

SAINTMED

SAINTMED Public Company Limited

Management Discussion and Analysis for 1Q/2024

Ending 31 March 2024

Critical Care



Cardiology



General Medical Device



Sleep Medicine



Smart Hospital and AI



Wellness

No. SMD 10/2024

15 May 2024

SAINTMED Public Company Limited and its subsidiaries (“the Company”) present the management discussion and analysis for the 1st quarter of 2024, ending 31 March 2024, with the following details: -

Executive Summary, Key Events, and Business Strategies

In 1Q/2024, the Company had a total revenue of THB 141.18mn, a decrease of THB 28.97mn, or 17.03% from the same period of the previous year (YoY). The gross profit in this quarter was THB 43.73mn, a decrease of THB 12.31mn, or dropped 21.97% YoY, representing a gross profit margin of 31.38%, down from the previous year's gross profit margin of 33.20%.

In this quarter, the Company reported a net loss of THB 10.47mn, a decrease of 230.88% YoY. The main reason was an increase in sales in the sleep medicine group, driven by growing public interest in health. Conversely, the sales in the critical care medical devices decreased due to significant previous orders. Additionally, the cost of goods sold increased due to the depreciation of the Thai Baht, and selling and administrative expenses rose at a higher proportion than the revenue increase in this quarter.

On 26 April 2024, the Company held its 2024 Annual General Meeting of Shareholders via online platform (E-Meeting). The meeting approved the second dividend payment from the 2023 performance at a rate of THB 0.15 per share. The Company set the Record Date for shareholders entitled to receive the dividend on 15 March 2024, and scheduled the dividend payment for 8 May 2024.

Key Events and Business Strategy

1. In 2023, the company underwent a major strategic adjustment by shifting its policy from focusing on revenue from trading activities to emphasizing on generating sustainable revenue streams through the rental of medical equipment, hire purchase options for medical devices, and/or revenue sharing with partners instead of outright sales. This approach was taken in collaboration with various stakeholders to increase accessibility to medical equipment for end users, aiming to create more widespread access to medical tools and ensure mutual, sustainable benefits for all parties involved.
 - The Company negotiated with partners from various medical equipment product groups, including leading medical equipment importers for which the company is not yet a distributor, to join as business partners.
 - For business customer groups (B2B), the Company negotiated collaborations with partners that are hospitals, both public and private, to expand the business base for rentals and hire purchase of equipment, reducing the risk from high one-time investments.
2. The Company expanded its medical equipment business into specialized wellness areas to cater to the trends in medical tourism and preventive healthcare, such as equipment like the Mild Hyperbaric Oxygen Chamber.

3. The Company focused on sourcing medical equipment that benefits from the aging society trend, and medical devices for treating rare and complex diseases, to contribute to promoting Thailand as a Medical Hub. This includes signing exclusive distribution agreements for AI systems that detect lung cancer (Lung CA) from CT images of all brands.
4. With preventive healthcare becoming a mainstream approach globally in 2023, social security agencies began discussions to revise the criteria for reimbursing benefits for insured individuals who suffer from sleep apnea and require the use of CPAP (Continuous Positive Airway Pressure) devices. As a result, the company anticipates benefiting from these changes in 2024, given its position as a leading importer of such medical equipment for over 10 years, and its expertise in caring for patients with this condition. The company has collaborated with medical service providers to open sleep disorder treatment centers since 2019 and plans to expand its comprehensive sleep study centers to meet future demand.



Key Factors Affecting the Company's Performance in 2024

Economy / Society

Aging Society

The aging population trend is increasing both in Thailand and globally, leading to a higher demand for sleep quality assessment services (SleepLab) and CPAP (Continuous Positive Airway Pressure) products. Additionally, this trend has a knock-on effect on the demand for medical devices used in the treatment of NCDs (Non-Communicable Diseases) in the elderly.

The depreciation of the Thai Baht against the US dollar

The depreciation of the Thai Baht leads to increased overall costs for imported medical devices that must be paid for in US dollars, resulting in a decrease in gross profit margins. The company tries to manage the risk of exchange rate fluctuations by entering into forward foreign exchange contracts, without any policy of speculating on exchange rate volatility.

Technology

The trend towards preventive healthcare

Improved medical technology, combined with a growing public interest in disease prevention, has led to a positive market response for various diagnostic tools, as early detection can lead to quicker treatment and recovery. This trend benefits products such as flu A/B testing kits, which have received a favorable response. Additionally, it positively impacts medical equipment in the Wellness category used for various health care purposes.

