

MANAGEMENT DISCUSSION AND ANALYSIS

Executive Summary

3Q18 Performance

Bangkok Dusit Medical Services Public Company Limited (“Company”) reported consolidated operating income during third quarter of 2018 (“3Q18”) of Baht 20,614 million, an increase of 6% yoy. The growth was attributable to an increase in revenue from hospital operations of 6% yoy which was driven by higher price intensity from upgrading 10 BDMS hub hospitals to be Centers of Excellence together with higher volume from both Thai and International patients and expanding new patient base especially from insurance patients.

In addition, revenue from sales of goods and food was Baht 774 million, increased by 9% yoy in 9M18 due mainly to an increase in sales of the Medicpharma Co., Ltd. (“Medicpharma”) and A.N.B. Laboratories Co., Ltd. (“A.N.B”).

In 3Q18, the Company and its subsidiaries reported EBITDA of Baht 4,820 million, increased by 9% yoy resulting in an increase in EBITDA margin from 22.7% in 3Q17 to 23.4% in 3Q18. The net profit was Baht 2,879 million, increased by 19% yoy in 3Q18.

9M18 Performance

For nine-month period ended September 30, 2018 (“9M18”), the consolidated operating income were Baht 59,371 million, an increase of 10% yoy. The growth was attributable to an increase in revenue from hospital operations of 10% yoy which was mainly driven by an increase of Thai and international patient volume and an increase in price intensity.

In addition, revenue from sales of goods and food was Baht 2,280 million, increased by 10% yoy in 9M18 due mainly to an increase in sales of the Medicpharma and A.N.B.

The Company and its subsidiaries reported EBITDA of Baht 13,612 million, increased by 18% yoy in 9M18. As a result, EBITDA margin increased from 21.4% in 9M17 to 22.9% in 9M18. Meanwhile, core profit was Baht 7,841 million, increased by 31% yoy. If including non-recurring items in 9M17 from net gain on partial sale of investment in Bumrungrad Hospital Public Co., Ltd. (“BH”) of Baht 2,195 million, the net profit in 9M18 decreased by 4% yoy.

Major Development

1. TRIS Rating affirmed the Company rating and senior unsecured debentures rating at AA-

On October 24, 2018, TRIS Rating affirmed the company and senior unsecured debenture ratings at AA- with stable outlook. The ratings reflect BDMS’s leading market position as the largest operator of private hospitals in Thailand with an extensive network of hospitals and strong franchise of its hospital brands, supported by its high quality of services and medical staff. The ratings also take into consideration the company’s sound operating performance, moderate financial risk profile and exposure to intense competition from local and international healthcare services providers. Over the next 12-24 months, Company’s liquidity is adequate considering the sources and used of funds.

2. Conversion of Convertible Bonds

On 18 September 2014, Company issued zero coupon convertible bonds (“CB”) to investors outside Thailand for Baht 10,000 million due in 2019. On 18 September 2017, the CB holders has exercised the put option totaling Baht 1,560 million, resulting the outstanding principle amount of the CB reduced to Baht 8,440 million.

During 9M18, the CB holders exercised their conversion rights at Baht 21.045 per share as below table.

| Convertible bonds (CB) | Value (THB mm) | Newly issued (Share mm) |
|---|----------------------|----------------------------------|
| CB outstanding before conversion | 8,440 | |
| CB holders exercised | | |
| - In 2Q18 | 1,547 | 73.5 |
| - In 3Q18 | 2,129 | 101.2 |
| Total | 3,676 | 174.7 |
| CB outstanding after conversion | 4,764 | |

As the result, the Company’s paid up capital increased from Baht 1,549 million at the end of 2017 to Baht 1,567 million at the end of 3Q18 while the outstanding principle amount of the CB reduced to Baht 4,764 million.

3. Payment of interim dividend

On August 29, 2018, Board of Directors approved the payment of interim dividend for the first half of 2018 performance at the rate of Baht 0.13 per share, totaling Baht 2,029.51 million. The payment of interim dividend was paid on September 28, 2018.

4. Opening of Chiva Transitional Care Hospital

On 1 October 2018, Company opened new 52-bed hospital, Chiva Transitional Care Hospital, providing intensive rehabilitation programs for postoperative patients by multidisciplinary team including Geriatrics Medicine and Rehabilitation Medicine, Physical therapists, Nurses, Pharmacists and Nutritionists with the room designed especially for rehabilitative patients. The Hospital also provides recreational activities for physical and mental rehabilitation to fasten patient recovery.

