

November 14, 2016

Bangkok Dusit Medical Services Public Company Limited

MANAGEMENT DISCUSSION AND ANALYSIS

Executive Summary 3Q16 and 9M16 Performance

Bangkok Dusit Medical Services Public Company Limited ("Company") reported consolidated operating income during third quarter of 2016 ("3Q16") of Baht 18,203 million, an increase of 12% yoy. The growth was attributable to an increase in revenue from hospital operations of 13% yoy which was mainly driven by an increase in number of both outpatients and inpatients, patient referral system together with increasing healthcare inflation, intensity and complexity cases.

Revenue growth from hospital operations in 3Q16 was from existing hospitals growth of approximately 8% yoy, contribution of 93% of revenue from hospital operations and 13 new network hospitals^{1/} growth of approximately 91% yoy, contribution of 7% of revenue from hospital operations. Revenue of network hospitals in Bangkok and vicinity grew 8% yoy and revenue of network hospitals in the upcountry grew 18% yoy in 3Q16.

In addition, revenue from sales of goods and food were Baht 705 million in 3Q16, slightly increased by 1% yoy.

In 3Q16, the Company and its subsidiaries reported EBITDA of Baht 3,926 million, increased by 12% yoy. Consequently, the Company and its subsidiaries reported recurring profit of Baht

2,187 million, increased by 16% yoy. If including non-recurring items which are gain on sale of other long-term investments totaling Baht 147 million in 3Q16, net profit would be Baht 2,334 million, increased by 12% yoy.

For nine-month period ended September 30, 2016 ("9M16"), the consolidated operating income were Baht 51,177 million, an increase of 9% yoy. The growth was attributable to an increase in revenue from hospital operations of 10% yoy which mainly driven by an increase in number of both outpatients and inpatients due to an expansion of our network hospitals, patient ward expansion and renovation, patient referral system and qualified clinical staffs and specialist doctors together with increasing healthcare inflation, intensity and complexity cases.

Revenue growth from hospital operations in 9M16 was from existing hospitals growth of approximately 7% yoy, contribution of 92% of revenue from hospital operations and new network hospitals growth of approximately 65% yoy, contribution of 8% of revenue from hospital operations. Revenue of network hospitals in Bangkok and vicinity grew 7% yoy and revenue of network hospitals in the upcountry grew 14% yoy in 9M16.

In addition, revenue from sales of goods and food was Baht 2,068 million in 9M16, increased by 6% yoy due mainly to an increase in sales of A.N.B. Laboratories Co., Ltd. ("A.N.B"), The Medicpharma Co., Ltd ("Medicpharma") and Bangkok Save Drug Co., Ltd. ("Save Drug").

In 9M16, the Company and its subsidiaries reported EBITDA of Baht 11,061 million,

^{1/} 13 new network hospitals, become part of BDMS less than 2 full calendar years, are consisted of the following hospitals:- Bangkok Chiangmai, Sanamchan, Thepakorn, Phuket International, Bangkok Khon Kaen, Royal Phnom Penh, Bangkok Chinatown, Muang Petch, Sri Rayong, Dibuk, Samitivej Chonburi, Muangraj and Paolo Rangsit.



increased by 7% yoy. Consequently, the Company and its subsidiaries reported recurring profit of Baht 6,201 million, increased by 10% yoy. If including non-recurring items which are gain on sale of other long-term investments totaling Baht 209 million in 9M16, net profit would be Baht 6,409 million or increased by 9% yoy.

Major Development

1. Affirmed the Company rating and senior unsecured debenture rating at AA- by Tris Rating

On November, 2016, Tris Rating affirmed the Company and senior unsecured debenture ratings at AA- with stable outlook. The ratings reflect Company's leading market position as the largest private hospital operator in Thailand, our extensive hospital network, solid reputations of hospital brands, as well as our experienced management team and capable physicians. The ratings also take into consideration our sound operating performance and a moderate financial risk profile.

During the next three years, Tris Rating forecasts BDMS will deliver a sound operating performance. The operating margin may be pressured from fixed operation cost, depreciation and amortization charges for new hospitals, and a ramp up of BDMS Wellness Clinic. However, BDMS is expected to manage expenditures and continues cost saving effort, in order to maintain operating margin.

2. Acquisition of the entire business of Mayo Polyclinic Co., Ltd. (Mayo Hospital)

On October 26, 2016, Board of Directors approved Paolo Medic Co., Ltd. to acquire and receive the transfer of the entire business of Mayo Polyclinic Co., Ltd. which is a company operating Mayo Hospital, a 162-bed private hospital in Bangkok. The considered payment will not be more than Baht 1,395 million in

cash. The Company will use cash flow from operation and/or financing activity for this entire business transfer. In addition, the entire business transfer will be completed in January 2017.