Law / Politics

Promoting medical tourism and establishing Thailand as a Medical Hub

The influx of foreigners seeking medical treatment in Thailand has significantly increased the demand for medical equipment, particularly for treating rare and complex diseases. This trend gradually leads to a higher demand, creating business opportunities for leasing high-value medical equipment for complex disease treatments to hospitals.

The Social Security Act has been amended to include CPAP

The Social Security Act has been amended to include additional criteria and rates for compensatory benefits in cases of Social Security insurer suffering from sleep apnea who require the use of Continuous Positive Airway Pressure (CPAP) devices. These amendments hospitals and clinics that designated by the Social Security Office the right to medical services for Social Security insurer, including the ability to claim costs for diagnosis and treatment at specified rates. This results in higher demand for products distributed by the company. However, these regulations came into effect on 1 January 2024, which means the company will benefit from these changes in the operational period of 2024.

Financial Performance

Statement of Profit and Loss

	1Q/2024		1Q/2023		Increase (Decrease)	
	THB mn	%	THB mn	%	THB mn	%
Revenue						
Sales revenue	129.40	92.87%	161.22	95.51%	(31.82)	(19.74%)
Services revenue	9.94	7.13%	7.58	4.49%	2.36	31.13%
Total sales and services revenue	139.34	100.00%	168.80	100.00%	(29.46)	(17.45%)
Costs of sales and services	95.61	68.62%	112.76	66.80%	(17.51)	(15.21%)
Gross profit	43.73	31.38%	56.04	33.20%	(12.31)	(21.97%)
Other incomes	1.84	1.32%	1.35	0.80%	0.49	36.30%
Profit before expenses	45.57	32.70%	57.39	34.00%	(11.82)	(20.60%)
Selling expenses	32.00	22.97%	27.76	16.45%	4.24	15.27%
Administrative expenses	23.96	17.20%	19.66	11.65%	4.30	21.87%
(Gain) loss on exchange rate	0.19	0.14%	0.20	0.12%	(0.01)	(5.00%)
Total expenses	55.77	40.02%	47.22	27.97%	8.55	18.11%
Profit before finance costs and income tax	(10.20)	(7.32%)	10.17	6.02%	(20.37)	(200.29%)
Finance costs	0.88	0.63%	0.57	0.34%	0.31	54.39%
Profit before income tax	(11.08)	(7.95%)	9.60	5.69%	(20.68)	(215.42%)

	1Q/2024		1Q/2023		Increase (Decrease)	
	THB mn	%	THB mn	%	THB mn	%
Income tax	0.61	0.44%	(1.60)	0.95%	2.21	(138.13%)
Profit (loss) for the period	(10.47)	(7.51%)	8.00	4.74%	(18.47)	(230.88%)

Summary of Profit and Loss 1Q/2024

Revenue from core operation

In 1Q/2024, the Company had revenue from sales and services of THB 139.24mn, a decrease of THB 29.46mn or 17.45% from THB 168.80mn in 1Q/2023. The majority of the revenue came from government customers, accounting for 57%. The revenue decline was mainly due to a decrease in sales of critical care medical devices, particularly heart and vital signs monitors with central systems and telemedicine systems. This was because hospitals had placed large orders during the Covid-19 period. Additionally, the government's 2024 budget had not been announced in 1Q/2024, significantly reducing the demand for these products.

1) Revenue from sales

Revenue from sales, categorized by groups of medical equipment and medical devices of the Company, can be divided into 5 groups based on their usage characteristics, as shown in the following income structure table.

Medical Devices	1Q/2024		1Q/2023		Increase (Decrease)	
	THB mn	%	THB mn	%	THB mn	%
1. Critical Care	48.09	34.51%	76.71	45.44%	(28.62)	(37.31%)
2. Sleep Medicine	59.66	42.82%	49.14	29.11%	10.52	21.41%
3. Cardiology	13.96	10.02%	21.15	12.74%	(7.55)	(35.10%)
4. General	4.91	3.52%	9.48	5.62%	(4.57)	(48.21%)
5. Smart Hospital	2.78	2.00%	4.38	2.52%	(1.60)	(36.53%)
Total Revenue from sales	129.40	92.87%	161.22	95.51%	(31.82)	(19.74%)

In 1Q/2024, the Company had revenue from sales of THB 129.40mn, a decrease of THB 31.82mn or 19.74% from 1Q/2023. The main reason was a decline in sales of critical care products and cardiology products as hospital customers had previously purchased a large quantity of medical equipment in these categories during the past pandemic situation, so it was not yet time for new purchases as they currently have sufficient equipment. Additionally, sales of general medical equipment, such as Covid-19 ATK, decreased as the Covid-19 situation improved.

