It is a privilege to have been appointed Chairperson of Netcare at this crucial time in its strategic journey. I am grateful to my predecessor, Meyer Kahn, and my colleagues for entrusting me with leading the Board as we position the Group for sustainable competitive advantage and long-term growth, in a rapidly and fundamentally changing healthcare sector.
Creating value in unpredictable times

The Board’s decision in March 2018 to exit the UK demonstrated our willingness to make tough decisions to protect and create value in unpredictable times. After years of poor performance, no prospect of alignment with our strategic partners and chronic uncertainty in the outlook for private healthcare in the UK, we opted to refocus – especially the undivided attention of leadership – on our SA operations. As difficult as it was to acknowledge that we had been unable to make returns from our investment in the UK, our shareholders welcomed the decision.

This is a pivotal time for the domestic economy and the healthcare sector. Our pure focus on SA requires careful management of the constraints of severe socioeconomic conditions and the implications of inconsistent policy proposals for private healthcare investment, funding and services provision. The critical need to remedy an ailing economy and advance the constitutional ideal of universal access to quality healthcare depends on a meaningful shift in relations and collaboration between government, business and civil society. Finding common purpose for the greater socioeconomic good, with more effective and equitable healthcare at its foundation, has never been more pressing.

Although the challenges are formidable, we are fully engaged in exercising our expertise, assets and resources to become the preferred provider, employer, partner and investment in our sector. Our comprehensive network of services, which deliver healthcare of a world-class standard, and strongly cash generative operations provide the opportunity for strategic differentiation and long-term sustainable growth.

Netcare’s strategy is to lead the market in digitally-enabled participatory healthcare, in step with the changes in global healthcare. We expect significant benefits for our patients, our people and our partners; and, with our eyes firmly on capital efficiency, to create enduring value for our shareholders. Our strategy, approved by the Board, is set out on page 36, and the strategic outcomes we are aiming to achieve are discussed in detail in the Chief Executive Officer’s review (from page 56).

Managing socioeconomic realities

The operating context in SA has deteriorated markedly. The lack of meaningful economic growth in the past decade has undermined efforts to create jobs, and unemployment is at its highest level since 2008. Government spending has ballooned, with state-owned enterprises (SOEs) requiring ongoing bailouts and public sector wages continuing to outpace inflation.

We welcome the call by the President and Minister of Finance to unlock private sector investment and galvanise public private co-operation to drive socioeconomic recovery. However, this standpoint must be unequivocal at all levels of government and demonstrated in consistent and conducive policy positions, better co-ordination across different ministries, and a willingness to engage in a transparent and constructive manner.

Policy certainty is a critical ingredient to driving investment and growth. A credible basis for engagement and consultation is essential, in which key stakeholders contribute, and which contribution is taken seriously as a matter of substance and not merely a show of form.

As the Minister of Finance has said, South Africa stands at a crossroads. Our choices are complex; as we find redress of our past and grapple with the implications of the Fourth Industrial Revolution for our future. To fund and deliver the powerful ideals that underpin our democracy, old attitudes must give way to new ways of doing things, not least in the way government, business, labour and civil society engage and collaborate. Improving SA’s global competitiveness and achieving the higher growth required to create jobs and accelerate development will take time. Real partnership, contingent on a consistent change in approach, is immediately possible.

The business sector has repeatedly voiced, and also shown its commitment to, collaboration. In this spirit, Netcare led the proposal of collaborative initiatives at both the Presidential Healthcare Summit and the Jobs Summit in 2018. The CEO’s Initiative, in which Netcare participates, is another example of finding common purpose and working in partnership with government to achieve clearly defined goals with measurable outcomes.

Advocating for enabling regulation in healthcare

The significant contribution by the private hospital sector in SA cannot be ignored. According to the latest information available1, in 2016/17 the three largest private hospital groups contributed R55.6 billion to the national economy, 1.3% of GDP; and sustained 248 504 jobs throughout the economy. It is, therefore, critical that health policy does not discourage investment or indeed curtail the growth and job creation potential of the private sector.

