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10 November 2014

Subject: Management Discussion and Analysis for the third quarter 2014 results

To: Directors and Manager
The Stock Exchange of Thailand

Bumrungrad Hospital PCL.
Management Discussion and Analysis for 3Q14 results
10 November 2014

Summary

The Company reported Total revenues in 3Q14 of Baht 4,126 million, a 9.8% improvement over 3Q13 revenues of Baht 3,758 million. Net profit for 3Q14 grew 9.3% to Baht 768 million from Baht 703 million in 3Q13, while Net profit margin at 18.6% in 3Q14 compared to 18.7% in 3Q13.

Total revenues for 9M14 increased to Baht 11,660 million, producing a 6.8% improvement over 9M13 revenues of Baht 10,915 million. Net profit advanced 7.8% to Baht 2,042 million in 9M14 from Baht 1,894 million in 9M13, with Net profit margin at 17.5% in 9M14 compared to 17.3% in 9M13.

On 28 March 2014, Health Horizons Enterprises Pte. Ltd. ("HHE"), an overseas subsidiary 80% owned by the Company, acquired 100% of the common shares of Bumrungrad Mongolia LLC ("BML"), which holds 51% of the common shares of Seoul Seniors Tower LLC ("SST"), for approximately USD 12 million in cash. Additionally, HHE provided a loan of USD 3.3 million to SST, which owns and operates Ulaanbaatar Songdo Hospital ("UBSD") in Mongolia. HHE's consolidated assets, liabilities, and operating results, which include SST and BML as of the acquisition date, are included in the Company's consolidated financial statements for 3Q14 and 9M14. The details of this transaction are presented in the Significant Event section of this document.

Details of the management discussion and analysis follow:

Income statements

Quarterly Operational Performance

The Company reported Revenues from hospital operations of Baht 4,054 million, a 10.8% improvement year-over-year from Baht 3,659 million in 3Q13. Outpatient and inpatient volumes advanced 12.7% and 13.7%, respectively, in 3Q14 compared with 3Q13, with most of the increase due to volumes contributed by the UBSD acquisition. Excluding UBSD, outpatient and inpatient volumes grew 1.1% and 1.2%, respectively. Impacted by the significantly lower intensity services provided by UBSD compared to those provided by the Company, revenue intensity declined 8.5% and 7.2% for outpatient and inpatient services, respectively.

Revenue intensity, excluding UBSD, rose 4.2% for inpatient services and was flat for outpatient services. The combined results of the above resulted in outpatient service revenues advancing 9.6% while inpatient service revenues grew 11.9%. The revenue contribution from inpatient services in 3Q14 was 48.4% and from outpatient services was 51.6%, compared with 47.9% and 52.1%, respectively, for 3Q13. In terms of revenues by market segment, international patients accounted for 60.1% of the total in 3Q14, with the remaining 39.9% from Thai patients, reflecting a small increase in the 39.8% from Thai patients in 3Q13.

Rental income was Baht 15 million in 3Q14 compared with Baht 19 million in 3Q13 due to the planned expiration of a service apartment building lease, and the conversion of previous rental space to temporary offices for hospital personnel necessitated by the campus expansion. Exchange gains decreased to Baht 8 million from Baht 22 million mostly due to timing differences associated with collections on certain Middle East accounts. Interest income decreased from Baht 37 million in 3Q13 to Baht 31 million in 3Q14, mainly due to decreased cash balances. The decrease in cash balances was mostly due to Baht 395 million cash paid for the acquisition of UBSD.

The Company reported Cost of hospital operations (including Depreciation and amortization) of Baht 2,437 million for 3Q14, or 9.0% more year-over-year from Baht 2,236 million in 3Q13, compared to the 10.8% growth in Revenues from hospital operations. In addition, the percentage of Cost of hospital operations to Revenues from hospital operations improved from 61.1% in 3Q13 to 60.1% in 3Q14. Administrative expenses (including Depreciation and amortization) were Baht 681 million in 3Q14, or 14.6% more than Baht 594 million in 3Q13. The change between periods includes Baht 29 million more in Depreciation and amortization associated with the campus expansion and revised estimated useful lives of certain assets; Baht 22 million in repair and maintenance expenses; Baht 17 million in bad debt expenses, mostly due to a prior year bad debt recovery and certain aged self-pay accounts; Baht 9 million additional marketing related expenses, due to timing differences of expenditures between periods; and Baht 9 million in donations to support nurse recruitment. EBITDA grew 12.8% year-over-year from Baht 1,092 million in 3Q13 to Baht 1,231 million in 3Q14, with an EBITDA margin of 30.1% in 3Q14 compared to 29.3% in 3Q13.