However, the medical equipment for sleep medicine showed an improving trend as people began to recognize the importance of quality sleep and started paying more attention to sleep studies.

2) Revenue from services

Medical Services	1Q/2024		1Q/2023		Increase (Decrease)	
	THB mn	%	THB mn	%	THB mn	%
1. Rental and Maintenance	6.52	4.68%	5.37	3.18%	1.15	21.42%
2. Sleeptest	3.42	2.45%	2.21	1.31%	1.21	54.75%
Total Revenue from Services	9.94	7.13%	7.58	4.49%	2.36	31.13%

In 1Q/2024, the Company had revenue from services of THB 9.94mn, an increase of THB 2.36mn from 1Q/2023 or increase 31.13% YoY. This included revenue from medical equipment rental and maintenance services of THB 6.52mn, an increase of THB 1.15mn or 21.42% YoY, and revenue from the sleeptest service center of THB 3.42mn, an increase of THB 1.21mn from 1Q/2023, or 31.13% YoY.

The increase in sleeptest service revenue was due to greater societal awareness of the importance of quality sleep compared to the past. Additionally, the trend towards preventive healthcare is growing. Furthermore, at the beginning of 2024, the Medical Committee under the Social Security Act issued criteria and rates for compensation benefits for insured individuals with sleep apnea. That led to a higher demand for sleeptest.

Other Income

The Company's other income in this quarter primarily includes interest income, amounting to THB 1.84mn, an increase of THB 0.49mn or 36.30% from THB 1.35mn in 1Q/2023. This increase was due to the Company's increased rental of medical equipment, resulting in higher interest income from leasing assets. Additionally, the Company had increased interest income from financial institutions due to excess liquidity.

Cost of Sales and Services

The Company's cost of sales and services consists of two main components: 1) The cost of medical devices and equipment, including the cost of goods, import fees for products from abroad, and shipping costs. This component accounts for more than 80% of the total cost of sales and services; and 2) The cost of service and installation, including the cost of consumables and installation equipment, repair costs, employee-related expenses, and product testing costs.

In 1Q/2024, the Company had a total cost of sales and services of THB 95.61mn, a decrease of THB 17.15mn or 15.21% from 1Q/2023. The decrease in the cost of sales was in line with the decline in sales, particularly in the critical care medical devices group.

Gross Profit and Gross Profit Margin

In 1Q/2024, the Company had a gross profit from sales and services of THB 43.73mn, a decrease of THB 12.31mn or 21.97% from 1Q/2023. The main reason was the decrease in sales of critical care medical devices due to the 2024 government budget not being announced in 1Q/2024. The gross profit margin was 31.38%, which was slightly lower than in 1Q/2023, mainly due to the depreciation of the Thai Baht against the US Dollar, which increased the overall cost of goods and pressured the gross profit margin down.

Selling Expenses

In 1Q/2024, the Company had selling expenses of THB 32.00mn, an increase of THB 4.24mn or 15.27% from 1Q/2023. This increase was due to advertising and promotional expenses for sleep medicine products to capitalize on the government's amendment of the Social Security Act, which added criteria and rates for compensation benefits for insured individuals with sleep apnea, as mentioned above. However, the proportion of selling expenses to total revenue increased from 16.44% in 1Q/2023 to 22.97% in 1Q/2024, primarily due to the decline in sales.

Details of Selling Expenses

	1Q/2024		1Q/2023		Increase (Decrease)	
	THB mn	%	THB mn	%	THB mn	%
1. Salary for Salespersons	13.12	9.41%	12.23	7.24%	0.89	7.28%
2. Commission and Rewards	3.87	2.78%	5.22	3.09%	(1.35)	(25.86%)
3. Depreciation of Medical Equipment for customers' trial	2.90	2.09%	2.73	1.62%	0.17	6.23%
4. PR Expenses	6.94	4.98%	2.39	1.42%	4.55	190.38%
5. Other Selling Expenses ^{1/}	5.17	3.71%	5.19	3.07%	(0.02)	(0.39%)
Total Selling Expenses	32.00	22.97%	27.76	16.44%	4.24	15.27%

Note: ^{1/} Other sales expenses include sales representatives' travel expenses, shipping costs within the sales department, accommodation expenses for sales representatives, and miscellaneous expenses.

Administrative Expenses

Expenses for company management include salaries of management staff, administrative expenses, and depreciation and amortization costs. Among these, salaries of management staff account for the majority of the company's management expenses.

