Notes to the financial statements continued

for the year ended 30 JUNE 2021

8. Intangible assets

	Group						
	Brands and intellectual property R'000	Pharma-ceutical dossiers** R'000	Internally generated software R'000	Computer software R'000	Goodwill R'000	Customer relationships R'000	Total R'000
Reconciliation for the year ended 30 June 2021							
At 30 June 2020							
At cost	47 873	286 365	957 654	535 312	1 422 024	303 452	3 552 680
Accumulated amortisation****	(40 775)	(14 454)	(235 270)	(216 903)	–	(225 221)	(732 623)
Accumulated impairment****	–	–	(47 000)	(29 196)	(48 674)	–	(124 870)
Closing carrying amount 30 June 2020	7 098	271 911	675 384	289 213	1 373 350	78 231	2 695 187
Movements for the year ended 30 June 2021							
Acquisitions through business combinations*	–	–	7 230	–	34 918	65 017	107 165
Additions	–	12 379	181 916	14 907	–	–	209 202
Amortisation	(806)	(16 800)	(86 818)	(60 477)	–	(30 153)	(195 054)
Impairment loss recognised in profit or loss***	–	–	(6 093)	(35 485)	(771)	–	(42 349)
Reversal of impairment loss recognised in profit or loss	–	–	39 167	–	–	–	39 167
Disposals	–	(1 177)	–	(2 482)	–	–	(3 659)
Write-off	–	–	(26 793)	–	–	–	(26 793)
Carrying value at 30 June 2021	6 292	266 313	783 993	205 676	1 407 497	113 095	2 782 866
At 30 June 2021							
At cost	47 873	297 566	1 114 938	547 743	1 456 942	368 469	3 833 531
Accumulated amortisation	(41 581)	(31 253)	(317 019)	(277 386)	–	(255 374)	(922 613)
Accumulated impairment	–	–	(13 926)	(64 681)	(49 445)	–	(128 052)
Closing carrying amount	6 292	266 313	783 993	205 676	1 407 497	113 095	2 782 866

* *The recognition of goodwill (R34.9 million) and customer relationships (R65 million) is as a result of the business combinations in the current financial year.*

** *Pharmaceutical dossiers relate to a set of documents that contains all the technical data (administrative, quality, non-clinical and clinical) of a pharmaceutical product in order to promote, market, sell, import and distribute the product in a specific territory.*

*** *During the current year an impairment loss was recognised for Schema6 (R6.1 million) due to no clients using the system, as well as IFM system (R35.5 million) due to a reduction in expected future cash flows. An impairment loss in respect of previously recognised goodwill on the acquisition of Workcare Health to the value of R771 000 was incurred, as the company is incurring losses and the recoverability of the goodwill cannot be substantiated.*

**** *The prior year accumulated amortisation and impairment has been disaggregated to separately disclose the accumulated amortisation from the accumulated impairment.*

Notes to the financial statements continued

for the year ended 30 JUNE 2021

8. Intangible assets continued

	Group						
	Brands and intellectual property R'000	Pharma-ceutical dossiers* R'000	Internally generated software R'000	Computer software R'000	Goodwill R'000	Customer relationships R'000	Total R'000
Reconciliation for the year ended 30 June 2020							
At 30 June 2019							
At cost	47 873	286 365	754 336	477 803	1 399 808	303 452	3 269 637
Accumulated amortisation***	(39 934)	–	(166 416)	(198 180)	–	(187 144)	(591 674)
Accumulated impairment***	–	–	(47 000)	(26 277)	(48 674)	–	(121 951)
Closing carrying amount 30 June 2019	7 939	286 365	540 920	253 346	1 351 134	116 308	2 556 012
Movements for the year ended 30 June 2020							
Additions	–	–	203 318	80 713	22 216	–	306 247
Amortisation	(841)	(14 454)	(68 854)	(41 927)	–	(38 077)	(164 153)
Impairment loss recognised in profit or loss**	–	–	–	(2 919)	–	–	(2 919)
Carrying value at 30 June 2020	7 098	271 911	675 384	289 213	1 373 350	78 231	2 695 187
At 30 June 2020							
At cost	47 873	286 365	957 654	535 312	1 422 024	303 452	3 552 680
Accumulated amortisation***	(40 775)	(14 454)	(235 270)	(216 903)	–	(225 221)	(732 623)
Accumulated impairment***	–	–	(47 000)	(29 196)	(48 674)	–	(124 870)
Closing carrying amount 30 June 2020	7 098	271 911	675 384	289 213	1 373 350	78 231	2 695 187

