

MANAGEMENT DISCUSSION AND ANALYSIS

Executive Summary 3Q19 and 9M19 Performance

Bangkok Dusit Medical Services Public Company Limited (“Company”) reported consolidated operating income during third quarter of 2019 (“3Q19”) of Baht 21,887 million, an increase of 8% yoy. The growth was attributable to an increase in revenue from hospital operations of 8% yoy which was driven by higher volume and price intensity with solid revenue growth from Thai patients, insurance patients and hospitals outside of Bangkok.

In 3Q19, the Company and its subsidiaries reported EBITDA of Baht 5,089 million, increased by 6% yoy. However, EBITDA margin decreased from 23.7% in 3Q18 to 23.3% in 3Q19 due mainly to EBITDA loss contribution from the opening of BDMS Wellness Clinic, Mövenpick BDMS Wellness Resort Bangkok and Bangkok Hospital Chiangrai.

Net profit in 3Q19 was Baht 2,890 million slightly increased from 3Q18 due mainly to decrease in share of income from investments in associates as a results of divestment of all investment in Ramkhamhaeng Hospital Public Co., Ltd. (“RAM”) in 1Q19.

For nine-month period ended 30 September 2019 (“9M19”), the consolidated operating income were Baht 62,293 million, an increase of 6% yoy. The growth was attributable to an increase in revenue from hospital operations of 7% yoy which was driven by revenue growth from both Thai and international patients, higher volume and price intensity together with strong growth

from insurance patients and hospitals outside of Bangkok.

In 9M19, the Company recorded non-recurring items (net of income tax) of Baht 5,514 million, primary from

- (1) Gain on divestment of all investment in RAM of Baht 6,094 million.
- (2) Provisions for employee benefits of Baht 493 million for those who have worked for an uninterrupted period of 20 years or more. Such employees are entitled to receive compensation of not less than that of the last 400 days, based on the final wage rate.
- (3) One-time expenses of Baht 88 million for Metropolitan Electricity Authority (“MEA”) in finding the land to locate electricity sub-station to accommodate the electricity usage at Bangkok International Hospital.

If excluding non-recurring items, the Company and its subsidiaries reported EBITDA of Baht 14,051 million, increased by 3% yoy. However, EBITDA margin decreased from 23.2% in 9M18 to 22.6% in 9M19 due mainly to EBITDA loss contribution from non-hospital operations, namely Save Drug Center Co., Ltd., BDMS Wellness Clinic and Mövenpick BDMS Wellness Resort Bangkok. Core profit was Baht 7,680 million, slightly decreased by 2% yoy.

If including these non-recurring items, net profit was Baht 13,195 million, increased by 68% yoy.

Major Development

1. TRIS Rating upgraded the Company rating and senior unsecured debentures rating at “AA”

On 24 October 2019, TRIS Rating upgraded the Company and senior unsecured debenture ratings to “AA” from “AA-“, with stable outlook. The upgrades reflect following factors:-

- Company’s faster-than-expected debt reduction efforts and larger equity base, while maintaining sound operating performance and strong cash flow.
- The Company has the largest hospital referral network nationwide which helps reduce reliance on its flagship hospitals and diversify the source of income; providing a comprehensive array of healthcare services spanning all levels of care from preventive care to curative care. The Company should be able to maintain its very strong market position and solid competitive edge over peers.
- Strong brand franchises with various customer segments help support revenue growth.
- The Company has adequate liquidity.

2. Convertible Bonds

On 18 September 2014, Company issued zero coupon convertible bonds (“CB”) to investors outside Thailand for Baht 10,000 million due in September 2019.

On 8 September 2019, the last day to exercise the CB, the holders has converted the CB accounting for Baht 4,221 million into 200.57 million ordinary shares of the Company resulting in an increase of the Company’s paid up capital to Baht 1,589.20 million.

In summary, the holders converted all the remaining CB into ordinary shares. At present, the Company has no outstanding liability of

Status	CB Outstanding (Baht mm)	Number of Shares (mm)
Issued CB	10,000	15,491.0
Early Redemption in 2017 CB holders exercised	(1,560)	-
- In 2018	(3,746)	178.0
- In 2019	(4,694)	223.0
Outstanding as of Sep 2019	-	15,892.0

the CB.

