# Middle East Healthcare Company (MEAHCO)

## Earnings Release 3Q 2023

# Middle East Healthcare Company "MEAHCO"

*Earnings Release*

### 3Q 2023 Financial Highlights

| Revenue | Gross Profit | EBITDA | Net Profit |
|---|---|---|---|
| SAR671mn | SAR266mn | SAR155mn | SAR53mn |
| ↑ 31% y-o-y | ↑ 75% y-o-y | ↑ 143% y-o-y | ↑ 380% y-o-y |
| | 39.7% Margin | 23.1% Margin | 7.9% Margin |

### 9M 2023 Financial Highlights

| Revenue | Gross Profit | EBITDA | Net Profit |
|---|---|---|---|
| SAR1,933mn | SAR720mn | SAR396mn | SAR144mn |
| ↑ 26% y-o-y | ↑ 51% y-o-y | ↑ 111% y-o-y | ↑ 242% y-o-y |
| | 37.3% Margin | 20.5% Margin | 7.4% Margin |

### 3Q 2023 Operational Highlights

| Inpatient Admissions | Outpatient Visits | Performed Surgeries | Utilisation Rate* |
|---|---|---|---|
| 24k | 513k | 15k | 76% |
| ↑ 34% y-o-y | ↑ 24% y-o-y | ↑ 58% y-o-y | ↓ 1.4 PP y-o-y |

**Jeddah, Saudi Arabia, 2 November 2023**

Middle East Healthcare Company (MEHACO), Saudi Arabia's most geographically diversified healthcare player, reported today its consolidated financial results for 3Q 2023, ending 30 September 2023.

## *Key highlights*

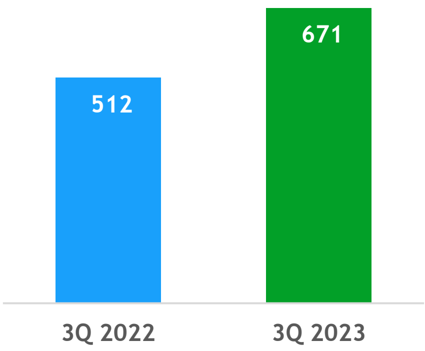
- **Consolidated revenue** grew by 31% y-o-y to SAR671 million in 3Q 2023
- **Total number of served patients** reached 536k patients across the Group's network of hospitals in 3Q 2023, with an increase of 24% vs. 3Q 2022
- Insurance **contribution to total revenue** stood at 48%, followed by Ministry of Health at 30%, cash at 19% and others at 3%
- **SGH Hail** and **Hai Al Jamea** successfully obtained the **AABB** accreditation and the **CBAHI** accreditation in 3Q 2023, respectively.
- **EBITDA** grew by 143% y-o-y to SAR155 million in 3Q 2023, implying an **EBITDA margin** of 23.1%
- **Net profit after zakat and minority interest** recorded SAR53 million in 3Q 2023, marking an increase of c.4.8x y-o-y vs. 3Q 2022

** Inpatient utilisation rate based on operational beds*

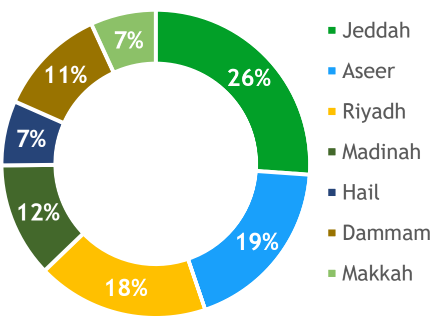
# Middle East Healthcare Company (MEAHCO)