5. BDMS Wellness Clinic

On August 22, 2018, BDMS Wellness Clinic, BDMS wholly own subsidiary, signed hotel management contract with Mövenpick Hotels & Resorts in managing “Mövenpick BDMS Wellness Resort Bangkok” which is expected to open in 2019.

Mövenpick BDMS Wellness Resort Bangkok is an international wellness resort located in the heart of Bangkok in coordination with BDMS Wellness Clinic which is located nearby to provide in-house personalized wellness program and promote prevention and lifestyle improvement. The resort consists of around 290 guest rooms with the restaurants serving with healthy selection of organic food and health-conscious menu.

Mövenpick Hotels & Resorts is a modern, international upscale hotel management firm across regions. Headquartered in Switzerland, Mövenpick Hotels & Resorts reflect its Swiss roots and rich culinary heritage and intuitive service. This matches with BDMS Wellness Clinic’s style in developing wellness resort.

BDMS Wellness Clinic consists of 7 clinics including:-

- 1) Regenerative Clinic
- 2) Musculoskeletal and Sports Clinic

- 3) Neuroscience Clinic
- 4) Cardioscience Clinic
- 5) Digestive Wellness Clinic
- 6) Dental Clinic
- 7) Fertility Clinic

Subsequent Event

Investment in associate

On 31 October 2018, the Company's Board of Directors had approved for an additional investment in BH. On 12 November 2018, the Company acquired 32 million shares of BH or approximately 4.38% of issued and paid-up shares of BH totaling approximately Baht 5,941 million financed by our internal cash and borrowing from financial institutions.

The Company's holding stake in BH has changed as follow:

- Prior to the transaction, 20.50% of issued and paid-up shares or 17.25% on fully-diluted basis (assuming the conversion of CB).
 - After the transaction, 24.88% of issued and paid-up shares or 20.94% on fully-diluted basis (assuming the conversion of CB).
- BH will remain our associated company.

3Q18 Consolidated Financial Summary

| Operating Income | | | |
|-----------------------------------|---------------|---------------|-----------|
| (THB mm) | 3Q18 | 3Q17 | %Chg |
| Revenues from hospital operations | 19,621 | 18,577 | 6% |
| Revenue from sales of goods | 774 | 709 | 9% |
| Other income | 219 | 213 | 3% |
| Total Operating Income | 20,614 | 19,498 | 6% |

In 3Q18, total operating income were Baht 20,614 million, an increase of Baht 1,115 million or 6% yoy primarily due to

- Revenues from hospital operations were Baht 19,621 million, an increase of Baht 1,044 million or 6% yoy. The growth was

contributable to increase in price intensity which driven by upgrading 10 BDMS hub hospitals to be Centers of Excellence together with an increase in patient volume and expanding new patients base especially from insurance patients.

| Revenues from hospital operations in 3Q18 | Chg. (yoy) | % to revenues |
|---|------------|---------------|
| Revenues from hospital operations | 6% | 100% |
| Breakdown by location | | |
| Bangkok & Vicinity | 4% | 59% |
| Upcountry | 7% | 41% |
| Breakdown by nationality | | |
| Thai | 6% | 74% |
| International | 4% | 26% |
| Breakdown by type of patients | | |
| Outpatients | 6% | 46% |
| Inpatients | 5% | 54% |

Revenue of network hospitals in Bangkok and vicinity grew 4% yoy while revenue of network hospitals in the upcountry grew 7% yoy.

Revenue from Thai patients grew 6% yoy and revenue from international patients grew 4% yoy. Key drivers were mainly from increase in Cambodian 28% yoy, USA 14% yoy and Emiratis patients 14% yoy. The revenue proportion between Thai and international patients change from 73%:27% in 3Q17 to 74%:26% in 3Q18. The occupancy rate in 3Q18 was at 73% similar to 3Q17.

- Revenues from sales of goods and food were Baht 774 million, an increase of 9% yoy, mainly from an increase in sales of Medicpharma and A.N.B.

| Operating Expenses | | | |
|--|---------------|---------------|-------------|
| <i>(THB mm)</i> | 3Q18 | 3Q17 | %Chg |
| Cost of hospital operations and others | 13,260 | 12,584 | 5% |
| Administrative expenses | 3,895 | 3,800 | 2% |
| Total Operating Expenses (Including depreciation) | 17,155 | 16,384 | 5% |

In 3Q18, the Company and its subsidiaries reported total operating expenses & depreciation of Baht 17,155 million, an increase of Baht 771 million or 5% yoy which grew at the slower pace than total operating income.

