27 February 2025

RAMSAY HEALTH CARE LIMITED – 1H25 RESULTS RELEASE

[START OF TRANSCRIPT]

Natalie Davis: Good morning and welcome to Ramsay Health Care's Financial Results for the six months to 31st of December 2024. My name is Natalie Davis and this is the first time I'm leading the results presentation since joining Ramsay and being appointed CEO in December last year.

Before we get into the results, I'd like to begin by providing some initial observations on Ramsay and the industry both in Australia and internationally and sharing with you my initial priorities.

We'll begin on Slide 4. Since joining Ramsay I've spent time in our hospitals in Australia and globally talking to patients, team members and doctors, as well as meeting our shareholders and other important industry stakeholders. The care for our patients, our purpose, people caring for people and the strength of our partnerships with doctors are striking and provide a strong foundation for our business to adapt to the changing realities of our industry.

It is apparent that there is a significant opportunity for growth and value creation in our market-leading Australian hospital business. However, to unlock its full potential, we need to continue our multi-year transformation. Having reviewed our international operations, our Elysium and Ramsay Sante businesses are delivering low returns on capital and both continue to face significant challenges. It's also clear that global synergies have so far been limited across the portfolio.

In the UK, our core hospital business is showing its emerging potential with performance and momentum improving and I believe Ramsay is well positioned to partner with the NHS to support the government's objectives of reducing elective wait lists. There is clear alignment and commitment by myself and the board to accelerate our efforts to address underperformance and adapt to a changing healthcare sector to position the Ramsay Group for long-term success.

Turning to Slide 5, looking at the supportive market fundamentals in Australia where a growing and ageing population is expected to drive continued growth in hospital admissions. Private health insurance membership continues to outpace total population growth as Australians continue to value quality private health care throughout a time of significant cost of living pressures.

Although I note, we have seen a recent trend down in insurance coverage from gold packages. We expect these underlying trends to continue to support growth in our services.

On Slide 6, you can see that Ramsay is the leading private healthcare provider in Australia with an unrivaled portfolio of strategically located and owned hospitals capturing approximately 25% market share of PHI benefits. Ramsay provides trusted and quality healthcare to Australians with more than 1.2 million hospital admissions annually.

We now have 10 emergency departments operating under construction which drive approximately 20% of our total overnight admissions. We are a leader in high acuity therapeutic areas including; cardiology, cancer and orthopedics and we have the largest private network of clinical trial sites.

Our 35,000 dedicated employees and 9,000 doctor partners including 200 additional admitting doctors in the half, deliver high quality care and patient experience reflected in our patient NPS of 72.

As you can see on Slide 7, the healthcare landscape is changing rapidly and we recognise that we must adapt at pace to these structural shifts. Changes such as increasing expectations of our patients, doctors and employees, new clinical innovations and models of care, pressures in public health systems and digital data and AI technologies provide us with opportunities to deliver more efficient, quality healthcare at scale.

Stepping back on Slides 8 and 9, you can see my immediate priorities for the business, which are focus on transforming our market-leading Australian hospitals business, strengthen capital discipline and improve capital returns across the portfolio, and evolve our culture of people caring for people to innovate and drive performance.

I have already taken decisive action. We are strategically realigning the group operating model to focus on Australia, streamlining the business and building capability.

In Elysium, we have ceased expansionary capex to focus on operational rigour. A new Elysium COO was appointed in January and Nick Costa has been appointed on an Interim basis to lead both UK businesses, following Joy Chamberlain stepping down as CEO last week.

Following an internal review, we have today announced that Goldman Sachs has been appointed to further explore and advise on strategic options associated with Ramsay's 52.8% shareholding in Ramsay Santé.

Other priority actions include resetting our transformation focus in Australia to accelerate the delivery of benefits. We've already started to develop and execute growth plans by catchment nationally based on market and operational data insights. We will centralise our procurement processes that are largely still run at a hospital level, and we will reduce administrative burden through digitising end-to-end admin processes.

Having made good progress on our negotiations with PHIs to-date, we are focused on completing the remaining negotiations so that the benefits we receive reflect industry-wide cost pressures.

As the leading private healthcare provider in Australia, we're keen to explore opportunities to partner strategically with industry stakeholders, including public systems, to deliver innovative healthcare solutions. And we are sequencing the catch-up investment of our tech debt in a thoughtful way, focused initially on core systems implementations, including an HR information system and procurement system.

We are strengthening our capital discipline through application of our previously communicated hurdle rates for new investment. In Australia, we're focussing on expanding procedural capacity in major hospitals in growth catchments. And importantly, we will evolve our culture to elevate a focus on innovation and performance, and we will refresh our group strategy.

There's no question there's a lot to do, but I'm determined, together with the board and leadership teams, to do what is necessary to improve performance and shareholder returns.

Turning to the first half financial performance on Slide 11, for the six months ended 31st of December 2024, we reported a net loss after tax and minority interest of $104.9 million, including a negative contribution from non-recurring items of $263.8 million. NPAT from continuing operations, excluding non-recurring items, was up 10.7% to $158.9 million, driven by continued momentum in the UK hospitals business, a solid result in Australia, and lower group interest costs following the sale of Ramsay Sime Darby in December '23. This was partially offset by weaker results from Ramsay Santé and Elysium.

