

30 October 2015

Subject: Management Discussion and Analysis for the third quarter 2015 results

To: Directors and Manager
The Stock Exchange of Thailand

Bumrungrad Hospital PCL.
Management Discussion and Analysis for 3Q15 results
30 October 2015

Summary

The Company reported Total revenues in 3Q15 of Baht 4,393 million, a 6.4% improvement over 3Q14 revenues of Baht 4,126 million. Net profit for 3Q15 grew 9.9% to Baht 843 million from Baht 768 million in 3Q14, with Net profit margin at 19.2% in 3Q15 compared to 18.6% in 3Q14.

Total revenues for 9M15 increased to Baht 13,311 million, producing a 14.2% improvement over 9M14 revenues of Baht 11,660 million. Net profit surged 30.6% to Baht 2,667 million in 9M15 from Baht 2,042 million in 9M14, with Net profit margin at 20.0% in 9M15 compared to 17.5% in 9M14.

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. 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 4,315 million, a 6.4% improvement year-over-year from Baht 4,054 million in 3Q14. Inpatient volumes advanced 3.2% in terms of patient days in 3Q15 compared with 3Q14, and increased 6.6% excluding UBSD. This resulted mostly from a higher average length of stay for non-Thai patients. However, inpatient volumes in terms of admissions declined 6.3% (4.3% excluding UBSD), with outpatient volumes reflecting a similar decline of 5.1% (2.8% excluding UBSD) year-over-year. The volume decreases occurred in both Thai and non-Thai patients. Year over year growth was affected by strong volume growth in 3Q14, reflecting the return of international volumes

that were significantly disrupted during 1H14 by the political unrest in Thailand; the temporary impact occurring mostly in July of 3Q15 from a MERS case in late 2Q15; and a decline in UAE volumes during the last 2 months of 3Q15. Revenue intensity rose 7.0% and 4.6% for inpatient and outpatient services, respectively. The combined results of the above resulted in inpatient service revenues advancing 6.4% while outpatient service revenues grew 5.1%. The revenue contribution from inpatient services in 3Q15 was 48.7% and from outpatient services was 51.3%, compared with 48.4% and 51.6%, respectively, for 3Q14. In terms of revenues by market segment, non-Thai patients accounted for 65.0% of the total in 3Q15, with the remaining 35.0% from Thai patients, compared to 61.6% and 38.4% for non-Thai and Thai patients, respectively, in 3Q14. The change from the prior year was mostly due to the higher average length of stay in non-Thai business in 3Q15.

Rental income was the same for both 3Q15 and 3Q14 at Baht 15 million. Exchange gains increased to Baht 12 million in 3Q15 from Baht 8 million in 3Q14 mostly from timing differences associated with collections on certain oversea insurance accounts. Interest income increased to Baht 33 million in 3Q15 from Baht 31 million in 3Q14, due to increased cash balances.

The Company reported Cost of hospital operations (including Depreciation and amortization) of Baht 2,521 million for 3Q15, or 3.4% more year-over-year from Baht 2,437 million in 3Q14. This represents a favorable change when compared to the 6.4% growth in Revenues from hospital operations. The percentage of cost to Revenues from hospital operations improved from 60.1% in 3Q14 to 58.4% in 3Q15. Administrative expenses (including Depreciation and amortization) were Baht 785 million in 3Q15, or 15.3% more than Baht 681 million in 3Q14. The increase in Administrative expenses was mostly due to Baht 45 million increase in staff costs, largely associated with annual merit increases, changes relative to the overtime accrual associated with the implementation of the new human resources/ payroll system (HRIS) in the prior year and additional staff to support the IBM Watson project and to fill open positions from the previous year; Baht 21 million additional software support and maintenance expenses related to the IBM Watson project; Baht 10 million more in bad debt expense, mostly from additional provision for certain self-pay accounts; Baht 7 million in one-time consulting and management fees related to a special project; and Baht 11 million increase in various Administrative expenses. EBITDA grew 7.0% year-over-year from Baht 1,231 million in 3Q14 to Baht 1,317 million in 3Q15, with an EBITDA margin of 30.2% in 3Q15 compared to 30.1% in 3Q14.