## Earnings Release 3Q 2023

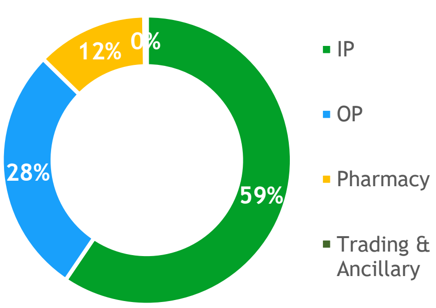
Consolidated Revenue
*SAR mn*




Revenue by Region*
*3Q 2023*




Revenue by Segment
*3Q 2023*




## Financial Performance

| *(In SAR mn)* | 3Q23 | 3Q22 | y-o-y | 9M23 | 9M22 | y-o-y |
|---|---|---|---|---|---|---|
| **Revenue** | **671** | **512** | **31%** | **1,933** | **1,534** | **26%** |
| CoGS | (405) | (360) | | (1,213) | (1,058) | |
| **Gross Profit** | **266** | **152** | **75%** | **720** | **476** | **51%** |
| *Gross Profit Margin* | *39.7%* | *29.7%* | | *37.3%* | *31.0%* | |
| **Operating Profit** | **110** | **26** | **318%** | **255** | **82** | **210%** |
| *Operating Margin* | *16.4%* | *5.1%* | | *13.2%* | *5.4%* | |
| **Net Profit** | **53** | **11** | **380%** | **144** | **42** | **242%** |
| *Net Profit Margin* | *7.9%* | *2.2%* | | *7.4%* | *2.7%* | |

Middle East Healthcare Company (MEAHCO) delivered total revenues of SAR671 million in 3Q 2023, marking a significant increase of 31% y-o-y. Ongoing operational improvement across the Group's entire network of hospitals, driven by added capacities, increased census, and optimized case mix, remained the key drivers for growth.

The Group's top-line growth was further bolstered by the ongoing healthy ramp-up of newly added capacities in SGH Riyadh and SGH Makkah, with both entities combined driving c.50% of the y-oy growth delivered during the quarter.

On a Group level, total number of inpatients increased by 34% y-o-y to 24k patients, while total number of outpatients was up 24% y-o-y to 513k patients. Inpatient revenues were up 36% y-o-y to record SAR399 million, primarily volume driven on increased insurance business and MoH referrals. Outpatient revenues grew 29% y-o-y to SAR187 million on increased insurance and cash patients, and overall better case mix.

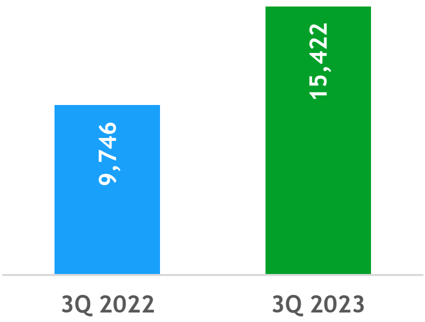
Dammam continued to deliver the highest growth in revenues, driven by steady ramp-up of operations on increased MoH referrals, insurance business, and direct contracts, followed by Riyadh, supported by start of operations of the new medical tower. Dammam recorded revenues of SAR77 million in 3Q 2023, with a remarkable 66% y-o-y growth, while Riyadh revenues leaped 38% y-o-y to SAR121 million during the quarter. SGH Makkah, the Group's latest greenfield expansion, generated SAR46 million in revenues, with a contribution of c.7% to the Group's top line.

Insurance business remains the most contributor to top line with 48% contribution, followed by MoH at 30% and cash at 19%. Total insurance revenues increased by 22% y-o-y in 3Q 2023.

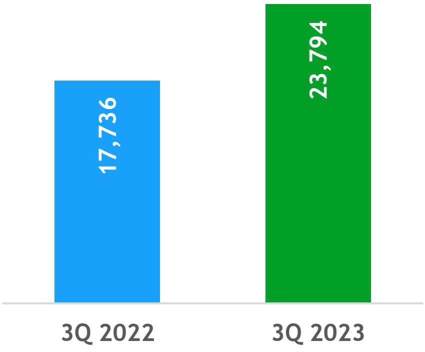
** Jeddah includes Management Fees*

# Operational Performance

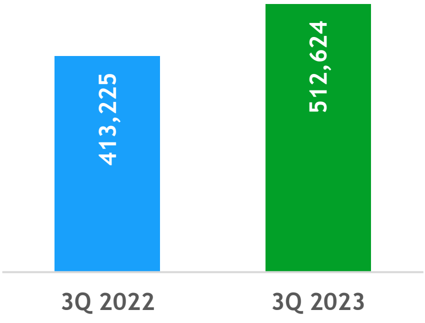
Performed Surgeries




Number of Inpatients




Number of Outpatients




The Group reported another solid set of results, delivering sustained y-o-y growth across all lines of businesses in terms of number of served patients on added capacities and higher utilisation of existing facilities.