The Funding Group's balance sheet is strong, with a leverage ratio of 2.07x, within our target range of less than 2.5x, and below our debt covenants. The board determined a fully-franked dividend of $0.40 per share, representing a payout ratio of 61.2% of NPAT from continuing operations, excluding non-recurring items.

The table on Slide 12 shows that the underlying trading result was driven by the Australian and UK hospital businesses, which I'll go into more detail in the coming slides.

Turning to Australia on Slide 14 which reported 5.3% revenue growth from a 0.4% increase in admissions and improved revenue indexation. Activity was impacted by the return of the Peel Health campus contract to the WA government in August.

Excluding this impact, admissions increased by 2.8%. Ramsay Australia reported an underlying 6.2% increase in EBIT, with margins maintained, despite higher costs at Joondalup Health public campus, including costs associated with additional security required in the emergency department and in our mental health units, and carers for inpatients with complex learning disabilities that were awaiting placement into community and NDIS funded settings. The results also included start-up costs associated with Northern Hospital and the EBIT impact of the return of the Peel Health Campus contract.

Slide 15, this next slide provides a breakdown of admissions activity in Australia where you can see we are growing in our core activity areas. Surgical and medical admissions, which make up over 82% of total admissions, are growing above 3%.

Despite a further reduction in psychiatry admissions, revenue in psychiatry still increased 6.6% for the period, reflecting the higher level of complexity and public contracting. Private admissions, which make up 89% of our total admissions, grew at 3.3%.

Although public admissions declined, reflecting low activity levels in some states, we still saw increasing public revenue driven by an improved case mix, including cardiothoracic and mental health contracts. Day admissions continue to outpace inpatient admissions and represent 68.6% of total admissions.

On Slide 16, you can see our focus on transformation with the increase in net transformation opex from $26.9 million to $29.4 million, reflecting both increased investment and an increase in digitally enabled benefits. We have invested in a range of initiatives that will scale over the next 12 months, including the rollout of our Ramsay Health Hub digital front door to 39 sites and digitising our medical records now across six sites, including Joondalup in January.

A significant portion of investment is to address technology debt in the business and we will continue to thoughtfully sequence our spend in those areas, including HR, procurement and finance.

We are also exploring the potential of AI with a listening and scribe proof-of-concept launched in three pilot sites and a coding optimisation machine learning model being rolled out to support accurate revenue claims. As I've discussed today, we're in the process of resetting the transformation programme with a view to accelerating benefits delivery.

Slide 17, our development capex programme is focused on expanding procedural capacity in major hospitals in growth corridors and targeted investment in emergency departments. Well over 50% of the spend in FY'25 will be allocated to two projects, the Joondalup private hospital build that some of you saw in October last year, and the expansion of Warringal Private Hospital, including the construction of an emergency department which is expected to benefit from its support for the adjacent Austin Public Hospital.

Development capex for FY25 is expected to be $220 million to $260 million.

Slide 18, turning to the key focus areas in Outlook for Australia. We have made some progress in recent negotiations with payers and will continue to seek indexation outcomes from all payers that reflect the cumulative impact of cost pressures.

We are implementing structured growth plans for our hospitals and an increased focus on operational performance at Joondalup Public Campus. We expect labour cost pressures to continue with a focus on completing outstanding enterprise bargaining negotiations. We also note that the Fair Work Commission's work value case for nurses and midwives began two weeks ago with a Directions Hearing.

The development of a transformation plan for mental health activities is a key priority given shifts in the market, and this may include the opportunity to work further with the public sector. Looking ahead to the second half, we expect continued activity growth in Australia, ex-Peel.

Now on to slide 19. Momentum in the UK hospital business continued in the half, underpinned by a 7.2% growth in NHS volumes and improved tariff indexation. Margins continued to benefit from increased volume, a higher level of acuity and an operational excellence program.

Encouragingly, returns on capital employed also increased by 140 basis points to 12.5%, highlighting the potential of the UK hospitals business to deliver adequate returns. The UK business will continue to partner with the NHS to reduce elective surgery wait lists, while also focusing on growing our private pay activity.

Initial guidance from the NHS on the tariff indexation for the year commencing 1st April is a net 2.15%. Ramsay will work with the private sector and the NHS in discussions for tariff indexation to better reflect expected higher costs associated with wage pressures, including the impact of national insurance contributions, as well as cautioning against activity caps being imposed on the sector. There will be an ongoing focus on operational excellence to mitigate cost increases, including leveraging data insights to improve future utilisation and labour management.

Slide 21, while Elysium reported an increase in revenue, lower than forecast ramp up in occupancy at sites open during the half and lower occupancy at some existing sites, as well as the impact of significant cost pressures resulted in a disappointing decline in underlying EBIT. As we announced earlier this month, we have booked a $305 million pre-tax impairment charge against the UK region related to the underperformance of the Elysium business relative to the acquisition business case.

In particular, the charge reflects the cumulative impact of living wage increases that have not been fully reflected in fee indexation, combined with lower than expected occupancy levels.

