

MANAGEMENT DISCUSSION AND ANALYSIS

Executive Summary 3Q17 and 9M17 Performance

Bangkok Dusit Medical Services Public Company Limited ("Company") reported consolidated operating income during third quarter of 2017 ("3Q17") of Baht 19,498 million, an increase of 7% yoy. The growth was attributable to an increase in revenue from hospital operations of 7% yoy with solid growth from both Thai and International patient revenues. The hospital revenue growth was driven by an increase in number of patients and increase in price intensity together with strong growth in both Bangkok and vicinity and upcountry.

Revenue from sales of goods were Baht 709 million, increased by 3% yoy due mainly to an increase in sales of Bangkok Save Drug Co., Ltd. ("Save Drug") and The Medicpharma Co., Ltd. ("Medicpharma").

In 3Q17, the Company and its subsidiaries reported EBITDA of Baht 4,422 million, increased by 13% yoy. Core profit was Baht 2,417 million, increased by 9% yoy.

For nine-month period ended September 30, 2017 ("9M17"), the consolidated operating income were Baht 54,038 million, an increase of 6% yoy. The growth was attributable to an increase in revenue from hospital operations of 6% yoy with growth from both Thai and International patient revenues. The growth was mainly driven by an increase in price intensity while foreseen improving trend for number of patients' growth.

In addition, revenue from sales of goods was Baht 2,075 million, increased by 3% yoy due mainly to an increase in sales of Save Drug.

The Company and its subsidiaries reported EBITDA of Baht 11,579 million, increased by 5% yoy. However, an increase in finance expenses caused core profit of Baht 5,986 million to decrease by 4% yoy. If including non-recurring items which are net gain on sale of long-term investment of Baht 2,195 million in 9M17 and Baht 167 million in 9M16, net profit would be Baht 8,181 million or increased by 28% yoy.

Major Development

1. TRIS Rating affirmed the Company rating and senior unsecured debentures rating at AA-

On November 8, 2017, Tris Rating affirmed the Company and senior unsecured debenture ratings at AA- with stable outlook. The ratings reflect Company's strong business profile deriving from the leading market position as the largest private hospital operator in Thailand, the solid reputation of hospital brands and extensive hospital network, as well as experienced management team and capable physicians.

The rating also take into consideration of Company's sound operating performance and moderate financial risk profile underpinned by steady cash flow and moderate leverage. Leverage and liquidity remained acceptable at the current rating level.

Over the next 24 months, Company's liquidity is ample considering the sources and used of funds.

2. Early redemption payment of Convertible Bonds

As on September 18, 2014, Company issued zero coupon convertible bonds ("Bond") to investors outside Thailand in the amount of Baht 10,000 million due in 2019. The bondholders have the right to redeem the Bonds at the end of year three or on September 18, 2016, at 106.152% of the principal amount (Early Redemption Price).

In this regards, the bondholders had requested to redeem totaling of Baht 1,560 million or 15.6% of the principal amount. The Company has made the payment at Early Redemption Price totally Baht 1,656 million (106.152% of the principal Baht 1,560 million). The outstanding principal amount of the Bonds after the put exercise is Baht 8,440 million. The Bondholders have the right to convert their Bonds into newly issued ordinary share of the Company at Baht 21.045 per share; otherwise, the Bonds will be redeemed on September 18, 2019, at 110.462% of the principal amount of the Bonds.

3. Payment of interim dividend

On August 30, 2017, Board of Directors approved the payment of interim dividend for the first half of 2017 performance at the rate of Baht 0.13 per share, totaling Baht 2,013.82 million by distributing dividend for 15,490,956,540 Company's common shares. The payment of interim dividend was paid on September 28, 2017.