Total number of served patients across the Group's network of hospitals reached 536k patients in 3Q 2023, marking an increase of 24% y-o-y, while number of performed surgeries was up a significant 58% y-o-y to 15k surgeries, backed by seasonality.

On a Group level, blended inpatient and outpatient utilisation rates recorded 76% and 61% in 3Q 2023, respectively, with blended average length of stay (ALOS) of c3.7 nights. The Group's current operational beds and clinics' capacities stands at c.1.3k beds and c.550 clinics, respectively.

Aggregate number of inpatients was up by 34% y-o-y to 24k patients in 3Q 2023, primarily on increased MoH referrals on a Group level, and to a lesser extent insurance business. Meanwhile, IP average revenue per stay was flattish y-o-y.

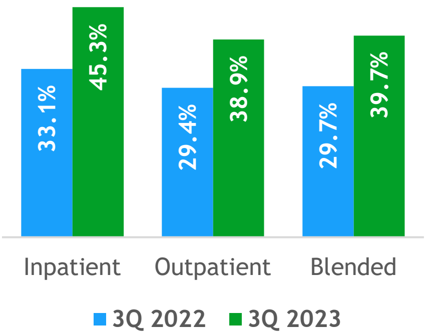
In terms of footprint, Makkah contributed the lion's share to the overall increase in inpatients' census, followed by Riyadh and Dammam, driving combined close to two-thirds of the Group's IP volume growth.

Total number of outpatients increased by 24% y-o-y to 513k patients, predominantly driven by higher insurance and cash patients. Average charge per OP visit recorded a 4% y-o-y increase vs. 3Q 2022. Makkah, Dammam, Riyadh, and Jeddah delivered the highest OP growth rates.

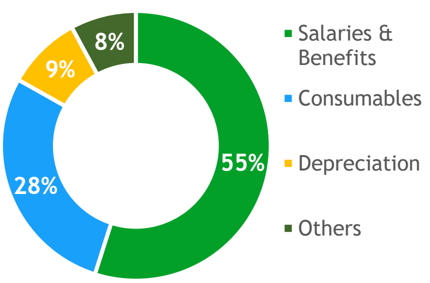
The Group is currently working on increasing the number of operational and/or licensed beds in select locations to capitalize on growing and pent-up demand.

SGH Dammam increased the number of operational beds starting 1Q 2023 by 50 beds to 150 beds, reaching the ceiling of the licensed capacity, to cater for the growth in demand, and promising outlook, in the Eastern province.

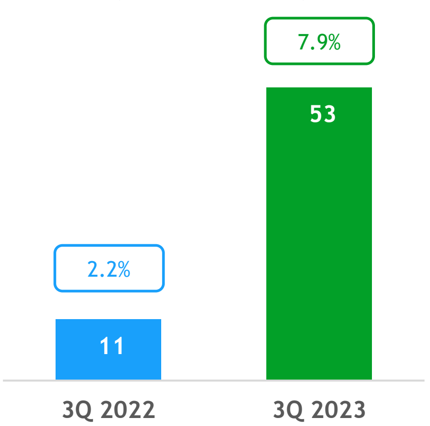
Gross Profit Margin




CoGS Breakdown
*3Q 2023*




Net Profit
*(SAR mn, % margin)*




## Profitability

The Group recorded consolidated gross profit of SAR266 million in 3Q 2023, 75% ahead of the comparable quarter last year, implying a gross profit margin of 39.7% and 10 pp y-o-y margin enhancement. Improved pricing with select clients, better case-mix, contained opex and higher utilisation rates all contributed to drive economies of scale.

