INTRODUCTION

Upon my appointment as CEO Designate in November 2017, I purposefully set out to consult widely across the organisation in preparation for my official appointment in June 2018; I met with members of the Board as well as with the top 40 organisational leaders and presented each of them with the same list of questions. We discussed business challenges and opportunities at length. Their feedback provided me with valuable insight and helped me more clearly define the Group’s core competencies, identify common areas of concern and align our focus to meet strategic priorities.

I also carefully considered the nature of the relationship between Mediclinic and those who make use of our services within an evolving healthcare landscape. A patient is a person awaiting or receiving medical care; a client is a person who receives advice. The latter implies a level of trust and a long-term relationship that extends beyond mere treatment. We would like our patients to interact with Mediclinic beyond the conventional treatment process, rather as a client who turns to us to enhance their quality of life.

Throughout this process, I was reminded of what a valuable role we have to play in the lives of our patients and their families; what a privilege it is to know that they have trust in our expertise. We exist to care for them when they are at their most vulnerable. And therein lies our true value: harnessing the exceptional talent, compassion and energy of Mediclinic employees and partners to ensure that our patients receive cost-effective, quality care and outstanding client experiences.
GROUP FINANCIAL OVERVIEW

Each division functions in its own unique macro, political, social, disease and healthcare regulatory environment which influences the performance of the respective businesses to varying degrees.

Regulatory and operational disruptions impacted the Group’s financial performance this year. The largest contributor to the Group financial performance is Hirslanden in Switzerland. The previously announced regulatory tariff reductions and outmigration of care requirements have significantly impacted the entire healthcare market in this country. This process has gradually occurred in cantons across Switzerland for the past 18–24 months, with official national implementation from 1 January 2019. In addition, the growth in outpatient volumes was offset by the significant TARMED reductions effective from 1 January 2018. Hirslanden revenue was up 2%, while adjusted EBITDA was down 10.0% with a decrease in the adjusted EBITDA margin, as guided, to 16.0% (FY18: 18.3%).

At Mediclinic Southern Africa, performance was stable in this mature healthcare market which lacks macro-economic tailwinds. Revenue was up 5%, adjusted EBITDA was up 4% and the margin was broadly stable at 21.2% (FY18: 21.3%) driven by a continued focus on cost management and efficiencies during a period of low volume patient growth.

At Mediclinic Middle East, which remains the medium-term growth driver for the Group, revenue was up 7% (compared to the adjusted FY18 IFRS 15 revenue), adjusted EBITDA was up 7% and the adjusted EBITDA margin remained stable at 13.0% (FY18: 13.0% IFRS 15 adjusted), which includes the ramp-up costs associated with the new Mediclinic Parkview Hospital which opened in September 2018.

As a result, Group revenue increased by 2% to £2 932m (FY18: £2 876m), while adjusted EBITDA decreased by 4% to £493m (FY18: £515m), with an adjusted EBITDA margin of 16.8% (FY18: 17.9%).

HIRSLANDEN

Hirslanden’s performance was disappointing during the year with all Swiss public and private operators impacted by regulatory changes. The greatest impact on Hirslanden’s financial performance resulted from the rapidly implemented outpatient tariff reductions and outmigration of care. Steps were taken to improve the financial performance including accelerated cost-saving initiatives, driving efficiency savings and securing additional revenue. As these plans started to take effect, it moderated the financial impact of the regulatory changes in the second half of the year resulting in a 16.0% adjusted EBITDA margin for the full year.

The combination of the Hirslanden Clinique La Colline and Clinique des Grangettes in Geneva was announced in September 2018 and consolidated from 1 October 2018. The combination, which included a cash consideration of CHF77m for a 60% controlling interest in the combined entity, strengthens Hirslanden’s leading market position in Geneva and will deliver enhanced services for patients.

As part of the plan to adapt to and address the growing outmigration trend, progress continues on delivering the Hirslanden 2020 strategic project. The focus of this project is to standardise, centralise and simplify the existing operating business, delivering future efficiencies and cost savings. In addition, the project addresses the outpatient delivery model in Switzerland to capture the growing requirement for outpatient procedures in an affordable manner.

Due to the changing circumstances in Switzerland, the Group Executive Committee and senior management invested significant time and resources to support the local management team as they adapt the operating model to more efficiently address the rapidly changing healthcare landscape. This integrated approach of sharing knowledge and competency internationally is only possible due to the Group’s breadth, scale and more than 35 years of experience in the healthcare industry. The way in which the organisational leadership has embraced this collaborative approach gives me confidence in our collective ability to improve Hirslanden’s performance and returns over the medium term.