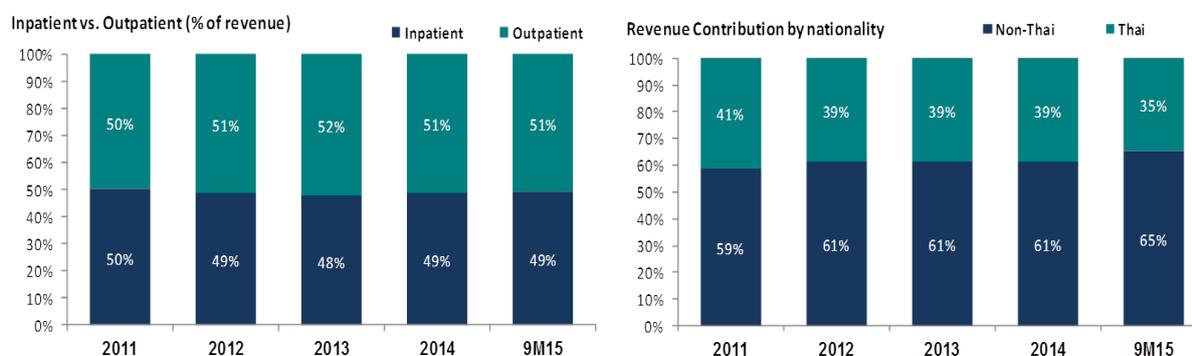
Ongoing capital spending contributed to higher 3Q15 Depreciation and amortization of Baht 264 million from Baht 254 million in 3Q14. The Company reported Share of profit from investments in associates of Baht 1 million for both 3Q15 and 3Q14. Finance cost was the same for both 3Q15 and 3Q14 at Baht 47 million.

Corporate income tax of Baht 199 million in 3Q15 was higher than Baht 190 million in 3Q14. The variance is mostly due to Baht 15 million additional taxes due to higher taxable operating profit in 3Q15 compared with 3Q14, offset by an increase in a tax benefit of Baht 6 million associated with outside training.

Basic EPS for 3Q15 of Baht 1.16 was 9.9% higher than Baht 1.05 in 3Q14, while 3Q15 Diluted EPS increased at the same rate to Baht 0.97 from Baht 0.88 in 3Q14.

Nine Months Operational Performance

Revenues from hospital operations were Baht 13,055 million for 9M15, an 14.5% improvement year-over-year from Baht 11,405 million in 9M14. Inpatient volumes advanced 12.7% in terms of patient days and 3.8% in terms of admissions in 9M15 compared with 9M14. This resulted mostly from a higher average length of stay for non-Thai patients, along with strong non-Thai admission growth of 12.9%. Outpatient volumes grew 2.5% in 9M15 compared with 9M14, mostly due to a 10.5% increase in non-Thai volumes, offset by a 5.5% decrease in Thai volumes. Revenue intensity rose 4.4% and 4.3% for inpatient and outpatient services, respectively. The combined results of the above resulted in inpatient service revenues advancing 13.9% while outpatient service revenues grew 13.2%. The revenue contribution from inpatient services in 9M15 was 49.4% and from outpatient services was 50.6%, compared with 49.2% and 50.8%, respectively, for 9M14. In terms of revenues by market segment, non-Thai patients accounted for 65.4% of the total in 9M15, with the remaining 34.6% from Thai patients, compared to 60.8% and 39.2% for non-Thai and Thai patients, respectively, in 9M14. The change from the prior year was mostly due to the strong growth in non-Thai business in 9M15.



Rental income was the same for both 9M15 and 9M14 at Baht 44 million. Interest income increased to Baht 107 million in 9M15 from Baht 102 million in 9M14, due to increased cash balances. Exchange gains increased to Baht 37 million in 9M15 from Baht 32 million in 9M14, mostly due to timing differences associated with collections on certain Middle East accounts. Other income decreased to Baht 67 million in 9M15 from Baht 76 million in 9M14, primarily due to the planned conversion of the food court in the clinic building to a doctors' dining area as part of the campus expansion project. Total revenues in 9M15 were Baht 13,311 million, compared to Baht 11,660 million in 9M14, a 14.2% improvement year-over-year.