Salaries & benefits and consumables remains the key cost components for the business, representing 55% and 28% of total cost of revenue, respectively. Total salaries and benefits increased by 11% y-o-y, reflecting the typical annual merit increase and new hires. The Group's total number of staff increased to 7.2k staff as of 3Q 2023, up from 7.0k in 3Q 2022.

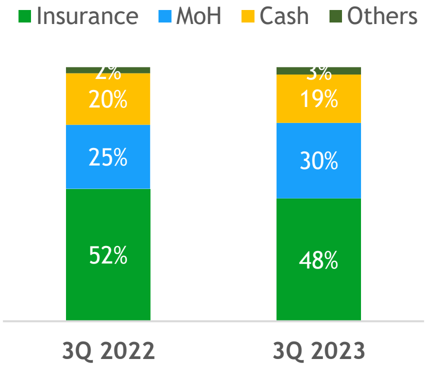
On segmental performance, IP gross margin recorded 45.3% and OP gross margin recorded 38.9% during the quarter, up from 33.1% and 29.4% in the comparable quarter last year, respectively. Despite the increase in people cost on new hires in Dammam, Hai Al Jamea, Makkah and Riyadh, to accommodate for added capacities, elevated people cost was offset by higher utilisation and improved profitability on scale.

The Group recorded an EBITDA for the quarter of SAR155 million, up a solid 143% y-o-y and implying an EBTIDA margin of 23.1% vs. 12.4% in 3Q 2022. Net profit after zakat and minority interest recorded SAR53 million in 3Q 2023, almost c.4.8x the earnings generated in the comparable quarter last year, despite higher depreciation expense and increased financing cost on higher leverage and interest rates.

SGH Dammam's bottom-line remained in the black for the fourth consecutive quarter, vs. a loss of SAR8 million in 3Q 2022, on improved utilisation rate and higher blended pricing on obtained accreditations and better case mix.

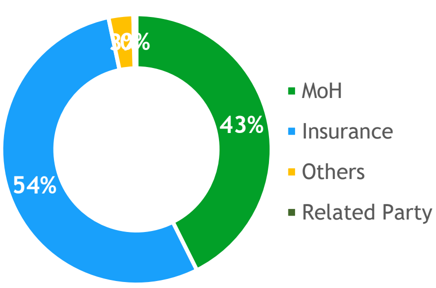
The Group's recently launched facilities, Hai Al Jamea, Makkah hospital, and Abha clinics, remained loss-making, in line with the management expectations on typical initial high opex associated with the start of operations, generating combined net losses of SAR20 million during the quarter.

### Revenue by Clientele



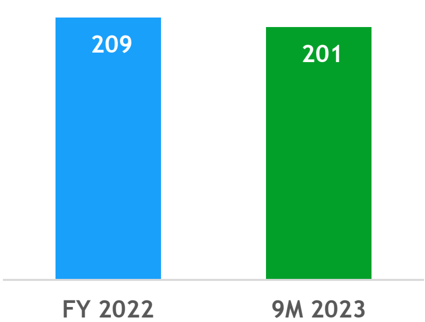

### Receivables by Clientele

*9M 2023*




### Cash Conversion Cycle

*Days on Hand (DoH)*




## Cash Management

Outstanding receivables reached SAR2.1 billion as of September 2023, mirroring the growth in the size of the business. However, cash conversion cycle continued to improve on a year-on-year basis, driven by efficient management of payables' terms with the suppliers to match the pace of receivables collection.

Management remains focused on enhancing balance sheet quality through reaching a more optimized sales mix and continuously working on enhancing revenue cycle management. Cash conversion cycle reached 201 days in 9M 2023, down from 209 days in FY 2022. Out of total receivables, 54% are related to insurance, 43% to MoH, and 3% to related parties.

Collection from insurance companies continued to witness improvement as the vast majority of the initial technical issues encountered with the launch of the National Platform for Health and Insurance Exchange Services "NPHIES" were resolved. NPHIES is an electronic services platform launched in early 2022 to manage relationship between insurance players and healthcare providers.

Insurance contributed the lion's share of the Group's business in 3Q 2023, with 48% contribution to revenue. Meanwhile, MoH contribution to revenue increased to 30%, primarily bolstered by improved pricing on obtained accreditations in select branches and the opening of SGH Makkak, while cash business contribution slightly eased to 19%.