Through all this, it is easy to lose sight of the bigger picture and it would be remiss of me to not commend the progress made as part of the Hirslanden 2020 strategic project, with local management’s success in attracting new medical practitioners. The patients who put their trust in Hirslanden will continue to receive a world-class healthcare service; their quality of care will never be compromised, but we are making necessary adjustments to the efficiency and setting of the care that they receive to better align with the new tariff environment.

MEDICLINIC SOUTHERN AFRICA

Investments made over the years in our people and facilities in Southern Africa, and in building strong relationships with medical practitioners, funders and patients, continue to reinforce the division’s long-term ambition of growing medical practitioners by expanding across the continuum of care. This landscape offers unique opportunities for developing and delivering appropriate
care settings and modalities for patients and offering medical practitioners the convenience of combining the quality they have come to expect with the ability to treat and address an expansive list of medical needs – all under the roof of a single healthcare provider.

Through its acquisition of a stake in the Intercare group – a local healthcare provider with one specialist hospital, four sub-acute hospitals, four day case clinics and 21 outpatient clinics – Mediclinic Southern Africa has already expanded its clinical service offering. Further investment in the Welkom Medical Centre and building three co-located day case clinics at its own facilities (with six more to be opened in the next two financial years) strengthens its pursuit to position the division as not only a leading acute hospital group, but also one of the most extensive providers of primary care and day surgery in the region.

**MEDICLINIC MIDDLE EAST**

The performance of Mediclinic Middle East was supported by our established market-leading Dubai business, which continues to grow on its foundation of sustainable, high-quality healthcare service delivery. In 2016, we expanded into Abu Dhabi through the Al Noor combination. It is here where we expect gradual progress over the coming years as we start to reap benefits from the selective investment in upgrades and expansion and operational changes made since the Al Noor combination.

Our 182-bed Mediclinic Parkview Hospital in Dubai was successfully opened in September 2018, more than six months ahead of schedule, and will be a key contributor to the medium-term growth. The facility took two and a half years to complete and at approximately AED680m it is the largest greenfield construction project by value that the Group has ever undertaken. The hospital offers patients a range of comprehensive consultant-led primary, secondary and tertiary level healthcare services. Since opening, its performance has exceeded original expectations and I look forward to seeing this upward trajectory continue as it ramps up over the coming few years. In addition, we continue to make progress with the expansion of Abu Dhabi’s Mediclinic Airport Road Hospital which includes a Comprehensive Cancer Centre that is due to open in the first half of the 2020 calendar year.

**ADDRESSING THE CHANGING HEALTHCARE LANDSCAPE**

The global healthcare landscape continues to change. Service providers are facing unprecedented developments with trends of an ageing population and a growing disease burden coupled with new medical technology, digital health and greater healthcare consumerism. This also presents Mediclinic with the opportunity to learn, adapt and grow, as we have done in the past.

One of the counter balances in the industry will always be the affordability of healthcare and we maintain a strong focus on cost management and efficiencies across the Group. Today our industry is fragmented, with only a few truly global healthcare service providers. Better integration of our service offering across all three divisions will not only improve the efficiency of our operations, but also enable us to leverage our core competencies. As one of the largest EMEA healthcare groups, I believe that what will set Mediclinic apart from the rest of the industry is an ability to provide diversified services across the continuum of care with leading market positions, as well as a unique approach to knowledge sharing. Ultimately, this is what will deliver long-term success for the Group.

In order to identify what is necessary to unlock and support the creation of organisational value in this changing healthcare landscape, the Group Executive Committee collectively examined the operational, market and regulatory environments across the Group. The focus of this strategic project was to define the evolution needed to support the future direction and success of the business. As a result, our strategic goals have been refined to meet current market needs and to ensure we are in the best position to provide exceptional value to our clients every day.

More detail on the refined strategic goals can be found in **Our strategy, goals and progress** on page 18. Building on these goals, the Group Executive Committee will continue to review the strategic priorities and objectives which must ensure that we deliver improved financial returns for our shareholders.

**ACHIEVEMENTS DURING THE YEAR**

Throughout this **Annual Report**, you will find details relating to achievements made during the year. However, I would like to highlight a few points of specific interest.