Depreciation and amortization increased from Baht 200 million in 3Q13 to Baht 254 million in 3Q14, largely associated with the campus expansion and revised estimated useful lives of certain assets. The Company reported Share of profit from investments in associates of Baht 2 million in 3Q13 compared to Baht 1 million in 3Q14.

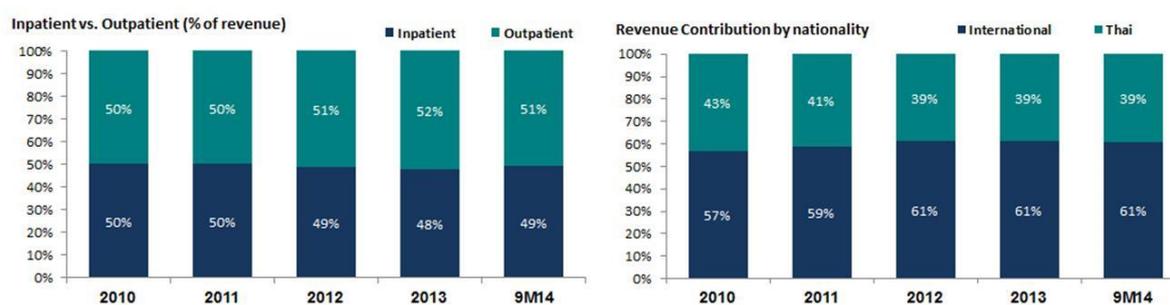
Finance cost dropped from Baht 62 million in 3Q13 to Baht 47 million in 3Q14, primarily due to Baht 14 million in capitalized interest expense associated with the campus expansion.

Corporate income tax of Baht 190 million in 3Q14 was higher than Baht 166 million in 3Q13. The variance is mostly due to Baht 18 million additional taxes due to higher taxable operating profit in 3Q14 compared with 3Q13 and Baht 10 million tax benefit from realized loss on impairment of the investment in Asia Global Research Co., Ltd. ("AGR") in 3Q13, offset by tax benefits of Baht 4 million associated with outside training, and Baht 2 million related to donations to St. Louis College to support the nurse training program.

Basic EPS for 3Q14 of Baht 1.05 was 9.3% higher than Baht 0.96 in 3Q13, while 3Q14 Diluted EPS increased at the same rate to Baht 0.88 from Baht 0.81 in 3Q13.

Nine Months Operational Performance

Revenues from hospital operations were Baht 11,405 million for 9M14, a 7.5% improvement year-over-year from Baht 10,610 million in 9M13. Outpatient and inpatient volumes advanced 5.1% and 8.3%, respectively, in 9M14 compared with 9M13 as a result of volumes added by the UBSD acquisition. Excluding UBSD volumes, outpatient and inpatient volumes declined 3.2% and 0.1%, respectively year-over-year, as the ongoing political environment in Thailand that began in 1Q14 continued to contribute to weak volumes and lower revenue intensity compared to those provided by the Company, especially through 2Q14. Volumes from the international market segment have been significantly more impacted than volumes from the Thai and expat market segments during this period. Thai volumes ended the 9M14 with a 2.0% increase in admissions and a 1.6% decrease in outpatient visits, while international volumes, excluding UBSD, declined 3.6% in admissions and 7.1% in outpatient visits year-over-year. Impacted by the significantly lower intensity services provided by UBSD compared to the Company's, and to a lesser degree the drop in international volumes and elective procedures caused by the unstable Thailand political environment, revenue intensity decreased by 9.6% and 5.7% for outpatient and inpatient services, respectively. Revenue intensity, excluding UBSD, decreased 3.0% for outpatient services and increased 1.8% for inpatient services. The combined results of the above resulted in outpatient service revenues advancing 3.5% while inpatient service revenues grew by 10.9%. The revenue contribution from inpatient services in 9M14 was 49.2% and from outpatient services was 50.8%, compared with 47.5% and 52.5%, respectively, for 9M13. In terms of revenues by market segment, international patients accounted for 60.8% of the total in 9M14, with the remaining 39.2% from Thai patients, reflecting a small increase to the 38.9% from Thai patients in 9M13.



Rental income was Baht 44 million in 9M14 compared to Baht 72 million in 9M13 due to the planned expiration of a service apartment building lease, and the conversion of previous rental space to temporary offices for hospital personnel necessitated by the campus expansion. Interest income decreased from Baht 115 million in 9M13 to Baht 102 million in 9M14, mainly due to decreased cash balances. The decrease in cash balances was mostly due to Baht 395 million cash paid for the acquisition of UBSD. Exchange gains decreased to Baht 32 million from Baht 45 million mostly due to timing differences associated with collections on certain Middle East accounts. Total revenues in 9M14 were Baht 11,660 million, compared to Baht 10,915 million in 9M13, a 6.8% improvement year-over-year.