To increase operational rigour and focus on financial outcomes, we've appointed an experienced Chief Operating Officer for Elysium who commenced in January '25. All capital expenditure related to further site expansion has ceased, while we concentrate on improving the current performance of the business.

We will also complete a rapid strategic and performance diagnostic supported by external consultants to identify initiatives to improve profitability. An update on this review will be provided at the full year result.

Slide 23. Ramsay Sante's reported activity growth in both France and the Nordics, however, its earnings continue to be impacted by tariffs not reflecting the full impact of inflation over a number of years.

Earnings in the half were also impacted by the French government withholding the annual prudential coefficient on tariffs, which is a €15 million payment in the prior period, and a reduction in grants compared to the prior period of €19 million. Discussions with the French government regarding the release of at least part of the prudential coefficient to the sector are ongoing.

In the Nordics, Sweden performed well, partially offset by weaker performances in Norway and Denmark. Excluding the impact of non-recurring items, EBIT in the Nordics increased 15.2% on the prior period. Slide 24. Ongoing political and economic events in France create an uncertain outlook for the tariff year commencing in March.

We understand there is some uncertainty as to whether the CC coefficient will be paid for January-February, a €9 million impact. Together with the rest of the private hospital sector, the business will continue to advocate for fair tariff outcomes reflecting the quality of healthcare Ramsay Santé delivers, as well as the establishment of a multi-year pricing framework and honouring the commitment to treat the private and public sectors equally. There also remains a risk of higher wage pressures in France.

Ramsay Santé will continue to provide leading quality healthcare while focussing on cost control, operating efficiency and improved cash generation. With that, I'll hand over to Martyn to talk about the financials in more detail.

Martyn Roberts: Thanks very much Natalie and good morning everyone. The reported NPAT result was impacted by a negative contribution from non-recurring items of $263.8 million, the largest component being the $291 million after-tax impairment taken against the UK region and the release of a tax provision of $33.5 million after minority interest.

Excluding non-recurring items and after-minority interest from continued operations increased 10.7%. The result includes the benefit of a 5% decline in funding costs ex-AASB16 lease costs, reflecting the benefit of the Ramsay Sime Darby sale proceeds in December 2023.

Going to slide 27, and the Funding Group, which is essentially our Australian and UK businesses, reported a 6.5% increase in revenue driven by activity increases in both regions, combined with improved indexation from PHI negotiations and increased UK tariffs.

Underlying EBIT growth of 6.8% reflects increased contributions from the core Australian and UK hospitals businesses, partially offset by a decline in the contribution from Elysium. Return on capital employed increased 100 basis points, reflecting the 13.5% increase in the rolling 12-month EBIT pre-non-recurring items reported by the Funding Group.

Going to the balance sheet, which had previously been strengthened by the sale of Ramsay Sime Darby in December 2023. The primary movements in the balance sheet relate to the impairments taken in the UK and the tax provision released in the European segment. Operating cash flow improved 44% over the prior period, primarily reflecting improved cash collections in Australia.

Free cash flow also benefited from a 6% decline in capital expenditure across the regions. The Funding Group's leverage finished the period at 2.07x, which is within the target range of less than 2.5x. The Funding Group's unsecured debt facilities are underpinned by the strong cash flows generated by the Funding Group and the ownership of the majority of the Australian hospital portfolio of the businesses and the value of the Australian property portfolio.

For the first time, we've provided you with a rolling 12-month EBITDAR reported by the 48 hospitals in Australia, which are located on sites that are owned. I would emphasize that this EBITDAR contribution is prior to any overhead cost allocation. For the second half of FY25, approximately 73% of the Funding Group's debt is hedged at an average base rate of 3.5%, which is below prevailing spot rates.

Ramsay Santé continues to be supported by its own funding arrangements underpinned by secured loan facilities, and this has been evidenced by the recently announced repricing and extension of its debt facilities, which receives support from existing and new lenders.

Following the recent repricing, the Consolidated Group's weighted average cost of debt, excluding CARES, is approximately 5.5%, with 84% of the Consolidated Group's floating debt in the second half of FY25 hedged at an average base rate of 3.1%. We expect the Consolidated Group's full year net interest costs, including AASB 16 costs, to now be in the range of $580 million to $610 million. Group capital expenditure declined 8% to $376 million, reflecting a decline in spend across all regions.

Full year capital expenditure is forecast to be in the range of $755 million to $870 million, slightly lower than the forecast given at the full year results, primarily reflecting lower development capex in Australia due to timing issues on projects which are underway. And with that, I'll now hand you back to Natalie to conclude the presentation.

Natalie Davis: Thanks, Martyn. So just to recap, my priorities are to focus on transforming our market-leading Australian hospital business, strengthening our capital discipline and improving capital returns across the portfolio, and evolving our culture of people caring for people to innovate and drive performance.

We expect our FY25 results to reflect activity growth across all regions, albeit at a lower rate than in FY24, with current trading conditions extending through the remainder of the FY25 period. We also expect our dividend payment for the year to be maintained in the range of 60% to 70% of impact after minorities, excluding non-recurring items.

I will now open for questions.