In June 2018, we hosted a Capital Markets Day for analysts and investors where a detailed overview of the Group and divisional strategies was presented by members of the Group Executive Committee. I appreciated the opportunity to formally meet and engage with stakeholders in the capital markets for the first time since becoming CEO. We discussed our unique and diversified service offering, growth opportunities, regulatory environments and our financial strategy which sought to enhance the capital markets’ knowledge and understanding of the Group.
Across all three divisions, there are opportunities to expand across the continuum of care to ensure that Mediclinic offers patients, medical practitioners, insurers and regulators the full spectrum of clinical services required of a truly integrated healthcare provider. This year, in the Middle East we invested in the UAE-based Bourn Hall International MENA (Pty) Ltd (“Bourn Hall International”) in vitro fertilisation (“IVF”) business and Majid Al Futtaim day case and outpatient clinics, and in Southern Africa and Switzerland day case clinics have been developed or acquired. Further detail can be found in the Divisional Reviews from page 62.

The Mediclinic Airport Road Hospital Comprehensive Cancer Centre and 100-bed expansion is an important next stage in the continued growth we expect to see at Mediclinic Middle East. The project is running on schedule and is expected to be completed in the first half of the 2020 calendar year.

Another investment which supports our long-term growth includes the EHR system that is being rolled out across Hirslanden and Mediclinic Middle East. Once completed, this will enable operational improvements relating to the accuracy, efficiency and availability of record-keeping which drives clinical performance, revenue cycle management and client experience. In addition, the EHR system is a critical enabler of future healthcare direction and innovation.

I am proud of our more than 25,000 employees across all divisions who completed the 2018 Gallup® Employee Engagement Profile survey, the results of which showed improved scores in 96% of the measured categories and an increase in the overall engagement index. Highlights include that employees feel their work expectations are clearly defined and they are provided with all the necessary tools to contribute to the Company’s success. Ensuring employees are not only equipped, but also motivated and supported as we pursue the Group’s purpose requires continuing commitment and investment. I will continue to work with the Group Executive Committee, the Board and senior management across all divisions to ensure that Mediclinic employees are empowered to be positive and productive within an environment that reflects and rewards good performance, diversity and innovation.

Through the diligent stewardship of Mr Jurgens Myburgh, Chief Financial Officer (see the Financial Review on page 29), the long-term financial strength of the business will and must remain a key priority for the Board and me. In line with our strategic approach to responsible leverage, we successfully refinanced the debt facilities of Mediclinic Southern Africa and Mediclinic Middle East. This came in addition to the prior year refinancing of Hirslanden’s secured debt facilities and ensures that we have long-dated maturity profiles across all our divisions’ borrowing facilities. Our proactive approach to financial management across the Group was also evident when we agreed covenant amendments in Hirslanden’s borrowing facilities to take account of the recent impact of the local healthcare regulatory changes.

**OUTLOOK**

In closing, the Group has proven its resilience in the past. We have learned valuable lessons and absorbed the impact of a number of significant regulatory changes across Switzerland and the Middle East over the past few years. But, in order to thrive, we can no longer continue by simply doing more of the same. We are adapting the business to address the changing landscape and to capitalise on growing opportunities in the global healthcare services sector.

Strengthened by the support and knowledge of our experienced Board, exceptional employees and valued partners, I am confident in our management team’s ability to deliver on our goals and promise of creating stakeholder value. I truly believe Mediclinic’s future is an exciting one and look forward to the year ahead.

Dr Ronnie van der Merwe  
Chief Executive Officer
Career timeline

1986
MBChB, Stellenbosch University

1990
Diploma in Anaesthesia, College of Anaesthesiologists of South Africa
Registrar, Department of Anaesthesia, University of the Witwatersrand

1994
Fellowship in Anaesthesia, College of Anaesthesiologists of South Africa
Recipient of Jack Abelsohn Medal
Chief Anaesthesiologist, Vaalmed Health Maintenance Organisation and private practice

1996
Appointed Senior Manager: Managed Healthcare and Information, Sanlam Health

1999
Joins Mediclinic Ltd as Senior Manager: Clinical Services

2001
Appointed as Clinical Services Director, Mediclinic Ltd

2007
Appointed as Chief Clinical Officer, Mediclinic International Ltd

2010
Appointed to the Wits Donald Gordon Medical Centre (Pty) Ltd Board of Directors

2013
Advanced Management Programme, Harvard Business School

2017
Appointed as CEO Designate, Mediclinic International plc

2018
Appointed as CEO, Mediclinic International plc

2020
Advanced Management Programme, Harvard Business School

Mediclinic career highlights

Establishing the Advanced Analytics, International Data Warehouse and Health Information Management departments

Developing the clinical and cost-related grouping system that created a competitive advantage

Developing the clinical performance model consisting of a clinical governance foundation supporting a clinical performance framework

Leading and initiating the measurement of clinical outcomes to international standards and the public reporting thereof - a first for Southern Africa

Establishing an international procurement initiative

Establishing an international group coordination function