

7 August 2019

Subject: Management Discussion and Analysis for the second quarter 2019 results

To: The President
The Stock Exchange of Thailand

Bumrungrad Hospital PCL.
Management Discussion and Analysis for Consolidated 2Q19 results
7 August 2019

Summary

The Company reported Total revenues in 2Q19 of Baht 4,348 million, a 0.9% increase from 2Q18 revenues of Baht 4,309 million. Net profit for 2Q19 decreased by 25.4% to Baht 725 million from Baht 972 million in 2Q18, with Net profit margin at 16.7% in 2Q19, compared to 22.5% in 2Q18.

Total revenues for 1H19 increased to Baht 9,082 million, or 0.9% more than Baht 9,003 million in 1H18. Net profit for 1H19 decreased by 11.9% to Baht 1,806 million in 1H19 from Baht 2,051 million in 1H18, with Net profit margin at 19.9% in 1H19 compared to 22.8% in 1H18.

Net profit for 2Q19 and 1H19 included a one-time adjustment of Baht 146 million (Baht 117 million after tax) related to additional Thai severance for employees who have worked for an uninterrupted period of twenty years or more, with such employees entitled to receive not less than 400 days' compensation (previously 300 days' compensation) at the latest wage rate, according to the new Thailand Labor Protection Act. An additional ongoing expense of Baht 3.6 million (Baht 2.8 million after tax), relative to the above change, was recorded for May and June 2019, bringing the total impact of this change to Baht 150 million (Baht 120 million after tax) for 2Q19 and 1H19. The ongoing impact for full subsequent quarters is estimated to be Baht 5.3 million (Baht 4.2 million after tax) per quarter. The details of this change in law is presented in the Extraordinary Item section of this document.

Excluding the above one-time adjustment of Baht 146 million (Baht 117 million after tax), Net profit for 2Q19 decreased by 13.3% to Baht 842 million from Baht 972 million in 2Q18, with Net profit margin at 19.4% in 2Q19, compared to 22.5% in 2Q18. Net profit for 1H19 adjusted for the above one-time item decreased by 6.2% to Baht 1,923 million from Baht 2,051 million in 1H18, with Net profit margin at 21.2% in 1H19, compared to 22.8% in 1H18.

Details of the management discussion and analysis follow:

Income statements

Quarterly Operational Performance

The Company reported Revenues from hospital operations of Baht 4,279 million, a 0.9% increase year-over-year from Baht 4,239 million in 2Q18. This was mostly due to a 4.1% increase in revenues from non-Thai patients, together with a 0.6% increase in revenues from Thai patients. As a result, the revenue contribution from Thai patients in 2Q19 was 35.1%, whereas revenue from non-Thai patients was 64.9%, compared with 35.9% and 64.1%, respectively, for 2Q18.

Operating Expenses and EBITDA (Unit: Baht million)	2Q19	2Q18	Change
<u>Including the above noted one-time adjustment of Baht 146 million (Baht 117 million after tax)</u>			
Cost of hospital operations	2,508	2,325	-7.9%
Selling expenses	116	82	-41.0%
Administrative expenses	820	676	-21.3%
EBITDA	1,167	1,486	-21.5%
ETBIDA Margin	27.1%	34.7%	
<u>Excluding the above noted one-time adjustment of Baht 146 million (Baht 117 million after tax)</u>			
Cost of hospital operations	2,414	2,325	-3.8%
Selling expenses	114	82	-38.4%
Administrative expenses	770	676	-13.9%
EBITDA	1,313	1,486	-11.6%
ETBIDA Margin	30.5%	34.7%	

The following analyses, down to and including EBITDA level, exclude the above noted one-time adjustment of Baht 146 million (Baht 117 million after tax):

The Company reported Cost of hospital operations (including Depreciation and amortization) of Baht 2,414 million for 2Q19, resulting in a 3.8% increase year-over-year from Baht 2,325 million in 2Q18. The variance was mostly due to Baht 27 million more in personnel cost, mostly associated with the annual merit increase, a prior year adjustment, offset by decreases associated with reduced volumes; Baht 25 million increase in physicians' fees; and Baht 20 million more in supply costs due to prior year adjustments. This contributed to the adjusted percentage of cost to Revenues from hospital operations of 56.4% in 2Q19 compared with 54.8% in 2Q18.

Selling expenses (including Depreciation and amortization) were Baht 114 million in 2Q19, or 38.4% more year-over-year from Baht 82 million in 2Q18. The variance was mostly due to Baht 18 million more in marketing expenses.

Administrative expenses (including Depreciation and amortization) were Baht 770 million in 2Q19, or 13.9% more year-over-year from Baht 676 million in 2Q18. The variance was mostly due to:

- i) Baht 33 million more personnel cost associated mostly with prior year adjustments and the annual merit increase;
- ii) Baht 29 million more software support and maintenance, mostly due to new HIS software support and maintenance and new IT support services;
- iii) Baht 19 million more depreciation and amortization, mostly due to accelerated depreciation adjustment related to Campus Master Plan work and BI Tower building renovation;
- iv) Baht 17 million more in consulting fees.