Details are summarized as follows:-

3. Payment of interim dividend

On 28 August 2019, Board of Directors approved the payment of interim dividend for the first half of 2019 performance at the rate of Baht 0.25 per share, totaling Baht 3,922.86 million. The payment of interim dividend was paid on 27 September 2019.

3Q19 Consolidated Financial Summary

Operating Income (Baht mm)	3Q19	3Q18	%Chg
Revenues from hospital operations	20,838	19,351	8%
Revenue from sales of goods	787	774	2%
Other income	262	219	20%
Total Operating Income	21,887	20,343	8%

In 3Q19, total operating income were Baht 21,887 million, an increase of Baht 1,543 million or 8% yoy, primarily due to

- Revenues from hospital operations were Baht 20,838 million, an increase of Baht 1,487 million or 8% yoy. The growth was contributable to a higher volume and price intensity together with an expansion of

insurance patients base which is in-line with the Company's strategy.

Revenue of Bangkok and vicinity hospitals grew 6% yoy while outside Bangkok hospitals grew 9% yoy.

Revenue from Thai patients grew 8% yoy and revenue from international patients grew 5% yoy. Key drivers were mainly from increase in Emiratis patients 56% yoy, Omanis patients 45% yoy and Japanese patients 11% yoy. The revenue proportion between Thai and international patients remains unchanged at 72%:28% in 3Q18 and 3Q19.

Revenues from hospital operations in 3Q19	Chg. (yoy)	% to revenues
Revenues growth from hospital operations	8%	100%
Breakdown by location		
Bangkok & Vicinity	6%	58%
Outside Bangkok	9%	42%
Breakdown by nationality		
Thai	8%	72%
International	5%	28%
Breakdown by type of patients		
Outpatients	7%	45%
Inpatients	8%	55%

- Revenues from sales of goods were Baht 787 million, increased by 2% yoy.
- Other incomes were Baht 262 million in 3Q19, increased by 20% yoy.

Operating Expenses			
(Baht mm)	3Q19	3Q18	%Chg
Cost of hospital operations and others	13,961	12,990	7%
Administrative expenses	4,323	3,895	11%
Total Operating Expenses (Including depreciation)	18,284	16,885	8%

In 3Q19, the Company and its subsidiaries reported total operating expenses & depreciation

of Baht 18,284 million, an increase of Baht 1,399 million or 8% yoy.

- Cost of hospital operations and others (including depreciation and amortization) were Baht 13,961 million, increased by 7% yoy due mainly to higher expenses from doctors & clinical staffs, medicine and medical supplies given the growth in revenues from hospital operations.
- The administrative expenses (including depreciation and amortization) were Baht 4,323 million, increased by 11% yoy due mainly to an increase in non-clinical personnel expenses, utilities expenses from expansion of our network and other administrative expenses.
- The depreciation and amortization expenses were Baht 1,487 million in 3Q19, increased by 9% yoy due mainly to depreciation and amortization of new network hospital, BDMS Wellness Clinic and Mövenpick BDMS Wellness Resort Bangkok.

Other Major Items

- Share of income from investments in associates were Baht 291 million in 3Q19, decreased of 31% yoy due mainly to divestment of all investment in RAM in 1Q19. Share of income from investments in associates in 3Q19 were mainly from investment in Bumrungrad Hospital Public Co., Ltd. ("BH") of Baht 263 million.
- Finance cost decreased to Baht 173 million in 3Q19 or decreased by 34% yoy due mainly to the conversion of the remaining CB resulting in the reversal of CB withholding taxes amounting to Baht 79 million together with the repayment of loans from financial institutions since 1Q19.
- Taxes in 3Q19 were Baht 710 million, increased 15% yoy, due mainly to an increase

in pre-tax profit and non-tax deductible expenses.

