

Aug 11, 2017

Bangkok Dusit Medical Services Public Company Limited

MANAGEMENT DISCUSSION AND ANALYSIS

Executive Summary 2Q17 and 6M17 Performance

Bangkok Dusit Medical Services Public Company Limited ("Company") reported consolidated operating income during second quarter of 2017 ("2Q17") of Baht 17,144 million, an increase of 9% yoy. The growth was attributable to an increase in revenue from hospital operations of 9% yoy with solid growth from both Thai and International patient revenues. The hospital revenue growth was from an increase in number of patients and increase in price intensity together with strong growth in upcountry.

Revenue from sales of goods and food were Baht 711 million, increased by 16% yoy due mainly to an increase in sales of A.N.B. Laboratories Co., Ltd. ("A.N.B") and Bangkok Save Drug Co., Ltd. ("Save Drug").

In 2Q17, the Company and its subsidiaries reported EBITDA of Baht 3,366 million, increased by 10% yoy. However, an increase in finance expenses caused core profit before non-recurring items decreased by 2% yoy. If including non-recurring items which are gain on partial sale of investment in Bumrungrad Hospital Public Co., Ltd. ("BH") totaling Baht 2,195 million (net of income tax expenses) in 2Q17, net profit would be Baht 3,791 million, increased by 127% yoy.

For six-month period ended June 30, 2017 ("6M17"), the consolidated operating income were Baht 34,539 million, an increase of 5% yoy. The growth was attributable to an increase in revenue from hospital operations of 5% yoy which mainly driven by increase in price intensity.

However, the volume growth from both outpatients and inpatients was impacted by a significant declining in the influenza and dengue fever cases in Thailand in 1Q17.

In addition, revenue from sales of goods and food was Baht 1,366 million, increased by 3% yoy due mainly to an increase in sales of Save Drug.

The Company and its subsidiaries reported EBITDA of Baht 7,156 million, flat yoy. While Core profit before non-recurring items decreased 11% yoy. If including non-recurring items as previously mentioned, net profit would be Baht 5,764 million or increased by 41% yoy.

Major Development

New network hospitals

Since 1 June 2017, Bangkok Hospital Surat has become our 45th network hospital. It is a secondary care hospital targeting middle income patients in Surat Thani and neighboring provinces. Bangkok Hospital has total of 150 structured beds with total area of approximately 16 Rai, of which 31 beds are opened during the first phase. This hospital will strengthen our referral network in the South of Thailand.

2Q17 Consolidated Financial Summary

Operating Income			
(THB mm)	2Q17	2Q16	%Chg
Revenues from hospital operations	16,216	14,863	9%
Revenue from sales of goods and food	711	612	16%
Other income	217	202	7%
Total Operating Income	17,144	15,678	9%

In 2Q17, total operating income were Baht 17,144 million, an increase of Baht 1,467 million or 9% yoy, primarily due to

- Revenues from hospital operations were Baht 16,216 million, an increase of Baht 1,353 million or 9% yoy. The growth was contributable to increase in number of patients and increase in price intensity together with consolidation of Paolo Kaset Hospital and opening of Bangkok Hospital Surat since January and June 2017, respectively. Revenue of network hospitals in Bangkok and vicinity grew 4% yoy while revenue of network hospitals in the upcountry grew 14% yoy. Revenue from Thai patients grew 8% yoy and revenue from international patients grew 10% yoy due to an increase in both volume and price intensity. Key drivers were mainly from Japanese, US and Chinese patients. The revenue proportion between Thai and international patients remains unchanged at 71%:29% in 2Q16 and 2Q17.

Revenues from hospital operations in 2Q17	Chg. (yoy)	% to revenue
Revenues growth from hospital operations	9%	100%
Breakdown by location		
Bangkok & Vicinity	4%	60%
Upcountry	14%	40%
Breakdown by nationality		
Thai	8%	71%
International	10%	29%
Breakdown by type of patients		
Outpatients	9%	47%
Inpatients	8%	53%

- Revenues from sales of goods and food were Baht 711 million in 2Q17, increased by 16% yoy due mainly to an increase in sales of A.N.B. and Save Drug.
- Other income were Baht 217 million in 2Q17, increased by 7% yoy.