3. BDMS Wellness Clinic

On September 28, 2016, Board of Directors approved the establishment of a subsidiary under the name of BDMS Wellness Clinic Company Limited with registered capital of Baht 6,400 million to purchase and acquire land in the NaiLert Park project area with the total area of approximately 15 rai to operate BDMS Wellness Clinic. The Company will also acquire buildings on the land which are

- (1) Swiss Hotel Park Nai Lert, a six-floor hotel with the area of approximately 28,600 square meters
- (2) Promenade building, a twelve-floor with area of approximately 31,000 square meters
- (3) One-floor building used for staff cafeteria with the area of approximately 400 square meters

The total value of transaction is approximately Baht 12,800 million including the purchase price of land and building of Baht 10,800 million and investment and development of asset for business operation of Baht 2,000 million.

BDMS Wellness Clinic will provide holistic wellness services focused on Preventive Medicine and Longevity and Anti-aging. The operation will be opened in 2017.

4. Expansion of Medicpharma

On November 2, 2016, Medicpharma opened new medicine factory located in Sinsakhon Industrial Estate with the land size of 15 rai. This new factory will increase manufacturing capacity and will produce generic drug in the

form of solid, liquid, semi-solid dosage and penicillin in accordance with international standard. The factory also achieved Good Manufacturing Practice: GMP PIC/s.

The old factory will shift to vitamin and food supplement.

3Q16 Consolidated Financial Summary

Operating Income			
(THB mm)	3Q16	3Q15	%Chg
Revenues from hospital operations	17,299	15,343	13%
Revenue from sales of goods and food	705	701	1%
Other income	200	158	26%
Total Operating Income	18,203	16,203	12%

In 3Q16, total operating income were Baht 18,203 million, an increase of Baht 2,000 million or 12% yoy, primarily due to

- Revenues from hospital operations were Baht 17,299 million, an increase of Baht 1,955 million or 13% yoy. The growth was contributable to an increase in number of outpatients and inpatients across our network hospitals and patient referral system together with the opening of Paolo Rangsit since January 2016 and increasing healthcare inflation, intensity and complexity cases.

Revenues from hospital operations	Chg. (yoy)	% to revenue
Revenues growth from hospital operations	13%	100%
Breakdown by existing and new hospitals		
Existing Hospitals	8%	93%
New Hospitals	91%	7%
Breakdown by location		
Bangkok & Vicinity	8%	59%
Upcountry	18%	41%
Breakdown by nationality		
Thai	14%	74%
International	10%	26%

Existing hospitals grew approximately 8% yoy while new network hospitals grew approximately 91% yoy. Such growth from new network hospitals was mainly from Muangraj Hospital, Sanamchan Hospital, Bangkok Hospital Chiangmai, Samitivej Chonburi Hospital and Paolo Rangsit Hospital. In addition, the proportion of existing to new hospitals is 93%:7% respectively. Revenue of network hospitals in Bangkok and vicinity grew 8% yoy while revenue of network hospitals in the upcountry grew 18% yoy in 3Q16.

In 3Q16, Thai and international patients grew 14% and 10% yoy respectively resulting in the revenue proportion between Thai and international patients slightly changed from 73%:27% in 3Q15 to 74%:26% in 3Q16. From type of patient perspectives, outpatient revenues grew by 13% yoy while the inpatient revenues increased by 11% yoy.

- Revenues from sales of goods and food were Baht 705 million in 3Q16, slightly increased by 1% yoy.
- Other incomes were Baht 200 million in 3Q16, increased by 26% yoy.

Operating Expenses			
(THB mm)	3Q16	3Q15	%Chg
Cost of hospital operations and others	11,926	10,459	14%
Administrative expenses	3,592	3,353	7%
Total Operating Expenses (Including depreciation)	15,518	13,812	12%

In 3Q16, the Company and its subsidiaries reported total operating expenses & depreciation of Baht 15,518 million, an increase of Baht 1,706 million or 12% yoy.

- Cost of hospital operations and others (including depreciation and amortization) were Baht 11,926 million, increased by 14% 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 both full-time and part-time and clinical staffs to accommodate the network expansion.

- The administrative expenses (including depreciation and amortization) were Baht 3,592 million, increased by 7% yoy mainly from an increase in marketing expenses, repair and maintenance expenses and other administrative expenses. However, administrative expenses grew at the slower pace than total operating income.
- The depreciation and amortization expenses were Baht 1,241 million in 3Q16, increased by 12% yoy due mainly to depreciation and amortization of new network hospitals.