Operator: Thank you. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star two. If you're on a speakerphone, please pick up the handset to ask your question.

The first question comes from David Low at JPMorgan. Please go ahead.

David Low: Thanks very much for taking my questions. Natalie, if we could start with just your observations, perhaps focusing more on the domestic portfolio. Are there easy opportunities or easy wins in terms of what could be done to deliver better margins, or is the work ahead of you likely to be something which is more of a grinding recovery over time? Please.

Natalie Davis: Thanks, David. I'd say there's a lot of work to do, but certainly I can see a pathway for us to continue to improve margins. And just to give you a bit of colour on some of the opportunities, we've been really focusing since the beginning of this year on growth plans at a catchment level for all our hospitals.

So we, for the first time, have given our team insights into referral activities in the area, theatre utilisation, cancellation of lists, and we're going hospital by hospital and really developing strong growth plans to make sure that we're utilising our existing assets as efficiently as possible. And so that's something that's already begun. I would say also in procurement, there's a lot of opportunity.

We've traditionally been a very hospital by hospital driven organisation, and we need to get better at actually centralising some of our procurement activities, and there'll be benefits on that. If I just take a non-clinical example. If we look at the way we do food at the moment, every hospital comes up with their own menu. And certainly as I've been out and about that complexity it's not something that the hospitals want to deal with In fact, the industry's now moved to ordering on demand.

And so there's a lot of capabilities that we can build at a central level that will actually support our team and lastly, I'll just mention some of the opportunities around digital and AI and these are live in our business in different parts of the group.

So AI listening is really a key capability to reduce administrative burden for our doctors and nurses. We're using it for example in primary care in Sweden, we're using it in the UK for doctors in outpatient settings and we've got it at the moment in Australia in three different settings and we're getting really positive feedback from our doctors around how that's helping them and reducing a very huge administrative burden, they're saying lots of patients and then they're going home to write letters to GPs, etcetera.

And then when I look at what's happening overseas, there's lots of potential to continue to build on that and actually, for example, put in prompting into the AI listening so that we're making sure we're getting the right coding information Into the patient file as quickly as possible.

So there's a lot to do we'll be working over the next few months on just really clarifying that pathway to transform the Australian business and to continue to improve margins.

David Low: All right. Thank you for that. Maybe just a related question. When you look at the domestic portfolio, are there opportunities be it with M&A or be it with sort of exiting some of the hospitals to fix the portfolio, other areas of weakness and given the live situation with Healthscope's hospitals. Maybe I could get you to touch on whether Ramsay would be interested in any of those assets?

Natalie Davis: So yes, what you've heard from me today is really an affirmation of the potential we see in the Australian market. And our strong position as the leading private health care provider. Our immediate focus is on transforming the business. We will certainly and I'll be taking a closer look at the performance of all of our hospitals.

But as I said today our capital Developments are really focused on our major hospitals where we do high acuity work and we need actually extra procedural capacity, whether that's theatres or whether that's cath labs, for example. So we continue to grow our relationships with our doctor partners. So It's too early for me to speculate across Healthscope of what might happen there.

But, of course, we'll be considering all the opportunities that arise in the Australian market in a disciplined way.

David Low: All right, that's all for me. Thanks very much

Operator: The next question comes from Lyanne Harrison, Bank of America. Please go ahead.

Lyanne Harrison: Hi, good morning. Hi, can we talk about the Australian business still and yesterday the health minister announced a 3.7 increase in private health insurance premiums a little bit less than what the lobby groups were asking for, but can you comment on what this means for the outstanding private health insurance negotiations you have?

Natalie Davis: Thank you for the question. And we understand the need to balance health premium rises with affordability for Australians and particularly given current cost of living pressure, but we do have genuine cost pressures particularly wage pressures impacting our business and certainly above the amount announced yesterday.

And we'll continue to seek outcomes from all our payers that reflect genuine industry-wide cost pressures. I think we've noted in their presentation that we've completed all major negotiations, but we still need to complete the negotiations that we're focusing on at the moment.

Lyanne Harrison: Okay. Thank you. And if I could move on to Elysium, obviously a disappointing performance there, and you mentioned occupancy rates are down because of the drop in referrals. Can you explain what's driving that?

Natalie Davis: Yes, thank you. So it was a weak performance in Elysium in terms of occupancy there were really two things that are concerning us that we're working on. One is the ramp up in some of our new sites has have been as fast as we were anticipating.

But also we can see when we look across our business, and we have a number of different services within the Elysium portfolio. We're getting weaker occupancy rates in our rehab and our neuro services. In rehab, it's partly because lower complexity cases are being treated in community settings.

And so the referrals to us are much more complex patients and we provide amazing quality of care for complex patients. We work with our local partners to make sure that the fees that we receive reflect the complexity of the patients in our facilities.

But as you see today, we are progressing with a strategic diagnostic and that will really step back and help us understand how best we position ourselves in that market and strengthen our position in this occupancy, but in the meantime, lots of focus on performance improvement.

Lyanne Harrison: Okay. And for, I know it's still early in the second half, but any feedback on what trading has been to date in terms of occupancy for January?