EBITDA decreased by 11.6% year-over-year to Baht 1,313 million in 2Q19 from Baht 1,486 million in 2Q18, with an EBITDA margin of 30.5% in 2Q19 compared to 34.7% in 2Q18.

2Q19 Depreciation and amortization were Baht 310 million, an increase from Baht 291 million in 2Q18, mostly due to accelerated depreciation adjustment associated with Campus Master Plan work and BI Tower building renovation.

Corporate income tax of Baht 140 million in 2Q19 was less than Baht 212 million in 2Q18. The variance was mostly due to the decrease in taxable operating profit and the increase in tax benefit related to training expenses.

Basic EPS was Baht 1.00 in 2Q19, which was less than Baht 1.33 in 2Q18, while 2Q19 Diluted EPS was Baht 0.83 compared to Baht 1.12 in 2Q18. Excluding the above one-time adjustment of Baht 146 million (Baht 117 million after tax), Basic EPS was Baht 1.16 in 2Q19, which was less than Baht 1.33 in 2Q18, while 2Q19 Diluted EPS was Baht 0.97 compared to Baht 1.12 in 2Q18.

Income statements			
(Unit: Baht million)	2Q19	2Q18	Change
<u>Including the above noted one-time adjustment of Baht 146 million (Baht 117 million after tax)</u>			
Revenues from hospital operations	4,279	4,239	0.9%
Total revenues	4,348	4,309	0.9%
EBITDA	1,167	1,486	-21.5%
Net profit	725	972	-25.4%
<i>EBITDA margin</i>	27.1%	34.7%	
<i>Net profit margin</i>	16.7%	22.5%	
<u>Excluding the above noted one-time adjustment of Baht 146 million (Baht 117 million after tax)</u>			
Revenues from hospital operations	4,279	4,239	0.9%
Total revenues	4,348	4,309	0.9%
EBITDA	1,313	1,486	-11.6%
Net profit	842	972	-13.3%
<i>EBITDA margin</i>	30.5%	34.7%	
<i>Net profit margin</i>	19.4%	22.5%	
EPS			
(Unit: Baht)	2Q19	2Q18	Change
<u>Including the above noted one-time adjustment of Baht 146 million (Baht 117 million after tax)</u>			
EPS – Basic	1.00	1.33	-25.4%
EPS – Fully Diluted	0.83	1.12	-25.4%
<u>Excluding the above noted one-time adjustment of Baht 146 million (Baht 117 million after tax)</u>			
EPS – Basic	1.16	1.33	-13.3%
EPS – Fully Diluted	0.97	1.12	-13.3%

First Half Operational Performance

The Company reported Revenues from hospital operations of Baht 8,929 million, an 0.8% improvement year-over-year from Baht 8,861 million in 1H18. This was mostly due to the increase in revenues from non-Thai patients of 3.1%, offset with a decrease in revenues from Thai patients of 1.8%. As a result, the revenue contribution from Thai patients in 1H19 was 34.0% and from non-Thai patients was 66.0%, compared with 35.1% and 64.9%, respectively, in 1H18.

Operating Expenses and EBITDA (Unit: Baht million)			
	1H19	1H18	Change
<u>Including the above noted one-time adjustment of Baht 146 million (Baht 117 million after tax)</u>			
Cost of hospital operations	5,003	4,878	-2.6%
Selling expenses	231	160	-43.8%
Administrative expenses	1,586	1,365	-16.2%
EBITDA	2,788	3,126	-10.8%
EBITDA Margin	30.9%	35.0%	
<u>Excluding the above noted one-time adjustment of Baht 146 million (Baht 117 million after tax)</u>			
Cost of hospital operations	4,909	4,878	-0.7%
Selling expenses	228	160	-42.4%
Administrative expenses	1,535	1,365	-12.5%
EBITDA	2,934	3,126	-6.2%
EBITDA Margin	32.6%	35.0%	

The following analyses, down to and including EBITDA level, exclude the above noted one-time adjustment of Baht 146 million (Baht 117 million after tax):

The Company reported Cost of hospital operations (including Depreciation and amortization) of Baht 4,909 million in 1H19, or 0.7% more year-over-year from Baht 4,878 million in 1H18. This represents a favorable change when compared to the 0.8% growth in Revenues from hospital operations, and contributed to the percentage of cost to Revenues from hospital operations of 55.0% for both 1H19 and 1H18.

Selling expenses (including Depreciation and amortization) were Baht 228 million in 1H19, or 42.4% more than Baht 160 million in 1H18. The variance was mostly due to Baht 46 million more marketing expense.