Other Major Items

- Share of income from investments in associated companies were Baht 396 million in 3Q16, an increase of Baht 69 million or 21% yoy. Share of income from investments in associated companies were mainly from share of income from investment in Bumrungrad Hospital Public Co., Ltd. ("BH") of Baht 231 million, increased by 14% yoy together with investment in Ramkhamhaeng Hospital Public Co., Ltd ("RAM") of Baht 147 million, increased by 33% yoy.
- Finance expenses decreased to Baht 241 million in 3Q16 or decreased by 16% yoy due mainly to an adjustment in the assumption for calculating expected convertible bonds redemption as the current BDMS share price already exceeds the redemption price of convertible bonds.
- Taxes in 3Q16 were Baht 563 million, an increase from Baht 460 million in 3Q15, due mainly to an increase in pre-tax profit and additional gain on sales of investment in Bangkok Chain Hospital Public Co., Ltd. ("BCH").

Non-recurring items

In 3Q16, the Company and its subsidiaries recorded non-recurring items of totaling Baht 147 million mainly from selling the remaining shares in BCH of 26.1 million shares for Baht 331.3 million resulting in gain on sale of investment (before taxes) of Baht 144 million.

In 3Q15, the Company and its subsidiaries recorded non-recurring items of totaling Baht 209 million from gain on fair value adjustments of investment in relation to the Entire Business transfer of G. Wasupol Co., Ltd. (Muangraj Hospital) which the Company's subsidiary previously held for 25.8%.

Profitability Analysis

(THB mm)	3Q16	3Q15	%Chg
EBITDA *	3,926	3,497	12%
EBITDA margin *	21.6%	21.6%	
EBIT *	3,097	2,731	13%
EBIT margin *	17.0%	16.9%	
Recurring profit *	2,187	1,879	16%
Recurring profit margin *	12.0%	11.6%	
Net profit	2,334	2,087	12%
Net profit margin	12.8%	12.9%	
(THB)			
EPS (pre non-recurring)	0.14	0.12	16%
EPS	0.15	0.13	12%

* 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 3,497 million in 3Q15 to Baht 3,926 million in 3Q16 or increased by 12% yoy. EBITDA margin remained unchanged at 21.6% in 3Q15 and in 3Q16.

Recurring profit was Baht 2,187 million in 3Q16, increased by 16% yoy. As a result, recurring profit margin increased from 11.6% in 3Q15 to 12.0% in

3Q16. EPS (pre non-recurring) was Baht 0.14 per share or increased by 16% yoy.

If including the non-recurring items, net profit was Baht 2,334 million, increased by 12% yoy. However, net profit margin slightly decreased from 12.9% in 3Q15 to 12.8% in 3Q16. EPS was Baht 0.15 per share or increased by 12% yoy.

9M16 Consolidated Financial Summary

Operating Income			
(THB mm)	9M16	9M15	%Chg
Revenues from hospital operations	48,568	44,306	10%
Revenue from sales of goods and food	2,068	1,949	6%
Other income	542	549	(1)%
Total Operating Income	51,177	46,804	9%

In 9M16, total operating income were Baht 51,177 million, an increase of Baht 4,374 million or 9% yoy, primarily due to

- Revenues from hospital operations were Baht 48,568 million, an increase of Baht 4,262 million or 10% from 9M15. The growth was contributable to an increase in number of outpatients and inpatients across our network hospitals, patient ward renovation, patient referral system and qualified clinical staffs and specialist doctors together with the opening of Paolo Rangsit since January 2016 and an increasing healthcare inflation, intensity and complexity cases.

Revenues from hospital operations	Chg. (yoy)	% to revenue
Revenues growth from hospital operations	9%	100%
Breakdown by existing and new hospitals		
Existing Hospitals	7%	92%
New Hospitals	65%	8%

Revenues from hospital operations	Chg. (yoy)	% to revenue
Revenues growth from hospital operations	9%	100%
Breakdown by location		
Bangkok & Vicinity	7%	60%
Upcountry	14%	40%
Breakdown by nationality		
Thai	8%	71%
International	11%	29%

Existing hospitals grew approximately 7% yoy while new network hospitals grew approximately 65% yoy. Such growth from new network hospitals was mainly from Muangraj Hospital, Samitivej Chonburi Hospital, Bangkok Hospital Chiangmai, Bangkok Hospital Khon Kaen and Paolo Rangsit Hospital. In addition, the proportion of existing to new hospitals is 92%:8% respectively. Revenue of network hospitals in Bangkok and vicinity grew 7% yoy while revenue of network hospitals in the upcountry grew 14% yoy in 9M16.

