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HEALTH SECTOR REPORT 2021

LRS Labour
Research
Service

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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.

Adcock Ingram

AfroCentric Investments Corporation

Aspen Holdings

Life Healthcare Group

Mediclinic

Network Healthcare Holdings

This report takes a look at the significant effect the COVID 19 pandemic has had on the sector. The rich data extracted from the LRS's [MNC Database](#) further enables a retrospective view of company performance over the course of the last seven years. Following this, we analyse the remuneration packages received by directors in this sector.

The Sector

South Africa's healthcare system is beset with challenges: an inability to deliver primary care to outlying communities, failures in governance and management and a severe shortage of skilled healthcare workers. These challenges are further amplified by the Covid-19 pandemic, along with South Africa's high incidence of HIV, diabetes, high blood pressure and Tuberculosis. Across the board, private healthcare providers felt the brunt of the pandemic in the first half of 2020, with

operating profits falling between 35% - 86%.¹ The first companies in the sector to feel the impact of the pandemic were the hospital groups, such as Mediclinic, Netcare and Life Healthcare. This is because the South African Society of Anaesthesiologists moved to shut down elective surgery and prioritise Covid-19 patient care. The shutdown came at a huge cost to hospitals since elective surgery is their most profitable activity.

The six companies in our sample employed a total of about 73,654 people in the 2020 financial year. Despite some initial preparedness, there were challenges in the effort to protect healthcare workers and employees in the sector during the heat of the pandemic. Some of the challenges faced include lack of personal protective equipment (PPE) and essential medicines, inadequate administrative control measures, and poor leadership and governance.²

Furthermore, as South Africa's Covid-19 cases continued to rise in 2020, long-festering complaints about the inadequacy of healthcare workers' salaries and staff shortages also came into the limelight. Trade union representatives argue that many small businesses benefitted from the stimulus package announced by the South African President, but not frontline healthcare workers. More specifically, a representative of the Young Nurses Indaba Trade Union (YNITU), explained how critical the remuneration situation is: *"We stay in back rooms because we are getting poverty salaries. Most nurses can't afford houses and cars. We take taxis to work, which is a huge [infection] risk for other commuters. I call my salary a one-day marathon – you get it now and by the evening it's finished and it's back to square one."*³

Overall, the Covid-19 crisis provides an opportune time for health sector employers to revisit remuneration policies and highlights the importance of workers at the forefront.

¹ <https://www.dailymaverick.co.za/article/2021-02-21-coronavirus-has-made-the-health-sector-sick-but-the-industry-is-recovering/>

² <https://www.spotlightnsp.co.za/2020/09/25/sa-is-facing-a-healthcare-worker-crisis-what-to-do/>

³ <https://www.dailymaverick.co.za/article/2020-06-25-healthcare-workers-often-unheard-plea-for-government-help/>

Financials

Revenue

In 2020, Mediclinic is the biggest company in the health sector with reported revenue of ZAR 63.6 billion, as shown in *Figure 1* below. This is followed by Aspen holdings with revenue of ZAR 38.7 billion for the 2020 financial year. While Life Healthcare Group and Network Healthcare Holdings recorded 9.3% and 4.2% increases in revenue in 2019, in 2020 the revenue decreased by 1.1% and 12.7%, respectively. *Figure 2* shows a pie chart of the companies in our sample by revenue. This chart clearly shows the size of the sample market that each company has by revenue. Adcock Ingram and AfroCentric Investments Corporation have the lowest revenue share from our sample, each at 4%.

Figure 3 shows that Mediclinic and AfroCentric Investments Corporation have reported a steady increase in revenue since the 2014 financial year. On average, the six companies in this report reported a 3.4% increase in revenue in what could be termed the worst year of the Covid-19 pandemic. The graph below (see *Figure 4*) shows that the average revenue steadily increased from 2014 to 2017. There was a 4.1% decrease in 2018; however, the year-on-year revenue has continued rising since then.

