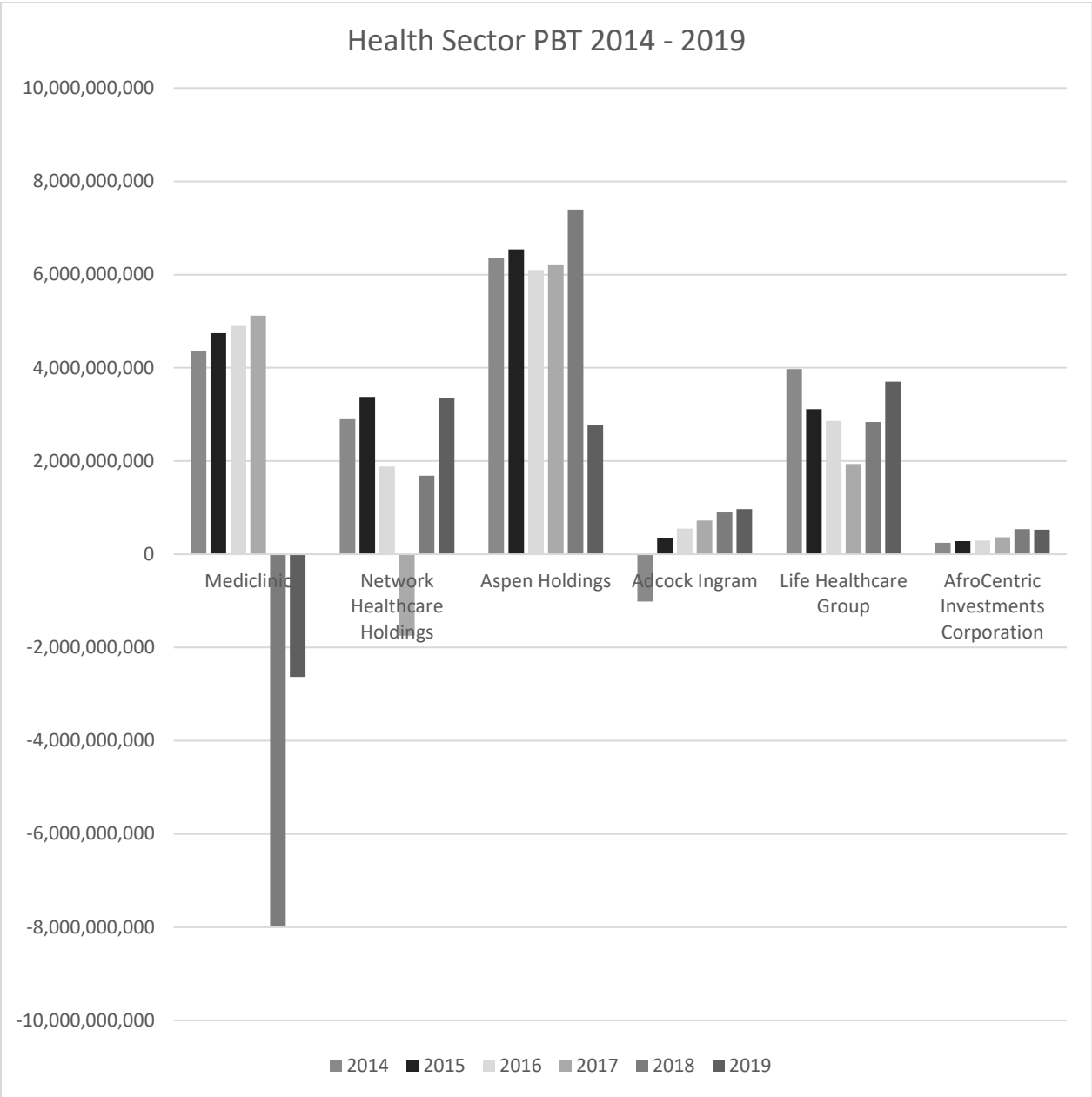


Profit before Tax

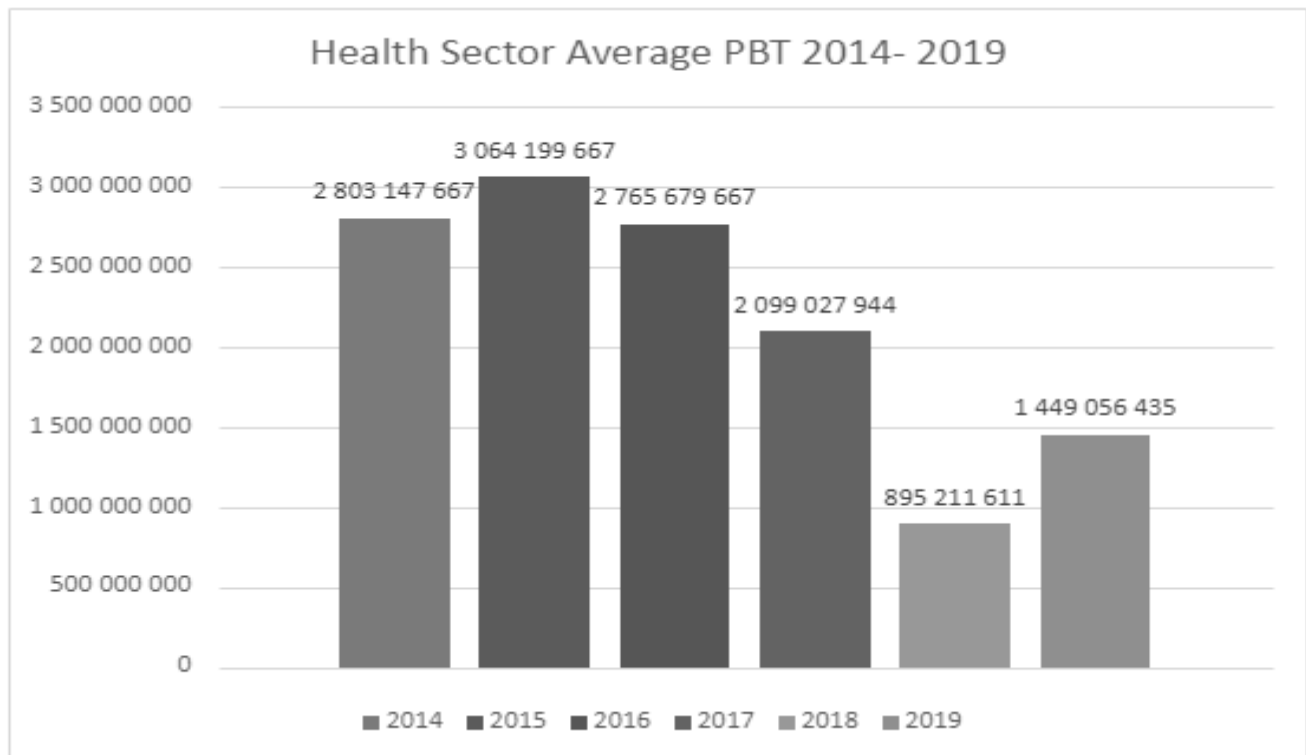
Aspen Holdings lost its position as the Health sector leader in terms of profitability after reporting a sharp decline of 62% in its profit before tax amount from R7,3 billion in 2018 to R2,7 billion in 2019. In 2019, the company discontinued some of its operations in Asia Pacific after selling its nutritional business¹. This was in addition to receiving a fine of eight million pounds in the United Kingdom for anticompetitive behaviour². This position was picked up by Life Healthcare Group which reported a profit of R3,7 billion in the 2019 financial year trailed closely behind by Netcare with a profit of R3,3 billion.

¹ <https://www.news24.com/fin24/Companies/Health/aspen-reports-declining-earnings-after-challenging-year-20190911>