Natalie Davis: I don't think we'll be updating it very early as you say, in the second half. But broadly we expect trading conditions to be similar in our businesses in the second half as they have been in the first half.

Lyanne Harrison: Okay. And just a follow on from that. So if you expect trading conditions to be similar in the second half of Elysium as in the first, and given some of the additional cost pressures that are coming through, could margins then erode further in second half than what we saw in the first half?

Natalie Davis: So what we'll be looking at is ensuring that we reflect our cost pressures and the complexity of our patients in the fees that we receive from the local authorities that refer patients to us in Elysium.

Lyanne Harrison: Okay. Thank you very much. I'll leave it there.

Operator: The next question comes from Andrew Goodsell at MST Marquee. Please go ahead.

Andrew Goodsell: Good morning. Thanks very much for taking my question. Just wanted to ask if you'd be prepared to comment on where utilisation occupancy is in the Australian facility, just trying to get a line in the standards?

Martyn Roberts: Sorry, Andrew, it's very muffled. Can you maybe talk closer to your microphone? Sorry.

Andrew Goodsell: Is that better now?

Martyn Roberts: Yes, much better. Thanks.

Andrew Goodsell: Okay. Yes, sorry, just asking around utilisation or occupancy of the Australian facilities, just trying to get a line in the standard, where we are today in terms of that. I think in the past you've sort of talked something close to 70%.

Natalie Davis: Yes, look, I'll just talk about DC utilisation. I won't be providing a specific number, but what we've done over the last six months is really align our definition across all our hospitals, and consider the actual utilisation of the theatre facilities.

So not just whether there's a list that we've given to a doctor for that specific time, but also whether the doctor is utilising that time and whether or not there are any cancellations and are we backfilling those theatres. So we still see significant opportunity for us to focus on lifting theatre utilisation and getting that consistency of theatre utilisation across our hospitals.

Andrew Goodsell: Okay. And in terms of your competitors, obviously there's been a lot of concern in the marketplace, I guess, around how they're functioning. Have you seen any sort of fallout of that in terms of approaches from doctors for more time at your facilities, etcetera, just seeing if that's something you're seeing?

Natalie Davis: Look, we're always working at a local hospital level to approach doctors and to introduce new doctors into the business. That's the core of what our hospital CEOs do, and they do that very well. What we've been doing since the beginning of this year is actually rolling out a very structured way of making sure that all our hospitals are really thinking about which doctors to approach and how to best utilise our theatre capacity.

And how to continue to build relationships in the local catchment with GPs, for example, as well as focus on public contracting. So we're certainly prepared and ready to assist any doctors, depending what happens in the market to join Ramsay and we welcome that.

Andrew Goodsell: And just finally on the ED initiatives, just how many facilities you think ultimately could actually accommodate an ED and obviously that's been probably a good driver of growth. Just any commentary around what you said 20% of the overnights but yes any sort of targets you've got in terms of role out there?

Natalie Davis: Yes. Look, the EDs play a really important role in our major hospitals and so at the moment they're providing about 20% of overall overnight admissions but in the hospitals with EDs it's around 40% and what we're seeing through our EDs is complex medical patients, cardiac patients and usually those patients are then in our hospitals with longer legs of stay just given the acute nature of how they're presenting.

So it's something that we're focusing on but it's really relevant to our major hospitals where we have the right infrastructure whether that's critical care units, ICU units, etcetera.

And so just to give you an example of where we are building one at the moment in Warringal down in Victoria that hospital is right across the road from the public Austin Hospital and so it's a great opportunity for us to continue to work with the public sector and provide a really valued service.

Martyn Roberts: And Andrew I'd add on Slide 38. We've added in the appendix to the Slides we've added a list of all our facilities and we've actually put there for potential EDs and identified four sites where we think there's potential to put emergency departments in the future. So I'll refer you to that.

Andrew Goodsell: Great level of detail, thank you.

Natalie Davis: And we don't really have many in New South Wales but that would be a potential focus.

Andrew Goodsell: Okay. So still plenty of runway there to a point?

Natalie Davis: Yes.

Andrew Goodsell: Thank you very much.

Operator: The next question is from David Bailey at Morgan Stanley. Go ahead.

David Bailey: Thanks very much. Just on the transformation programme just wondering if there's any change in the value of spend and the timing of benefits. I think the previous commentary was for a peak in FY25 and then a net benefit from FY28? Just wondering if there's any material change there?

Natalie Davis: Look what we're doing at the moment is really stepping back and thinking through how do we optimise the spend in our transformation programme so that we do accelerate benefits and also, provide clear wins to our hospital teams and our frontline teams that we really win their engagement and they champion the transformation.

It's too early for me to make commentary on, what's the shape of that spend will look like but my focus is very much trying to optimise and given how quickly, the digital technology possibilities are evolving I would expect us at a very regular basis going forward probably on a quarterly basis to continue to really work through all our digital initiatives what's working, what's not working.

What do we accelerate, what do we cause because there are a lot of exciting things out there and we'll learn by piloting, we'll put them into hospitals, we'll get feedback from our team and from patients and we'll continue to improve and understand the possibilities of what we're doing there.