The publication of the draft NHI Bill and the draft MSA Bill on 21 June 2018, and of the Health Market Inquiry (HMI) Provisional Findings and Recommendations Report on 5 July 2018, illustrate the prevailing thinking on health policy and have unfortunately resulted in increased policy uncertainty.

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It is critical that the private sector is involved in formulating health policy and legislation that will fundamentally affect the entire sector, supported by processes that are robust and inclusive, so as to avoid regulatory missteps with unintended consequences for the funding of and access to quality universal healthcare.

Healthcare regulation must be predicated on an understanding of the drivers of demand, sustainability of funding, the capacity of healthcare facilities and availability of health professionals. The major drivers of demand remain increased longevity and burden of disease of the insured population. Over the past five years, the average age of patients admitted to Netcare hospitals has continued to increase and admissions over the age of 80 have grown by 20%. According to the largest medical scheme in the country, over the last 10 years, the number of members with one or more chronic conditions has increased by 43.3%.

Evidence of the substantial extent of anti-selection in the medical schemes environment was provided to the HMI. It is a proven fact that anti-selection is a major and growing trend, which makes a material contribution to the annual increase in utilisation and hence claims inflation. While the intention behind the proposed legislative amendments and recommendations is to improve access and affordability of medical schemes and to stabilise risk pools within the industry, we fear that several of the proposed amendments will have exactly the opposite effect. They are likely to undermine scheme risk pools and pose major risks to the medium- and long-term financial sustainability of medical schemes. We are concerned that, if implemented, these amendments will reduce affordability of medical schemes, leading to a reduction in the covered population, further weakening medical schemes and precipitating greater reliance on the public healthcare system for the provision of care. Sustainable solutions to stabilise the medical scheme risk pool and increase covered lives are available, but require open engagement on the basis of fact.

Netcare recognises the significant inequity in access to healthcare that exists in SA, and the severe capacity constraints of the public healthcare system. The private healthcare sector has the management and training expertise and the capacity to make a material contribution to providing quality healthcare to more South Africans. But we need assurance that this reconciles with our shareholders’ interests, given our duty to secure reasonable returns on their investment.

We have stated our readiness to work constructively with government for many years and I do so again. Netcare’s support of the public sector is proven. Some specific initiatives underway to partner with government within and outside of healthcare are discussed in the Chief Executive Officer’s review (from page 56) and elsewhere in our report (from page 74). Moreover, the transformation of our organisation and our sector is an explicit priority in our strategy, which shows the depth of our commitment to effective, equitable and ethical healthcare in SA.

**Ensuring prudent resource allocation**

Deepening our sustainable competitive advantage and growing market share will be underpinned by consistently delivering health and care that is distinctly better than our competitors, which will entail accelerated digitalisation and new ways of working. The Board is comfortable that sufficient focus and resources are being committed to managing the operational paradigm shift this implies.

Change management plans for all affected stakeholders have been developed and are underway. Independent external experts have been engaged for guidance, assurance and, where necessary, additional capacity to ensure that disruption to everyday operations is minimised and our people are not overburdened with project implementation on top of their normal responsibilities. The Board has ensured that our implementation partners have directly relevant international experience in projects of this nature, and project reviews will be conducted periodically to enable proper oversight and proactive management to avoid potential cost and schedule overruns.

We are cognisant of managing shareholder expectations of returns in the short term, given the constraints to growth and profitability in the current operating environment, and our investment in deepening our value proposition for sustainable value creation in the long term. Our sector is evolving rapidly and we must retain adequate capital to respond to market changes.

Capital investments will be disciplined, where returns exceed the cost of capital, and directed to expanding and digitalising our business, maintaining and upgrading our operations, and attracting and retaining clinicians to ensure quality services to our patients. Economic profit has been introduced as a primary performance measure at facility level, to inform specific improvement plans and capital efficiency, and to support optimal returns across the network.