3Q17 Consolidated Financial Summary

Operating Income			
(THB mm)	3Q17	3Q16	%Chg
Revenues from hospital operations	18,577	17,299	7%
Revenue from sales of goods	709	686	3%
Other income	213	218	(2)%
Total Operating Income	19,498	18,203	7%

In 3Q17, total operating income were Baht 19,498 million, an increase of Baht 1,296 million or 7% yoy, primarily due to

- Revenues from hospital operations were Baht 18,577 million, an increase of Baht 1,278 million or 7% yoy. The growth was contributable to increase in number of patients and increase in price intensity together with an opening of Paolo Kaset Hospital and Bangkok Hospital Surat since January and June 2017, respectively. Revenue of network hospitals in Bangkok and vicinity grew 8% yoy while revenue of network hospitals in the upcountry grew 7% yoy.

Revenue from Thai patients grew 6% yoy and revenue from international patients grew 8% yoy. Key drivers were mainly from Middle East, Chinese and Australian patients. As a results, the revenue proportion between Thai and international patients changed from 74%:26% in 3Q16 to 73%:27% in 3Q17.

Revenues from hospital operations in 3Q17	Chg. (yoy)	% to revenue
Revenues growth from hospital operations	7%	100%
Breakdown by location		
Bangkok & Vicinity	8%	60%
Upcountry	7%	40%
Breakdown by nationality		
Thai	6%	73%
International	8%	27%
Breakdown by type of patients		
Outpatients	8%	47%
Inpatients	7%	53%

- Revenues from sales of goods were Baht 709 million in 3Q17, increased by 3% yoy due mainly to an increase in sales of Save Drug and Medicpharma.
- Other income were Baht 213 million in 3Q17, slightly decreased by 2% yoy.

Operating Expenses

(THB mm)	3Q17	3Q16	%Chg
Cost of hospital operations and others	12,584	11,926	6%
Administrative expenses	3,800	3,592	6%
Total Operating Expenses (Including depreciation)	16,384	15,518	6%

In 3Q17, the Company and its subsidiaries reported total operating expenses & depreciation of Baht 16,384 million, an increase of Baht 866 million or 6% yoy, which increased at the slower pace than total operating income, primarily due to several cost control measures implemented by the Company.

- Cost of hospital operations and others (including depreciation and amortization) were Baht 12,584 million, increased by 6% yoy. Cost of hospital operations and others are mainly consisted of medicine and medical supplies, doctor fees and clinical staff expenses which increase mainly as a result of an increase in total operating income.
- The administrative expenses (including depreciation and amortization) were Baht 3,800 million, increased by 6% yoy due mainly to an increase in non-clinical personnel expenses together with other administrative expenses.
- The depreciation and amortization expenses were Baht 1,308 million in 3Q17, increased by 5% yoy.

Other Major Items

- Share of income from investments in associated companies were Baht 416 million in 3Q17, increase of Baht 20 million or 5% yoy, driven mainly from investment in Bumrungrad Hospital Public Co., Ltd. ("BH") of Baht 216 million and investment in Ramkhamhaeng Hospital Public Co., Ltd. ("RAM") of Baht 180 million.

- Finance expenses increased to Baht 433 million in 3Q17 or increased by 80% yoy due mainly to the adjustment in calculating the expected convertible bonds redemption together with the finance expenses in relation to the early redemption of convertible bonds and an issuance of debentures of Baht 7,000 million in February 2017.
- Taxes in 3Q17 were Baht 564 million similar to during 3Q16.

Profitability Analysis

(THB mm)	3Q17	3Q16	%Chg
EBITDA	4,422	3,926	13%
EBITDA margin	22.7%	21.6%	
EBIT *	3,542	3,097	14%
EBIT margin *	18.2%	17.0%	
Core profit *	2,417	2,216	9%
Core profit margin *	12.4%	12.2%	
Net profit	2,417	2,334	4%
Net profit margin	12.4%	12.8%	
Core EPS * (THB)	0.16	0.14	9%
EPS (THB)	0.16	0.15	4%

* Excluding non-recurring items

Remarks

EBITDA = Total operating income – Total operating expenses (Excluding depreciation and amortization)

EBITDA Margin = EBITDA / Operating income

EBITDA increased from Baht 3,926 million in 3Q16 to Baht 4,422 million in 3Q17 or increased by 13% yoy resulting in an increase in EBITDA margin from 21.6% in 3Q16 to 22.7% in 3Q17.