Administrative expenses (including Depreciation and amortization) were Baht 1,535 million in 1H19, or 12.5% more than Baht 1,365 million in 1H18. The variance was primarily from:

i) Baht 39 million increase in depreciation and amortization, which was mostly due to various computer software, BI Tower building renovation and accelerated depreciation adjustment related to Campus Master Plan work;

ii) Baht 39 million more software support and maintenance, mostly due to new IT support service and new HIS software support and maintenance;

iii) Baht 36 million more personnel cost, mostly associated with the annual merit increase;

iv) Baht 32 million more in consulting fees.

EBITDA decreased by 6.2% year-over-year to Baht 2,934 million in 1H19 from Baht 3,126 million in 1H18, with an EBITDA margin of 32.6% in 1H19 compared with 35.0% in 1H18.

Depreciation and amortization were Baht 607 million in 1H19, an increase from Baht 592 million in 1H18, mostly due to accelerated depreciation adjustment associated with Campus Master Plan work and BI Tower building renovation.

Corporate income tax of Baht 382 million in 1H19 was less than Baht 460 million in 1H18. The variance was mostly due to the decrease in taxable operating profit and the increase in tax benefit related to training expenses.

Basic EPS was Baht 2.48 in 1H19, which was less than Baht 2.81 in 1H18, while 1H19 Diluted EPS was Baht 2.08 compared to Baht 2.36 in 1H18. Excluding the above one-time adjustment of Baht 146 million (Baht 117 million after tax), Basic EPS was Baht 2.64 in 1H19, which was less than Baht 2.81 in 1H18, while 1H19 Diluted EPS was Baht 2.22 compared to Baht 2.36 in 1H18.

Income statements			
(Unit: Baht million)	1H19	1H18	Change
<u>Including the above noted one-time adjustment of Baht 146 million (Baht 117 million after tax)</u>			
Revenues from hospital operations	8,929	8,861	0.8%
Total revenues	9,082	9,003	0.9%
EBITDA	2,788	3,126	-10.8%
Net profit	1,806	2,051	-11.9%
EBITDA margin	30.9%	35.0%	
Net profit margin	19.9%	22.8%	
<u>Excluding the above noted one-time adjustment of Baht 146 million (Baht 117 million after tax)</u>			
Revenues from hospital operations	8,929	8,861	0.8%
Total revenues	9,082	9,003	0.9%
EBITDA	2,934	3,126	-6.2%
Net profit	1,923	2,051	-6.2%
EBITDA margin	32.6%	35.0%	
Net profit margin	21.2%	22.8%	
EPS			
(Unit: Baht)	1H19	1H18	Change
<u>Including the above noted one-time adjustment of Baht 146 million (Baht 117 million after tax)</u>			
EPS – Basic	2.48	2.81	-11.9%
EPS – Fully Diluted	2.08	2.36	-11.9%
<u>Excluding the above noted one-time adjustment of Baht 146 million (Baht 117 million after tax)</u>			
EPS – Basic	2.64	2.81	-6.2%
EPS – Fully Diluted	2.22	2.36	-6.2%

Statements of financial position

As at 30 Jun 2019, the Company reported Total current assets of Baht 11,413 million, a decrease from Baht 12,101 million as at 31 December 2018. The variance was mostly due to a net decrease of Baht 579 million in Cash, Cash equivalents, and Short-term investments, mostly due to Baht 1,312 million dividend payment in 1H19; Baht 1,102 million increase in Other long-term investments in bonds and debentures; and Baht 541 million capital spending in 1H19; offset with Baht 2,471 million increase in cash from operating activities. Trade receivables were Baht 2,427 million as at 30 Jun 2019 versus Baht 2,541 million as at 31

December 2018. The collection period was 55.2 days as at 30 Jun 2019 compared to 47.4 days as at 31 December 2018, mostly due to revenues and the collection periods associated with certain Middle East accounts.

Total non-current assets increased to Baht 13,744 million as at 30 Jun 2019 from Baht 12,648 million as at 31 December 2018, mostly due to Baht 1,102 million Other long-term investments in bonds and debentures.

Total current liabilities were Baht 2,656 million as at 30 Jun 2019, a decrease from Baht 2,878 million as at 31 December 2018. The variance was mostly due to Baht 171 million less Trade and other payables.

Non-current liabilities were Baht 3,305 million as at 30 Jun 2019, an increase from Baht 3,126 million as at 31 December 2018. The variance was mostly due to Baht 179 million additional Provision for long-term employee benefits, mostly associated with the Baht 150 million impact from the above noted change in Thai severance according to the new Labor Protection Act.