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2 Discovery HMI Submission, October 2018.
Netcare's capital management policy is to maintain a strong balance sheet and investment grade credit rating, while reducing the cost of capital with a safe level of debt. This approach provides capital flexibility and access to capital markets through the economic cycle. If opportunities that meet our internal rates of return are unavailable, excess capital will be returned to shareholders through share buybacks and/or special dividends.

The Board declared a final dividend of 60.0 cents a share and a special dividend of 40.0 cents a share, bringing the total dividend for the 2018 financial year to 144.0 cents a share.

More detail on capital management, and an analysis of the Group’s financial performance are provided in the Chief Financial Officer’s review starting on page 94.

Delivering governance in substance not only form

The value destruction and losses suffered by shareholders, investors, depositors and tax payers due to corruption is staggering, as more instances of private and public sector malfeasance, and complicity, come to light. Besides the direct losses and opportunity cost, deeper mistrust undermines the social solidarity we need to find new solutions to the challenges facing our maturing democracy.

Netcare takes a zero-tolerance approach to theft, fraud and corruption, as well as discrimination and racism, and is committed to behaving in a way that is beyond reproach. This is the basis of our legitimacy as an investment, employer, partner and corporate citizen. However, in response to this ethical crisis in our society, I wish to assure our stakeholders that the Group’s governance framework, informed by our values and Code of Ethics, is robust, entrenched and real.

The framework governs the way decisions are made and how we behave, at Board, executive and management levels; it is not merely a function of reporting compliance.

The governance, legal, ethics and compliance survey completed in 2018 across the Group confirmed that leadership is considered to act ethically, and a high level of awareness of ethics and related issues exists among our employees. An awareness campaign and further training will be undertaken in 2019 to consolidate these findings.

The governance overview which follows (on page 20) describes our governance framework and its alignment to King IV™. Notable here are the key findings of the Board performance evaluation in December 2018, overseen by the Chairperson’s Forum. The assessment included the Board, its committees and individual directors, as well as the governance of financial, economic, consistency of care, social and environmental issues. It found that the committees are operating effectively, and that increased oversight of disruptive technologies and trends, and of stakeholder engagement specific to policy development, is required to ensure Group alignment to approved strategy. Revised Board packs will ensure appropriate and relevant information is made available to Board members in this regard.

The Board has analysed its membership in terms of succession planning and diversity considerations. I am comfortable that we have an effective, robust, well-balanced and complementary Board that is appropriate for the nature, complexity and strategic demands we face as we move into the future.

Meyer Kahn retired as a director of the Netcare Board with effect from 31 March 2018.

At our last annual general meeting in February 2018, 87.64% of shareholder votes were cast in favour of the Group’s remuneration policy. As this was slightly less than the prior year’s vote of 90.06%, members of the Remuneration Committee engaged with various shareholders on the policy. Overall, shareholders showed support for the CEO and CFO benchmarking exercise, undertaken by PwC, and the level of transparency in our 2017 remuneration report. We will continue to engage with shareholders to ascertain reasons for dissenting votes, to address legitimate and reasonable objections raised and, if required, will amend our remuneration policy or clarify and/or adjust our remuneration governance or processes accordingly.

Appreciation and closing

I would like to convey my deep thanks to Meyer Kahn, who led the Group with such indomitable spirit and incisive understanding, and whose encouragement and support was invaluable during my tenure as Deputy Chair. We wish Meyer well in his retirement.

My appreciation also to the management team for their confidence in my ability to work with them in leading Netcare into a new era.

Underpinned by a demonstrable commitment to effective governance and ethical leadership, our stakeholders can be assured that your strong and committed Board will do what is needed, with rigorous oversight, to create value for you, our sector and our country.

Thevendrie Brewer
Non-executive Board Chair