

MANAGEMENT DISCUSSION AND ANALYSIS

Executive Summary

4Q17 and 2017 Performance

Bangkok Dusit Medical Services Public Company Limited ("Company") reported consolidated operating income during fourth quarter of 2017 ("4Q17") of Baht 18,734 million, an increase of 6% yoy. The growth was attributable to an increase in revenues from hospital operations of 7% yoy from both Thai and International patients and from both Bangkok & vicinity and upcountry hospitals.

Revenue from sales of goods were Baht 735 million, increased by 11% yoy due mainly to an increase in sales of A.N.B. Laboratories Co., Ltd. ("A.N.B."), Bangkok Save Drug Co., Ltd. ("Save Drug") and The Medicpharma Co., Ltd. ("Medicpharma").

In 4Q17, the Company and its subsidiaries reported EBITDA of Baht 3,898 million, increased by 6% yoy. Net profit was Baht 2,035 million, increased by 3% yoy.

For the year ended December 31, 2017 ("2017"), the consolidated operating income were Baht 72,772 million, an increase of 6% yoy. The growth was attributable to an increase in revenues from hospital operations of 6% yoy from both Thai and International patients and from both Bangkok & vicinity and upcountry hospitals. The growth was mainly driven by an increase in price intensity.

In addition, revenue from sales of goods was Baht 2,810 million, increased by 5% yoy due mainly to an increase in sales of Save Drug and Medicpharma.

The Company and its subsidiaries reported EBITDA of Baht 15,477 million, increased by 5% yoy. However, due to an increase in finance expenses, core profit were Baht 8,021 million, slightly decreased by 2% yoy. If including non-recurring items which are net gain on sale of long-term investments of Baht 2,195 million in 2017 and Baht 167 million in 2016, net profit would be Baht 10,216 million or increased by 22% yoy.

4Q17 Consolidated Financial Summary

Operating Income			
(THB mm)	4Q17	4Q16	%Chg
Revenues from hospital operations	17,795	16,669	7%
Revenue from sales of goods	735	660	11%
Other income	205	338	(39)%
Total Operating Income	18,734	17,666	6%

In 4Q17, total operating income were Baht 18,734 million, an increase of Baht 1,068 million or 6% yoy, primarily due to

- Revenues from hospital operations were Baht 17,795 million, an increase of Baht 1,126 million or 7% yoy. The growth was contributable to increase in price intensity and complexity cases together with an opening of Paolo Kaset Hospital and Bangkok Hospital Surat since January and June 2017, respectively. Revenue of network hospitals in Bangkok & vicinity grew 6% yoy while revenue of network hospitals in the upcountry grew 7% yoy. Revenue from Thai patients grew 5% yoy and revenue from international patients grew 9% yoy. Key drivers were mainly from Kuwaitis, Omanis and Chinese patients. The revenue proportion between Thai and international patients remained unchanged at 71%:29% in 4Q16 and 4Q17.

Revenues from hospital operations in 4Q17	Chg. (yoy)	% to revenue
Revenues growth from hospital operations	6%	100%
Breakdown by location		
Bangkok & Vicinity	6%	60%
Upcountry	7%	40%
Breakdown by nationality		
Thai	5%	71%
International	9%	29%
Breakdown by type of patients		
Outpatients	6%	47%
Inpatients	6%	53%

- Revenues from sales of goods were Baht 735 million in 4Q17, increased by 11% yoy due mainly to an increase in sales of A.N.B., Save Drug and Medicpharma.
- Other income were Baht 205 million in 4Q17, decreased by 39% yoy as, in 4Q16, the Company recognized gain on fair value adjustments of investment property of Baht 65 million to reflect the actual usage of the property.

Operating Expenses			
(THB mm)	4Q17	4Q16	%Chg
Cost of hospital operations and others	12,457	11,686	7%
Administrative expenses	3,702	3,571	4%
Total Operating Expenses (Including depreciation)	16,159	15,256	6%

In 4Q17, the Company and its subsidiaries reported total operating expenses & depreciation of Baht 16,159 million, an increase of Baht 903 million or 6% yoy, in line with total operating income growth.