Operating Expenses			
(THB mm)	2Q17	2Q16	%Chg
Cost of hospital operations and others	11,503	10,558	9%
Administrative expenses	3,559	3,216	11%
Total Operating Expenses (Including depreciation)	15,063	13,775	9%

In 2Q17, the Company and its subsidiaries reported total operating expenses & depreciation of Baht 15,063 million, an increase of Baht 1,288 million or 9% yoy.

- Cost of hospital operations and others (including depreciation and amortization) were Baht 11,503 million, increased by 9% yoy, in line with hospital revenue growth.
- The administrative expenses (including depreciation and amortization) were Baht 3,559 million, increased by 11% yoy due mainly to an expenses related to upgrading 9 hub hospitals to be Centers of Excellence in order to expand our international patients based

together with an opening of new factory of The Medicpharma Co., Ltd. ("Medicpharma")

- The depreciation and amortization expenses were Baht 1,284 million in 2Q17, increased by 11% yoy due mainly to the expansion of new network hospitals and opening of new factory of Medicpharma.

Other Major Items

- Share of income from investments in associated companies were Baht 368 million in 2Q17, increase of Baht 38 million or 11% yoy, driven mainly from investment in BH of Baht 197 million and investment in Ramkhamhaeng Hospital Public Co., Ltd. ("RAM") of Baht 155 million.

- Finance expenses increased to Baht 409 million in 2Q17 or increased by 127% yoy due mainly to the adjustment in calculating the expected convertible bonds redemption together with an issuance of debenture of Baht 7,000 million in February 2017.

Regarding the terms and conditions of convertible bond, bondholders have a one-time put option on 18 September 2017. If any bondholders decide to exercise put option, the Company would record additional finance expenses incurred in 3Q17. In addition, the Company already have prepared credit facility with similar cost of fund.

- Taxes in 2Q17 were Baht 1,091 million, an increase from Baht 393 million in 2Q16, due to taxes from partial disposition of investment in BH.

Non-recurring items

During 2Q17, 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. A pre-tax gain on sales of investment was Baht 2,880 million. Taxes incurred on the sale were Baht 685

million resulting in the net gain on sale of Baht 2,195 million.

After this transaction, the percentage of ownership was reduced from 23.95% to 20.50% of BH's issued and paid-up capital.

During 2Q16, the Company and its subsidiaries recorded non-recurring items as the Company disposed the equity investment in Bangkok Chain Hospital Public Co., Ltd. ("BCH") of 11.4 million shares for Baht 143 million. A pre-tax gain on sales of investment was Baht 62 million. Taxes incurred on the sale were Baht 12 million resulting in the net gain on sale of Baht 49 million.

Profitability Analysis

(THB mm)	2Q17	2Q16	%Chg
EBITDA	3,366	3,058	10%
EBITDA margin	19.6%	19.5%	
EBIT *	2,485	2,268	10%
EBIT margin *	14.5%	14.5%	
Core profit *	1,596	1,620	(2)%
Core profit margin *	9.3%	10.3%	
Net profit	3,791	1,669	127%
Net profit margin	22.1%	10.6%	
Core EPS * (THB)	0.10	0.10	(2)%
EPS (THB)	0.24	0.11	127%

* 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 3,058 million in 2Q16 to Baht 3,366 million in 2Q17 or increased by 10% yoy resulting in slightly increase in EBITDA margin from 19.5% in 2Q16 to 19.6% in 2Q17.

Core profit was Baht 1,596 million, decreased by 2% yoy. As a result, core profit margin decreased from 10.3% in 2Q16 to 9.3% in 2Q17.

If including the non-recurring items, net profit was Baht 3,791 million, increased by 127% yoy. As a

result, net profit margin increased from 10.6% in 2Q16 to 22.1% in 2Q17. Earnings per share was Baht 0.24 per share or increased by 127% yoy.

6M17 Consolidated Financial Summary

Operating Income			
(THB mm)	6M17	6M16	%Chg
Revenues from hospital operations	32,752	31,269	5%
Revenue from sales of goods and food	1,366	1,321	3%
Other income	422	385	10%
Total Operating Income	34,539	32,974	5%

In 6M17, total operating income were Baht 34,539 million, an increase of Baht 1,565 million or 5% from 6M16, primarily due to

- Revenues from hospital operations were Baht 32,752 million, an increase of Baht 1,483 million or 5% from 6M16. 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 since January and June 2017, respectively.
Revenue of network hospitals in Bangkok and vicinity slightly grew 1% yoy while revenue of network hospitals in the upcountry grew 8% yoy.
Revenue from Thai patients grew approximately 4% yoy while revenue from international patient grew approximately 7% yoy in 6M17, driven mainly from US, Chinese and UK patients. The revenue proportion between Thai and international patients changed from 70%:30% in 6M16 to 69%:31% in 6M17.

