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

To: Directors and Manager
The Stock Exchange of Thailand

Bumrungrad Hospital PCL.
Management Discussion and Analysis for 4Q15 and 2015 results
25 February 2016

Summary

The Company reported Total revenues in 4Q15 of Baht 4,619 million, an 8.7% improvement over 4Q14 revenues of Baht 4,251 million. Net profit for 4Q15 grew 11.7% to Baht 769 million from Baht 689 million in 4Q14, with Net profit margin at 16.6% in 4Q15 compared to 16.2% in 4Q14.

Total revenues for 2015 increased to Baht 17,929 million, producing a 12.7% improvement over 2014 revenues of Baht 15,911 million. Net profit surged 25.8% to Baht 3,436 million in 2015 from Baht 2,730 million in 2014, with Net profit margin at 19.1% in 2015 compared to 17.2% in 2014.

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 4,545 million, a 9.1% improvement year-over-year from Baht 4,166 million in 4Q14. Inpatient volumes advanced 10% in terms of patient days in 4Q15 compared with 4Q14. This resulted mostly from longer average lengths of stay for both non-Thai and Thai patients, with a significantly larger increase from the non-Thai market segment. However, inpatient volumes in terms of admissions declined 2.8%, with outpatient volumes reflecting a similar decline of 3.8% year-over-year. The volume decreases occurred in both Thai and non-Thai patients for outpatient volumes and in non-Thai for admissions. The decrease in non-Thai volumes was impacted by the

exceptionally strong international volumes in 4Q14 due to the recovery from the political instability that occurred in the earlier part of 2014. Revenue intensity rose 10.9% per admission for inpatient services and increased 1.0% for outpatient services. The combined results of the above resulted in inpatient service revenues advancing 13.8% while outpatient service revenues grew 2.8%. The revenue contribution from inpatient services in 4Q15 was 50.3% and from outpatient services was 49.7%, compared with 47.8% and 52.2%, respectively, for 4Q14. In terms of revenues by market segment, non-Thai patients accounted for 64.6% of the total in 4Q15, with the remaining 35.4% from Thai patients, compared to 63.2% and 36.8% for non-Thai and Thai patients, respectively, in 4Q14. The change from the prior year was mostly due to the growth in patient days associated with the increased average length of stay in non-Thai business in 4Q15.

Rental income was Baht 16 million in 4Q15 compared with Baht 14 million in 4Q14. Exchange gains decreased to Baht 8 million in 4Q15 from Baht 15 million in 4Q14 mostly from timing differences associated with collections on certain Middle East accounts. Interest income decreased to Baht 31 million in 4Q15 from Baht 36 million in 4Q14, due to a decrease in the effective interest rate.

The Company reported Cost of hospital operations (including Depreciation and amortization) of Baht 2,769 million for 4Q15, or 7.6% more year-over-year from Baht 2,574 million in 4Q14. This represents a favorable change when compared to the 9.1% growth in Revenues from hospital operations. The percentage of cost to Revenues from hospital operations improved from 61.8% in 4Q14 to 60.9% in 4Q15. Administrative expenses (including Depreciation and amortization) were Baht 861 million in 4Q15, or 13.8% more than Baht 757 million in 4Q14. The increase in Administrative expenses was mostly due to Baht 52 million increased staff bonus from the prior year; Baht 35 million more in staff costs, largely associated with annual merit increases, additional staff to support the IBM Watson project, and additional staff to fill open positions from the previous year; Baht 25 million additional marketing related expenses, due to timing differences of expenditures between periods; and Baht 16 million additional consulting and management fees related to various special projects, to include physician and employee engagement surveys and extension of the convertible bonds. The above were offset by a Baht 26 million reduction from a physical inventory adjustment in the prior year. EBITDA grew 4.1% year-over-year from Baht 1,182 million in 4Q14 to Baht 1,230 million in 4Q15, with an EBITDA margin of 26.8% in 4Q15 compared to 28.0% in 4Q14. Excluding the additional staff bonus all booked in 4Q15, EBITDA increased 14.8% and 4Q15 EBITDA margin improved to 29.6%.