The Company reported Cost of hospital operations (including Depreciation and amortization) of Baht 7,627 million for 9M15, or 10.2% more year-over-year from Baht 6,921 million in 9M14. This represents a favorable change when compared to the 14.5% growth in Revenues from hospital operations. The percentage of cost to Revenues from hospital operations improved from 60.7% in 9M14 to 58.4% in 9M15. Administrative expenses (including Depreciation and amortization) were Baht 2,248 million in 9M15, increasing 9.7% from Baht 2,049 million in 9M14. This change included Baht 96 million increases in staff costs, largely associated with volume growth and annual merit increases; Baht 55 million more in software support and maintenance expenses related to the IBM Watson project; and Baht 27 million more in bad debt expense, mostly from the prior year reversal of a large bad debt account and additional provision for certain self-pay accounts. EBITDA grew 23.0% year-over-year from Baht 3,334 million in 9M14 to Baht 4,101 million in 9M15, with the EBITDA margin advancing to 31.1% in 9M15 compared with 28.8% in 9M14.

Ongoing capital spending contributed to higher 9M15 Depreciation and amortization of Baht 772 million from Baht 747 million in 9M14. The Company reported Baht 4 million Share of profit from investments

in associates in 9M15 compared to Baht 4 million Share of loss from investments in 9M14. The 9M14 Share of loss was mostly due to realized exchange rate losses of Bumrungrad International Limited (BIL) connected with the 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 was the same for both 9M15 and 9M14 at Baht 139 million.

Corporate income tax of Baht 639 million in 9M15 was higher than Baht 501 million in 9M14, mostly due to Baht 147 million increased taxes due to higher taxable profit in 9M15 compared with 9M14, and Baht 8 million reduction of tax benefit related to donations to St. Louis College to support the nurse training program, offset by an increase in a tax benefit of Baht 11 million associated with outside training.

Basic EPS for 9M15 was Baht 3.66, producing an 30.6% increase year-over-year from Baht 2.80 in 9M14, while 9M15 Diluted EPS also increased at the same rate to Baht 3.07 from Baht 2.35 in 9M14.

Income statements						
(Unit: Baht million)	3Q15	3Q14	Change	9M15	9M14	Change
Revenues from hospital operations	4,315	4,054	6.4%	13,055	11,405	14.5%
Total revenues	4,393	4,126	6.4%	13,311	11,660	14.2%
EBITDA	1,317	1,231	7.0%	4,101	3,334	23.0%
Net profit	843	768	9.9%	2,667	2,042	30.6%
<i>EBITDA margin</i>	30.2%	30.1%		31.1%	28.8%	
<i>Net profit margin</i>	19.2%	18.6%		20.0%	17.5%	
EPS						
(Unit: Baht)	3Q15	3Q14	Change	9M15	9M14	Change
EPS – Basic	1.16	1.05	9.9%	3.66	2.80	30.6%
EPS – Fully Diluted	0.97	0.88	9.9%	3.07	2.35	30.6%

Statements of financial position

As at 30 September 2015, the Company reported Total current assets of Baht 9,786 million, an increase from Baht 8,499 million as at 31 December 2014. The variance is mostly due to an increase of Baht 174 million in Cash and cash equivalents, primarily from increased cash from operating activities, Baht 390 million in Short-term investments, due to more fixed deposits invested for periods over three months and less than one year, and Baht 736 million more in Trade and other receivables. Trade receivables were Baht 2,251 million as at 30 September 2015 versus Baht 1,516 million as at 31 December 2014. The collection period was 41.2 days as at 30 September 2015 compared to 34.7 days as at 31 December 2014, due to timing differences associated with collections on certain Middle East accounts.

Total non-current assets decreased to Baht 10,528 million as at 30 September 2015 from Baht 10,645 million as at 31 December 2014, mostly due to a decrease in Property, plant and equipment as a result of a normal level of Depreciation and amortization expense outpacing a reduced level of capital expenditure additions in 9M15, due to the timing of expenditures. Total assets grew to Baht 20,314 million as at 30 September 2015 from Baht 19,145 million as at 31 December 2014.

Total current liabilities were Baht 2,351 million as at 30 September 2015, an increase from Baht 2,322 million as at 31 December 2014. The variance was mostly due to Baht 188 million more in various Accrued expenses, mostly for accrued bonus, and Baht 93 million additional Accrued physicians' fees relative to higher doctor fee revenues, offset by Baht 171 million less Income tax payable and Baht 89 million reduction in Trade and other payables.

