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Subject: Management Discussion and Analysis for the second quarter 2016 results

To: Directors and Manager
The Stock Exchange of Thailand

**Bumrungrad Hospital PCL.
Management Discussion and Analysis for 2Q16 results
29 July 2016**

Summary

The Company reported Total revenues in 2Q16 of Baht 4,407 million, a 1.2% decrease from 2Q15 revenues of Baht 4,462 million. Net profit for 2Q16 grew 1.1% to Baht 858 million from Baht 849 million in 2Q15, with Net profit margin at 19.5% in 2Q16 compared to 19.0% in 2Q15.

Total revenues for 1H16 increased to Baht 9,101 million, producing a 2.0% improvement over 1H15 revenues of Baht 8,918 million. Net profit rose 0.7% to Baht 1,836 million in 1H16 from Baht 1,823 million in 1H15, with Net profit margin at 20.2% in 1H16 compared to 20.4% in 1H15.

Details of the management discussion and analysis follow:

Income statements

Quarterly Operational Performance

The Company reported Revenues from hospital operations of Baht 4,337 million, a 0.9% reduction from Baht 4,374 million in 2Q15. Inpatient volumes decreased 7.9% and 10.8% in terms of admissions and patient days, respectively. Outpatient volumes declined 3.7% year-over-year. The volume decrease occurred in all categories of inpatient and outpatient business for International patients, while Thai volumes decreased only in patient days due to a lower average length of stay. Thai volumes increased in admissions and outpatient visits, while expat volumes increased in all business lines. The volume declines in the International sector occurred mostly in the Middle East and Mongolian markets, which accounted for approximately 50% and 38%, respectively, of the total outpatient volume decrease and approximately 48% and 19%, respectively, of the total inpatient admissions decline. Middle East volumes were largely impacted by 12 additional days of Ramadan in 2Q16 compared to 2Q15, and likely adversely affected by the recent significant decline in oil prices that dealt an especially strong jolt to Middle Eastern countries. Mongolia's soft economy, which appears to be in the early stage of a recovery, contributed to their volume declines. Revenue intensity rose 4.4% and 1.5% on a patient-day and admission basis, respectively, while outpatient revenue intensity decreased by 1.1%. The combined results of the above produced outpatient service revenue growth of 0.1% with inpatient service revenue down 1.3%. The revenue contribution from inpatient services in 2Q16

was 49.5% and from outpatient services was 50.5%, compared with 49.9% and 50.1%, respectively, for 2Q15. In terms of revenues by market segment, non-Thai patients accounted for 64.1% of the total in 2Q16, with the remaining 35.9% from Thai patients, compared to 65.9% and 34.1% for non-Thai patients and Thai patients, respectively, in 2Q15.

Rental income was Baht 16 million in 2Q16 compared with Baht 15 million in 2Q15. Interest income was Baht 30 million in 2Q16 from Baht 36 million in 2Q15, with the entire variance due to a decrease in the effective interest rate. Exchange gains decreased to Baht 10 million in 2Q16 from Baht 13 million in 2Q15 mostly from a reduction in the foreign exchange rate. Other income declined to Baht 15 million in 2Q16 from Baht 25 million in 2Q15, primarily due to one-time adjustments of long outstanding balance sheet items in 2Q15.

The Company reported Cost of hospital operations (including Depreciation and amortization) of Baht 2,548 million for 2Q16, or 2.8% less year-over-year from Baht 2,622 million in 2Q15. This represents a favorable change when compared to the 0.9% reduction in Revenues from hospital operations. The percentage of cost to Revenues from hospital operations improved from 59.9% in 2Q15 to 58.8% in 2Q16. Administrative expenses (including Depreciation and amortization) were Baht 759 million in 2Q16, or 3.5% more than Baht 734 million in 2Q15. The increase in Administrative expenses was mostly due to Baht 11 million more in Depreciation and amortization due to ongoing capital spending and accelerated depreciation associated with the campus expansion; Baht 9 million in marketing related expenses due to timing differences of expenditures between periods; and Baht 4 million building rental fee mostly from a new clinic in Myanmar and additional office space to facilitate the campus expansion. EBITDA increased by 1.6% year-over-year from Baht 1,332 million in 2Q15 to Baht 1,354 million in 2Q16, with an EBITDA margin of 30.9% in 2Q16 compared to 30.1% in 2Q15.