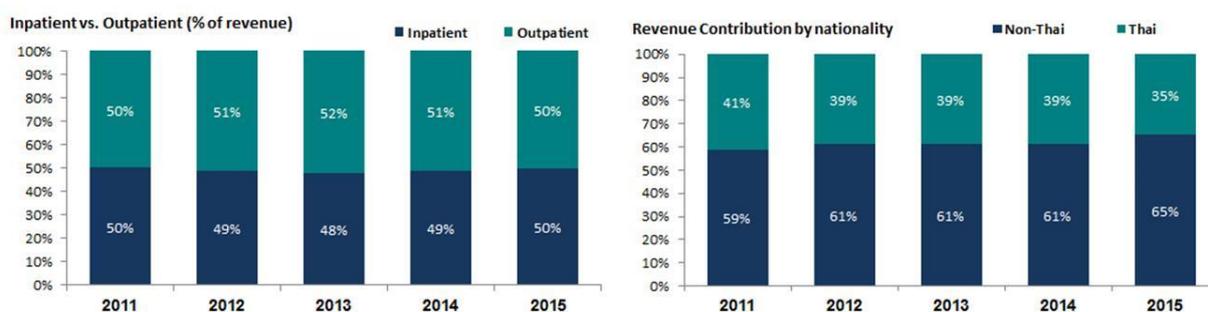
Depreciation and amortization was Baht 272 million in 4Q15 compared to Baht 298 million in 4Q14. The decrease in Depreciation and amortization was mostly due to Baht 40 million one-time prior year adjustment. The Company reported Share of profit from investments in associates of Baht 8 million in 4Q15 compared to 1 million in 4Q14, mostly related to the voluntary liquidation of CDE Trading Ltd. Finance cost was the same for both 4Q15 and 4Q14 at Baht 47 million.

Corporate income tax was the same for both 4Q15 and 4Q14 at Baht 185 million.

Basic EPS for 4Q15 of Baht 1.06 was 11.7% higher than Baht 0.95 in 4Q14, while 4Q15 Diluted EPS increased at the same rate to Baht 0.89 from Baht 0.79 in 4Q14.

2015 Operational Performance

Revenues from hospital operations were Baht 17,600 million for 2015, a 13.0% improvement year-over-year from Baht 15,571 million in 2014. Inpatient volumes advanced 11.3% in terms of patient days and 2.1% in terms of admissions in 2015 compared with 2014. This resulted mostly from a longer average length of stay for mostly non-Thai patients, along with strong non-Thai admission growth of 7.5%. Outpatient volumes grew 0.8% in 2015 compared with 2014, mostly due to a 6.5% increase in non-Thai volumes, offset by a 5.0% decrease in Thai volumes. Revenue intensity rose 6.1% per admission for inpatient services and increased 3.3% for outpatient services. The combined results of the above resulted in inpatient service revenues advancing 13.9% while outpatient service revenues grew 10.3%. The revenue contribution from inpatient services in 2015 was 49.6% and from outpatient services was 50.4%, compared with 48.8% and 51.2%, respectively, for 2014. In terms of revenues by market segment, non-Thai patients accounted for 65.2% of the total in 2015, with the remaining 34.8% from Thai patients, compared to 61.5% and 38.5% for non-Thai and Thai patients, respectively, in 2014. The change from the prior year was mostly due to the strong growth in non-Thai business in 2015.



Rental income was Baht 60 million in 2015 compared to Baht 58 million in 2014. Interest income was the same for both 2015 and 2014 at Baht 138 million, while Exchange gains were also the same for both 2015 and 2014 at Baht 46 million. Other income decreased to Baht 85 million in 2015 from Baht 97 million in 2014, 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 2015 were Baht 17,929 million, compared to Baht 15,911 million in 2014, a 12.7% improvement year-over-year.