Total capex spent during 9M 2023 amounted to SAR175 million, mostly payments related to previous expansions as several milestone projects took place during 2022, including SGH Makkah Hospital, Hai Al Jamea Hospital, Abha Clinics and Riyadh expansion. SGH Riyadh new outpatient tower and T-expansion is up and running since January 2023.

The company is planning a SAR400 million brownfield expansion and renovation work in SGH Jeddah that will add 194 beds and 22 clinics. The planned expansion will nearly double the number of beds of the Group's flagship hospital, which started operations in 1988. SGH Jeddah is currently running at full utilisation rate for IP and is the highest revenue generating hospital within the Group.

## Latest Developments

The Company's shareholders approved at the EGM the issuance of sukuk by the Company, by single or multiple issuances, by way of public or private offering, and the delegation of all of the powers necessary to the Board of Directors to carry out the issuance of sukuk. The move will potentially offer different funding options that better suits the Group's strategic and future plans.

The Group organized the first of its kind quality and patient safety conference in Riyadh on 26-27 September, which highlighted the best practices and solutions in healthcare quality improvement and reinforced the Group's commitment to continuously enhance the quality of our services. Over the course of two days, 32 national and 4 international speakers engaged in variety of discussions, interactive sessions, and workshops, served to cover immanent topics including value-based healthcare, analytics and innovation in healthcare quality, and infection control latest advances.

The Company paid its first contribution of SAR10 million out of its 24.6% share in Sobhi Abdel Jalil Batterjee Medical Hospital ("SAJB Medical Hospital") in 3Q 2023. SAJB Medical Hospital will have a capacity of 300 beds and 80 outpatient clinics containing all medical specialties in addition to the patient admission department, the radiology department, laboratories and all other support departments.

On accreditation, the Group has been steadily moving forward with its strategy to focus on accreditations across its entire network of hospitals. The Group gained a number of new awards and renewed several accreditations. Most recently, SGH Hail and Hai Al Jamea successfully obtained the AABB accreditation and the CBAHI accreditation in 3Q 2023, respectively.

Meanwhile, SGH Dammam is working on the Healthcare Information and Management Systems (HIMSS) certificate to be accredited by the MoH before the end of 2023. SGH Makkah submitted as well all the required documentations for CBAHI accreditation and expects to obtain the accreditation certificate in 4Q 2023. The Group's latest greenfield expansion already obtained the Australian Council for Healthcare Standards International (ACHSI) accreditation in 4Q 2022.

# Financial Statements

## *Income Statement*

| *(In SAR mn)* | 3Q 2023 | 3Q 2022 | Change | 9M 2023 | 9M 2022 | Change |
|---|---|---|---|---|---|---|
| Revenue | 671 | 512 | 31% | 1,933 | 1,534 | 26% |
| Cost of Revenue | (405) | (360) | | (1,213) | (1,058) | |
| Gross Profit | 266 | 152 | 75% | 720 | 476 | 51% |
| *Gross Profit Margin* | *39.7%* | *29.7%* | | *37.3%* | *31.0%* | |
| | | | | | | |
| Selling & marketing Expenses | (9) | (6) | | (29) | (21) | |
| General & Admin Expenses | (148) | (119) | | (436) | (373) | |
| Operating Profit | 110 | 26 | 318% | 255 | 82 | 210% |
| *Operating Profit Margin* | *16.4%* | *5.1%* | | *13.2%* | *5.4%* | |
| | | | | | | |
| Other Income | 4 | 4 | | 11 | 13 | |
| Finance Cost | (55) | (18) | | (104) | (48) | |
| Profit before Zakat | 59 | 12 | 395% | 162 | 47 | 242% |
| | | | | | | |
| Zakat | (5) | (3) | | (14) | (10) | |
| Net Profit | 54 | 8 | 539% | 148 | 38 | 294% |
| *Net Profit Margin* | *8.1%* | *1.7%* | | *7.7%* | *2.5%* | |
| | | | | | | |
| *Distributed as:* | | | | | | |
| Parent Company | 53 | 11 | 380% | 144 | 42 | 242% |
| Non-Controlling Interest | 1 | (3) | | 5 | (4) | |