Core profit was Baht 2,417 million, increased by 9% yoy. As a results, core profit margin increased from 12.2% in 3Q16 to 12.4% in 3Q17.

If including non-recurring items in 3Q16 of Baht 118 million which were mainly from net gain on sale (after tax) in Bangkok Chain Hospital Public Co., Ltd. ("BCH") of Baht 115 million, net profit increased by 4% yoy. However, net profit margin decreased slightly from 12.8% in 3Q16 to 12.4% in

3Q17. Earnings per share was Baht 0.16 per share or increased by 4% yoy.

9M17 Consolidated Financial Summary

Operating Income			
(THB mm)	9M17	9M16	%Chg
Revenues from hospital operations	51,328	48,568	6%
Revenue from sales of goods	2,075	2,007	3%
Other income	635	603	5%
Total Operating Income	54,038	51,177	6%

In 9M17, total operating income were Baht 54,038 million, an increase of Baht 2,860 million or 6% yoy, which were in line with growth of the operating income, primarily due to

- Revenues from hospital operations were Baht 51,328 million, an increase of Baht 2,761 million or 6% yoy. The growth was contributable to an increase in price intensity and complexity cases together with the opening of Paolo Kaset Hospital and Bangkok Hospital Surat. Revenue of network hospitals in Bangkok and vicinity grew 4% yoy while revenue of network hospitals in the upcountry grew 8% yoy. Revenue from Thai patients grew 5% yoy while revenue from international patient grew 8% yoy, driven mainly from Chinese, USA and French patients. The revenue proportion between Thai and international patients changed from 71%:29% in 9M16 to 70%:30% in 9M17.

Revenues from hospital operations in 9M17	Chg. (yoy)	% to revenue
Revenues growth from hospital operations	6%	100%
Breakdown by location		
Bangkok & Vicinity	4%	59%
Upcountry	8%	41%
Breakdown by nationality		
Thai	5%	70%
International	8%	30%
Breakdown by type of patients		
Outpatients	6%	47%
Inpatients	4%	53%

- Revenues from sales of goods were Baht 2,075 million, an increase of 3% yoy, mainly from an increase in sales of Save Drug.
- Other income were Baht 635 million, increased by 5% yoy.

Operating Expenses			
(THB mm)	9M17	9M16	%Chg
Cost of hospital operations and others	35,519	33,591	6%
Administrative expenses	10,785	10,073	7%
Total Operating Expenses	46,304	43,665	6%

In 9M17, the Company and its subsidiaries reported total operating expenses & depreciation of Baht 46,304 million, an increase of Baht 2,639 million or 6% yoy, grew in line with the total operating income.

- Cost of hospital operations and others (including depreciation and amortization) were Baht 35,519 million, increased by 6% yoy. An increase was due mainly to rising in doctor fees and clinical staffs expenses as a result of an increase in newly recruited specialist doctors in key specific areas in preparation for upgrading 9 hub hospitals to be Centers of Excellence and expanding hospital network.
- The administrative expenses (including depreciation and amortization) were Baht 10,785 million, increased by 7% yoy, due

mainly to an increase in non-clinical personnel expenses and repair and maintenance expenses.

- The depreciation and amortization expenses were Baht 3,845 million in 9M17, increased by 8% yoy due mainly to depreciation of medical equipment, hospital renovation and opening of new factory of Medicpharma.

Other Major Items

- Share of income from investments in associated companies were Baht 1,109 million in 9M17, increase of Baht 45 million or 4% yoy. Share of income from investments in associated companies were mainly from investment in BH of Baht 654 million and investment in RAM of Baht 411 million.
- Finance expenses increased to Baht 1,205 million in 9M17 or increased by 90% yoy due mainly to the adjustment in calculating the expected convertible bonds redemption together with the finance expenses in relation to the early redemption of convertible bonds and an issuance of debentures of Baht 7,000 million in February 2017. For 4Q17, the Company expects finance expenses to decrease since there would be no finance expenses related to the early redemption of convertible bonds.
- Tax expenses in 9M17 were Baht 2,116 million, increased from Baht 1,519 million in 9M16, due mainly to taxes from partially disposition of investment in BH.