The Company reported Cost of hospital operations (including Depreciation and amortization) of Baht 10,396 million for 2015, or 9.5% more year-over-year from Baht 9,496 million in 2014. This represents a favorable change when compared to the 13.0% growth in Revenues from hospital operations. The percentage of cost to Revenues from hospital operations improved from 61.0% in 2014 to 59.1% in 2015. Administrative expenses (including Depreciation and amortization) were Baht 3,109 million in 2015, increasing 10.8% from Baht 2,806 million in 2014. This change included Baht 131 million increase in staff costs, largely associated with volume growth and annual merit increases; Baht 52 million increased staff bonus from the prior year; Baht 41 million more in software support and maintenance expenses related to the IBM Watson project; Baht 36 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; and Baht 28 million additional marketing related expenses, mostly from increased TV advertising and census development. EBITDA grew 18.1% year-over-year from Baht 4,516 million in 2014 to Baht 5,332 million in 2015, with the EBITDA margin advancing to 30.0% in 2015 compared with 28.6% in 2014. Excluding the additional staff bonus, EBITDA increased 20.9% and 2015 EBITDA margin improved to 30.7%.

Depreciation and amortization was the same for both 2015 and 2014 at Baht 1,045 million. The Company reported Baht 13 million Share of profit from investments in associates in 2015, mostly related to the voluntary liquidation of CDE Trading Ltd., compared to Baht 3 million Share of loss from investments in 2014. The 2014 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 Baht 187 million in 2015 compared to Baht 186 million in 2014.

Corporate income tax of Baht 823 million in 2015 was higher than Baht 685 million in 2014, mostly due to Baht 163 million increased taxes due to higher taxable profit in 2015 compared with 2014, and Baht 6 million reduction of tax benefit related to donations to St. Louis College to support the nurse training program, offset by an increase in tax benefit of Baht 15 million associated with outside training and a Baht 6 million tax benefit related to loss on impairment of investment in Asia Global Health Ltd. in 2015.

Basic EPS for 2015 was Baht 4.72, producing an 25.8% increase year-over-year from Baht 3.75 in 2014, while 2015 Diluted EPS also increased at the same rate to Baht 3.96 from Baht 3.15 in 2014.

Income statements						
(Unit: Baht million)	4Q15	4Q14	Change	2015	2014	Change
Revenues from hospital operations	4,545	4,166	9.1%	17,600	15,571	13.0%
Total revenues	4,619	4,251	8.7%	17,929	15,911	12.7%
EBITDA	1,230	1,182	4.1%	5,332	4,516	18.1%
Net profit	769	689	11.7%	3,436	2,730	25.8%
<i>EBITDA margin</i>	26.8%	28.0%		30.0%	28.6%	
<i>Net profit margin</i>	16.6%	16.2%		19.1%	17.2%	
EPS						
(Unit: Baht)	4Q15	4Q14	Change	2015	2014	Change
EPS – Basic	1.06	0.95	11.7%	4.72	3.75	25.8%
EPS – Fully Diluted	0.89	0.79	11.7%	3.96	3.15	25.8%

Statements of financial position

As at 31 December 2015, the Company reported Total current assets of Baht 10,088 million, an increase from Baht 8,500 million as at 31 December 2014. The variance is mostly due to an increase of Baht 378 million in Cash and cash equivalents and Baht 384 million in Short-term investments, primarily from increased cash from operating activities, and Baht 793 million more in Trade and other receivables. Trade receivables were Baht 2,309 million as at 31 December 2015 versus Baht 1,516 million as at 31 December 2014. The collection period was 41.3 days as at 31 December 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 increased to Baht 11,209 million as at 31 December 2015 from Baht 10,645 million as at 31 December 2014, mostly due to an increase in Property, plant and equipment associated with Baht 755 million purchase of 3 pieces of land near the main campus. Total assets grew to Baht 21,298 million as at 31 December 2015 from Baht 19,145 million as at 31 December 2014.