I also would say that there is a programme in parallel which really is more focused on tech debt and so our hospitals are run on very old legacy systems that aren't connected and we do need to modernise the Australian business so there are investments that we will thoughtfully sequence such as HR information system which we're rolling out at the moment, such as the procured pay system which we're rolling out at the moment so there will be an element of that that we will need to do thoughtfully over the next few years.

David Bailey: And then just on negotiations with the PHIs, can I just confirm that you're looking to catch up the shortfalls in the previous period as opposed to offsetting the current inflation you're seeing at the moment and has this been achieved in the contracts to date or are you looking to put that through as part of future negotiations?

Natalie Davis: So absolutely, in each of our negotiations we're looking at the cumulative impact of cost pressures and likely future cost pressures as well, and making sure that that's reflected in the rates that we're being paid. So we have made some progress but there's much more to do there and we'll continue to focus on that.

We do see sustained cost pressures coming through as I mentioned particularly around wages and we want to make sure that we're paying our team fairly. We do have a very dedicated frontline team, obviously balancing that with affordability of health care for everyone. But we're also very interested

as the leading private health care provider and really working with industry stakeholders to continue to strengthen the overall Australian health system.

And that means innovating health care models and innovating funding models as well. And we've also started with some of our major payers to have those conversations. And I think that's really important for us as a country and as an industry to continue to make sure that we continue to have a really good health care system in Australia.

David Bailey: Thanks Natalie.

Operator: The next question comes from Laura Sutcliffe at UBS. Please go ahead.

Laura Sutcliffe: Hello, thank you for taking my questions. Your Aussie EBIT margin I think was flat year on year, correct me if I'm wrong, but could you maybe just talk a little to the near term potential for that margin to expand? So for example, will the second half look any better? What are you thinking into FY26?

Natalie Davis: Yes, so if you have a look at the Australian results, we also provided an underlying EBIT margin, which was relatively stable at increased 10 basis points. And there's a number of tensions going on in our P&L. We've got activity growth and admissions growth, which is great where we're utilising existing capacity.

We've obviously got our negotiations with payors that continue and we've got the cost pressures, wages, cyber security costs, and also the investments we need to make in our business to really modernise and transform the business and continue to be the leading healthcare operator in Australia.

So we'll continue, as I said, to really make sure that we're focussing on resetting the transformation so that we are delivering, continual margin improvement while we're thoughtfully investing and transforming our business. I won't be providing specific guidance for F26 on this call.

Laura Sutcliffe: No, sure. But do you, when you say continuous margin improvement, we can sort of expect year on year that the Aussie margin might get better to some extent?

Natalie Davis: What I'm saying is that's what we'll be focussing on as a team. There are opportunities there for us, as I've laid out today around growth, our coding optimisation, our procurement. Some of those will take more time than others, but our absolute, focus is on maintaining our quality care and improving business performance.

Laura Sutcliffe: Okay, got it. And then my other question is just around your strategic review of the Santé stake. Have you ruled out any of the options that have been suggested for that over time, or are you sort of starting with everything on the table?

Natalie Davis: Yes, thank you. We've announced today that we've appointed Goldman Sachs to really explore and advise on options following an internal review. We are keeping a wide range of options on the table, and we're very conscious that, we need to be thoughtful around the current market uncertainty and the executability of anything we may think about, and we'll remain very disciplined in our approach to considering the options.

But at the moment, we're looking at a wide range of options and really thinking to see what we can achieve to maximise shareholder value.

Laura Sutcliffe: That's great, thank you.

Operator: The next question comes from Mathieu Chevrier from Citi, and I'm sorry if I mispronounced that. Please go ahead.

Mathieu Chevrier: Yes, good morning. Thank you. No worries. My first question was just on the capital intensity for the Australian business. I was just curious to know whether you think it's where it should be on a go forward basis or given all the plans that you are preparing, whether you think that should be going up over time?

Natalie Davis: Yes, look, thanks for the question. I think I probably need to do a bit more work on this with the team, but I think what you've seen and heard from me is a shift in the business from away from what we may have been doing pre-COVID, which was really more around adding beds to our hospitals to now very much thinking about where do we need theatre capacity and how do we strategically invest in our major hospitals to deliver that, given the therapeutic areas that we want to focus on. And also the emergency departments that help to support the high complexity work.

So that's definitely the focus going forward. You know, we will be doing a further strategic review of the Australian business and all the opportunities over the coming months. So we may have a clearer answer for you, but we definitely do see a need to continue to maintain our hospital assets as well, to make sure that we continue to provide a leading experience for our customers.

Matthew Chevrier: Okay. And I see that in your slide deck, you've actually listed your Australian property portfolio as well as the EBITDA that's generated from those assets. I was just curious to get your views on, potential sale and lease back, because that was proposed, as over time as a way to deliver the company?

Natalie Davis: Yes. Look, the way we're thinking about our property assets in Australia is that they're incredibly valuable to us strategically. Our hospitals, we have hospitals that are very well located in the right attachments, both to major public hospitals, where doctors want to work. And we certainly see ownership of those properties as a competitive advantage.