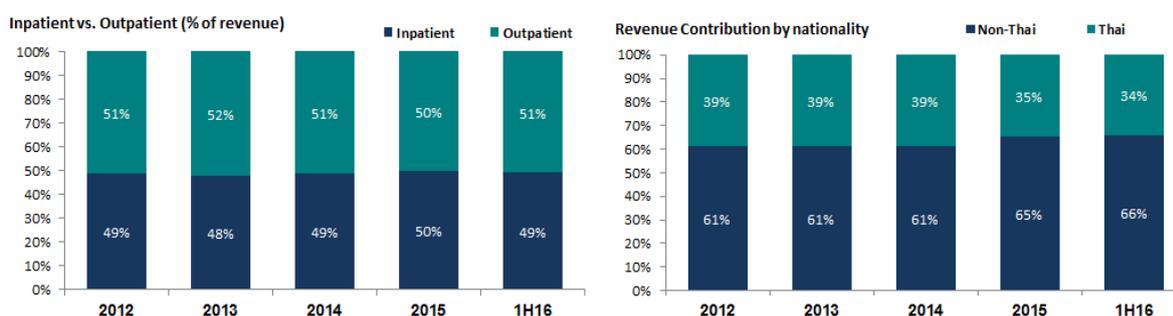
Ongoing capital spending and accelerated depreciation associated with the campus expansion contributed to higher 2Q16 Depreciation and amortization of Baht 284 million from Baht 262 million in 2Q15.

Corporate income tax of Baht 187 million in 2Q16 was less than Baht 212 million in 2Q15. The variance is mostly due to Baht 10 million deferred tax assets reversal on impairment of investment in AGR in 2Q15; Baht 9 million additional tax benefit on capital spending in 2Q16 according to the Royal Decree no. 604 announced on 21 April 2016; and Baht 2 million additional tax benefit associated with training expense.

Basic EPS for 2Q16 of Baht 1.18 was 1.1% more than Baht 1.16 in 2Q15, while 2Q16 Diluted EPS increased at the same rate to Baht 0.99 from Baht 0.98 in 2Q15.

First Half Operational Performance

Revenues from hospital operations were Baht 8,955 million for 1H16, an 2.5% improvement year-over-year from Baht 8,740 million in 1H15. Inpatient volumes decreased 5.0% and 6.1% in terms of admissions and patient days, respectively. Outpatient volumes declined 2.4% year-over-year. Similar to 2Q16 results, the volume decrease occurred in all categories of inpatient and outpatient business for International patients, while Thai volumes decreased only in patient days due to a lower average length of stay. Thai volumes increased in admissions and outpatient visits, while expat volumes increased in all business lines. The volume declines in the International sector occurred mostly in the Middle East and Mongolian markets, which accounted for approximately 37% and 54%, respectively, of the total outpatient volume decrease and approximately 36% and 19%, respectively, of the total inpatient admissions decline. Middle East volumes were largely impacted by 12 additional days of Ramadan in 1H16 compared to 1H15, and likely adversely affected by the recent significant decline in oil prices that dealt an especially strong jolt to Middle Eastern countries. Mongolia's soft economy, which appears to be in the early stage of a recovery, contributed to their volume declines. Revenue intensity rose 2.0% and 0.9% on a patient-day and admission basis, respectively, and increased 1.4% for outpatient services. The combined results of the above produced outpatient service revenue growth of 4.0% with inpatient service revenue increasing 0.9%. The revenue contribution from inpatient services in 1H16 was 48.9% and from outpatient services was 51.1%, compared with 49.7% and 50.3%, respectively, for 1H15. In terms of revenues by market segment, non-Thai patients accounted for 65.6% of the total in 1H16, with the remaining 34.4% from Thai patients, compared to 65.7% and 34.3% for non-Thai patients and Thai patients, respectively, in 1H15.



Rental income was Baht 31 million in 1H16 compared with Baht 29 million in 1H15. Interest income was Baht 59 million in 1H16 from Baht 74 million in 1H15, with the entire variance due to a decrease in the effective interest rate. Exchange gains decreased to Baht 15 million in 1H16 from Baht 25 million in 1H15 mostly from a reduction in the foreign exchange rate. Other income declined to Baht 40 million in 1H16 from Baht 50 million in 1H15, primarily due to one-time adjustments of long outstanding balance sheet items in 1H15.