The Company reported Cost of hospital operations (including Depreciation and amortization) of Baht 6,921 million for 9M14, or 5.1% more year-over-year from Baht 6,583 million in 9M13, compared to the 7.5% growth in Revenues from hospital operations. In addition, the percentage of Cost of hospital operations to Revenues from hospital operations improved from 62.0% in 9M13 to 60.7% in 9M14. Administrative expenses (including Depreciation and amortization) were Baht 2,049 million in 9M14, increasing 14.1% from Baht 1,796 million in 9M13. This change included Baht 75 million more in Depreciation and amortization associated with the campus expansion and revised estimated useful lives of certain assets, Baht 69 million in donations to support nurse recruitment, and Baht 51 million in repair and maintenance expenses. EBITDA grew 11.0%

year-over-year from Baht 3,005 million in 9M13 to Baht 3,334 million in 9M14, with the EBITDA margin advancing to 28.8% in 9M14 compared with 27.8% in 9M13.

Depreciation and amortization increased from Baht 583 million in 9M13 to Baht 747 million in 9M14, largely associated with the campus expansion and revised estimated useful lives of certain assets. The Company reported Baht 4 million Share of profit from investments in associates in 9M13 compared to Baht 4 million Share of loss from investments in 9M14. The 9M14 Share of loss was mostly due to Bumrungrad International Limited (BIL) realized exchange rate losses connected with the planned closure of its subsidiaries [Bumrungrad International Holdings (Hong Kong) Limited and Bumrungrad International Holdings Pte. Ltd.] in June 2014 as part of the BIL wind-down process.

Finance cost dropped from Baht 183 million in 9M13 to Baht 139 million in 9M14, primarily due to Baht 41 million in capitalized interest expense associated with the campus expansion.

Corporate income tax of Baht 501 million in 9M14 was higher than Baht 464 million in 9M13, mostly due to Baht 42 million increased taxes due to higher taxable profit in 9M14 compared with 9M13 and Baht 10 million tax benefit from realized loss on impairment of the investment in Asia Global Research Co., Ltd. ("AGR") in 9M13, offset by tax benefits of Baht 14 million related to donations to St. Louis College to support the nurse training program and Baht 10 million associated with outside training.

Basic EPS for 9M14 was Baht 2.80, producing a 7.8% increase year-over-year from Baht 2.60 in 9M13, while 9M14 Diluted EPS also increased at the same rate to Baht 2.35 from Baht 2.18 in 9M13.

Income statements						
(Unit: Baht million)	3Q14	3Q13	Change	9M14	9M13	Change
Revenues from hospital operations	4,054	3,659	10.8%	11,405	10,610	7.5%
Total revenues	4,126	3,758	9.8%	11,660	10,915	6.8%
EBITDA	1,231	1,092	12.8%	3,334	3,005	11.0%
Net profit	768	703	9.3%	2,042	1,894	7.8%
<i>EBITDA margin</i>	30.1%	29.3%		28.8%	27.8%	
<i>Net profit margin</i>	18.6%	18.7%		17.5%	17.3%	
EPS						
(Unit: Baht)	3Q14	3Q13	Change	9M14	9M13	Change
EPS – Basic	1.05	0.96	9.3%	2.80	2.60	7.8%
EPS – Fully Diluted	0.88	0.81	9.3%	2.35	2.18	7.8%

Statements of financial position

As at 30 September 2014, the Company reported Total current assets of Baht 7,684 million, an increase from Baht 7,552 million as at 31 December 2013. The variance is mostly due to an increase of Baht 146 million in Trade and other receivables. Trade receivables were Baht 1,445 million as at 30 September 2014 versus Baht 1,284 million as at 31 December 2013. The collection period was 34.8 days as at 30 September 2014 compared to 35.3 days as at 31 December 2013.

Total non-current assets increased to Baht 10,588 million as at 30 September 2014 from Baht 9,700 million as at 31 December 2013, mostly due to additional Property, plant and equipment and Goodwill associated with the acquisition of UBSD in Mongolia, described in the Significant Event section of this document. Total assets grew to Baht 18,272 million as at 30 September 2014 from Baht 17,252 million as at 31 December 2013.

Total current liabilities were Baht 2,103 million as at 30 September 2014, a decrease from Baht 2,125 million as at 31 December 2013. The variance is mostly due to Baht 134 million less Income tax payable and 92 million reduction in Trade and other payables, offset by 172 million additional Accrued expenses, mostly for accrued bonus.