Matthew Chevrier: Okay. And then maybe just one final one. You stated that, there were no synergies between Ramsay Santé in Australia. I was just curious to understand the synergies between the UK and Australia?

Natalie Davis: The comment around synergies was, they've been limited to date. There were some procurement synergies that we did as a group originally realised a number of years ago. There's probably, there's definitely more we can do in terms of sharing best practise and, things like how we create a digital front door for our patients is very common across our businesses.

There's innovations around operational excellence that we can share. So, both Australia and UK hospitals are working on data utilisation. So there's many opportunities for us to better share, the strategies and the operational initiatives that we're doing in market.

Matthew Chevrier: Great. Thank you so much.

Operator: The next question comes from David Stanton at Jefferies. Please go ahead.

David Stanton: Thanks very much for taking my questions, team, and good morning. Firstly, given, I know it's early days, but given the ongoing sort of lower performance of the psych assets in Australia, broad brush, can you give us an idea of what your plans might be for that aspect of the Australian division, please?

Natalie Davis: Yes, thanks for the question. There's a number of really significant structural trends going on in the psychiatry business. One that we've talked about historically is, there's just a limitation on us being able to get psychiatrists who are focused on the kind of inpatient work that we do.

And so that's something that we continue to focus on. We're also continuing to focus on public contracting. And we see ourselves as well positioned to be able to support state governments in delivering mental health care.

We know there's a strong need in the community to do that. And we've had success with a few contracts in a number of states on mental health over the last six months. But we acknowledge that we do need to transform our mental health business, given all the trends that are happening in the market, including patients really looking for telehealth and digital solutions, as well as inpatient services. So that's something, again, that we'll be working on in more detail over the coming months around how do we really transform the business to better meet patient needs.

David Stanton: Understood. And we know that you've talked to a number of EBAs that are due this year, I mean broad brush, what should we be thinking about? Firstly, the states that you expect to get new EBAs in and broad brush as well, perhaps for calendar '25 increases on the nursing side in particular in terms of pricing? Thank you.

Natalie Davis: Thank you. And as I said, we're very conscious about needing to pay our team fairly and developing the great team that we have at Ramsay. We're at the table and negotiating in good faith in both WA and in New South Wales.

In WA, the public sector's reached an agreement, that agreement five, four, three and a half percent. There's also other initiatives in there and discussions are progressing well there. In New South Wales, we're also back at the negotiating table over the last few weeks and we remain really hopeful.

We're continuing the dialogue. We're listening to our team and we really do want to resolve that negotiation.

David Stanton: Understood. And a final question from me and a final one from Martyn. And thank you, Martyn.

Could you talk to what you think your effective tax rate will be for F25, please?

Martyn Roberts: Yes, thanks, David. Well, you've seen the underlying effective tax rate for the first half was 35.5%. It's above the average rates in our market for two key reasons, really.

One is what we've had for the last year or two, which is the lack of ability to deduct all our interest costs in the UK. You can only deduct 30% of EBITDA and we've got higher interest costs in the UK. That will prevail through the second half.

The other reason was due to the very low profitability in Ramsay Santé, mainly in France, where it was actually a loss of profit before tax, but there was a small tax charge because there are some taxes that aren't related to the profit before tax. We're not going to give you a forecast of what the second half profit for Santé will be, but certainly that lack of interest deductibility will continue into the second half. So I wouldn't be expecting anything to be going below 30% and into the second half.

It's about as much as I can tell you. I'm afraid there's a few other moving parts as well in terms of initiatives that we're looking at. And so it may move around a bit, but yes, that's as helpful as I can be.

David Stanton: Sorry, just to follow up, I mean, you were previously talking to 33% plus for the total business. Should we be thinking around that number for the balance of 25 or for all of 25?

Martyn Roberts: Well, I didn't say that, but the first half was 35.5% and the continued lack of interest deductibility will continue into the second half.

David Stanton: Understood, thank you.

Operator: The next question is from Steven Wheen at Jarden. Please go ahead.

Steven Wheen: Yes, thank you. I was wondering if I could just go back to the commentary about the insurers. It's not quite clear to me. You've done the majority of the larger ones in terms of what you've negotiated, but you've only made some progress with regards to addressing the cumulative impact of the inflation impact on your business.

So does that mean that even though they're done, we're bringing them back to the table perhaps once you've finalised the EBA agreement in New South Wales?

Natalie Davis: Thanks for the question. Look, I think what we've said today is, we're very much committed to making sure that what we receive from our payables reflect our genuine cost increases that are industry-wide and expected to be sustained. So if that means we need to go back to the negotiating table because our costs change, we will do that.

But we've made progress with major payers in this path and we'll continue to have negotiations.

Steven Wheen: Okay, so if in the situation where there's no further, let's just say as a scenario, there's no further wage increases across EBAs, you wouldn't necessarily need to go back and call the insurers back to the table at that point. I'm just trying to understand where we are in this mismatch between the pricing you're getting versus the inflation you're seeing.

Natalie Davis: Yes, I think that's a very hypothetical question. The reality is we have ongoing cost pressures and they're expected to continue. And so we'll continue to negotiate with our major payers. But as I said, we're also keen to explore ways if we can innovate healthcare delivery and funding models as part of those negotiations. And we've started to have those discussions as well.