In 9M16, Thai and international patients grew 8% and 11% yoy respectively resulting in the revenue proportion between Thai and international patients remained unchanged at 71%:29% in 9M15 and in 9M16. From type of patient perspectives, outpatient revenues grew by 12% yoy while the inpatient revenues increased by 8% yoy in 9M16.

- Revenues from sales of goods and food were Baht 2,068 million in 9M16, an increase of 6% yoy, mainly from an increase in sales of A.N.B., Medicpharma and Save Drug.
- Other incomes were Baht 542 million in 9M16, slightly decreased by 1% yoy mainly from income tax refund of our subsidiary from The Revenue Department totaling Baht 57 million in 1Q15.

Operating Expenses

(THB mm)	9M16	9M15	%Chg
Cost of hospital operations and others	33,591	30,298	11%
Administrative expenses	10,073	9,412	7%
Total Operating Expenses (Including depreciation)	43,665	39,710	10%

In 9M16, the Company and its subsidiaries reported total operating expenses & depreciation of Baht 43,665 million, an increase of Baht 3,955 million or 10% yoy.

- Cost of hospital operations and others (including depreciation and amortization) were Baht 33,591 million, increased by 11% 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 both full-time and part-time and clinical staffs to accommodate the network expansion.
- The administrative expenses (including depreciation and amortization) were Baht 10,073 million, increased by 7% yoy, due mainly to an increase non-clinical personnel expenses and other administrative expenses. However, administrative expenses grew at the slower pace than total operating income.
- The depreciation and amortization expenses were Baht 3,548 million in 9M16, increased by 10% yoy due mainly to depreciation and amortization of new network hospitals.

Other Major Items

- Share of income from investments in associated companies were Baht 1,063 million in 9M16, an increase of Baht 97 million or 10% yoy. Share of income from investments in associated companies were mainly from investment in BH of Baht 671 million together with investment in RAM of Baht 344 million.

- Finance expenses decreased to Baht 635 million in 9M16 or decreased by 25% yoy due mainly to (1) an interest rate swap contract with financial institution for debenture totaling Baht 4,000 million by the exchange of a floating interest rate for a fixed rate resulting in interest savings during this period together with (2) an adjustment in the assumption for calculating expected convertible bonds redemption as the current BDMS share price already exceeds the redemption price of convertible bonds.
- Tax expenses in 9M16 were Baht 1,519 million, an increase from Baht 1,357 million in 9M15, due mainly to an increase in pre-tax profit.

Non-recurring items

In 9M16, the Company and its subsidiaries recorded non-recurring items of totaling Baht 209 million mainly from gain on sale of investment in BCH (before taxes) of Baht 206 million.

In 9M15, the Company and its subsidiaries recorded non-recurring items of totaling Baht 209 million from gain on fair value adjustments of investment in relation to the Entire Business transfer of G. Wasupol Co., Ltd. (Muangraj Hospital) which the Company's subsidiary previously held for 25.8%.

Profitability Analysis

(THB mm)	9M16	9M15	%Chg
EBITDA *	11,061	10,317	7%
EBITDA margin *	21.6%	22.0%	
EBIT *	8,637	8,112	6%
EBIT margin *	16.9%	17.3%	

* Excluding non-recurring items

Remarks

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

EBITDA Margin = EBITDA / Operating income

Profitability Analysis

(THB mm)	9M16	9M15	%Chg
Recurring profit *	6,201	5,659	10%
Recurring profit margin *	12.1%	12.1%	
Net profit	6,409	5,868	9%
Net profit margin	12.5%	12.5%	
(THB)			
EPS (pre non-recurring)	0.40	0.37	10%
EPS	0.41	0.38	9%

* Excluding non-recurring items

As previously mentioned EBITDA increased from Baht 10,317 million in 9M15 to Baht 11,061 million in 9M16 or increased by 7% yoy. However, EBITDA margin decreased from 22.0% in 9M15 to 21.6% in 9M16.

Recurring profit was Baht 6,201 million in 9M16, increased by 10% yoy. However, recurring profit margin remained unchanged at 12.1% in 9M15 and in 9M16. EPS (pre non-recurring) was Baht 0.40 per share or increased by 10% yoy.

If including the non-recurring items, net profit was Baht 6,409 million, increased by 9% yoy. However, net profit margin remained unchanged at 12.5% in 9M15 and in 9M16. EPS was Baht 0.41 per share or increased by 9% yoy.