- Cost of hospital operations and others (including depreciation and amortization) were Baht 12,457 million, increased by 7% yoy. Cost of hospital operations and others are mainly consisted of medicine and medical supplies, doctor fees and clinical staff expenses which increased mainly as a result of an increase in total operating income.
- The administrative expenses (including depreciation and amortization) were Baht 3,702 million, increased by 4% yoy due mainly to an increase in non-clinical personnel expenses together with other administrative expenses. However, administrative expenses grew at the slower pace than total operating income.

- The depreciation and amortization expenses were Baht 1,323 million in 4Q17, increased by 5% yoy.

Other Major Items

- Share of income from investments in associated companies were Baht 309 million in 4Q17, slightly increase from 4Q16, driven mainly from investment in Bumrungrad Hospital Public Co., Ltd. ("BH") of Baht 189 million and investment in Ramkhamhaeng Hospital Public Co., Ltd. ("RAM") of Baht 97 million.
- Finance expenses increased to Baht 330 million in 4Q17 or increased by 34% yoy due mainly to an issuance of debentures of Baht 7,000 million in February 2017 and an increase in long-term loans from financial institutions.
- Taxes in 4Q17 were Baht 447 million increased from 4Q16, due mainly to an increase in pre-tax profit.

Profitability Analysis

(THB mm)	4Q17	4Q16	%Chg
EBITDA	3,898	3,665	6%
EBITDA margin	20.8%	20.7%	
EBIT	2,898	2,729	6%
EBIT margin	15.5%	15.4%	
Net profit	2,035	1,977	3%
Net profit margin	10.9%	11.2%	
EPS (THB)	0.13	0.13	3%

Remarks

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

EBITDA Margin = EBITDA / Operating income

EBITDA increased from Baht 3,665 million in 4Q16 to Baht 3,898 million in 4Q17 or increased by 6% yoy. As a results, EBITDA margin slightly increased from 20.7% in 4Q16 to 20.8% in 4Q17.

Net profit was Baht 2,035 million, increased by 3% yoy. However, net profit margin decreased from

11.2% in 4Q16 to 10.9% in 4Q17. Earnings per share was Baht 0.13 per share or increased by 3% yoy.

Major Development in 2017

- 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.

- Early redemption payment of Convertible Bonds

On September 18, 2017, the convertible bonds holders had redeemed 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 was 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.

- Partial disposition of investment in BH

% of Holding	Dec 17	Dec 16
BH	20.50	23.95

On 28 April 2017, the Board of Directors had approved the Company to dispose the equity investment in BH totaling 25.2 million shares or 3.45% of issued and paid-up share of BH at the price of Baht 179 per share, receiving total cash of Baht 4,509 million. The Company recognized gain from sale (after tax) of Baht 2,195 million.

After this transaction, BH remains our associated company with stake in BH reducing from 23.95% to 20.50% of its issued and paid-up capital.

- Expansion of network hospitals

During 2017, Company added 2 hospitals to network as follow:-

Hospital	# Structured beds	Opening Month
Paolo Kaset	162	Jan 17
Bangkok Surat	150	Jun 17

2017 Consolidated Financial Summary

Operating Income			
(THB mm)	2017	2016	%Chg
Revenues from hospital operations	69,123	65,237	6%
Revenue from sales of goods	2,810	2,667	5%
Other income	840	940	(11)%
Total Operating Income	72,772	68,844	6%

In 2017, total operating income were Baht 72,772 million, an increase of Baht 3,928 million or 6% yoy, primarily due to

- Revenues from hospital operations were Baht 69,123 million, an increase of Baht 3,886 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 & vicinity grew 5% yoy while revenue of network hospitals in the upcountry grew 8% yoy.

Revenue from Thai patients grew 5% yoy while revenue from international patients grew 8% yoy, driven mainly from Kuwaitis, Chinese and French patients. The revenue proportion between Thai and international patients changed from 71%:29% in 2016 to 70%:30% in 2017.