Profitability Analysis			
(Baht mm)	3Q19	3Q18	%Chg
EBITDA	5,089	4,820	6%
EBITDA margin	23.3%	23.7%	
EBIT	3,927	3,892	1%
EBIT margin	17.9%	19.1%	
Net profit	2,890	2,879	0%
Net profit margin	13.2%	14.2%	
EPS (Baht)	0.18	0.18	0%
<i>Weighted average number of ordinary shares (mm shares)</i>			
	15,737	15,610	

Remarks

EBITDA = Total operating income – Total operating expenses (Excluding depreciation and amortization)

EBITDA Margin = EBITDA / Operating income

EBITDA increased from Baht 4,820 million in 3Q18 to Baht 5,089 million in 3Q19 or increased by 6%. However, EBITDA margin slightly decreased from 23.7% in 3Q18 to 23.3% in 3Q19.

Net profit in 3Q19 was Baht 2,890 million slightly increased from 3Q18. However, net profit margin decreased from 14.2% in 3Q18 to 13.2% in 3Q19. EPS was Baht 0.18 per share.

9M19 Consolidated Financial Summary

Operating Income			
(Baht mm)	9M19	9M18	%Chg
Revenues from hospital operations	59,323	55,695	7%
Revenue from sales of goods	2,261	2,280	(1)%
Other income	710	613	16%
Total Operating Income	62,293	58,589	6%

In 9M19, total operating income were Baht 62,293 million, an increase of Baht 3,705 million or 6% yoy, primarily due to

- Revenues from hospital operations were Baht 59,323 million, an increase of Baht 3,628 million or 7% yoy, in 9M19. Key growth drivers were a higher volume and price intensity along with an expansion of insurance patients' base. In addition, the Company has the Bangkok Emergency Services to coordinate timely patients' referral in case of accident or patients in critical conditions

Revenue of Bangkok and vicinity hospitals grew 5% yoy while outside Bangkok hospitals grew 8% yoy in 9M19.

Revenue from Thai patients grew 6% yoy while revenue from international patient grew 7% yoy in 9M19. Key drivers were mainly from increase in Emiratis patients 78% yoy, Omanis patients 67% yoy and Cambodian patients 17% yoy. The revenue proportion between Thai and international patients changed from 70%:30% in 9M18 to 69%:31% in 9M19.

Revenues from hospital operations in 9M19	Chg. (yoy)	% to revenues
Revenues growth from hospital operations	7%	100%
Breakdown by location		
Bangkok & Vicinity	5%	58%
Outside Bangkok	8%	42%
Breakdown by nationality		
Thai	6%	69%
International	7%	31%
Breakdown by type of patients		
Outpatients	7%	45%
Inpatients	6%	55%

- Revenues from sales of goods were Baht 2,261 million, slightly decreased from 9M18 due mainly to a decrease in sales of Save Drug Center Co., Ltd and export sales of A.N.B. Laboratories Co., Ltd.
- Other income were Baht 710 million, increased by 16% yoy.

Operating Expenses			
<i>(Baht mm)</i>	9M19	9M18	%Chg
Cost of hospital operations and others	40,466	37,588	8%
Administrative expenses	12,755	11,393	12%
Total Operating Expenses (Including depreciation)	53,222	48,981	9%

In 9M19, the Company and its subsidiaries reported total operating expenses & depreciation of Baht 53,222 million, an increase of Baht 4,241 million or 9% yoy due mainly to non-recurring items (before income tax) in 1Q19 as follow:-

- (1) Provisions for employee benefits of Baht 616 million. According to legal retirement benefit rates for employees who have worked for an uninterrupted period of 20 years or more, such employees are entitled to receive compensation of not less than that of the last 400 days, based on the final wage rate.
- (2) One-time expenses of Baht 110 million for MEA in finding the land to locate electricity sub-station to accommodate electricity usage at Bangkok International Hospital.

If excluding these non-recurring items, total operating expenses and depreciation would grow 7% yoy. In addition, the growth in administrative expenses.

The depreciation and amortization expenses were Baht 4,253 million in 9M19, increased by 6% yoy due mainly to depreciation and amortization of new network hospital, and opening of BDMS Wellness Clinic and Mövenpick BDMS Wellness Resort Bangkok.

Other Major Items

- Share of income from investments in associates were Baht 775 million in 9M19, decrease of 32% yoy due mainly to divestment of all investment in RAM in 1Q19. Share of

income from investments in associates in 9M19 were mainly from investment in BH of Baht 712 million.