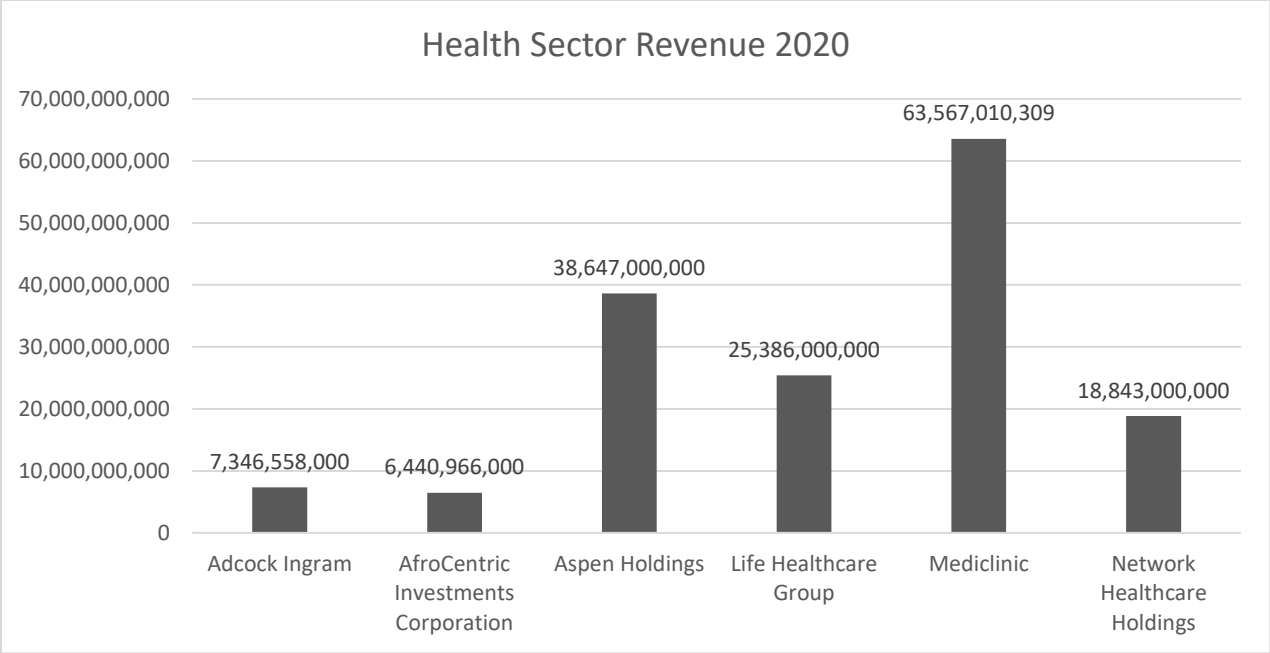


Figure 1 Health Sector Revenue 2020

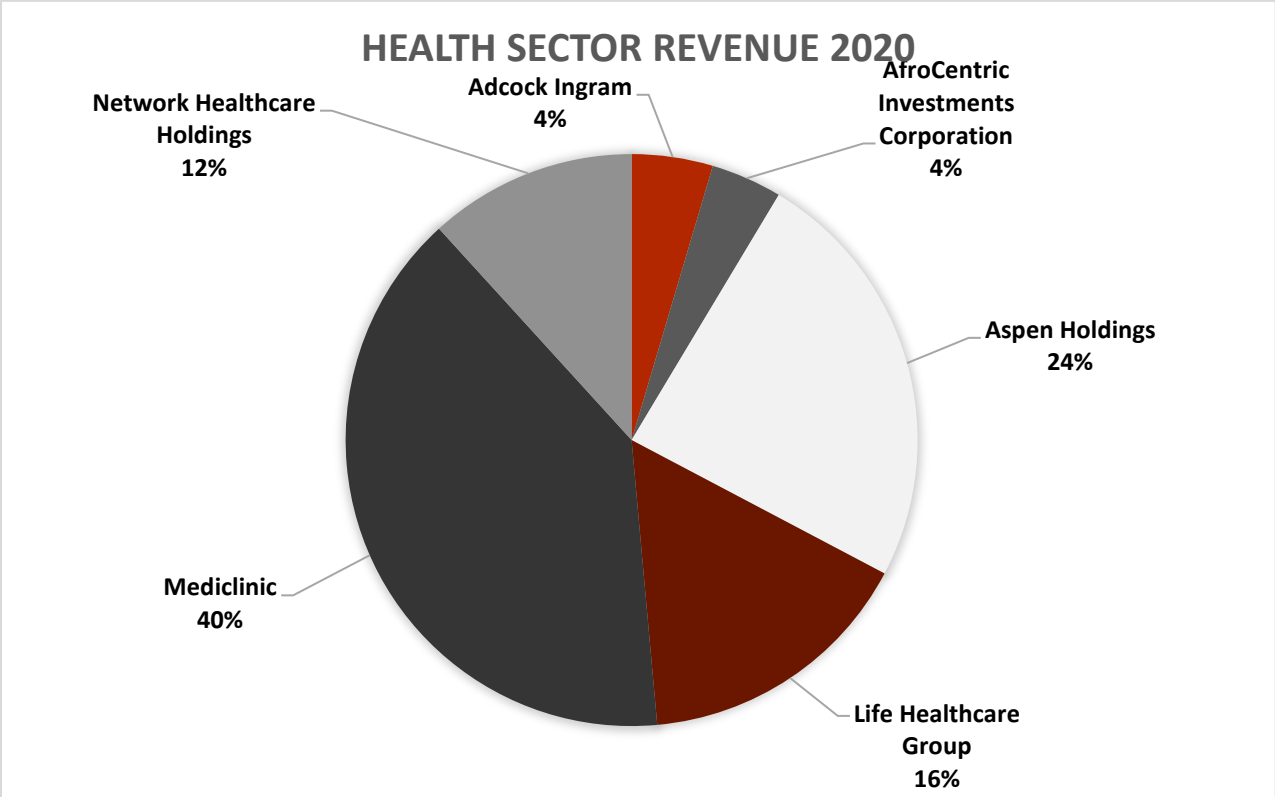


Figure 2 Health Sector Revenue Pie Chart 2020

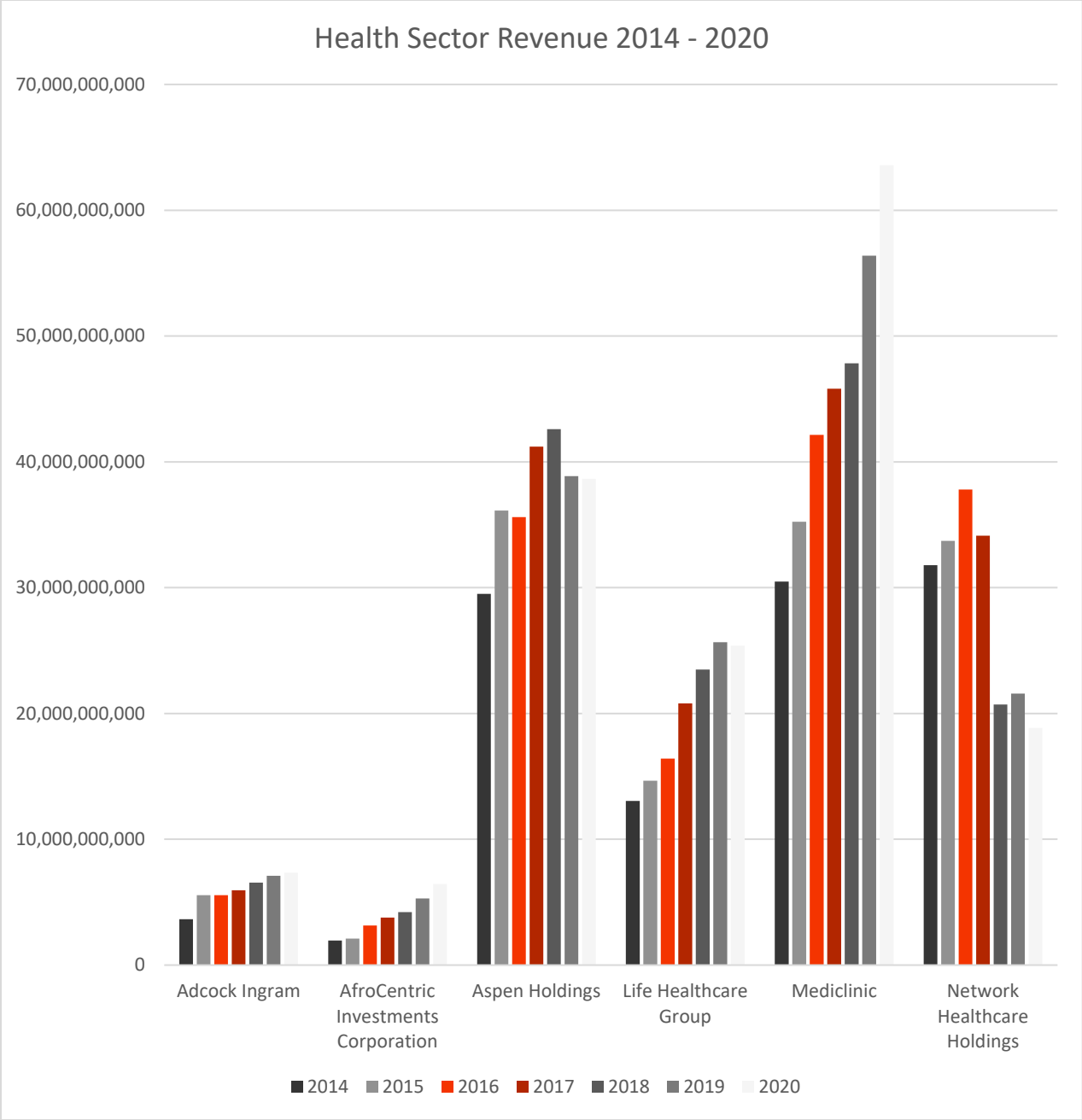


Figure 3 Health Sector Revenue 2014 to 2020

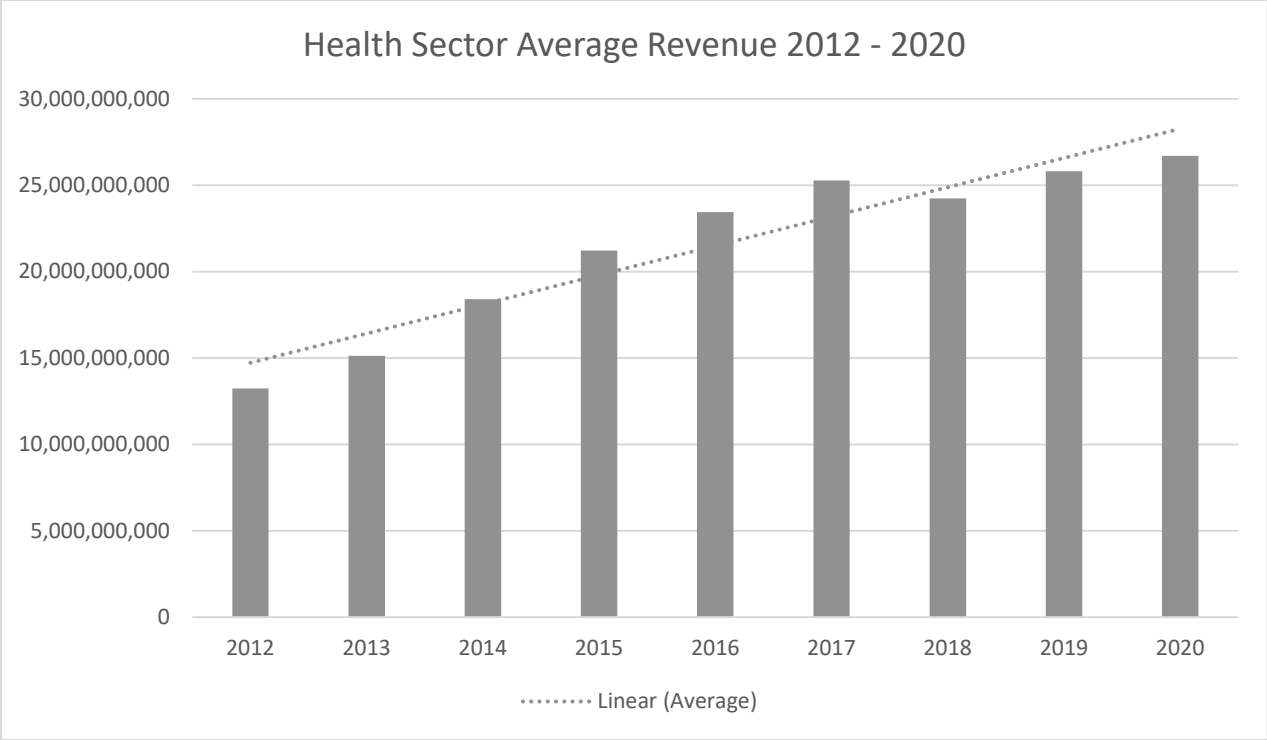


Figure 4 Health Sector Average Revenue 2012 to 2020

Profit before Tax

In 2019, Profit before Tax in this sector took a big hit. On average, reported PBT went down by over 68% (see Figure 8). In 2020, however, companies reported some more significant losses. Mediclinic reported a loss for the third time in three years and the 2020 Loss before Tax is the highest reported loss in our sample. The company reported a ZAR 5.7 billion loss in the 2020 financial year. Only one company reported an increase in Profit before Tax – AfroCentric Investments Corporation- whose Profit was ZAR 613 million.