Revenues from hospital operations in 2017	Chg. (yoy)	% to revenue
Revenues growth from hospital operations	6%	100%
Breakdown by location		
Bangkok & Vicinity	5%	60%
Upcountry	8%	40%
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 2,810 million, an increase of 5% yoy, mainly from an increase in sales of Save Drug and Medicpharma.
- Other income were Baht 840 million, decreased by 11% yoy as, in 2016, Company recognized gain on fair value adjustments of investment property of Baht 65 million to reflect the actual usage of the property.

Operating Expenses			
(THB mm)	2017	2016	%Chg
Cost of hospital operations and others	47,975	45,277	6%
Administrative expenses	14,488	13,644	6%
Total Operating Expenses	62,463	58,921	6%

In 2017, the Company and its subsidiaries reported total operating expenses & depreciation of Baht 62,463 million, an increase of Baht 3,542 million or 6% yoy, in line with total operating income growth.

- Cost of hospital operations and others (including depreciation and amortization) were Baht 47,975 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 hub hospitals to be Centers of Excellence and expanding hospital network.
- The administrative expenses (including depreciation and amortization) were Baht 14,488 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 5,168 million in 2017, increased by 8% yoy due mainly to depreciation of medical equipment, hospital building renovation and opening of new factory of Medicpharma.

Other Major Items

- Share of income from investments in associated companies were Baht 1,417 million in 2017, increased by 3% yoy, driven mainly from investment in BH of Baht 843 million, RAM of Baht 508 million and General Hospital Products Public Co., Ltd. Baht of 71 million.
- Finance expenses increased to Baht 1,535 million in 2017 or increased by 74% 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, an issuance of debentures of Baht 7,000 million in February 2017 and increase in long-term loans from financial institutions.

- Tax expenses in 2017 were Baht 2,564 million, increased from Baht 1,922 million in 2016, due mainly to taxes from partially disposition of investment in BH.

Non-recurring items

During 2017, the Company 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 2016, the Company recorded non-recurring items of Baht 167 million mainly from net gain on sale (after tax) in Bangkok Chain Hospital Public Co., Ltd. of Baht 164 million.

Profitability Analysis			
(THB mm)	2017	2016	%Chg
EBITDA	15,477	14,726	5%
EBITDA margin	21.3%	21.4%	
EBIT *	11,794	11,367	4%
EBIT margin *	16.2%	16.5%	
Core profit *	8,021	8,220	(2)%
Core profit margin *	11.0%	11.9%	
Net profit	10,216	8,386	22%
Net profit margin	14.0%	12.2%	
Core EPS * (THB)	0.52	0.53	(2)%
EPS (THB)	0.66	0.54	22%

* 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 14,726 million in 2016 to Baht 15,477 million in 2017 or increased by 5% yoy. However, EBITDA margin declined slightly from 21.4% in 2016 to 21.3% in 2017.

Core profit was Baht 8,021 million in 2017, slightly decreased by 2% yoy resulting in a decrease of net profit margin from 11.9% in 2016 to 11.0% in 2017.

If including the non-recurring items, net profit was Baht 10,216 million, increased by 22% yoy resulting in an increase of net profit margin from 12.2% in 2016 to 14.0% in 2017. EPS was Baht 0.66 per share or increased by 22% yoy.

Assets			
(THB mm)	Dec 17	Dec 16	%Chg
Cash & cash equivalents	5,091	4,217	21%
Trade & other receivables	6,940	6,257	11%
Inventories	1,735	1,516	14%
Investment in associates	15,807	16,401	(4)%
Property, premises & equipment	71,559	56,461	27%
Goodwill	17,539	16,932	4%
Other assets	3,955	5,230	(24)%
Total assets	122,627	107,015	15%

The consolidated financial position of the Company and its subsidiaries as of December 31, 2017: The Company and its subsidiaries reported total assets of Baht 122,627 million, increased by 15% from December 31, 2016, due mainly to net increase in property, premises and equipment of Baht 15,098 million mainly from land and building of BDMS Wellness Clinic, an expansion of new network hospitals namely Paolo Kaset Hospital, Bangkok Hospital Surat and Bangkok Hospital Chiangrai and upgrading hub hospitals to be Centers of Excellence together with an increase in cash and cash equivalents of Baht 874 million.