- Finance cost decreased to Baht 723 million in 9M19 or decreased by 17% yoy mainly because of exercising of CB during the year resulting in the reversal of CB withholding taxes amounting to Baht 84 million together with the repayment of loans from financial institutions during 1Q19.
- Tax expenses in 9M19 were Baht 3,280 million, increased from Baht 1,724 million in 9M18, due mainly to tax expenses from non-recurring items totaling of Baht 1,379 million. (Details are shown in non-recurring items)

Non-recurring items

During 9M19, the Company recorded non-recurring items (net of income tax) of Baht 5,514 million. Details as follows:-

<i>(Baht mm)</i>	Amount	Tax	Net of tax
1. Gain on sales in RAM	7,617	(1,523)	6,094
2. Provisions for employee benefits	(616)	123	(493)
3. One-time expenses in finding the land to locate electricity sub-station	(110)	22	(88)
4. Gain on sales in other long-term investment	2	(1)	1
Total	6,893	(1,379)	5,514

Profitability Analysis

(Baht mm)	9M19	9M18	%Chg
EBITDA *	14,051	13,612	3%
EBITDA margin *	22.6%	23.2%	
EBITDA	13,324	13,612	(2)%
EBITDA margin	21.4%	23.2%	
EBIT *	10,678	10,807	(1)%
EBIT margin *	17.1%	18.4%	
Core profit	7,680	7,841	(2)%
Core profit margin	12.3%	13.4%	
Net profit	13,195	7,841	68%
Net profit margin	21.2%	13.4%	
Core EPS (Baht)	0.49	0.50	(3)%
EPS (Baht)	0.84	0.50	67%

Weighted average number
of ordinary shares

(mm shares)	15,693	15,538
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* Excluding non-recurring items

Remarks

EBITDA = Total operating income – Total operating expenses (Excluding depreciation and amortization)

EBITDA Margin = EBITDA / Operating income

If excluding non-recurring items, core EBITDA increased from Baht 13,612 million in 9M18 to Baht 14,051 million in 9M19 or increased by 3% yoy. However, core EBITDA margin decreased from 23.2% in 9M18 to 22.6% in 9M19.

Core profit was Baht 7,680 million, slightly decreased by 2% yoy. As a results, core profit margin decreased from 13.4% in 9M18 to 12.3% in 9M19. Core EPS was Baht 0.49 per share in 9M19.

If including non-recurring items, EBITDA was Baht 13,324 million or decreased by 2% yoy resulting in EBITDA margin of 21.4%.

Net profit were Baht 13,195 million, increased by 68% yoy with net profit margin of 21.2%. Such increase was mainly from gain from divestment

of all investment in RAM in 1Q19. EPS was Baht 0.84 per share or increased by 67% yoy.

Assets

(Baht mm)	Sep 19	Dec 18	%Chg
Cash & cash equivalents	6,948	5,034	38%
Short-term investments	924	817	13%
Trade & other receivables	8,595	7,545	14%
Inventories	1,704	1,786	(5)%
Investment in associates	17,177	22,647	(24)%
Property, premises & equipment	75,853	74,547	2%
Goodwill	17,539	17,539	0%
Other assets	3,818	3,585	7%
Total assets	132,558	133,499	(1)%

As of 30 September 2019, the Company and its subsidiaries reported total assets of Baht 132,558 million, slightly decreased from 31 December 2018, due mainly to an increase in cash and cash equivalents of Baht 1,915 million together with an increase in property, premises and equipment of Baht 1,306 million and increase in trade and other receivables of Baht 1,050 million netted with a decrease in investment in associates of Baht 5,470 million mainly from divestment of all investment in RAM.

The Company carried goodwill of Baht 17,539 million, which remain unchanged from 31 December 2018. Such goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. However, the Company has considered that this goodwill is not impaired.

Liabilities and Equity

(Baht mm)	Sep 19	Dec 18	%Chg
Bank overdrafts and short-term loans	4,102	5,945	(31)%
Debentures *	19,591	19,588	0%
Long-term loans *	4,701	9,327	(50)%
Convertible bonds *	-	5,056	(100)%
Other liabilities	19,808	20,145	(2)%
Total liabilities	48,201	60,061	(20)%
Equity attributable to equity holder of the Company	81,097	70,320	15%
Non-controlling interests	3,260	3,118	5%
Total equity	84,357	73,438	15%

* Including current portion

Total consolidated liabilities as of 30 September 2019 were Baht 48,201 million, decreased by 20% from 31 December 2018 due mainly to a conversion of all CB in 3Q19. The decrease in liabilities also came from a decrease in long-term loans from financial institutions of Baht 4,626 and decrease in bank overdrafts and short-term loans of Baht 1,843 million.