Revenues from hospital operations in 6M17	Chg. (yoy)	% to revenue
Revenues growth from hospital operations	5%	100%
Breakdown by location		
Bangkok & Vicinity	1%	59%
Upcountry	8%	41%
Breakdown by nationality		
Thai	4%	69%
International	7%	31%
Breakdown by type of patients		
Outpatients	7%	47%
Inpatients	Flat	53%

- Revenues from sales of goods and food were Baht 1,366 million, an increase of 3% yoy, mainly from an increase in sales of Save Drug.
- Other income were Baht 422 million, increased by 10% yoy.

Operating Expenses			
(THB mm)	6M17	6M16	%Chg
Cost of hospital operations and others	22,934	21,683	6%
Administrative expenses	6,985	6,463	8%
Total Operating Expenses	29,920	28,146	6%

In 6M17, the Company and its subsidiaries reported total operating expenses & depreciation of Baht 29,920 million, an increase of Baht 1,774 million or 6% yoy.

- Cost of hospital operations and others (including depreciation and amortization) were Baht 22,934 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 6,985 million, increased by 8% yoy, due mainly to an increase in non-clinical personnel

expenses and repair and maintenance expenses.

- The depreciation and amortization expenses were Baht 2,537 million in 6M17, increased by 10% yoy due mainly to hospital renovation and opening of new factory of Medicpharma.

Other Major Items

- Share of income from investments in associated companies were Baht 692 million in 6M17, increase of Baht 25 million or 4% yoy. Share of income from investments in associated companies were mainly from investment in BH of Baht 438 million and investment in RAM of Baht 231 million.
- Finance expenses increased to Baht 772 million in 6M17 or increased by 96% yoy due mainly to the adjustment in calculating the expected convertible bonds redemption together with an issuance of debenture of Baht 7,000 million in February 2017.
- Tax expenses in 6M17 were Baht 1,553 million, increased from Baht 956 million in 6M16, due mainly to taxes from partially disposition of investment in BH.

Non-recurring items

During 6M17, 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.

During 6M16, the Company and its subsidiaries recorded non-recurring items as the Company disposed the equity investment in BCH of 11.4 million shares for Baht 143 million resulting in the net gain on sale (after tax) of Baht 49 million.

Profitability Analysis

(THB mm)	6M17	6M16	%Chg
EBITDA	7,156	7,135	0%
EBITDA margin	20.7%	21.6%	
EBIT *	5,354	5,540	(3)%
EBIT margin *	15.5%	16.8%	
Core profit *	3,569	4,026	(11)%
Core profit margin *	10.3%	12.2%	
Net profit	5,764	4,076	41%
Net profit margin	16.7%	12.4%	
Core EPS * (THB)	0.23	0.26	(11)%
EPS (THB)	0.37	0.26	41%

* 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 slightly increased from Baht 7,135 million in 6M16 to Baht 7,156 million in 6M17. However, EBITDA margin declined from 21.6 % in 6M16 to 20.7% in 6M17.

Core profit was Baht 3,569 million in 6M17, decreased by 11% yoy. As a result, core profit margin decreased from 12.2% in 6M16 to 10.3% in 6M17.

If including the non-recurring items, net profit was Baht 5,764 million, increased by 41% yoy resulting in an increase of net profit margin from 12.4% in 6M16 to 16.7% in 6M17. EPS was Baht 0.37 per share or increased by 41% yoy.

Assets			
(THB mm)	Jun 17	Dec 16	%Chg
Cash & cash equivalents	5,502	4,217	30%
Short-term investments	551	548	1%
Trade & other receivables	5,946	6,033	(1)%
Inventories	1,476	1,516	(3)%
Investment in associates	15,239	16,401	(7)%
Property, premises & equipment	67,989	56,164	21%
Goodwill	17,545	16,932	4%
Other assets	3,840	5,129	(25)%
Total assets	118,088	106,939	10%

The consolidated financial position of the Company and its subsidiaries as of June 30, 2017: The Company and its subsidiaries reported total assets of Baht 118,088 million increased by 10% from December 31, 2016, due mainly to net increase in property, premises and equipment of Baht 11,825 million mainly from land and building of BDMS Wellness Clinic located on Wireless Road (Park Nai Lert project), focusing on Preventive Medicine 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. Total assets also increased from an increase in cash and cash equivalents of Baht 1,286 million.