In 1Q/2024, the Company had administrative expenses of THB 23.96mn, an increase of THB 4.30mn or 21.87% from 1Q/2023, due to employee salaries. The administrative expenses for 1Q/2024 accounted for 17.20% of total revenue, the percentage up from 11.65% in the previous year, due to the decrease in the revenue.

	1Q/2024		1Q/2023		Increase (Decrease)	
	THB mn	%	THB mn	%	THB mn	%
1. Salary of Management	15.28	10.97%	12.02	7.12%	3.26	27.12%
2. Administration Expenses	5.90	4.23%	4.47	2.65%	1.43	31.99%
3. Depreciation and Amortization	2.95	2.12%	3.33	1.97%	(0.38)	(11.41%)
4. Other Administrative Expenses ^{/1}	(0.17)	(0.12%)	(0.16)	(0.09%)	(0.01)	6.25%
Total Administrative Expenses	23.96	17.20%	19.66	11.65%	4.30	21.87%

Note: ^{/1} Other Administrative Expenses include Repair and maintenance costs, rental fees, provisions for doubtful debts, and others.

Profit / Loss on the Foreign Exchange Rate

In 1Q/2024, the Company had a foreign exchange gain of THB 0.19mn, a decrease of THB 0.01mn from 1Q/2023, which had a foreign exchange gain of THB 0.20mn. The foreign exchange gain resulted from managing exchange rate risk through forward foreign exchange contracts. The Company uses these instruments solely to manage the risk associated with its core business operations of purchasing medical equipment in foreign currencies. The Company does not have a policy of speculating on exchange rate movements.

Finance Costs

In 1Q/2024, the Company had financial costs of THB 0.88mn, an increase of THB 0.31mn or 54.39% YoY from financial costs of THB 0.57mn in 1Q/2023. The main reasons were the increase in interest on lease liabilities and interest on employee benefits. The Company did not have interest expenses from financial institutions because it had excess liquidity, resulting in a low debt-to-equity ratio.

Net Profit / Loss and Net Profit / Loss Margin

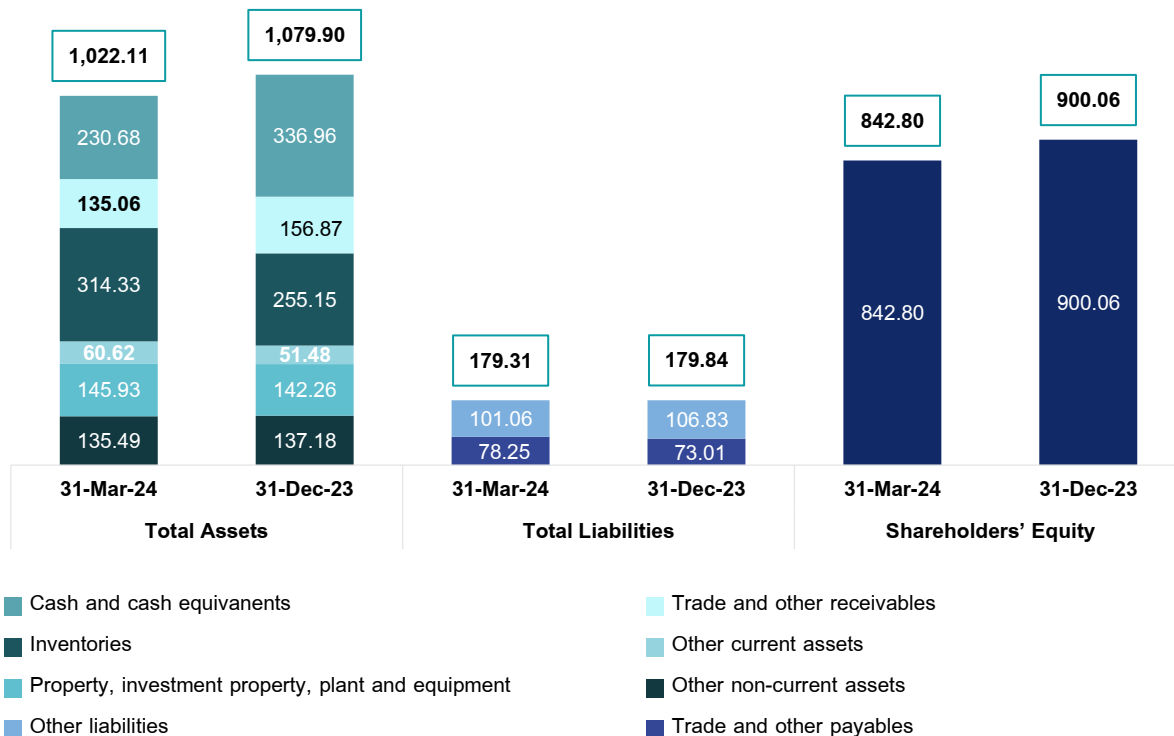
In 1Q/2024, the Company had a net loss of THB 10.47mn, a decrease of THB 18.47mn or 230.88% YoY. The main reason was the decrease in sales while still incurring regular fixed expenses as previously mentioned.