- Cost of hospital operations and others (including depreciation and amortization) were Baht 13,260 million, increased by 5% yoy due mainly to higher expenses from doctors & clinical staffs, medicine and medical supplies given the growth in price intensity.
- The administrative expenses (including depreciation and amortization) were Baht 3,895 million, slightly increased by 2% yoy.
- The depreciation and amortization expenses were Baht 1,361 million in 3Q18, increased by 4% yoy due mainly to depreciation and amortization from opening of BDMS Wellness Clinic.

Other Major Items

- Share of income from investments in associated companies were Baht 421 million in 3Q18, slightly increased yoy. Share of income from investments in associated companies were mainly from investment in BH of Baht 231 million, increased 7% yoy, and investment in Ramkhamhaeng Hospital Public Co., Ltd. ("RAM") of Baht 167 million, decreased 7% yoy.
- Finance expenses decreased to Baht 261 million in 3Q18 or decreased by 40% yoy due

mainly to a decrease in the outstanding of CB after exercising conversion rights in 3Q18 and an adjustment in calculating value of expected exercise of the put option in 3Q17.

- Taxes in 3Q18 were Baht 617 million, increase from Baht 564 million in 3Q17, due mainly to an increase in pre-tax profit.

| Profitability Analysis | | | |
|--|-------------|-------------|-------------|
| <i>(THB mm)</i> | 3Q18 | 3Q17 | %Chg |
| EBITDA | 4,820 | 4,422 | 9% |
| EBITDA margin | 23.4% | 22.7% | |
| EBIT | 3,892 | 3,542 | 10% |
| EBIT margin | 18.9% | 18.2% | |
| Net profit | 2,879 | 2,417 | 19% |
| Net profit margin | 14.0% | 12.4% | |
| EPS (THB) | 0.18 | 0.16 | 18% |
| Weighted average number of ordinary shares (mm shares) | 15,160 | 15,491 | |

Remarks
 EBITDA = Total operating income – Total operating expenses (Excluding depreciation and amortization)
 EBITDA Margin = EBITDA / Operating income

EBITDA increased from Baht 4,422 million in 3Q17 to Baht 4,820 million in 3Q18 or increased by 9% yoy resulting in an increase in EBITDA margin from 22.7% in 3Q17 to 23.4% in 3Q18.

Net profit was Baht 2,879 million, increased by 19% yoy resulting in an increase in net profit margin from 12.4% in 3Q17 to 14.0% in 3Q18. EPS was Baht 0.18 per share or increased by 18% yoy.

9M18 Consolidated Financial Summary

| Operating Income | | | |
|-----------------------------------|---------------|---------------|-------------|
| <i>(THB mm)</i> | 9M18 | 9M17 | %Chg |
| Revenues from hospital operations | 56,477 | 51,328 | 10% |
| Revenue from sales of goods | 2,280 | 2,075 | 10% |
| Other income | 613 | 635 | (3)% |
| Total Operating Income | 59,371 | 54,038 | 10% |

In 9M18, total operating income were Baht 59,371 million, an increase of Baht 5,333 million or 10% yoy, primarily due to

- Revenues from hospital operations were Baht 56,477 million, an increase of Baht 5,149 million or 10% yoy in 9M18. Key growth drivers were higher patient volume and price intensity from 10 Centers of Excellence and expanding new patients base especially from insurance patients together with an increase in influenza and outbreaks during 1Q18. In addition, the Company has the Bangkok Emergency Services to timely and efficiently coordinate patients referral in case of accident or patients in critical conditions.

| Revenues from hospital operations in 9M18 | Chg. (yoy) | % to revenues |
|--|-------------------|----------------------|
| Revenues growth from hospital operations | 10% | 100% |
| Breakdown by location | | |
| Bangkok & Vicinity | 8% | 58% |
| Upcountry | 13% | 42% |
| Breakdown by nationality | | |
| Thai | 10% | 72% |
| International | 9% | 28% |
| Breakdown by type of patients | | |
| Outpatients | 8% | 46% |
| Inpatients | 11% | 54% |

Revenue of network hospitals in Bangkok and vicinity grew 8% yoy while revenue of network hospitals in the upcountry grew 13% yoy in 9M18.

Revenue from Thai patients grew 10% yoy while revenue from international patient grew 9% yoy in 9M18, driven mainly from increase in Kuwaitis 48% yoy, Cambodian 22% yoy and Chinese patients 22% yoy. The revenue proportion between Thai and international patients changed from 70%:30% in 9M17 to 72%:28% in 9M18. The occupancy rate increased from 63% in 9M17 to 68% in 9M18.