Liabilities and Equity			
(THB mm)	Dec 17	Dec 16	%Chg
Bank overdrafts and short-term loans	139	1,668	(92)%
Debentures	19,585	12,589	56%
Long-term loans *	10,799	7,705	40%
Convertible debentures	8,774	9,874	(11)%
Other liabilities	17,459	16,874	3%
Total liabilities	56,756	48,710	17%

* Including current portion

Liabilities and Equity			
(THB mm)	Dec 17	Dec 16	%Chg
Equity attributable to equity holder of the Company	63,071	55,719	13%
Non-controlling interests	2,800	2,586	8%
Total equity	65,871	58,305	13%

Total consolidated liabilities as of December 31, 2017 were Baht 56,756 million, increased by 17% from from December 31, 2016, due mainly to an issuance of debentures of Baht 7,000 million together with net increase in long-term loans from financial institutions of Baht 3,093 million offset with decrease in short-term term loans from financial institutions of Baht 1,506 million and decrease in convertible debentures of Baht 1,099 million.

Total consolidated shareholders' equity as of December 31, 2017 was Baht 65,871 million, increased by 13% from December 31, 2016, due mainly from net income during the year.

Liquidity and Capital Management

Cash Flow	
(THB mm)	2017
Net cash from operating activities	10,933
Net cash used in investing activities	(11,870)
Net cash from financing activities	1,811
Net increase in cash and cash equivalents	874
Beginning cash and cash equivalents	4,217
Ending cash and cash equivalents	5,091

For the year ended December 31, 2017, the Company and its subsidiaries had net increase in cash and cash equivalent of Baht 874 million from the beginning balance of Baht 4,217 million. As a result, cash and cash equivalents at the end of period was Baht 5,091 million. Details of cash flow by activities during the period are as follows:-

Net cash flows from operating activities were Baht 10,933 million, resulting mainly from profit during 2017.

Net cash used in investing activities were Baht 11,870 million. The investing activities during the period were mainly from purchase of property, premises and equipment of Baht 15,304 million for land and building of BDMS Wellness Clinic and our network expansion together with purchase of investments in subsidiaries 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 1,811 million comprising mainly from issuance of debentures of Baht 7,000 million together with net cash received from long-term loans from financial institutions of Baht 3,151 million netted with repayment of short-term loans of Baht 1,504 million and dividend payment of Baht 4,955 million.

Ratios Analysis		
Returns (%)	2017	2016
Return on Asset	8.9	8.0
Return on Equity	17.2	15.5
Liquidity (x)		
Current ratio	1.1	0.7
Quick ratio	0.9	0.6
Assets & Liabilities Management (Days)		
Average Collection Period	34.0	35.4
Average Inventory Period	12.2	11.1
Average Payable Period	34.3	37.7
Leverage & Coverage Ratios (x)		
Interest coverage	10.1	16.7
Total debt to equity	0.6	0.5
Net debt to equity	0.5	0.5
Net debt to EBITDA	2.2	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 2016 mainly from gain from partial disposal of investment in BH.

Current ratio and quick ratio in 2017 also increased from 2016 as a result of a decrease in bank overdrafts and short-term loans financial institutions.

Average collection period and average payable period was 34.0 days and 34.3 days decreased from 35.4 days and 37.1 days in 2016 respectively while average inventory period was 12.2 days increased from 11.1 days in 2016.

Interest coverage ratio decreased from 16.7 in 2016 to 10.1 in 2017 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, an issuance of debentures of Baht 7,000 million and increase in long-term loans from financial institutions.

Total interest bearing debt to equity increased from 0.5x as of December 31, 2016 to 0.6x as of December 31, 2017. Net interest bearing debt to equity remained unchanged at 0.5x as of December 31, 2016 and December 31, 2017. Net interest bearing debt to EBITDA increased from 1.9x as of December 31, 2016 to 2.2x as of December 31, 2017. Such increase in leverage ratios were mainly from an issuance of debentures and increase in long-term loans from financial institutions to fund BDMS Wellness Clinic, an expansion of Bangkok Hospital Headquarter and an investment in Paolo Kaset Hospital.