Non-recurring items

During 9M17, the Company and its subsidiaries recorded non-recurring items as the Company partially disposed an investment in BH totaling 25.2 million shares for Baht 4,509 million resulting in the net gain on sale (after tax) of Baht 2,195 million. After the transaction, the percentage of ownership was decreased from 23.95% to 20.50% of issued and paid-up shares of BH.

During 9M16, the Company and its subsidiaries recorded non-recurring items of Baht 167 million mainly from net gain on sale (after tax) in BCH of Baht 164 million.

Profitability Analysis			
(THB mm)	9M17	9M16	%Chg
EBITDA	11,579	11,061	5%
EBITDA margin	21.4%	21.6%	
EBIT *	8,896	8,637	3%
EBIT margin *	16.5%	16.9%	
Core profit *	5,986	6,243	(4)%
Core profit margin *	11.1%	12.2%	
Net profit	8,181	6,409	28%
Net profit margin	15.1%	12.5%	
Core EPS * (THB)	0.39	0.40	(4)%
EPS (THB)	0.53	0.41	28%

* Excluding non-recurring items

Remarks

EBITDA = Total operating income – Total operating expenses (Excluding depreciation and amortization)

EBITDA Margin = EBITDA / Operating income

As previously mentioned EBITDA increased from Baht 11,061 million in 9M16 to Baht 11,579 million in 9M17 or increased by 5% yoy. However, EBITDA margin declined from 21.6% in 9M16 to 21.4% in 9M17.

Core profit was Baht 5,986 million in 9M17, decreased by 4% yoy resulting in a decrease of net profit margin from 12.2% in 9M16 to 11.1% in 9M17.

If including the non-recurring items, net profit was Baht 8,181 million, increased by 28% yoy resulting in an increase of net profit margin from 12.5% in 9M16 to 15.1% in 9M17. EPS was Baht 0.53 per share or increased by 28% yoy.

Assets			
<i>(THB mm)</i>	Sep 17	Dec 16	%Chg
Cash & cash equivalents	4,967	4,217	18%
Short-term investments	550	548	0%
Trade & other receivables	6,551	6,033	9%
Inventories	1,512	1,516	(0)%
Investment in associates	15,521	16,401	(5)%
Property, premises & equipment	68,465	56,164	22%
Goodwill	17,545	16,932	4%
Other assets	3,605	5,129	(30)%
Total assets	118,716	106,939	11%

The consolidated financial position of the Company and its subsidiaries as of September 30, 2017: The Company and its subsidiaries reported total assets of Baht 118,716 million increased by 11% from December 31, 2016, due mainly to net increase in property, premises and equipment of Baht 12,004 million mainly from land and building of BDMS Wellness Clinic together with an expansion of new network hospitals namely Paolo Kaset Hospital, Bangkok Hospital Surat and Bangkok Hospital Chiangrai and upgrading of 9 hub hospitals to be Centers of Excellence netted with decrease in investment in associates of Baht 880 million mainly from partially disposed an investment in BH.

Liabilities and Equity			
<i>(THB mm)</i>	Sep 17	Dec 16	%Chg
Bank overdrafts and short-term loans	3,047	1,668	83%
Debentures	19,584	12,589	56%
Long-term loans *	9,299	7,705	21%
Convertible debentures	8,695	9,874	(12)%
Other liabilities	16,528	16,799	(2)%
Total liabilities	57,153	48,635	18%
Equity attributable to equity holder of the Company	58,862	55,719	6%
Non-controlling interests	2,701	2,586	4%
Total equity	61,563	58,305	6%

* Including current portion

Total consolidated liabilities as of September 30, 2017 were Baht 57,153 million, which was increased from December 31, 2016, due mainly to an issuance of debentures of Baht 7,000 million together with an increase in net long-term loans and short-term loans from financial netted with decrease in convertible debentures.