* *Pharmaceutical dossiers relate to a set of documents that contains all the technical data (administrative, quality, non-clinical and clinical) of a pharmaceutical product in order to promote, market, sell, import and distribute the product in a specific territory.*

** *The previous year R2.9 million in respect of the Solatium system – an impairment has been recognised as there are no expected cash flows from the system, resulting in the recoverable amount not being able to be substantiated.*

*** *The prior year accumulated amortisation and impairment has been disaggregated to separately disclose the accumulated amortisation from the accumulated impairment.*

Notes to the financial statements continued

for the year ended 30 JUNE 2021

8. Intangible assets continued

A summary per CGU of the goodwill allocation is presented below:

	Group		Company	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
Healthcare administration SA CGU	493 363	459 216	–	–
Medscheme – healthcare administration	274 972	274 972	–	–
Medscheme – health risk management	89 298	89 298	–	–
Aid for AIDS Management Proprietary Limited – healthcare administration	23 490	23 490	–	–
Allegra Proprietary Limited – healthcare IT support	1 268	1 268	–	–
AfroCentric Distribution Services Proprietary Limited – healthcare marketing support	835	835	–	–
Klinikka Proprietary Limited – medical equipment supplier	2 435	2 435	–	–
Wellness Odyssey – healthcare wellness days	14 857	14 857	–	–
Tendahealth – healthcare insurance broker	1 162	1 162	–	–
Scriptpharm – chronic scripts claim	2 699	2 699	–	–
Essential Group – healthcare insurance	9 333	9 333	–	–
AfroCentric Integrated Corporate Solutions Group – healthcare administration	38 096	38 096	–	–
Workcare – healthcare administration	–	771	–	–
Denis Group	34 918	–	–	–
Healthcare Africa CGU	15 535	15 535	–	–
Medscheme Mauritius Limited – local administration	4 969	4 969	–	–
Medscheme Mauritius Limited – international administration	10 566	10 566	–	–
Healthcare Retail SA CGU	898 599	898 599	–	–
Pharmacy Direct, Curasana and Glen Eden (PD, CS and GE)	473 954	473 954	–	–
Activo	424 645	424 645	–	–
Total	1 407 497	1 373 350	–	–

Management determines the recoverable amount of Cash Generating Units (CGUs) as being the higher of fair value less costs to sell or value in use. In the absence of an active market, value in use is used to determine the recoverable amount. A traditional method of discounting management's best estimate of future cash flows attributable to the CGU has been applied to determine the value in use. A growth rate has been applied to cash flow streams to take into account the effect of inflation as well as business-specific expectations.

Assumptions used in the determination of the recoverable amount are as follows:

» The estimated revenues to be earned from the use of the assets;
» The forecast period over which those revenues are projected;
» An average growth rate;
» The pre-tax discount rate that takes into account the yield on government bonds, Beta and a market risk premium;
» Risk adjustment factors used in deriving an appropriate discount rate applied to future estimated cash flows;
» The rate on government bonds (risk-free rate) of 7.25% as at 30 June 2021 (30 June 2020: 7.32%);
» A market risk premium of 7.8% (2020: 7.7%) is justified as the overall risk is to the downside; and
» The Beta (ß) is 0.91 as at 30 June 2021 (30 June 2020: 0.92).

The inputs above were adjusted for geographical and entity specific risk.

Notes to the financial statements continued

for the year ended 30 JUNE 2021

8. Intangible assets continued

The following table sets out the key assumptions for those CGUs that management considers the most significant to the Group.

	Recoverable amount R'000	Discount rate %	Forecast period	Average growth rate %
2021				
Medscheme – admin and managed care	**5 010 916**	**12.67**	**5 years**	**5**
Activo	**1 488 160**	**12.67**	**5 years**	**7**
Pharmacy Direct, Curasana and Glen Eden	**1 237 827**	**12.67**	**5 years**	**7**
2020				
Medscheme – admin and managed care	4 746 798	13.16	5 years	6
Activo	941 072	13.16	5 years	7
Pharmacy Direct, Curasana and Glen Eden	1 243 246	13.16	5 years	7

Management has determined the values assigned to each of the above key assumptions as follows:

Assumption	Approach used in determining values
Average growth rate (%)	Average annual growth rate over the five-year forecast period; based on past performance and management's expectations of market development specifically taking into account the impact that the COVID-19 pandemic is expected to have on future earnings noted below: Medscheme – admin and managed care: » Average revenue increases in the forecast period have been muted with 4% growth expected in revenue. » Management has embarked on effective cost savings initiatives through early investment in systems development. This increased IT capacity has now been applied to greater scale and through improved procedural efficiencies. » The Group will continue with system renewals and upgrades to explore better and more cost efficient ways in servicing and engaging its customers/members. » These programmes are expected to enable the Group to achieve 5% growth. Activo, Pharmacy Direct, Curasana and Glen Eden: » Average revenue increases in the forecast period is 7%. » The pharmaceutical related component yielded significant growth during the year, particularly during the stressful time under COVID-19. This included the increasing volume of activity in Pharmacy Direct. » The more heedful attention paid by patients reliant on chronic medication during lockdown, not least an obvious desire to stay healthy in general, the convenience of group deliveries during lockdown, at work or home, proved extremely valuable to those dependent on their chronic medications and other requirements. » The trends experienced are expected to continue in the forecast period. This, together with the cost efficiency embarked on, resulted in a growth rate of 7% being applied.
Discount rate (%)	Discount rate the company is expected to pay on average to all its security holders to finance its assets which reflects specific risks to the relevant CGU.

Notes to the financial statements continued

for the year ended 30 JUNE 2021

8. Intangible assets continued

Sensitivity analysis: impact of possible changes in key assumptions (growth rate and discount rate) on the recoverable amount

				Worst case R'000 Medscheme: 4% PD, CS, GE & Activo: 6%	Growth rate Base case R'000 Medscheme: 5% PD, CS, GE & Activo: 7%	Best case R'000 Medscheme: 6% PD, CS, GE & Activo: 8%
Medscheme	Discount rate	Worst case	14.17%	3 776 026	4 190 091	4 705 489
		Base case	12.67%	4 430 384	5 010 916	5 765 509
		Best case	11.80%	4 927 599	5 656 064	6 635 900
Pharmacy Direct, Curasana and Glen Eden		Worst case	14.05%	870 337	995 689	1 162 501
		Base case	12.67%	1 050 255	1 237 827	1 505 721
		Best case	11.80%	1 208 985	1 463 909	1 853 148
Activo		Worst case	14.17%	1 052 689	1 170 616	1 325 470
		Base case	12.67%	1 295 781	1 488 160	1 761 238
		Best case	11.80%	1 499 380	1 769 765	2 180 565

(i) Impairment assessment

During the period under review, management embarked on a process of assessing the internally generated intangible assets for potential impairment. Following from this process, an impairment loss was recognised for the following system:

- R6.1 million in respect of the Schema6 system – an impairment has been recognised as there are no expected cash flows from the system, resulting in the recoverable amount not being able to be substantiated.
- R35.5 million in respect of the IFM system due to a reduction in expected future cash flows. AfroCentric has been notified by FICO that the support on the IFM system will come to an end at the end of March 2022, resulting in the system not being available for continued use. As a result of this, it is expected that cash flows generated from the schemes for use of the Fraud Management Software (IFM system) will cease from January 2022.
- In the 2019 financial period, an impairment loss of R47 million was recognised as a result of the recoverable amount of the Gexus system being lower than the carrying value. This internally generated software is used to administer a portion of our managed care business and forms part of the Groups' IT segment assets. In the 2021 financial period, key managed care contracts were procured by AfroCentric resulting in the recoverable amount (calculated based on value in use) in excess of R195 million. An impairment reversal of R39 million has been recognised in the current financial period, to restore its carrying value to what it would have been, had there been no impairment raised in 2019, in line with IAS 36. The value in use has been calculated using a discount rate of 12.75% (12.59% in 2019).

9. Financial instruments

Financial instruments by category

Financial assets by category	Group At fair value through profit or loss R'000	Group At amortised cost R'000
Year ended 30 June 2021		
Financial assets (Note 14)	178 905	–
Trade and other receivables excluding prepayments (Note 9.2)	–	462 093
Cash and cash equivalents (Note 9.3)	–	198 940
	178 905	661 033
Year ended 30 June 2020		
Financial assets (Note 14)	3 711	–
Trade and other receivables excluding prepayments (Note 9.2)	–	464 436
Cash and cash equivalents (Note 9.3)	–	177 680
	3 711	642 116