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

Management's Outlook

Increasing healthcare demand

In 2017, Thai government approved tax deductible for individual for private health insurance premium up to Baht 15,000 per annum to help promote private health insurance and boost domestic private healthcare demand.

Long-term prospect of healthcare sector is still intact as a result of aging population and rising income per capita, especially those in the rural area. People pay more attention to their health wishing to live longer with a better quality of life.

On the other hand, international healthcare demand continues to rise as Thailand remains one of the world's most attractive medical tourism destinations for our quality of care, Thai hospitality and value for money.

These favorable factors support our strategy of focusing on preventive care services at BDMS Wellness Clinic and upgrading our clinical capabilities at our Centers of Excellence with multidisciplinary specialists, state of the art medical equipment and experienced staffs to accommodate increasing demand of healthcare.

Key strategic priorities

The Company's diverse portfolio of network hospitals with multiple brands and diversified market segments play a crucial role in continuous growth in healthcare business and serving rising healthcare demand in the future. The company would focus on the following strategic priorities:

- **Increasing asset utilization**

With the rising healthcare inflations, we foresee private health insurance as one of the key potential growth drivers for healthcare business going forward. We are working closely with both domestic and international

insurance companies to develop exclusive insurance policies that would help expand our patient base. Also the development of e-claims and e-billing system will provide convenience for both insurance companies and patients. These initiatives would help diversify our payor base by growing private health insurance portion and increase our bed utilization unlocking the true potential of our hospital network growth prospects.

- **Improving operational efficiencies**

We drive performance of our growing portfolio of hospitals by dividing them into 6 hospital groups. Its cluster synergy enables us to realize the scale benefit, utilize shared services functions and increase efficiency of our operations.

Since we have added a number of new network hospitals over the past few years, we would continue to focus on ramp-up operations of these new hospitals together with the focus on standardization of care and cooperation among our network hospitals for improvement in quality and operational efficiencies.

- **Centers of Excellence**

The Company is upgrading 10 hub hospitals to be Centers of Excellence. These hospitals are

- (1) Bangkok Hospital Headquarter
- (2) Samitivej Sukhumvit Hospital
- (3) Samitivej Srinakarin Hospital
- (4) Phyathai 2 Hospital
- (5) Bangkok Hospital Pattaya
- (6) Bangkok Hospital Phuket
- (7) Bangkok Hospital Chiangmai
- (8) Bangkok Hospital Udon
- (9) Royal Phnom Penh Hospital
- (10) Bangkok Hospital Rayong

With the determination for continuous development of these network hospitals to be in accordance with the Joint Commission

International (JCI), we also would continue to collaborate with world leading institutions to uplift our Thai standard of care effectively to be equivalent to the international standard.

- ***BDMS Wellness Clinic***

BDMS Wellness Clinic goes in line with the Company's strategies for the Complete Continuum of Healthcare by focusing on preventive care and early detection.

At BDMS Wellness Clinic, we use the latest in science and technology to fully explore the physical condition down to the genetic and molecular details. It is through this careful study of the body that we can predict future health and prescribe the ultimate preventive path to follow as well as improve mental and physical performance. BDMS Wellness Clinic is comprised of 8 specialty clinics in one location namely Neuroscience, Musculoskeletal and Sports, Cardioscience, Digestive Wellness, Regenerative, Dental, Breast and Fertility Clinics.

- ***Principle of sustainability development***

The Company remains cautious with our operations and adapts our strategy to maintain operational resiliency and achieve business sustainability. The Company firmly believes in giving back to and taking care of our society, The Company operates in accordance with the principles of sustainable development, by placing importance on various points that have potential impacts on the service value chain, with regard to organizational capabilities to manage and measure the outcomes. Our hospitals in the BDMS network have received accreditation from JCI, Advanced Hospital Accreditation (Advanced HA) and Hospital Accreditation (HA). Moreover, the Company and Vejdasit Foundation have been working in range of activities i.e. monthly health checkup

for the less-fortunate, "Volunteering Project" to encourage our staff to make a contribution to the society through various projects as we are firmly committed to drive company forward as a sustainable organization that keeps growing alongside Thai society.