Non-current liabilities were Baht 5,593 million as at 30 September 2015, an increase from Baht 5,563 million as at 31 December 2014. The change was primarily from Baht 23 million increase in Provision for long-term employee benefits and Baht 5 million in Long-term debentures relative to the amortization of bond issuance costs. Net debt to equity was 0.0x as at 30 September 2015 and 31 December 2014. The Company's Interest coverage ratio improved to 22.8x in 9M15 from 18.5x in 9M14, due to higher EBITDA in 9M15 compared to 9M14. Interest expense has been reduced by Baht 41 million in both 9M15 and 9M14 for capitalized interest associated with the campus expansion project.

Total shareholders' equity grew to Baht 12,370 million as at 30 September 2015 from Baht 11,260 million as at 31 December 2014. This increase resulted from the Company's 9M15 Net profit of Baht 2,667 million and other changes in Retained earnings of Baht 28 million, offset with a dividend payment of Baht 1,569 million and change in Non-controlling interests of the subsidiaries of Baht 16 million representing Non-controlling interests of the subsidiary in Mongolia. Average return on assets (ROA) increased from 15.0% in 2014 to 18.0% in 9M15. Average return on equity (ROE) increased from 26.2% in 2014 to 30.1% in 9M15.

Unit: Baht million	30-Sep-15	31-Dec-14	Change
Total assets	20,314	19,145	6.1%
Total liabilities	7,944	7,885	0.8%
Total shareholders' equity	12,370	11,260	9.9%
	9M15	9M14	
Interest coverage ratio (x)	22.8*	18.5*	
	9M15	2014	
Average collection period (days)	41.2	34.7	
Average inventory period (days)	11.0	12.3	
Average payables period (days)	27.2	29.8	
Net debt to equity (x)	0.0	0.0	
Average return on assets (%)	18.0%	15.0%	
Average return on equity (%)	30.1%	26.2%	

* After adding back the 9M15 and 9M14 capitalized interest expense related to the campus expansion.

Cash flow statements

The Company's Net cash flows from operating activities in 9M15 were Baht 2,753 million, compared to Baht 2,734 million in 9M14. This increase was due to Baht 797 million additional cash from operations offset with a decrease in working capital, mostly related to Baht 620 million increase in Trade and other receivables. Net cash flows used in investment activities were Baht 866 million in 9M15, compared to Baht 117 million in 9M14. This variance was mainly due to Baht 1,478 million change between Short-term investments and Cash and cash equivalents, offset with Baht 364 million less ongoing capital spending in 9M15, Baht 309 million for the Company's portion of the acquisition of the subsidiary in Mongolia, and Baht 86 million for the Company's portion of a loan repayment made by the Mongolia subsidiary in 9M14. The Company reported Net cash flows used in financing activities of Baht 1,715 million in 9M15 versus Baht 1,533 million in 9M14. As a result of the above, Cash and cash equivalents increased to Baht 4,849 million as at 30 September 2015, compared to Baht 4,207 million as at 30 September 2014.

The Company's Liquidity ratio as at 30 September 2015 increased to 4.2x from 3.7x as at 31 December 2014. Similarly, the Quick ratio increased to 3.0x as at 30 September 2015 from 2.7x as at 31 December 2014.

Unit: Baht million	9M15	9M14
Net cash flows from operating activities	2,753	2,734
Net cash flows used in investing activities	(866)	(117)
Net cash flows used in financing activities	(1,715)	(1,533)
Net increase in cash and cash equivalents	174	1,068
Cash and cash equivalents at end of period	4,849	4,207

	30-Sep-15	31-Dec-14
Liquidity ratio (x)	4.2	3.7
Quick ratio (x)	3.0	2.7

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 31 December 2016, at the maximum of MNT 10,965.9 million.

The Group has reviewed and reassessed the likelihood that the Group would incur such additional contingent consideration by taking into account the current economic situation and the current performance and forecast operating results of Ulaanbaatar Songdo Hospital for the years 2014 - 2016. As at 31 December 2014, the Group estimated that there is no likelihood that the Group would incur such additional contingent consideration, and continues to take this position.

HHE's consolidated assets and liabilities, which include SST and BML as of the acquisition date, are included in the Company's consolidated financial statements as from the first quarter of 2014. 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 amount of goodwill is approximately USD 3.4 million.

Please be informed accordingly.

Yours faithfully,

(Dr. Chanvit Tanhiphat, MD)

Vice Chairman