Steven Wheen: Okay, just jumping around a bit, in terms of the strategic review, is the strategic review only now focused on Ramsay Sante or are you still considering assets like Elysium as to whether or not it's something that you would potentially consider divesting as well?

Natalie Davis: So what we've announced today is, Goldman Sachs will explore and advise on options relating to our shareholding in Ramsay Sante specifically. In regards to Elysium, we're at a different place there, so as I said we're focusing on really operational excellence and lifting performance of that business. At the same time, we'll do a strategic review to better understand how we can strengthen the performance of Elysium and how best to position ourselves in the market, which will be supported externally by consultants. So with Elysium, we're very much focused on lifting performance and working through how we strengthen the position of that business. And I'll continue to review capital returns across all our portfolio as I said, it's one of my top priorities.

Steven Wheen: Great, yes, understood. Just on the digital data, this is a clarification point. There have been previous estimates as to what we should be forecasting in our model. Are they all off the table now until you complete your next review and then you'll come back to us with some revised expectations around that spend?

Natalie Davis: Yes, look, I think we've given a range for the rest of this year. But yes, I really want to step back and think through how do we reset the transformation to deliver benefits? What's the sequencing of the tech debt investment? And so we'll provide some more colour on that later in the year.

Steven Wheen: Okay, great. Last one for me, just trying to understand the opportunity in procurement, particularly around consumables. Ramsay has focused on that in the past and even set up a dedicated office in the UK to explore some of the different pricing that is put on consumable items between your various markets.

I'm just trying to understand where that didn't quite come up with the savings that were originally anticipated and why you think there might be opportunities to get some savings and consumables going forward?

Natalie Davis: Yes, so the history here is, as I said, it was a focus a number of years ago and there were some procurement benefits that were achieved internationally. The focus for me going forward at the moment is really on our Australian business and how we really centralise procurement across all our hospitals for both clinical and non-clinical purchasing. And I think there's a significant opportunity for us there.

We'll, of course, keep an eye out to, particularly for medical equipment, the opportunities for us to consider global negotiations. But the focus for the Australian transformation is really about lifting the procurement out of hospitals to a more national level for both clinical and non-clinical.

Steven Wheen: Great. Thanks very much, Natalie.

Operator: Once again, if you wish to ask a question, please press Star 1 on your telephone and wait for your name to be announced. The next question comes from Saul Hadassin at Barrenjoey. Please go ahead.

Saul Hadassin: Yes, good morning. Thanks, Natalie, and thanks, Martyn, for taking my questions. Natalie, can I just ask you about your observations regarding inpatient growth in Australia?

You know, we know private health insurance participation has increased significantly in terms of number of people or lives covered, but that growth rate seems to remain stubbornly stuck at around about 1%. I guess, to what extent do you think this is just a bit of a shift between sort of inpatient work moving to day patient? But considering how much revenue comes from inpatient work, I guess, what are you looking to do to try and drive that growth rate higher and help with that degree of operating leverage?

Natalie Davis: Yes, thank you for that question. So there's definitely a trend and we can see it globally in all our businesses, towards lower lengths of stay, and it's particularly true in some areas such as orthopedics, for example. And so you would have seen in the metrics that we've provided, we have actually provided, you know, the percent of day admissions in Australia, which is at 68.6%.

So the business is continuing to evolve as the clinical innovation continues, and I'd expect in certain areas, the length of stay would reduce as we continue to really innovate our healthcare models and complement them, if I think about hip replacements, for example, complement them with, for example, physio in the home and care for people in the home.

So that's certainly an innovation that we can see happening that we will continue to work with our doctors on and make sure that we're providing leading care to our patients. There are other areas where length of stay is a lot longer, and, as I mentioned, emergency departments are often presenting with patients that have complex medical cardiac needs, and that results in a higher length of stay.

And so the more that we focus on that mix, the more we'd get the longer inpatient stays because of the complexity of the treatment required. So there are a number of things going on here, but we'll certainly be focused on making sure that our major hospitals are focused on high acuity, high complexity work, and we'll be thinking through, the balance of our hospitals and their role in providing care that's, focused on less complex areas, as well as then how we bridge out and provide services to outpatients.

Saul Hadassin: Thank you very much for that. And, Martyn, if I can just ask one question of you. Thanks for providing the return on capital employed by region. That's useful. Can I just check, so the calculation using EBIT, is that a AASB 16 EBIT, or is that a pre-AASB number that actually includes the additional rent that goes to your interest cost? Thanks.

Martyn Roberts: AASB 16.

Saul Hadassin: Okay, thanks very much. That's all I had.

Operator: There are no further questions at this time. I would like to now hand back to Ms. Davis for closing remarks.

Natalie Davis: Thank you, and thank you for all of your great questions. I really enjoyed stepping in as CEO of Ramsay and getting out and about in the business, meeting our team, getting to know our doctors, and I can see the strong potential that we have to continue to evolve and transform the business. And I look forward to meeting many more of you over the coming weeks.

Operator: That does conclude our conference for today. Thank you for participating. You may now disconnect.

[END OF TRANSCRIPT]