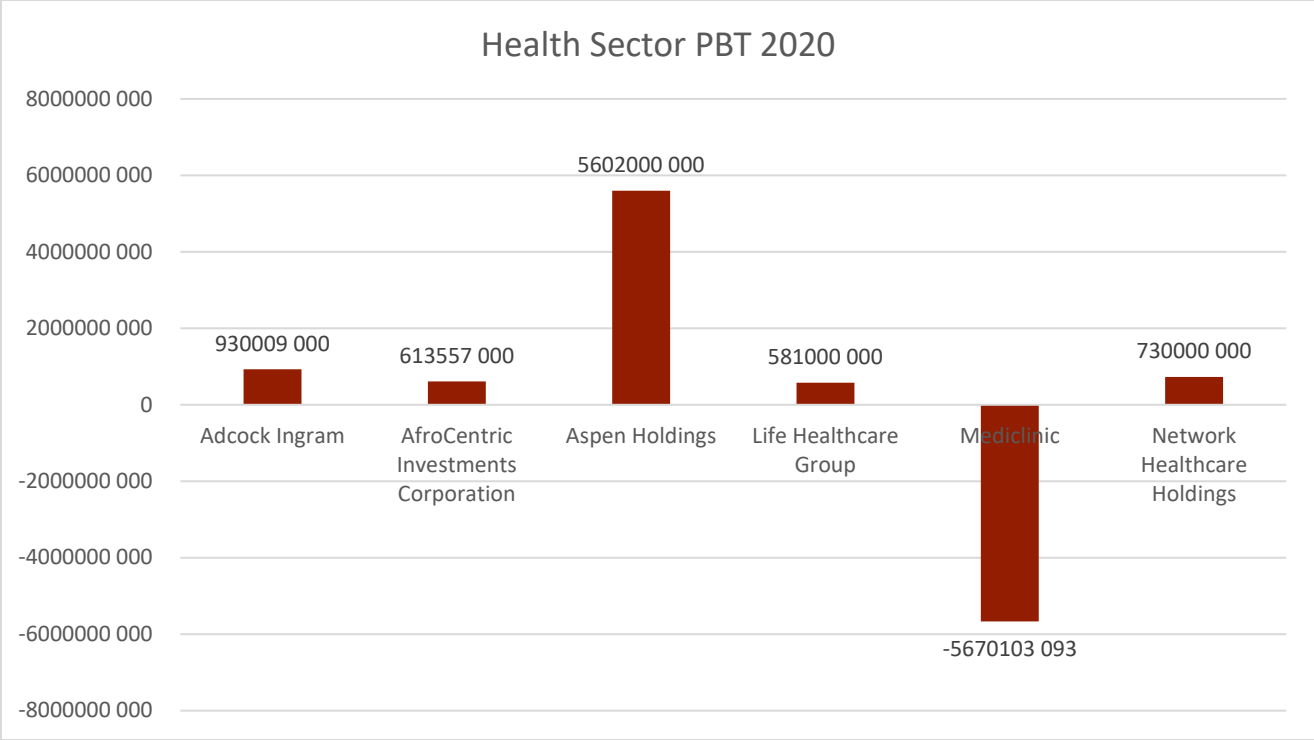


Figure 5 Health Sector Profit before Tax 2020

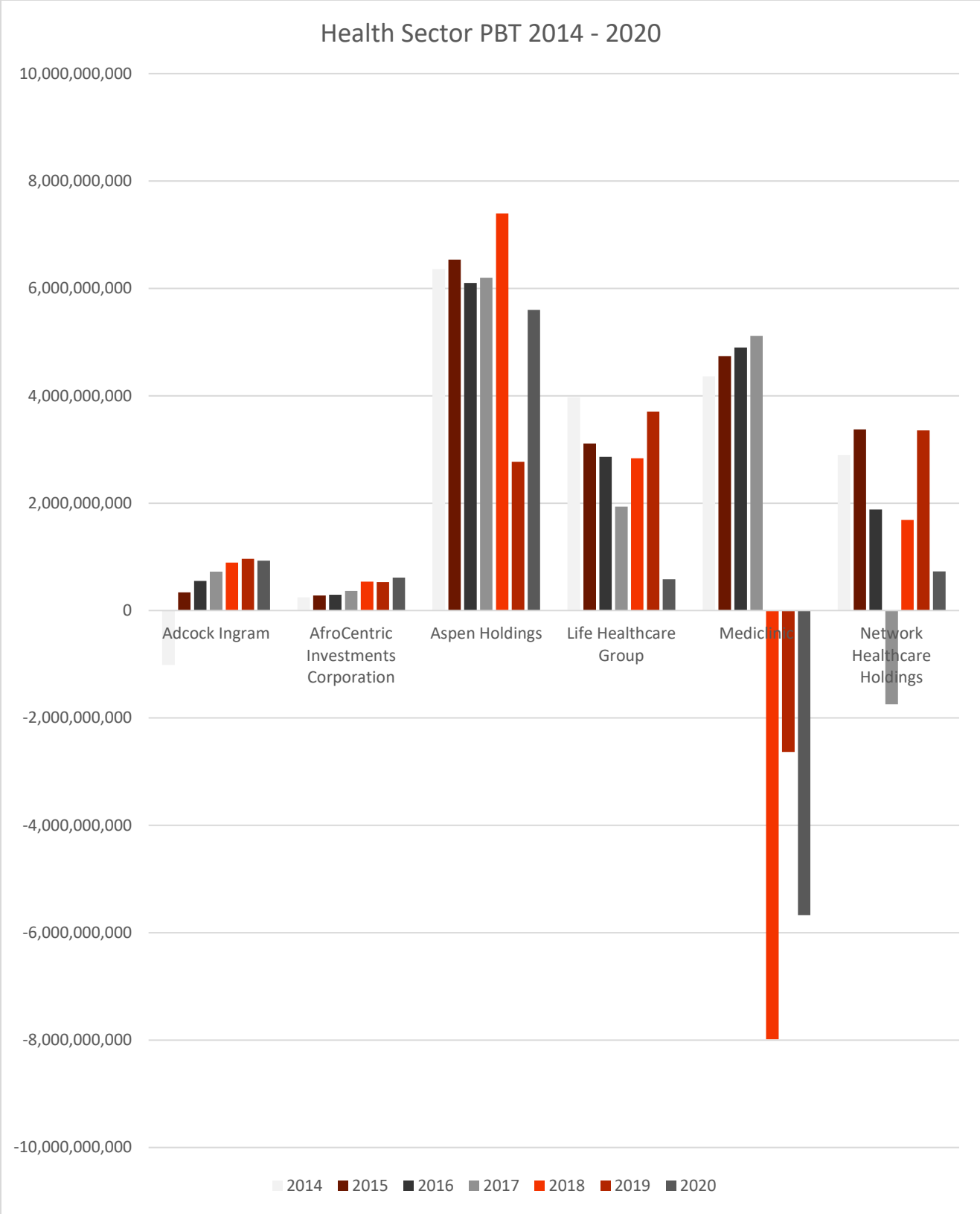


Figure 6 Health Sector Profit before Tax 2014 to 2020

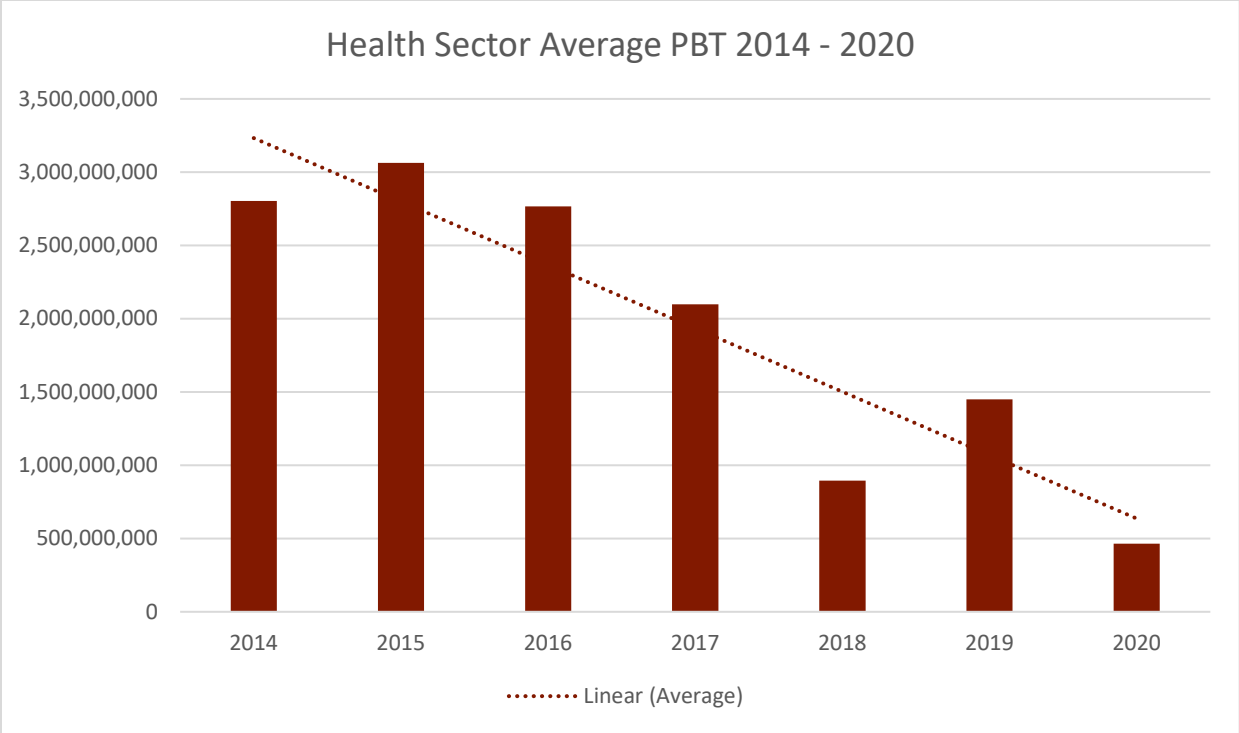


Figure 7 Health Sector Average PBT 2014 to 2020

Directors’ Remuneration: a ten year retrospective

The LRS MNC database allows us to look at CEO remuneration over the course of the last ten years. In the health sector, and our sample specifically, we see that in 2019, the CEO remuneration figure dropped drastically. This is attributed to the executive officers of Network