- Revenues from sales of goods and food were Baht 2,280 million, an increase of 10% yoy, mainly from an increase in sales of Medicpharma and A.N.B.

| Operating Expenses | | | |
|--|---------------|---------------|-------------|
| <i>(THB mm)</i> | 9M18 | 9M17 | %Chg |
| Cost of hospital operations and others | 38,370 | 35,519 | 8% |
| Administrative expenses | 11,393 | 10,785 | 6% |
| Total Operating Expenses | 49,764 | 46,304 | 7% |

In 9M18, the Company and its subsidiaries reported total operating expenses & depreciation of Baht 49,764 million, an increase of Baht 3,460 million or 7% yoy which grew at the slower pace than total operating income.

- Cost of hospital operations and others (including depreciation and amortization) were Baht 38,370 million, increased by 8% yoy. An increase was due mainly to higher expenses from doctors & clinical staffs, medicine and medical supplies given the growth in number of outpatients and inpatients.
- The administrative expenses (including depreciation and amortization) were Baht 11,393 million, increased by 6% yoy, due mainly to an increase in non-clinical personnel expenses and repair and maintenance expenses.
- The depreciation and amortization expenses were Baht 4,005 million in 9M18, increased by

4% yoy due mainly to depreciation and amortization of new network hospitals and opening of BDMS Wellness Clinic.

Other Major Items

- Share of income from investments in associated companies were Baht 1,137 million in 9M18, increase of 3% yoy driven mainly from investment in BH of Baht 652 million, slightly decreased yoy, and investment in RAM of Baht 429 million, increased 4% yoy.
- Finance expenses decreased to Baht 872 million in 9M18 or decreased by 28% yoy because of a decrease in outstanding of CB after exercising conversion rights. While, in 9M17, there was an adjustment in calculating value of expected exercise of the put option.
- Tax expenses in 9M18 were Baht 1,724 million, decreased from Baht 2,116 million in 9M17 as taxes in 9M17 including partially disposition of investment in BH.

Non-recurring items

During 9M17, the Company recorded non-recurring items as the Company partially disposed an investment in BH totaling 25.2 million shares for Baht 4,509 million resulting in the net gain on sale of Baht 2,195 million.

Profitability Analysis

| (THB mm) | 9M18 | 9M17 | %Chg |
|--------------------|--------|--------|------|
| EBITDA | 13,612 | 11,579 | 18% |
| EBITDA margin | 22.9% | 21.4% | |
| EBIT * | 10,807 | 8,896 | 21% |
| EBIT margin * | 18.2% | 16.5% | |
| Core profit | 7,841 | 5,986 | 31% |
| Core profit margin | 13.2% | 11.1% | |

* Excluding non-recurring items

Remarks

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

EBITDA Margin = EBITDA / Operating income

Profitability Analysis

| (THB mm) | 9M18 | 9M17 | %Chg |
|--|--------|--------|------|
| Net profit | 7,841 | 8,181 | (4)% |
| Net profit margin | 13.2% | 15.1% | |
| Core EPS (THB) | 0.50 | 0.39 | 31% |
| EPS (THB) | 0.50 | 0.53 | (4)% |
| Weighted average number of ordinary shares (mm shares) | 15,538 | 15,491 | |

As previously mentioned EBITDA increased from Baht 11,579 million in 9M17 to Baht 13,612 million in 9M18 or increased by 18% yoy resulting in an EBITDA margin increase from 21.4 % in 9M17 to 22.9% in 9M18.

Core profit was Baht 7,841 million in 9M18, increased by 31% yoy. As a result, core profit margin increased from 11.1% in 9M17 to 13.2% in 9M18. Core EPS was Baht 0.50 per share or increased by 31% yoy.

If including the non-recurring items in 9M17, net profit decreased by 4% yoy resulting in a decrease of net profit margin from 15.1% in 9M17 to 13.2% in 9M18. EPS also decreased by 4% yoy.

Assets

| (THB mm) | Sep 18 | Dec 17 | %Chg |
|--------------------------------|----------------|----------------|-----------|
| Cash & cash equivalents | 5,856 | 5,091 | 15% |
| Trade & other receivables | 7,510 | 6,975 | 8% |
| Inventories | 1,697 | 1,735 | (2)% |
| Investment in associates | 16,429 | 15,807 | 4% |
| Property, premises & equipment | 72,620 | 71,559 | 1% |
| Goodwill | 17,539 | 17,539 | 0% |
| Other assets | 4,154 | 3,920 | 6% |
| Total assets | 125,805 | 122,627 | 3% |

As of September 30, 2018, The Company and its subsidiaries reported total assets of Baht 125,805 million increased by 3% from December 31, 2017, due mainly to net increase in property, premises

and equipment of Baht 1,060 million from investment in hospital network expansion.