Total consolidated shareholders' equity as of 30 September 2019 was Baht 84,357 million, increased by 15% from 31 December 2018, due mainly from increase in the Company's ordinary shares from conversion of CB and net profit during the period.

Liquidity and Capital Management

Cash Flow

(Baht mm)	9M19
Net cash from operating activities	10,592
Net cash from investing activities	4,987
Net cash used in financing activities	(13,664)
Net increase in cash and cash equivalents	1,915
Beginning cash and cash equivalents	5,034
Ending cash and cash equivalents	6,948

For the nine-month period ended 30 September 2019, the Company and its subsidiaries had net

increase in cash and cash equivalent of Baht 1,915 million from the beginning balance of Baht 5,034 million. As a result, cash and cash equivalents at the end of period was Baht 6,948 million. Details of cash flow by activities during the period are as follows:-

Net cash flows from operating activities were Baht 10,592 million, resulting mainly from profit during 9M19.

Net cash from investing activities were Baht 4,987 million comprising mainly from cash from divestment of an associate and other long-term investment of Baht 12,732 which mainly from divestment in all investment in RAM netted with purchase of property, premises and equipment of Baht 5,508 million from hospital network expansion and tax paid for disposal of all investment in RAM of Baht 2,250 million.

Net cash used in financing activities were Baht 13,664 million comprising mainly from dividend payment of Baht 6,951 million together with repayment of long-term loans from financial institutions of Baht 4,626 million and repayment of short-term loans from financial institutions of Baht 1,843 million.

Ratios Analysis

Returns (%)	9M19	9M18
Return on Asset (ROA)	13.2	8.4
Return on Equity (ROE)	23.2	15.8
Liquidity (x)		
Current ratio	0.8	0.7
Quick ratio	0.7	0.6
Assets & Liabilities Management (Days)		
Average Collection Period	36.8	35.5
Average Inventory Period	11.6	12.3
Average Payable Period	34.0	34.1

Remarks

- Assets & Liabilities Management based on 360 days

Ratios Analysis

Leverage & Coverage Ratios (x)	9M19	9M18
Interest coverage	18.4	15.6
	Sep-19	Dec-18
Total debt to equity	0.3	0.5
Net debt to equity	0.3	0.5
Net debt to EBITDA	1.2	2.0

Remarks

- Interest coverage = EBITDA/Interest Expenses
- Debt refers to interest bearing debt

Return on assets ("ROA") and return on equity ("ROE") in 9M19 increased significantly from 9M18 as a results of net gain from divestment of all investment in RAM.

Current ratio and quick ratio slightly increased from 9M18 due to a decrease in CB.

Average collection period increased from 35.5 days in 9M18 to 36.8 days in 9M19. The Company and its subsidiaries reported the aging of the outstanding trade accounts receivables which most of them aged not over than 3 months. The Company and its subsidiaries report allowance for doubtful accounts for the estimated losses that may be incurred in collection of receivables. The allowance is generally based on collection experiences and analysis of debt aging.

Average inventory period decreased from 12.3 days in 9M18 to 11.6 days in 9M19. The Company's inventories were mostly medicines and medical supplies which the Company and its subsidiaries already recorded allowance for the expired medicine and medical supplies to reduce its cost to net realizable value.

Average payable period was 34.0 day similar to 9M18.

Interest coverage ratio increased from 15.6 in 9M18 to 18.4 in 9M19 due to lower finance cost.

From the conversion of the remaining CB and the repayment of loans from financial institutions

during the period, total interest bearing debt to equity and net interest bearing debt to equity decreased from 0.5x as of 31 December 2018 to 0.3 as of 30 September 2019.

Net interest bearing debt to EBITDA decreased from 2.0x as of 31 December 2018 to 1.2 as of 30 September 2019.

The leverage and coverage ratios are well within the financial covenants of the long-term loans and debentures.

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