Healthcare Limited, Friedland and Gibson, who exercised stock options in 2018 from which the gain was reported as ZAR1 879 268 000 and ZAR753 356 000, respectively, in the company’s Integrated Report. However, we suspect this may be a rounding error in reporting. From 2019 to 2020, the average total remuneration (without LTI) went up by 19.6% - compared to a 17% increase in total remuneration including LTI. The trend, however, is very flat with not significant increases since 2011.

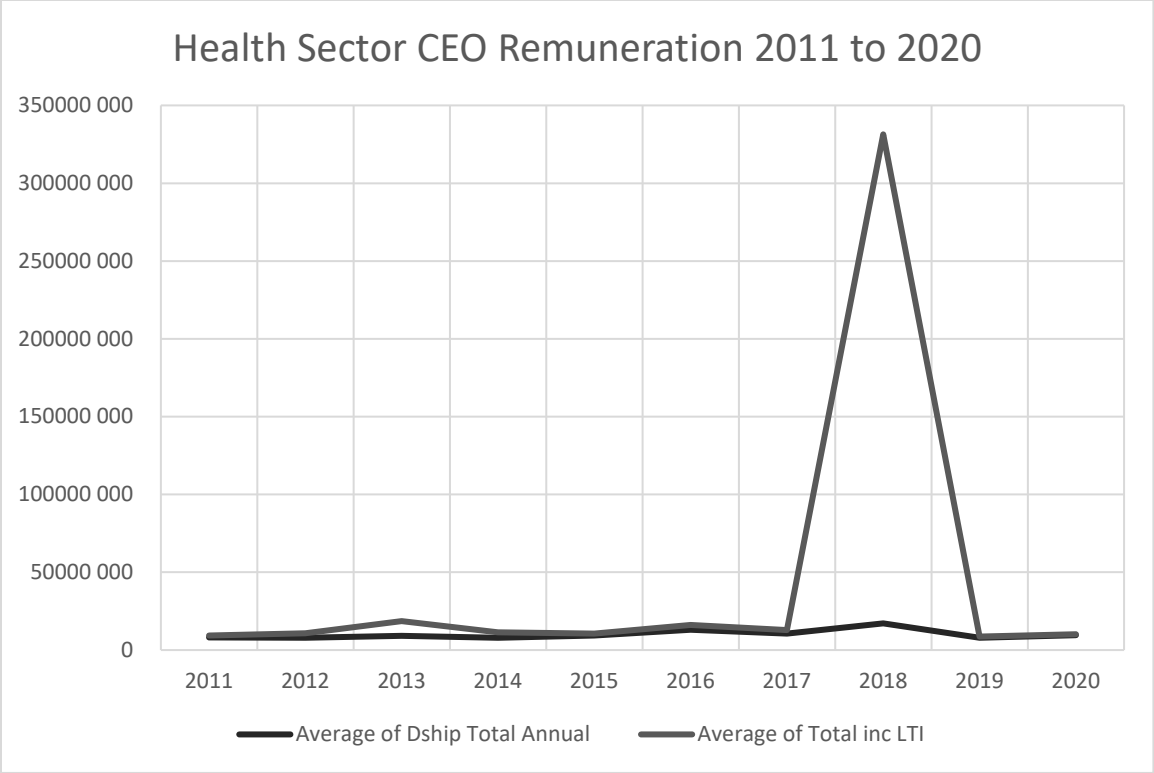


Figure 8 Health Sector CEO Remuneration 2011 to 2020

CEO Remuneration 2020

In 2020, the CEO of Aspen holdings, Stephen Saad, received total remuneration of ZAR 20.4 million. This makes him the highest earner in the sample for the 2020 year. Despite significant and ongoing losses, Mediclinic CEO Ronnie van der Merwe earned total remuneration of over ZAR 12 million (a 6.3% increase compared to the 2019 remuneration). This is concerning given the losses the company has been facing for the past three years. From 2019 to 2020, the average total executive director’s remuneration went up by over 11.5%. In the same period, average non-executive remuneration also went up by 5.3%.

