

Thonburi Healthcare Group PLC.

2Q18 Management Discussion and Analysis

Overview

In 2Q18, Thonburi Healthcare Group PLC (THG) saw YoY revenue growth mainly from its core business in hospital services. The growth aligned with major trends in aging society and personal health conscious. Furthermore, THG's hospitals increased treatment capability by adding more center of excellence and more specialist doctors, resulting in an increase in patient volume. Domestic hospital management business maintained its stable income, with additional revenue from international consultancy services. In this quarter, the revenue from overseas decreased from last year as some contracts ended but this business still has growth potential. Currently, THG is under negotiation with other partners for more projects and business possibilities in Asia. Overall this business is likely to continue to growth with great potential and the reputation of THG foreign confidence. The opportunity to study business feasibility.

Progress of other projects are on track. Welly Hospital in China saw a better trend due to patients' confidence followed by volume increase from last year. Ar Yu International Hospital in Myanmar has partially finished and is ready for operation of the first phase in 3Q18.

Thonburi Bamrungmuang Hospital, is under renovation and expected to start operations of some centers in 4Q18. Jin Wellbeing County comprises of cluster 1 and 2 of residential units, Thonburi Burana Hospital (formerly called aged care), and Wellness Center. The residential units are expected to complete and ready for transfer by the end of 2018.

In 2Q18, net profit decreased from last year mainly because THG's has expansion phase. Expenses from new projects occurred as expected, namely Jin Wellbeing County, and Thonburi Bamrungmuang Hospital. Investment for overseas hospitals, Welly Hospital in China and Ar Yu International Hospital in Myanmar, is yet to contribute profit in upcoming years. Moreover, expenses occurred from more workforce and human resource and operating system development to support company's growth. These expenses are under control within budget. When new projects and investments are completed and start to pick up, they are expected to contribute as new revenue streams.

Key development in 2Q18

1. Investment in a subsidiary

According to the resolution of Board of Director No. 4/2018 on 9 April 2018, the Board approved an investment in 55-60% of total shares of Thanarad Thung Song Company Limited within the amount of THB240mn during 2Q18. THG has purchased the shares from related person and others at THB10 (par value) per share, totaling THB97.6mn. As of 30 June 2018, THG holds the shares 23.54% directly, and 7.69% indirectly via Rajyindee Hospital PLC., totaling 31.23%.

According to the resolution of Board of Director No. 7/2018 on 5 July 2018, the Board approved to increase in investment plan in Thanarad Thung Song Co., Ltd. from not over Baht 240.00 million to not over Baht 360.00 million due to the Company, Thanapat Thung Song Co., Ltd., will increase its registered capital from Baht 400.00 million to Baht 600.00 million to maintain the investment proportion of 55% to 60% of the total number of shares. In addition, in July 2018, the Company made additional investment by purchasing 4.00 million shares at a price of Baht 10.00 per share, totaling Baht 40.00 million.

Summary of 2Q18 performance compared to 2Q17

Revenue

THG's revenue comprises of revenue from medical service, healthcare solutions provider and other businesses. Total revenue was THB1,675mn, increasing by 6.2% due to an increase from domestic hospital revenue.

Medical Service Business has revenue of THB1,572mn, increasing by 5.2%.

- Domestic hospitals comprise of Thonburi Hospital, Thonburi Hospital 2 and Rajyindee Hospital. Total revenue was THB1,384mn, increasing by 7.1%, mainly from higher treatment intensity and higher in-patient and out-patient volume resulting from more excellence centers and more marketing collaboration with insurance company. In addition the treatment of complicated diseases has increased the cost of services from patients as compared to the same period last year.
- Hospital management business revenue was THB126mn, decreasing by 19.7% mainly because some overseas contract ended in 1Q18.
- Excellence center business revenue was THB57mn, increasing by 26.7% mainly because the heart centers of Thonburi Hospital 2 started operation in June 2017 and of Phatthalung Hospital started operation in April 2018.
- Thonburi Bamrungmuang revenue was THB5mn from rental and service fee of SOHO building. This revenue did not occur in 2Q17 because the subsidiary was acquired in November 2017.

Healthcare Solutions Provider business

This business comprises of dental equipment and supplies provider, chained drug stores and home healthcare. The revenue was THB101mn, increasing by 26.3% from the sales of dental turnkey project to a university.

Other businesses

They comprise of hospital software development business and project development for healthcare service. The revenue was THB2mn, decreasing by 33.3% because an oversea client delayed service timeframe resulting in lower fee recognized in this quarter.

Costs

Total cost was THB1,246mn, increasing by 9.0%, in line with the growth of total revenue. Main cost was from medical service business which is THG's group core business. The costs of the 3 businesses are classified as follows :

Cost of medical service was THB1,176mn, increasing by 8.1%. Main costs include doctor fees, nurse and staff costs, and drugs & medical supplies that were in line with revenue growth, as well as depreciation from new building and medical equipment for service development to serve patients effectively.

Cost of healthcare solutions provider was THB66mn, increasing by 22.2%. The main cost was cost of goods sold that was in line with revenue growth from turnkey project for dental equipment in this quarter.

Cost of other businesses was THB4mn, increasing by more than 100%. Main cost includes staff cost in hospital software development business.

Selling, general and administrative expenses

SG&A and management remuneration was THB322mn, increasing by 28.8% It was from the increase in staff cost, marketing expenses, as well as expenses from studies and project development.

Financial cost

It was THB36mn, decreasing by 10.0% because of an efficient loan management. As of 30 June 2018 and 2017, interest-bearing debt was THB4,971mn and THB4,476mn. reflecting average interest rate of 3.0%, decreasing from 3.6%.