² <https://www.theafricareport.com/17247/aspen-pharmacare-bounces-back/>



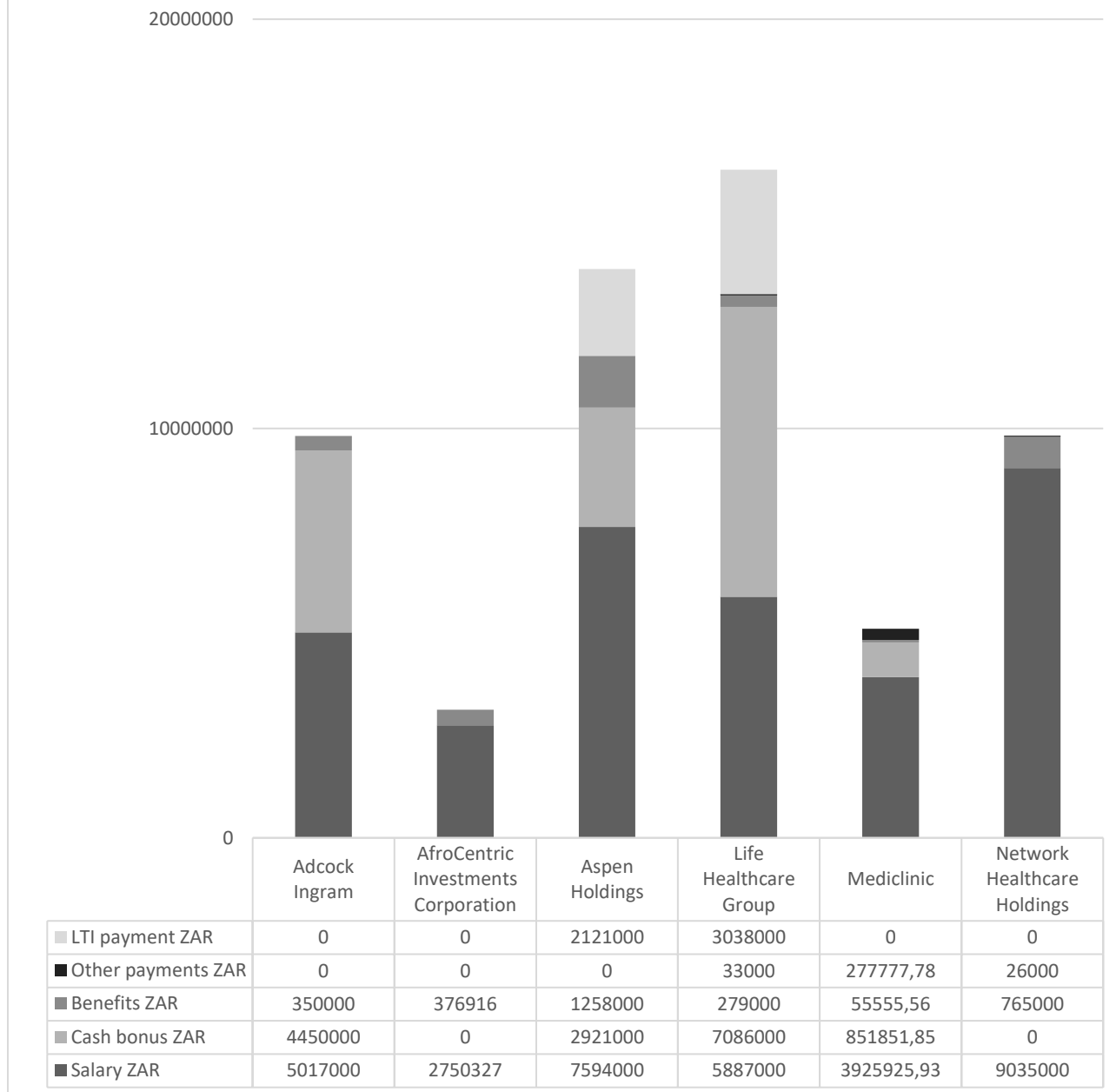
On average, the health sector profit increased by 61% from R895 million in 2018 to R1,4 billion in 2019. This increase is significantly attributed to the decrease in losses reported by Mediclinic improving from a loss of R7,9 billion in 2018 to a loss of R2,6 billion in 2019. Furthermore, Aspen Holdings is the only company in the sector which reported a decline in profit. Therefore, the overall profit of the sector was that of an upward trend.