Health Sector CEO Remuneration 2020

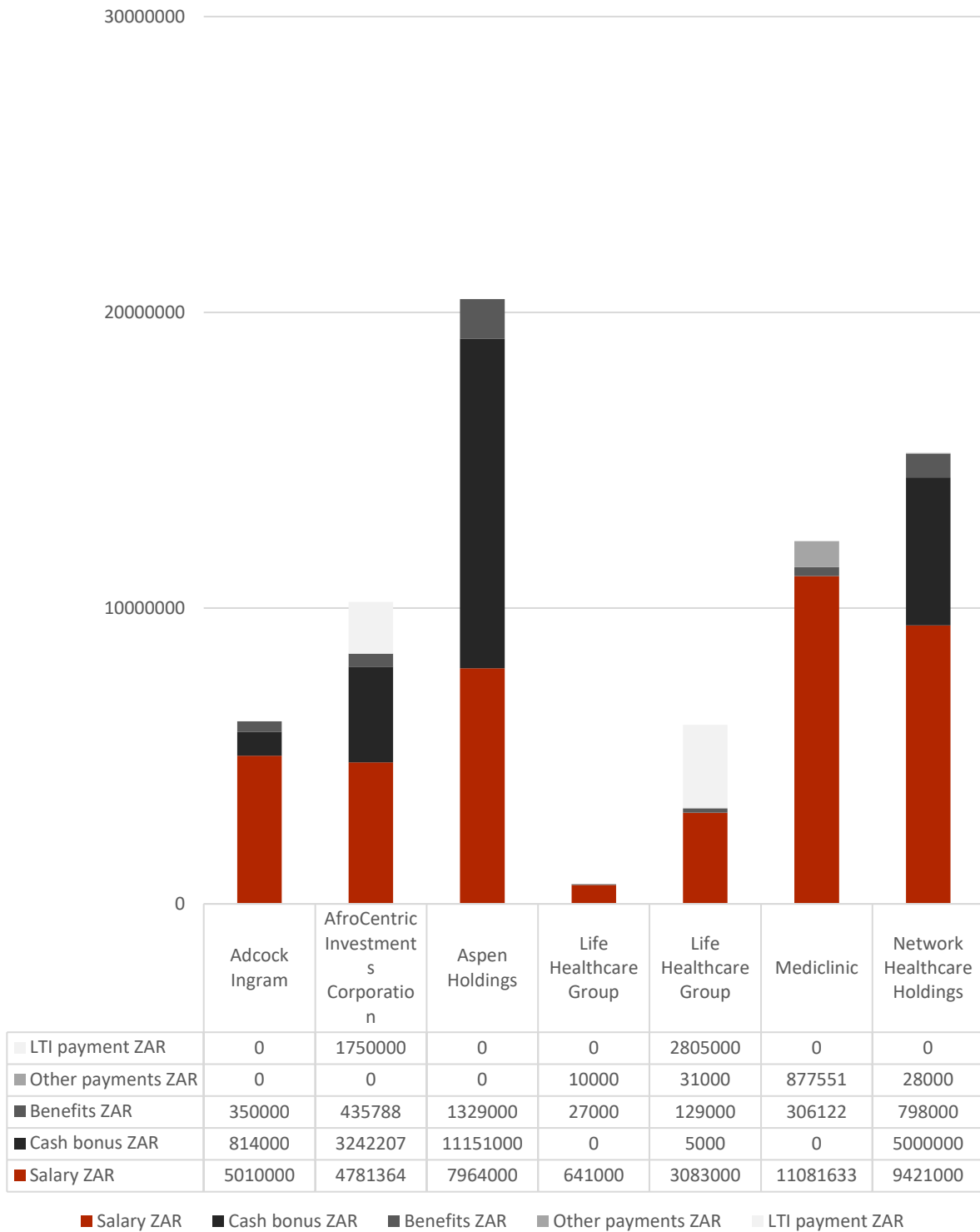


Figure 9 Health Sector CEO Remuneration 2020

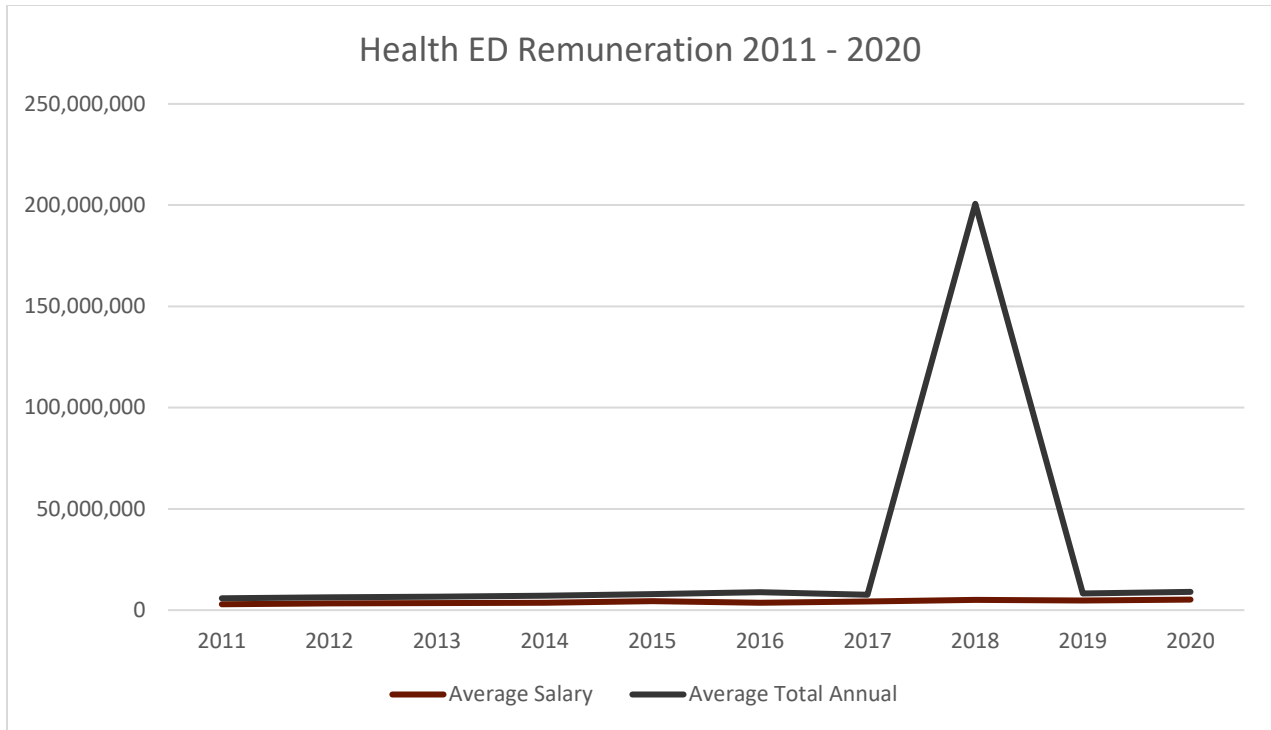