The Company's Interest coverage ratio improved to 44.2x in 1H19 from 35.7x in 1H18, due to less interest expense from the repayment of Baht 1,000 million Series 2 debentures in December 2018. Excluding the above one-time adjustment of Baht 146 million (Baht 117 million after tax), the interest coverage ratio improved to 46.5x in 1H19 from 35.7x in 1H18

Total shareholders' equity grew to Baht 19,196 million as at 30 Jun 2019 from Baht 18,744 million as at 31 December 2018. This increase resulted mostly from the Company's 1H19 Net profit of Baht 1,806 million, offset with the dividend payment of Baht 1,314 million. Average return on assets (ROA) was 14.9% in 1H19, compared to 17.2% in 2018. Average return on equity (ROE) was 19.7% in 1H19, compared to 23.4% in 2018. Excluding the above one-time adjustment of Baht 146 million (Baht 117 million after tax), Average return on assets (ROA) was 15.4% in 1H19, compared to 17.2% in 2018, while Average return on equity (ROE) was 20.2% in 1H19, compared to 23.4% in 2018.

Unit: Baht million	30-Jun-19	31-Dec-18	Change
Total assets	25,157	24,749	1.6%
Total liabilities	5,961	6,005	-0.7%
Total shareholders' equity	19,196	18,744	2.4%
	1H19	1H18	
<u>Including the above noted one-time adjustment of Baht 146 million (Baht 117 million after tax)</u>			
Interest coverage ratio (x)	44.2*	35.7*	
<u>Excluding the above noted one-time adjustment of Baht 146 million (Baht 117 million after tax)</u>			
Interest coverage ratio (x)	46.5*	35.7*	

* After adding back the 1H19 and 1H18 capitalized interest expenses related to the campus expansion.

	1H19	2018
<u>Including the above noted one-time adjustment of Baht 146 million (Baht 117 million after tax)</u>		
Average collection period (days)	55.2	47.4
Average inventory period (days)	13.9	13.6
Average payables period (days)	26.7	29.9
Net debt to equity (x)	0.0	0.0
Average return on assets (%)	14.9%	17.2%
Average return on equity (%)	19.7%	23.4%
<u>Excluding the above noted one-time adjustment of Baht 146 million (Baht 117 million after tax)</u>		
Average collection period (days)	55.2	47.4
Average inventory period (days)	14.0	13.6
Average payables period (days)	27.0	29.9
Net debt to equity (x)	0.0	0.0
Average return on assets (%)	15.4%	17.2%
Average return on equity (%)	20.2%	23.4%

Cash flow statements

The Company's Net cash flows from operating activities in 1H19 were Baht 2,471 million, compared to Baht 2,177 million in 1H18. This increase was mainly due to Baht 417 million less in Trade and other receivables, Baht 153 million decrease in Inventories, offset with Baht 202 million less income from operating activities before changes in operating assets and liabilities. Net cash flows used in investment activities were Baht 1,258 million in 1H19, compared to Baht 171 million in 1H18. This variance was mainly due to Baht 1,102 million Other long-term investments in bonds and debentures. The Company reported Net cash flows used in financing activities of Baht 1,391 million in 1H19, compared to Baht 1,341 million in 1H18. As a result of the above, Cash and cash equivalents was Baht 2,349 million as at 30 Jun 2019, compared to Baht 3,135 million as at 30 Jun 2018.

The Company's Liquidity ratio as at 30 Jun 2019 was 4.3x compared to 4.2x as at 31 December 2018, while the Quick ratio was 1.8x for both as at 30 Jun 2019 and 31 December 2018.

Unit: Baht million	1H19	1H18
Net cash flows from operating activities	2,471	2,177
Net cash flows used in investing activities	(1,258)	(171)
Net cash flows used in financing activities	(1,391)	(1,341)
Net (decrease) increase in cash and cash equivalents	(180)	664
Cash and cash equivalents at end of period	2,349	3,135
	30-Jun-19	31-Dec-18
Liquidity ratio (x)	4.3	4.2
Quick ratio (x)	1.8	1.8

On 5 April 2019, The Thailand Labor Protection Act (No. 7) B.E. 2562 was announced in the Royal Gazette. This stipulates additional legal severance pay rates for employees who have worked for an uninterrupted period of twenty years or more, with such employees entitled to receive not less than 400 days' compensation at the latest wage rate. The law is effective from 5 May 2019. This change is considered a post-employment benefits plan amendment and the Company had a one-time adjustment of Baht 146 million (Baht 117 million after tax), together with additional ongoing expense of Baht 3.6 million (Baht 2.8 million after tax) was recorded for May and June 2019, bringing the total impact of this change to Baht 150 million (Baht 120 million after tax) for 2Q19 and 1H19. The ongoing impact for full subsequent quarters is estimated to be Baht 5.3 million (Baht 4.2 million after tax) per quarter.

Please be informed accordingly.

Yours faithfully,

(Dr. Chanvit Tanhiphat, MD)

Vice Chairman of the Board of Directors