The Company's net loss margin in this quarter was (7.51%), down from net profit margin of 4.74% in 1Q/2023, due to the decline in sales in 1Q/2024 while the Company still had fixed expenses.

Statement of Financial Position

Assets and Capital Structure as of 31 March 2024

(Unit: THB mn)



Total Assets

As of 31 March 2024, the Company's total assets stood at THB 1,022.11mn, a decrease of THB 57.79mn or 5.35% from the end of 2023. The main item that decreased was cash and cash equivalents, which decreased by THB 106.28mn. This will be further explained in the cash flow section below, regarding the net decrease in cash.

Total Liabilities

The Company had total liabilities of THB 179.31mn, a decrease of THB 0.53mn or 0.29% from the end of 2023. All of the Company's liabilities are non-interest-bearing.

The Company has an average credit term of 45 days from trade creditors, depending on the policy of each medical equipment manufacturer. In 1Q/2024, the Company had an average payment period of 74 days, an increase from 54 days in 1Q/2023, because the Company placed orders towards the end of the quarter, resulting in the payment due date not yet being reached.

Total Shareholders' Equity

As of 31 March 2024, shareholders' equity stood at THB 842.80mn, a decrease of THB 57.26mn or 6.36% from THB 900.06mn at the end of 2023. This decrease was due to the Company's share repurchase program in 2024, in accordance with the Stock Exchange of Thailand's guidelines to manage liquidity and support the stock price during market volatility. The Company's share repurchase program ran from 9 October 2023 to 30 March 2024, with a maximum budget of THB 120mn or a maximum of 22 million shares (not exceeding 9.79% of the total outstanding shares).

As of 30 March 2024, the end date of the program, the Company reported a total of 16.98 million shares repurchased (representing 7.56% of the Company's total outstanding shares) with a total repurchase value of THB 107.03mn.

The Company has a stable capital structure, with most of its working capital coming from shareholders' equity. As of 31 March 2024, the Company's total debt-to-equity ratio was 0.21 times, up from 0.20 times as of 31 December 2023. This increase was due to the decrease in shareholders' equity from the share repurchase mentioned above and continuous dividend payments.

Statement of Cash Flow

Items	1Q/2024	1Q/2023
Net cash generated from (used in) operating activities	(50.83)	2.57
Net cash used in investing activities	(6.64)	(5.03)
Net cash used in financing activities	(48.81)	(3.75)
Net increase (decrease) in cash and cash equivalents	(106.28)	(6.21)
Cash and cash equivalents at the beginning of the period	336.96	545.32
Cash and cash equivalents at the ending of the period	230.68	539.11

During 1Q/2024, the Company's cash flows from various activities were as follows:

- **Net cash used in operating activities:** THB 50.83mn, mainly due to an operating loss of THB 11.08mn and an increase in inventory of THB 65.68mn.
- **Net cash used in investing activities:** THB 6.65mn, primarily for investments in trial medical equipment, which is used for product demonstrations or as reserves during repairs, as well as for rental medical equipment.
- **Net cash used in financing activities:** THB 48.81mn, mainly for the share repurchase of THB 46.78mn as described above.

These activities resulted in a net decrease in cash and cash equivalents of THB 106.28mn, leaving the Company with cash and cash equivalents of THB 230.68mn as of 31 March 2024.

Sustainability Development (ESG)

The Company recognizes the importance of sustainable operations, believing that delivering high-quality, modern medical equipment will contribute significantly to Thailand's public health system. Moreover, the Company is continually seeking new medical equipment innovations to enhance patient treatment efficiency and reduce the workload of doctors and medical staff. An example is the AI system for detecting lung cancer (Lung CA) from CT images. The Company earnestly hopes that its medical equipment will play a role in supporting Thailand's development as a Medical Hub and assist in caring for the population in an ageing society, thereby improving their quality of life.

(Dr. Viroje Vasusuttikulkant)

Chief Executive Officer

SAINTMED Public Company Limited