The Company reported Cost of hospital operations (including Depreciation and amortization) of Baht 5,214 million for 1H16, or 1.3% more year-over-year from Baht 5,147 million in 1H15. This represents a favorable change when compared to the 2.5% growth in Revenues from hospital operations. The percentage of cost to Revenues from hospital operations improved from 58.9% in 1H15 to 58.2% in 1H16. Administrative expenses (including Depreciation and amortization) were Baht 1,534 million in 1H16, increasing 7.9% from Baht 1,421 million in 1H15. This change included Baht 31 million increase in staff costs, largely associated with additional staff to fill open positions from the previous year, annual merit increases and additional staff to support the IBM Watson project; Baht 19 million more in Depreciation and amortization due to ongoing capital spending and accelerated depreciation associated with the campus expansion; Baht 15 million more in bad debt expense, mostly from an additional provision booked in 1Q16 for certain self-pay accounts; Baht 14 million in marketing related expenses due to timing differences of expenditures between periods; Baht 11

million more in donation expense; and Baht 9 million building rental fee mostly from a new clinic in Myanmar and additional office space to facilitate the campus expansion. EBITDA grew 2.5% year-over-year to Baht 2,855 million in 1H16 from Baht 2,784 million in 1H15, with the EBITDA margin of 31.6% in 1H16 compared with 31.5% in 1H15.

Ongoing capital spending and accelerated depreciation associated with the campus expansion contributed to higher 1H16 Depreciation and amortization of Baht 561 million from Baht 508 million in 1H15.

Corporate income tax of Baht 421 million in 1H16 was less than Baht 440 million in 1H15. The variance is mostly due to Baht 10 million deferred tax assets reversal on impairment of investment in AGR in 1H15; Baht 9 million additional tax benefit on capital spending in 1H16 according to the Royal Decree no. 604 announced on 21 April 2016; Baht 5 million increase in a tax benefit associated with training expense; offset with Baht 6 million tax benefit from loss on impairment of investment in AGH in 1H15.

Basic EPS for 1H16 of Baht 2.52 was 0.7% higher than Baht 2.50 in 1H15, while 1H16 Diluted EPS increased at the same rate to Baht 2.12 from Baht 2.10 in 1H15.

Income statements						
(Unit: Baht million)	2Q16	2Q15	Change	1H16	1H15	Change
Revenues from hospital operations	4,337	4,374	-0.9%	8,955	8,740	2.5%
Total revenues	4,407	4,462	-1.2%	9,101	8,918	2.0%
EBITDA	1,354	1,332	1.6%	2,855	2,784	2.5%
Net profit	858	849	1.1%	1,836	1,823	0.7%
<i>EBITDA margin</i>	30.9%	30.1%		31.6%	31.5%	
<i>Net profit margin</i>	19.5%	19.0%		20.2%	20.4%	
EPS						
(Unit: Baht)	2Q16	2Q15	Change	1H16	1H15	Change
EPS – Basic	1.18	1.16	1.1%	2.52	2.50	0.7%
EPS – Fully Diluted	0.99	0.98	1.1%	2.12	2.10	0.7%

Statements of financial position

As at 30 June 2016, the Company reported Total current assets of Baht 10,428 million, an increase from Baht 10,088 million as at 31 December 2015. The variance is mostly due to an increase of Baht 341 million in Cash, Cash equivalents, and Short-term investments, mostly due to increased cash from operating activities. Trade receivables were Baht 2,299 million as at 30 June 2016 versus Baht 2,309 million as at 31 December 2015. The collection period was 49.0 days as at 30 June 2016 compared to 41.3 days as at 31 December 2015, due mostly to timing differences associated with collections on certain Middle East accounts. On 27 July 2016, the Company received a check for Baht 300 million as payment on Middle East accounts, along with a promise to pay an additional Baht 139 million within the next few days. The pro forma impact of these two payments alone of Baht 439 million would be an approximate reduction in the collection period of 4.4 days, or a restated collection period of 44.6 days.

Total non-current assets increased to Baht 11,605 million as at 30 June 2016 from Baht 11,210 million as at 31 December 2015, mostly due to an increase in Property, plant and equipment associated with

land, IT, medical equipment related purchases; and the campus expansion project. Total assets grew to Baht 22,033 million as at 30 June 2016 from Baht 21,298 million as at 31 December 2015.