# Financial Statements

## *Balance Sheet*

| *(In SAR mn)* | 9M 2023 | Dec 2022 |
|---|---|---|
| Property and Equipment | 2,510 | 2,471 |
| Right of Use Assets | 59 | 63 |
| Intangible Assets | 12 | 7 |
| Investment in Subsidiary / Associated Company | 10 | 0 |
| **Total Non-Current Assets** | **2,591** | **2,542** |
| Inventories | 101 | 149 |
| Account Receivable | 2,085 | 1,635 |
| Prepayments and Others | 144 | 157 |
| Cash and Bank Balances | 65 | 16 |
| **Total Current Assets** | **2,395** | **1,957** |
| **Total Assets** | **4,986** | **4,499** |
| | | |
| Share Capital | 920 | 920 |
| Statutory Reserve | 203 | 202 |
| Retained Earnings | 386 | 243 |
| **Equity Attributable to Shareholders** | **1,510** | **1,365** |
| Non-Controlling Interests | 48 | 43 |
| **Total Equity** | **1,558** | **1,408** |
| Term Loans | 1,208 | 1,181 |
| Lease Obligations | 48 | 57 |
| Other Non-Current Liabilities | 0 | 7 |
| Deferred Income | 9 | 11 |
| Employees' End of Service Benefits | 208 | 205 |
| **Total Non-Current Liabilities** | **1,473** | **1,460** |
| Short-Term Borrowings | 1,159 | 991 |
| Other Non-Current Liabilities | 7 | 5 |
| Lease Obligations | 14 | 12 |
| Accounts Payable | 536 | 426 |
| Accrued Expenses and Others | 227 | 188 |
| Zakat Payable | 14 | 9 |
| **Total Current Liabilities** | **1,956** | **1,631** |
| **Total Liabilities** | **3,429** | **3,091** |
| **Total Liabilities and Equity** | **4,986** | **4,499** |

# Financial Statements

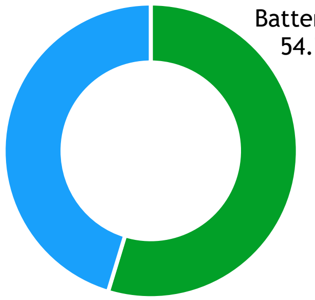
## *Cash Flow*

| *(In SAR mn)* | 9M 2023 | 9M 2022 |
|---|---|---|
| **Cash Flows From Operating Activities** | | |
| Profit before Zakat | 162 | 47 |
| *Adjustments for*: | | |
| Depreciation | 129 | 96 |
| Amortization of Intangible Assets | 2 | 1 |
| Depreciation of Right of Use Assets | 10 | 8 |
| Allowance for Expected Credit Losses | 1 | 1 |
| Unwinding Impact of Other Financial Liabilities | 0 | 0 |
| Provisions for Slow Moving and Obsolete Inventories | 2 | 3 |
| Amortization of Deferred Income | (1) | (1) |
| Finance Charges Related to Lease Obligations | 3 | 1 |
| Finance Charges Related to Borrowings | 102 | 0 |
| Loss on Disposal of Property & Equipment | 1 | 2 |
| Provisions for Employees' End of Service Benefits | 31 | 34 |
| **Operating Cash before Changes in Working Capital** | **443** | **192** |
| Accounts Receivable | (453) | (324) |
| Inventories | 46 | (1) |
| Prepayments & Other Current Assets | 13 | (60) |
| Accounts Payable | 110 | 131 |
| Accrued Expenses & Other Current Liabilities | 48 | 58 |
| Other Financial Liabilities | (5) | (5) |
| **Cash Flow from Operating Activities** | **201** | **(8)** |
| Employees' End of Service Paid | (28) | (24) |
| Zakat Paid | (9) | (10) |
| Net Cash Flow from Operating Activities | 164 | (42) |
| **Cash Flow from Investing Activities** | | |
| Additions to Property & Equipment & Intangible Assets, Net | (175) | (166) |
| Investment in Subsidiary / Associated Company | 10 | 0 |
| Net Cash Flow from Investing Activities | (185) | (166) |
| **Cash Flow from Financing Activities** | | |
| Lease Obligations, Net | (15) | (9) |
| Loans and Borrowings, Net | 197 | 203 |
| Financial Charges Paid | (110) | 0 |
| Net Cash Flow from Financing Activities | 71 | 193 |
| **Net Change in Cash and Cash Equivalent** | **50** | **(14)** |
| Cash and Cash Equivalent at the Beginning of the Period | 16 | 28 |
| **Cash and Cash Equivalent at the End of the Period** | **65** | **14** |