Assets

(THB mm)	Sep 16	Dec 15	%Chg
Cash & cash equivalents	4,442	5,529	(20)%
Short-term investments	569	28	1,911%
Trade & other receivables	6,042	6,484	(7)%
Inventories	1,363	1,286	6%
Investment in associates	15,994	15,093	6%
Property, premises & equipment	54,504	52,950	3%
Goodwill	16,932	16,932	(0)%
Other assets	5,265	4,033	31%
Total assets	105,111	102,335	3%

The consolidated financial position of the Company and its subsidiaries as of September 30,

2016: The Company and its subsidiaries reported total assets of Baht 105,111 million increased from December 31, 2015.

Liabilities and Equity

(THB mm)	Sep 16	Dec 15	%Chg
Debentures *	12,588	10,591	19%
Long-term loans *	8,209	9,446	(13)%
Convertible debentures	9,824	9,683	1%
Other liabilities	17,185	16,439	5%
Total liabilities	47,807	46,160	4%
Equity attributable to equity holder of the Company	54,760	53,676	2%
Non-controlling interests	2,544	2,499	2%
Total equity	57,304	56,175	2%

* Including current portion

Total consolidated liabilities as of September 30, 2016 were Baht 47,807 million, which was increased from December 31, 2015, due mainly to an issuance of debentures of Baht 3,000 million together with an increase in short-term loans from financial institutions of Baht 1,874 million netted with redemption of maturing debentures of Baht 1,000 million.

Total consolidated shareholders' equity as of September 30, 2016 was Baht 57,304 million, slightly increased from December 31, 2015.

Liquidity and Capital Management

Cash Flow

(THB mm)	9M16
Net cash from operating activities	8,712
Net cash used in investing activities	(6,521)
Net cash used in financing activities	(3,278)
Net decrease in cash and cash equivalents	(1,087)
Beginning cash and cash equivalents	5,529
Ending cash and cash equivalents	4,442

For the nine-month period ended September 30, 2016, the Company and its subsidiaries had net decrease in cash and cash equivalent of Baht

1,087 million from the beginning balance of Baht 5,529 million. As a result, cash and cash equivalents at the end of period was Baht 4,442 million. Details of cash flow by activities during the period are as follows:-

Net cash flows from operating activities were Baht 8,712 million, resulting mainly from profit during 9M16.

Net cash used in investing activities were Baht 6,521 million. The investing activities during the period were mainly from purchase of property, premises and equipment for Baht 5,676 million to expand our network hospitals both existing hospital, namely Bangkok Hospital Headquarter, to become Center of Excellence and new hospital namely Bangkok Hospital Surat together with expansion of manufacturing plant of Medicpharma.

Net cash used in financing activities were Baht 3,278 million comprising mainly from cash received from repayment of long-term loans from financial institutions of Baht 1,208 million, redemption of maturing debentures of Baht 1,000 million and dividend payment of Baht 5,575 million netted with an issuance of debentures of Baht 3,000 million.

Ratios Analysis		
Returns (%)	9M16	9M15
Return on Asset	8.0	8.0
Return on Equity	15.2	15.7
Liquidity (x)		
Current ratio	0.8	0.9
Quick ratio	0.7	0.8
Assets & Liabilities Management (Days)	9M16	9M15
Average Collection Period	35.9	35.9
Average Inventory Period	10.6	10.0
Average Payable Period	38.3	39.7

Remark

Excluding non-recurring items

Assets & Liabilities Management based on 360 days

Ratios Analysis		
Leverage & Coverage Ratios (x)	9M16	9M15
Interest coverage	17.4	12.1
	Sep-16	Dec-15
Total debt to equity	0.6	0.5
Net debt to equity	0.5	0.4
Net debt to EBITDA	1.3	1.7

Remark

Excluding non-recurring items

Interest coverage = EBITDA/Interest Expenses

Debt refers to interest bearing debt

Return on assets in 9M15 remained unchanged from 9M15 while return on equity decreased from 9M15 as a result of the performance of new network hospitals which are ramping up and currently generate lower returns than existing hospitals.

Current ratio and quick ratio in 9M16 slightly decreased from 9M15. Average collection period remains unchanged at 35.9 days in 9M15 and in 9M16.

Interest coverage ratio increased from 12.1x in 9M15 to 17.4x in 9M16 due mainly to decrease in finance expenses during the period.

Total interest bearing debt to equity increased from 0.5x as of December 31, 2015 to 0.6x as of September 30, 2016. Net interest bearing debt to equity also increased from 0.4x as of December 31, 2015 to 0.5x as of September 30, 2016 and net interest bearing debt to EBITDA decreased from 1.7x as of December 31, 2015 to 1.3x as of September 30, 2016.

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

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