Liabilities and Equity			
(THB mm)	Jun 17	Dec 16	%Chg
Bank overdrafts and short-term loans	3,689	142	2,490%
Debentures *	19,583	12,589	56%
Long-term loans *	7,800	7,705	1%
Convertible debentures	10,157	9,874	3%
Other liabilities	15,816	18,324	(14)%
Total liabilities	57,045	48,635	17%

* Including current portion

Liabilities and Equity			
(THB mm)	Jun 17	Dec 16	%Chg
Equity attributable to equity holder of the Company	58,456	55,719	5%
Non-controlling interests	2,587	2,586	0%
Total equity	61,043	58,305	5%

Total consolidated liabilities as of June 30, 2017 were Baht 57,045 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 short-term loans from financial institutions.

Total consolidated shareholders' equity as of June 30, 2017 was Baht 61,043 million, increased by 5% from December 31, 2016, due mainly from net income during 6M17.

Liquidity and Capital Management

Cash Flow	
(THB mm)	6M17
Net cash from operating activities	4,189
Net cash used in investing activities	(8,937)
Net cash from financing activities	6,034
Net increase in cash and cash equivalents	1,286
Beginning cash and cash equivalents	4,217
Ending cash and cash equivalents	5,502

For the six-month period ended June 30, 2017, the Company and its subsidiaries had net increase in cash and cash equivalent of Baht 1,286 million from the beginning balance of Baht 4,217 million. As a result, cash and cash equivalents at the end of period was Baht 5,502 million. Details of cash flow by activities during the period are as follows:-

Net cash flows from operating activities were Baht 4,189 million, resulting mainly from profit during 6M17.

Net cash used in investing activities were Baht 8,937 million. The investing activities during the period were mainly from a payment of the remaining of Baht 9,720 million for purchasing land and building of Park Nei Lert project together with purchase of investments in subsidiaries, associates and other company 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 6,034 million comprising mainly from issuance of debenture of Baht 7,000 million and net cash received from short-term loans from financial institutions of Baht 2,036 million netted with dividend payment of Baht 2,942 million.

Ratios Analysis

Returns (%)	6M17	6M16
Return on Asset	10.2	7.9
Return on Equity	20.2	15.1
Liquidity (x)		
Current ratio	0.7	1.0
Quick ratio	0.6	0.9
Assets & Liabilities Management (Days)		
Average Collection Period	33.8	37.8
Average Inventory Period	11.7	10.7
Average Payable Period	35.3	37.5
Leverage & Coverage Ratios (x)		
Interest coverage	9.3	18.1
	Jun-17	Dec-16
Total debt to equity	0.7	0.5
Net debt to equity	0.6	0.5
Net debt to EBITDA	2.5	1.9

Remark

Excluding non-recurring items

Assets & liabilities management based on 360 days

Interest coverage = EBITDA/Interest expenses

Debt refers to interest bearing debt

operation and gain from partial disposal of investment in BH.

Current ratio and quick ratio in 6M17 also decreased from 6M16 as a result of an increase in short-term from financial institutions.

Average collection period and average payable period decreased slightly from 37.8 days and 37.5 days in 6M16 to 33.8 days and 35.3 days in 6M17 respectively while average inventory period increased from 10.7 days in 6M16 to 11.7 days in 6M17.

Interest coverage ratio decreased from 18.1x in 6M16 to 9.3x in 6M17 due mainly to an increase in finance expenses as a results of the adjustment in calculating the expected convertible bonds redemption and an issuance of debenture.

Total interest bearing debt to equity increased from 0.5x as of December 31, 2016 to 0.7x as of June 30, 2017. Net interest bearing debt to equity also increased from 0.5x as of December 31, 2016 to 0.6x as of June 30, 2017. Net interest bearing debt to EBITDA increased from 1.9x as of December 31, 2016 to 2.5x as of June 30, 2017. Such increase in leverage ratios were mainly from an issuance of debentures to fund an expansion of Bangkok Hospital Headquarter (Phoenix project) and Paolo Kaset Hospital together with an investment in BDMS Wellness Clinic.

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

Return on assets and return on equity increased from 6M16 as a result of an increase in profit from