Liabilities and Equity

| (THB mm) | Sep 18 | Dec 17 | %Chg |
|---|---------------|---------------|-------------|
| Bank overdrafts and short-term loans | 1,644 | 139 | 1,080% |
| Debentures * | 19,587 | 19,585 | 0% |
| Long-term loans * | 9,718 | 10,799 | (10)% |
| Convertible bonds | 5,086 | 8,774 | (42)% |
| Other liabilities | 17,741 | 17,459 | 2% |
| Total liabilities | 53,776 | 56,756 | (5)% |
| Equity attributable to equity holder of the Company | 69,069 | 63,071 | 10% |
| Non-controlling interests | 2,960 | 2,800 | 6% |
| Total equity | 72,029 | 65,871 | 9% |

* Including current portion

Total consolidated liabilities as of September 30, 2018 were Baht 53,776 million, which was decreased from December 31, 2017, due mainly to decreases in CB and in long-term loans from financial institutions netted with increases in bank overdrafts and short-term loans.

Total consolidated shareholders' equity as of September 30, 2018 was Baht 72,029 million, increased by 9% from December 31, 2017, due mainly from net profit during 9M18.

Liquidity and Capital Management

Cash Flow

| (THB mm) | 9M18 |
|---|---------|
| Net cash from operating activities | 10,838 |
| Net cash used in investing activities | (4,904) |
| Net cash used in financing activities | (5,169) |
| Net increase in cash and cash equivalents | 765 |
| Beginning cash and cash equivalents | 5,091 |
| Ending cash and cash equivalents | 5,856 |

For the nine-month period ended September 30, 2018, the Company and its subsidiaries had net increase in cash and cash equivalent of Baht 765 million from the beginning balance of Baht 5,091

million. As a result, cash and cash equivalents at the end of period was Baht 5,856 million. Details of cash flow by activities during the period are as follows:-

Net cash flows from operating activities were Baht 10,838 million, resulting mainly from profit during 9M18.

Net cash used in investing activities were Baht 4,904 million. The investing activities during the period were mainly from purchase of property, premises and equipment of Baht 4,928 million from hospital network expansion and development netted with cash received from dividend income of Baht 476 million.

Net cash used in financing activities were Baht 5,169 million mainly from dividend payment of Baht 5,380 million together with repayment of long-term loans from financial institutions of Baht 1,070 million netted with net cash received from short-term loans from financial institutions of Baht 1,505 million.

Ratios Analysis

| Returns (%) | 9M18 | 9M17 |
|---|------|-------|
| Return on Asset (ROA) | 8.4 | 9.7* |
| Return on Equity (ROE) | 15.8 | 19.0* |
| Liquidity (x) | | |
| Current ratio | 0.7 | 0.9 |
| Quick ratio | 0.6 | 0.8 |
| Assets & Liabilities Management (Days) | | |
| Average Collection Period | 35.0 | 33.9 |
| Average Inventory Period | 12.1 | 11.5 |
| Average Payable Period | 33.4 | 35.1 |

* If excluded non-recurring item, ROA and ROE would be 6.3% and 12.3%, respectively.

Remarks

Assets & liabilities management based on 360 days
Interest coverage = EBITDA/Interest expenses
Debt refers to interest bearing debt

Ratios Analysis

| Leverage & Coverage Ratios (x) | 9M18 | 9M17 |
|---|---------------|---------------|
| | Sep-18 | Dec-17 |
| Interest coverage | 15.6 | 9.6 |
| Total debt to equity | 0.5 | 0.6 |
| Net debt to equity | 0.4 | 0.5 |
| Net debt to EBITDA | 1.7 | 2.2 |

Remarks

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

Return on assets ("ROA") and return on equity ("ROE") decreased from 9M17 as there was gain from partial disposal of investment in BH in 9M17. If excluding such non-recurring item, ROA and ROE increased from a strong performance in 9M18.

Average collection period increased from 33.9 days in 9M17 to 35.0 days in 9M18. Company and its subsidiaries reported the aging of the outstanding trade accounts receivable which most of them aged not over than 3 months. 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 also increased from 11.5 days in 9M17 to 12.1 days in 9M18. 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 decreased from 35.1 days in 9M17 to 33.4 days in 9M18.

Interest coverage ratio increased from 9.6x in 9M17 to 15.6x in 9M18 due mainly to a decrease in finance expenses.

Total interest bearing debt to equity decreased from 0.6x as of December 31, 2017 to 0.5x as of

September 30, 2018. Net interest bearing debt to equity also decrease from 0.5x as of December 31, 2017 to 0.4x as of September 30, 2018. Net interest bearing debt to EBITDA decreased from 2.2x as of December 31, 2017 to 1.7x as of September 30, 2018.

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