Non-current liabilities rose to Baht 5,579 million as at 30 September 2014 from Baht 5,529 million as at 31 December 2013, mostly due to Baht 45 million increase in Provision for long-term employee benefits. The total debt as at 30 September 2014 remained significantly lower than the Cash and cash equivalents balance, leading to a net cash balance after considering outstanding debt. After adding back the 9M14 capitalized interest expense related to the campus expansion of Baht 41 million, the Company's Interest coverage ratio improved to 18.5x in 9M14 from 16.5x in 9M13, due to higher EBITDA in 9M14 compared to 9M13.

Total shareholders' equity grew to Baht 10,591 million as at 30 September 2014 from Baht 9,597 million as at 31 December 2013. This increase resulted from the Company's 9M14 Net profit of Baht 2,042 million and change in Non-controlling interests of the subsidiaries of Baht 372 million representing Non-controlling interests of the subsidiary in Mongolia, offset with a dividend payment of Baht 1,387 million and other changes in Retained earnings of Baht 32 million. Average return on assets (ROA) a small increased from 15.2% in 2013 to 15.3% in 9M14. Average return on equity (ROE) declined from 27.8% in 2013 to 27.0% in 9M14. Both of these changes were mostly attributable to the impact associated with the UBSD acquisition.

Unit: Baht million	30-Sep-14	31-Dec-13	Change
Total assets	18,272	17,252	5.9%
Total liabilities	7,681	7,655	0.4%
Total shareholders' equity	10,591	9,597	10.4%
	9M14	9M13	
Interest coverage ratio (x)	18.5*	16.5	
	9M14	2013	
Average collection period (days)	34.8	35.3	
Average inventory period (days)	13.0	11.8	
Average payables period (days)	29.1	29.5	
Net debt to equity (x)	(0.1)**	(0.1)**	
Average return on assets (%)	15.3%	15.2%	
Average return on equity (%)	27.0%	27.8%	

* After adding back the 9M14 capitalized interest expense related to the campus expansion.

** Cash and cash equivalents balance exceed the total debt at the end of period.

Cash flow statements

The Company's Net cash flows from operating activities in 9M14 were Baht 2,734 million, compared to Baht 2,487 million in 9M13. This increase was due to additional cash from operations offset by decreased working capital. Net cash flows used in investment activities were Baht 1,204 million in 9M14, compared to Baht 837 million in 9M13. This change was mainly due to Baht 309 million for the Company's portion of the acquisition of the subsidiary in Mongolia, Baht 86 million for the Company's portion of a loan repayment made by the subsidiary in Mongolia, described in the Significant Event section of this document. The Company reported Net cash flows used in financing activities of Baht 1,533 million in 9M14 versus Baht 1,361 million in 9M13. This increase was from Baht 176 million long-term loan from an associate in 9M13. As a result of the above, Cash and cash equivalents were Baht 5,837 million as at 30 September 2014, compared to Baht 6,323 million as at 30 September 2013.

The Company's Liquidity ratio as at 30 September 2014 increased to 3.7x from 3.6x as at 31 December 2013. Similarly, the Quick ratio increased to 3.5x as at 30 September 2014 from 3.4x as at 31 December 2013.

Unit: Baht million	9M14	9M13
Net cash flows from operating activities	2,734	2,487
Net cash flows used in investing activities	(1,204)	(837)
Net cash flows used in financing activities	(1,533)	(1,361)
Net (decrease) increase in cash and cash equivalents	(20)	288
Cash and cash equivalents at end of period	5,837	6,323
	30-Sep-14	31-Dec-13
Liquidity ratio (x)	3.7	3.6
Quick ratio (x)	3.5	3.4

Significant Event

On 28 March 2014, Health Horizons Enterprises Pte. Ltd. (“HHE”), an overseas subsidiary 80% owned by the Company, acquired 100% of the common shares of Bumrungrad Mongolia LLC (“BML”), which holds 51% of the common shares of Seoul Seniors Tower LLC (“SST”), for approximately USD 12 million in cash. Additionally, HHE provided a loan of USD 3.3 million to SST, which owns and operates Ulaanbaatar Songdo Hospital (“UBSD”) in Mongolia.

The seller of shares of SST is entitled to receive additional contingent consideration in the form of earn-out payments, provided certain cumulative net profit targets are achieved through December 31, 2016, at the maximum of MNT 10,965.9 million, which has not yet been recorded.

HHE’s consolidated financial statements, which include SST and BML’s operating results, are included in the Company’s consolidated financial statements for 3Q14 and 9M14. HHE has recorded the net tangible assets of SST and BML acquired at their fair values as of the acquisition date. The remaining excess of the purchase price over the net value of the tangible assets acquired was allocated as goodwill. The preliminary amount of goodwill, which excludes any impact from additional contingent consideration, is approximately USD 3.5 million.

Please be informed accordingly.

Yours faithfully,

(Dr. Chanvit Tanhiphat, MD)

Vice Chairman