# Middle East Healthcare Company (MEAHCO)

## Earnings Release 3Q 2023

### Shareholder Structure




### Share Information

| Reuters / Bloomberg |
|---|
| 2009.SE / MEH AB |

| Shares Outstanding |
|---|
| 92,040,000 |

| Free Float |
|---|
| 45.3% |

## About Middle East Healthcare Company

Middle East Healthcare Company, publicly known as Saudi German Health, is a leading healthcare provider in Saudi Arabia with operations spanning across seven cities in the Kingdom. Building on a long family legacy as medical pioneers in the Kingdom, Saudi German Health was founded by the Batterjee family 35 years ago to relieve people's suffering and have a positive impact on their health.

In 1988, Eng. Sobhi Batterjee, Chairman of Saudi German Health, and Dr. Khalid Batterjee, Vice President of Saudi German Health, established the first hospital in Jeddah and collaborated with German University Hospitals to bring advanced German healthcare standards and expertise to the local community for the first time in the Kingdom of Saudi Arabia. These associations inspired the 'German' in our name.

Since then, MEAHCO has been expanding and growing its presence organically on firm footing. MEHACO is the most geographically diverse healthcare player in Saudi Arabia with a comprehensive network of 8 full-fledged hospitals in Jeddah, Aseer, Riyadh, Madinah, Hail, Dammam, and Makkah, enabling it to access ~90% of the Kingdom's population.

The Group has a total licensed capacity of c.1.8k beds and operational capacity of c.1.3k beds.

Learn more at: www.saudigermanhealth.com

## Investor Relations Contacts

Investor Relations team
E: IR@sghgroup.net

Jinan Alzarkan – Investor Relations Specialist
E: JMAlzrkan@sghgroup.net
M: +966 50 4906 006

Khaled Sadek - Group CIO
E: KESadek@sghgroup.net
M: +966 50 6710 879

## Forward-Looking Statements

This communication contains certain forward-looking statements. A forward-looking statement is any statement that does not relate to historical facts and events, and can be identified by the use of such words and phrases as "according to estimates", "aims", "anticipates", "assumes", "believes", "could", "estimates", "expects", "forecasts", "intends", "is of the opinion", "may", "plans", "potential", "predicts", "projects", "should", "to the knowledge of", "will", "would" or, in each case their negatives or other similar expressions, which are intended to identify a statement as forward-looking. This applies, in particular, to statements containing information on future financial results, plans, or expectations regarding business and management, future growth or profitability and general economic and regulatory conditions and other matters affecting the Company.

Forward-looking statements reflect the current views of the Company's management ("Management") on future events, which are based on the assumptions of the Management and involve known and unknown risks, uncertainties and other factors that may cause the Company's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. The occurrence or non-occurrence of an assumption could cause the Company's actual financial condition and results of operations to differ materially from, or fail to meet expectations expressed or implied by, such forward-looking statements.

The Company's business is subject to a number of risks and uncertainties that could also cause a forward-looking statement, estimate or prediction to differ materially from those expressed or implied by the forward-looking statements contained in this prospectus. The information, opinions and forward-looking statements contained in this communication speak only as at its date and are subject to change without notice. The Company does not undertake any obligation to review, update, confirm or to release publicly any revisions to any forward-looking statements to reflect events that occur or circumstances that arise in relation to the content of this communication.