Figure 10 Health Sector Average Executive Director Remuneration 2011 to 2020

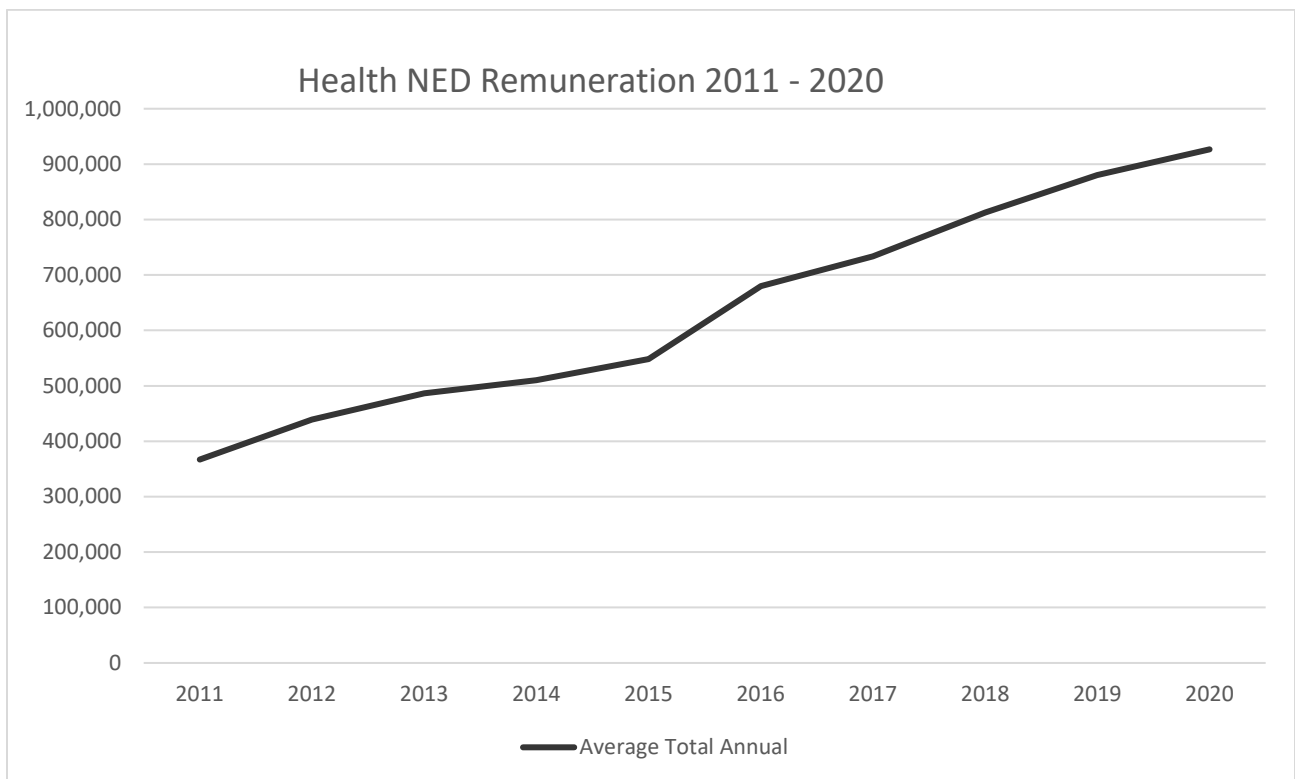


Figure 11 Health Sector NED Average Total Annual Remuneration 2011 to 2020