Total consolidated shareholders' equity as of September 30, 2017 was Baht 61,563 million, increased by 6% from December 31, 2016, due mainly from net income during the period.

Liquidity and Capital Management

Cash Flow	
<i>(THB mm)</i>	9M17
Net cash from operating activities	7,672
Net cash used in investing activities	(10,130)
Net cash from financing activities	3,208
Net increase in cash and cash equivalents	750
Beginning cash and cash equivalents	4,217
Ending cash and cash equivalents	4,967

For the nine-month period ended September 30, 2017, the Company and its subsidiaries had net increase in cash and cash equivalent of Baht 750 million from the beginning balance of Baht 4,217 million. As a result, cash and cash equivalents at the end of period was Baht 4,967 million. Details of cash flow by activities during the period are as follows:-

Net cash flows from operating activities were Baht 7,672 million, resulting mainly from profit during 9M17.

Net cash used in investing activities were Baht 10,130 million. The investing activities during the period were mainly from purchase of property, premises and equipment of Baht 13,620 million for company's expansion together with purchase of investments in subsidiaries and associates of Baht 1,344 million due mainly to acquisitions in

Mayo Polyclinic Co., Ltd. which currently rebranded to Paolo Kaset Hospital netted with cash received from partial disposal of investment in BH of Baht 4,505 million.

Net cash from in financing activities were Baht 3,208 million comprising mainly from issuance of debentures of Baht 7,000 million together with net cash received from long-term loans and short-term loans from financial institutions of Baht 1,640 million and 1,395 million, respectively, netted with dividend payment of Baht 4,955 million.

Ratios Analysis		
Returns (%)	9M17	9M16
Return on Asset	9.7	8.2
Return on Equity	19.0	15.9
Liquidity (x)		
Current ratio	0.9	0.8
Quick ratio	0.8	0.7
Assets & Liabilities Management (Days)		
Average Collection Period	33.9	36.0
Average Inventory Period	11.5	10.6
Average Payable Period	35.7	38.3
Leverage & Coverage Ratios (x)		
Interest coverage	9.6	17.4
	Sep-17	Dec-16
Total debt to equity	0.7	0.5
Net debt to equity	0.6	0.5
Net debt to EBITDA	2.3	1.9

Remark

Assets & liabilities management based on 360 days

Interest coverage = EBITDA/Interest expenses

Debt refers to interest bearing debt

Return on assets and return on equity increased from 9M16 as a result of an increase in profit from operation and gain from partial disposal of investment in BH.

Current ratio and quick ratio in 9M17 also slightly increased from 9M16 as a result of a decrease in short-term loans from financial institutions.

Average collection period and average payable period decreased from 36.0 days and 38.3 days in 9M16 to 33.9 days and 35.7 days in 9M17 respectively while average inventory period increased from 10.6 days in 9M16 to 11.5 days in 9M17.

Interest coverage ratio decreased from 17.4 in 9M16 to 9.6 in 9M17 due mainly to an increase in finance expenses from the adjustment in calculating the expected convertible bonds redemption together with the finance expenses in relation to the early redemption of convertible bonds and an issuance of debentures of Baht 7,000 million.

Total interest bearing debt to equity increased from 0.5x as of December 31, 2016 to 0.7x as of September 30, 2017. Net interest bearing debt to equity also increased from 0.5x as of December 31, 2016 to 0.6x as of September 30, 2017. Net interest bearing debt to EBITDA increased from 1.9x as of December 31, 2016 to 2.3x as of September 30, 2017. Such increase in leverage ratios were mainly from an issuance of debentures to fund an expansion of Bangkok Hospital Headquarter together with an investment in Paolo Kaset Hospital and BDMS Wellness Clinic.

The leverage and coverage ratios are well within the financial covenants of the long-term loans and debentures.