Total current liabilities were Baht 4,056 million as at 31 December 2015, an increase from Baht 2,322 million as at 31 December 2014. The variance was mostly due to Baht 1,497 million Current portion of long-term debentures due December 2016; Baht 176 million additional Accrued physicians' fees relative to higher doctor fee revenue; and Baht 90 million more in various Accrued expenses, mostly for accrued bonus, offset by Baht 30 million reduction in Trade and other payables.

Non-current liabilities were Baht 4,141 million as at 31 December 2015, a decrease from Baht 5,563 million as at 31 December 2014. The change was primarily from Baht 1,497 million Current portion of long-term debentures reclassified as Current liabilities, offset with Baht 66 million increase in Provision for long-term employee benefits. Net debt to equity was 0.0x as at 31 December 2015 and 31 December 2014. The Company's Interest coverage ratio improved to 22.1x in 2015 from 18.8x in 2014, due to higher EBITDA in 2015 compared to 2014. Interest expense has been reduced by Baht 54 million in 2015 and Baht 55 million in 2014 for capitalized interest associated with the campus expansion project.

Total shareholders' equity grew to Baht 13,100 million as at 31 December 2015 from Baht 11,260 million as at 31 December 2014. This increase resulted from the Company's 2015 Net profit of Baht 3,436 million; offset with a dividend payment of Baht 1,569 million, other changes in Retained earnings of Baht 14 million; and change in Non-controlling interests of the subsidiaries of Baht 12 million representing Non-controlling interests of the subsidiary in Mongolia. Average return on assets (ROA) increased from 15.0% in 2014 to 17.0% in 2015. Average return on equity (ROE) increased from 26.2% in 2014 to 28.2% in 2015.

Unit: Baht million	31-Dec-15	31-Dec-14	Change
Total assets	21,297	19,145	11.2%
Total liabilities	8,197	7,885	4.0%
Total shareholders' equity	13,100	11,260	16.3%
	2015	2014	
Interest coverage ratio (x)	22.1*	18.8*	
Average collection period (days)	41.3	34.7	
Average inventory period (days)	11.2	12.3	
Average payables period (days)	28.2	29.8	
Net debt to equity (x)	0.0	0.0	
Average return on assets (%)	17.0%	15.0%	
Average return on equity (%)	28.2%	26.2%	

* After adding back the 2015 and 2014 capitalized interest expense related to the campus expansion.

Cash flow statements

The Company's Net cash flows from operating activities in 2015 were Baht 3,987 million, compared to Baht 3,890 million in 2014. This increase was due to Baht 873 million additional cash from operations offset with a decrease in working capital, mostly related to Baht 615 million increase in Trade and other receivables. Net cash flows used in investment activities were Baht 1,785 million in 2015, compared to Baht 701 million in 2014. This variance was mainly due to Baht 1,180 million change between Short-term investments and Cash and cash equivalents and Baht 287 million additional capital spending in 2015 offset with 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 2014. The Company reported Net cash flows used in financing activities of Baht 1,833 million in 2015 versus Baht 1,650 million in 2014. As a result of the above, Cash and cash equivalents increased to Baht 5,054 million as at 31 December 2015, compared to Baht 4,676 million as at 31 December 2014.

The Company's Liquidity ratio as at 31 December 2015 decreased to 2.5x from 3.7x as at 31 December 2014. Similarly, the Quick ratio decreased to 1.8x as at 31 December 2015 from 2.7x as at 31 December 2014. Both decreases were due to Baht 1,497 million Current portion of long-term debentures that have been reclassified as Current liabilities since they will be paid in December 2016.

Unit: Baht million	2015	2014
Net cash flows from operating activities	3,987	3,890
Net cash flows used in investing activities	(1,785)	(701)
Net cash flows used in financing activities	(1,833)	(1,650)
Net increase in cash and cash equivalents	378	1,536
Cash and cash equivalents at end of period	5,054	4,676

	31-Dec-15	31-Dec-14
Liquidity ratio (x)	2.5	3.7
Quick ratio (x)	1.8	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 2015, 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,

(Mrs. Linda Lisahapanya)

Managing Director