Directors' Remuneration

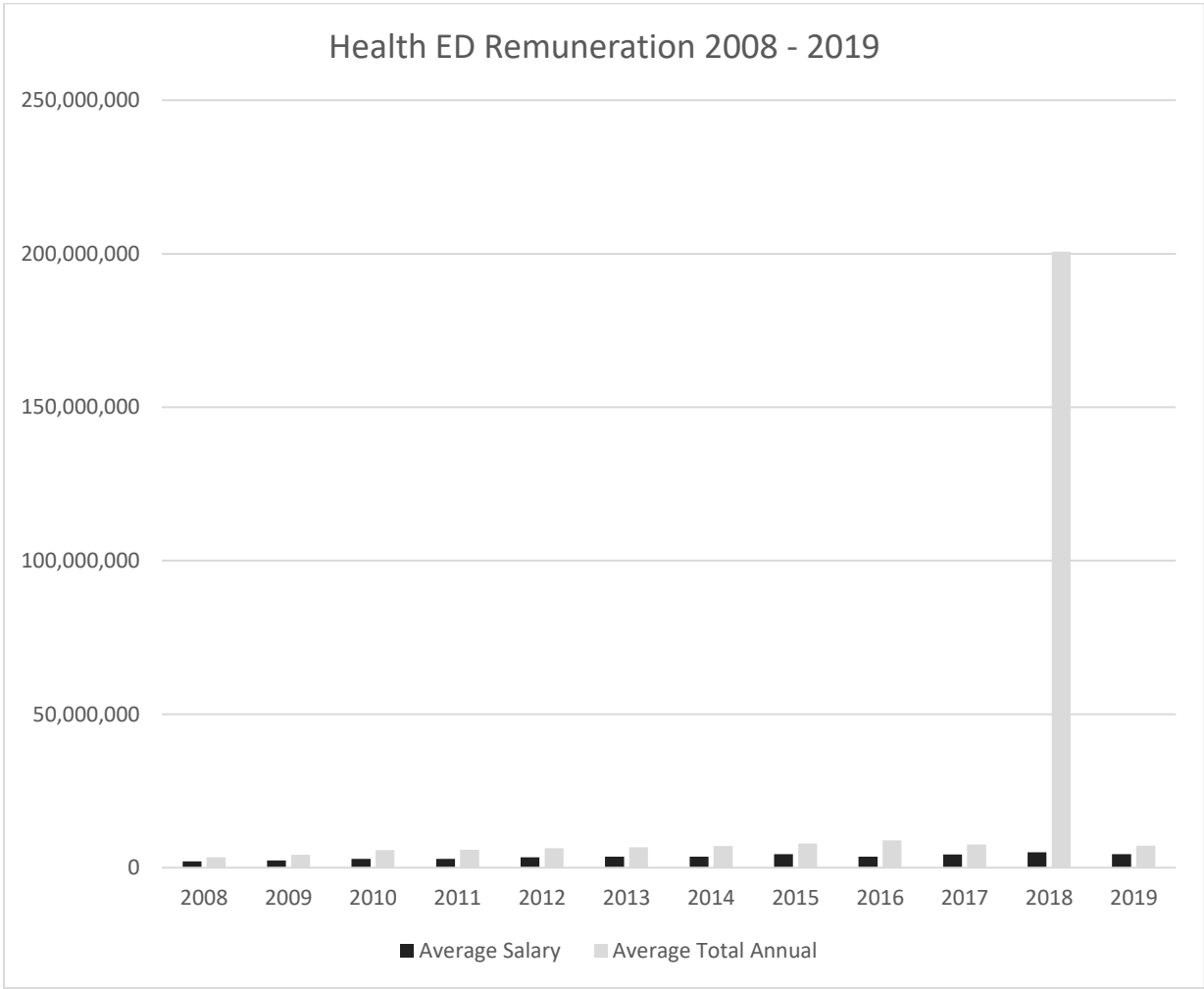
Life Healthcare Group had the highest total remuneration for their Chief Executive Officer Shrey Viranna who took home R16,3 million for the 2019 financial year closely followed by Aspen's CEO Stephen Saad receiving a total remuneration figure of R13 million. Both these two individuals received LTI payments; Aspen and Life Healthcare group were the only companies in the sector which made long term incentive pay-outs.