Profit

Gross profit was THB429mn, decreasing by 1.2%. Gross profit margin was 25.6%, decreasing from 27.5% last year, mainly due to a decrease of overseas consulting revenue.

Net profit attributable to the parent was THB72mn, decreasing by 45.0%. Net profit margin (parent) was 4.3%, decreasing from 8.3% mainly due to higher SG&A during the expansion period.

Financial Highlights

	Consolidated financial statements					
<i>Profit and loss statements (million baht)</i>	2Q18	2Q17	% YoY	1H18	1H17	% YoY
Revenue from medical service	1,572	1,494	5.2%	3,166	2,898	9.2%
Revenue from Healthcare solution provider	101	80	26.3%	184	227	-18.9%
Revenue from other businesses	2	3	-33.3%	8	5	60.0%
Total revenue	1,675	1,577	6.2%	3,358	3,130	7.3%
Cost from medical service	(1,176)	(1,088)	8.1%	(2,328)	(2,157)	7.9%
Cost from Healthcare solution provider	(66)	(54)	22.2%	(115)	(154)	-25.3%
Cost from other businesses	(4)	(1)	300.0%	(8)	(5)	60.0%
Total cost	(1,246)	(1,143)	9.0%	(2,451)	(2,316)	5.8%
Gross profit	429	434	-1.2%	907	814	11.4%
Selling, general and admin expenses	(322)	(250)	28.8%	(645)	(449)	43.7%
EBITDA	249	263	-5.3%	597	500	19.4%
Financial cost	(36)	(40)	-10.0%	(69)	(81)	-14.8%
Net profit	72	131	-45.0%	233	228	2.2%
Net profit - parent	72	131	-45.0%	230	225	2.2%

<i>Margin</i>	2Q18	2Q17
Gross profit margin	25.6%	27.5%
EBITDA margin	14.9%	16.7%
Net profit margin - parent	4.3%	8.3%

Financial status

Assets

As of 30 June 2018, THG had total assets of THB15,556mn, increasing from THB14,010mn as of 31 December 2017.

Current assets increased from

- development cost of Jin Wellbeing County project of THB230mn
- refundable deposit within one year total of THB190mn classified as a deposit for land paid by the Company to other company of THB40mn that THG plans for a potential partnership and deposit for land that will be developed for Thonburi Senior Home Project in Prachauthit which a subsidiary paid to related company of THB150mn. The above deposits are with a condition that THG and subsidiaries can refund the amount. The mentioned investments are under consideration and during the process of shareholders' approval.

Non-current assets increased from

- net investment in JV of THB425mn because THG increased the shareholding in Ar Yu International Health Care Company Limited to 40% from 10% according to the resolution of the Board of Directors' meeting
- land, property and equipment, and advance payment for fixed assets of THB740mn from the investment of THG' subsidiary in Jin Wellbeing County and Thonburi Bamrungmuang Hospital and from THG's additional investment in another subsidiary
- prepaid rental of THB56mn because a subsidiary paid for the rest of rental to the Thai Red Cross Society.
- However, other long-term investment (net) decrease by THB81mn because THG sold the investment in Rajthanee Rojana Hospital Co. Ltd., and reclassify investment in Thanarad Thungsong Co. Ltd., held by Rajyindee Hospital PLC., from other long-term investment to investment in subsidiaries.

Liabilities

As of 30 June 2018, THG has total liabilities of THB6,811mn, increasing from THB5,345mn as of 31 December 2017. Most of them were long-term and short-term debt from financial institutions. Net increase of debt from financial institutions was THB1,288mn for investment and project development.

Equity

As of 30 June 2018, THG has total equity of THB8,745mn, increasing from THB8,665mn as of 31 December 2017. The increase was from non-controlling interest when THG invested in a new subsidiary in 2Q18. However, the equity attributable to owners of parent decreased due to dividend payment to shareholders.

	Consolidated financial statements		
<i>Statements of financial position (million baht)</i>	30 June 2018	31 December 2017	% change
Current assets	3,111	2,615	18.9%
Non-current assets	12,445	11,395	9.2%
Total assets	15,556	14,010	11.0%
Current liabilities	2,957	1,279	131.2%
Non-current liabilities	3,854	4,066	-5.2%
Total liabilities	6,811	5,345	27.4%
Total equity	8,745	8,665	0.9%

	Consolidated financial statements	
<i>Financial ratios</i>	30 June 2018	31 December 2017
Current ratio	1.1	2.0
Return on assets (%)	6.4	6.9
Assets turnover (times)	0.5	0.6
Return on equity (%)	8.5	8.3
Debt/ equity	0.8	0.6
Interest bearing debt/ EBITDA	4.0	3.2
Interest coverage ratios (times)	5.4	5.3

Capital management of 2Q18 compared to 2Q17

- **Net cash generated from operating activities** was THB44mn, decreasing by more than 100%, because THG paid for a refundable deposit within one year and because of increasing cost of Jin Wellbeing County project development.
- **Net cash used in investing activities** was THB392mn, increasing by 30.2%, because of THG's payment for an investment in a subsidiary, Thanarad Thungsong Co.Ltd., of THB96.7mn, and because a subsidiary paid for a leasehold right and total rental to the Thai Red Cross Society.
- **Net cash generated from financing activities** was THB288mn, increasing by more than 100%, due to loans from financial institutions for investment and project development.

	Consolidated financial statements	
<i>Statement of cashflow (million baht)</i>	2Q18	2Q17
Net cash generated from operating activities	44	166
Net cash used in investing activities	(392)	(301)
Net cash generated from financing activities	288	116
Net decrease in cash and cash equivalents	(60)	(19)
Cash and cash equivalents at the end of period	496	415