Total current liabilities were Baht 3,975 million as at 30 June 2016, a decrease from Baht 4,057 million as at 31 December 2015. The variance was mostly due to Baht 123 million less in various Accrued expenses and Baht 34 million less in Accrued physicians' fees, offset with Baht 63 million increased Income tax payable.

Non-current liabilities were Baht 4,205 million as at 30 June 2016, an increase from Baht 4,141 million as at 31 December 2015. The change was primarily from Baht 42 million increased in Provision for long-term employee benefits and Baht 19 million in a Long-term loan from our Myanmar partner to Bumrungrad Myanmar. Cash and cash equivalent balances continued to exceed outstanding debt balances, resulting in net cash versus net debt position as at 30 June 2016. The Company's Interest coverage ratio was 23.8x in 1H16 compared to 23.3x in 1H15, due to higher EBITDA in 1H16 compared to 1H15. Interest expense has been reduced by Baht 19 million and Baht 27 million in 1H16 and 1H15, respectively, for capitalized interest associated with the campus expansion project.

Total shareholders' equity grew to Baht 13,853 million as at 30 June 2016 from Baht 13,100 million as at 31 December 2015. This increase resulted from the Company's 1H16 Net profit of Baht 1,836 million; offset with a dividend payment of Baht 1,058 million; other changes in Retained earnings of Baht 19 million; and the change in Non-controlling interests of subsidiaries of Baht 6 million related to Mongolia and Myanmar. Average return on assets (ROA) was 16.9% in 1H16 compared with 17.0% in 2015. Average return on equity (ROE) was 27.2% in 1H16 compared with 28.2% in 2015.

Unit: Baht million	30-Jun-16	31-Dec-15	Change
Total assets	22,033	21,298	3.5%
Total liabilities	8,180	8,198	-0.2%
Total shareholders' equity	13,853	13,100	5.7%
	1H16	1H15	
Interest coverage ratio (x)	23.8*	23.3*	
	1H16	2015	
Average collection period (days)	49.0	41.3	
Average inventory period (days)	11.4	11.2	
Average payables period (days)	27.4	28.2	
Net debt to equity (x)	(0.0)	0.0	
Average return on assets (%)	16.9%	17.0%	
Average return on equity (%)	27.2%	28.2%	

* After adding back the 1H16 and 1H15 capitalized interest expense related to the campus expansion.

Cash flow statements

The Company's Net cash flows from operating activities in 1H16 were Baht 2,331 million, compared to Baht 2,051 million in 1H15. This increase was mainly due to Baht 192 million increase in working capital, mostly related to Baht 491 million reduction in Trade and other receivables. Net cash flows used in investment activities were Baht 504 million in 1H16, compared with Baht 318 million in 1H15. This variance was mainly due to Baht 423 million more ongoing capital spending in 1H16, offset with Baht 268 million decrease in Short-term investments. The Company reported Net cash flows used in financing activities of Baht 1,171 million in 1H16 versus Baht 1,044 million in 1H15 mostly as a result of the Baht 146 million increase in the dividend payment. As a result of the above, Cash and cash equivalents increased to Baht 5,713 million as at 30 June 2016, compared to Baht 5,364 million as at 30 June 2015.

The Company's Liquidity ratio as at 30 June 2016 increased to 2.6x from 2.5x as at 31 December 2015. Similarly, the Quick ratio increased to 2.0x as at 30 June 2016 from 1.8x as at 31 December 2015.

Unit: Baht million	1H16	1H15
Net cash flows from operating activities	2,331	2,051
Net cash flows used in investing activities	(504)	(318)
Net cash flows used in financing activities	(1,171)	(1,044)
Net increase in cash and cash equivalents	659	689
Cash and cash equivalents at end of period	5,713	5,364
	30-Jun-16	31-Dec-15
Liquidity ratio (x)	2.6	2.5
Quick ratio (x)	2.0	1.8

Revenue Guidance Revision

The Company is adjusting revenue guidance for FY 2016 due to volume pressures in the international sector. Although volumes were materially affected by the Mongolian market, the revenue impact was immaterial. The Middle East volume declines do not materially affect revenue. However, the revenue intensity for these same patients remained at very high levels for 2Q16. In consideration of significant world economic pressures and corresponding oil price declines, the Company is changing its guidance for revenue from 8% to 10% growth to flat growth with a potential variance of 2% for the full year of 2016.

Please be informed accordingly.

Yours faithfully,

(Dr. Chanvit Tanhiphat, MD)

Vice Chairman