Health Sector Ceo Remuneration 2019



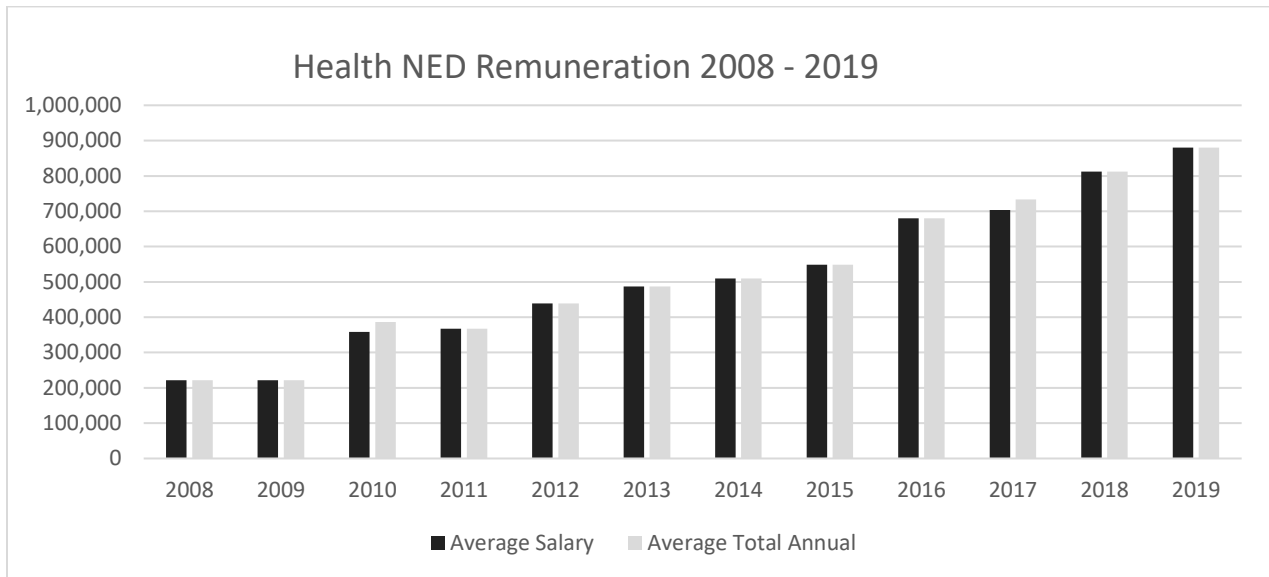
On average, executive directors' remuneration in the health sector for the 17 directors decreased. The average salary decreased by 12% from R5 million annually in 2018 to R4,4 million in 2019. Moreover, the total executive remuneration figure dropped by 96% from R200 million to R7,1 million. This is attributed to the executive officers of Network Healthcare Limited (Netcare), Friedland and Gibson, who exercised stock options in 2018 from which the gain was

reported as R1 879 268 000 and R753 356 000 respectively in the Remuneration Report³ of the company’s Integrated Report (Netcare, 2018:143). However, we suspect this may be a rounding error in reporting because the similar figures for the 2019 financial year had different arithmetic. The number of shares exercised in 2019 was multiplied by the share price in cents of 26,78 cents – as opposed to 2 659 cents in 2018. Nonetheless, the graphical analysis below uses the amounts as reported.



Non-executive directors’ remuneration for the 59 non-execs maintained an upward positive trend as the average increased by 8% from R812 494 to R880 316 in 2019.

³ “Remuneration Report” under LTI vesting outcomes, 143. <https://www.netcare.co.za/Portals/0/Annual%20Reports/PDF/Netcare-annual-2018.pdf>



Conclusion

The Health Sector experienced a recovery in its profitability in the 2019 financial year as most of the companies in the sector experienced increased profit or reduction in losses. The pharma group Aspen is the only company which reported a decrease in profit attributed to non-core operations in nutritional business products which were disposed in the latter half of 2019⁴. Nonetheless, Aspen remains the largest pharmaceutical manufacturer in South Africa and recently won another tender to supply HIV drugs to the government⁵. Despite providing healthcare to only 20% of the population, the private healthcare sector receives 50% of total healthcare spending and it remains one of the most profitable sectors in South Africa's economy⁶. Several South African healthcare companies are expanding their services in the Southern African region⁷.

⁴ <https://www.news24.com/fin24/Companies/Health/aspen-reports-declining-earnings-after-challenging-year-20190911>

⁵ <https://www.theafricareport.com/17247/aspen-pharmacare-bounces-back/>

⁶ <https://www.rhbophelo.co.za/understand-the-south-african-healthcare-industry/>

⁷ https://equinetafrica.org/sites/default/files/uploads/documents/EQ_Diss_87_Private_HS.pdf