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**Conference Title:** MEAHCO 2Q19 results call

**Moderator:** Nada Amin

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Operator: Good day, and welcome to the MEAHCO Second Quarter 2019 Results Call. Today's call is being recorded. And at this time, I would like to turn the conference over to Nada Amin. Please go ahead.

Nada Amin: Thank you, Operator. Hello everyone. I'm Nada Amin from EFG's Consumer and Healthcare team. It's our pleasure today to be hosting Saudi German Hospital's MEAHCO 2Q 2019 results conference call. On the line from the company's management, we have Dr. Ahmed Shebl, Company's CEO; Mr. Madani Hossain[?], the Company's CFO; Mr. Tahir Ayub, the Company's Deputy CFO; and Dr. Abdel Aleem Shishi, the Company's Sales and Insurance Director. They will begin with a brief presentation and then will move – open the floor to Q&A. Gentlemen, please go ahead.

Madani Hossain: Good morning, everybody. This is Madani Hossain, the Group CFO. As you – welcome to our 2Q conference call. As you saw the results, this year is little bit difficult year in the country.

We have some decrease in profitability in the first half due to the following reasons. Decrease in revenues in Q1, then rebound in Q2; due to improve in the patients' experience and caregivers' performance; increase in caregivers' salaries due to new hiring of caregivers and key management professionals to improve the efficiency; in addition to increasing the [inaudible] fees on expats. And increasing the depreciation due to renovations and new equipment to improve patients' experience; the late payments from MoH that increased the receivables.

However, starting July, we started collecting the 2018 – we collected already all 2018 receivables, and the receivables collected for even Jan and Feb. So the flow of payments started to be good. The company had a lot of initiatives to rebound operations and profitability, as follows. Price adjustments and renewal with insurance companies mainly will be reflected in 2020 results. New deals with insurance companies for the referral business; this will increase the referral revenues in good way. Sales activities and sales promotions with new sales team per hospital. Opening new markets on attract – that will attract patients from Africa and Gulf area. Billing improvement; this will decrease the losses with – losses of rejection. Booked reduction plan and offshore project that we are studying for the time being and will be implemented before the end of the year.

Speaker: In November.

Madani Hossain: In November, inshallah. Centralization of the buying function for the whole group that will help to make good optimization of the buying. And new services implemented in our hospitals, in addition to the opening of Dammam which is the richest area in the Kingdom before the end of the year, inshallah.

The group hired, during this year, a lot of corporate heads; in finance myself, in the sales, human resources, supply chain, patient experience, branding and communications. And in addition to the core medical functions in every hospital, to increase the patient experience and services rendered to the customers, we expect revenues to – results to rebound in the second half to be much better than – or the first half this year inshallah. And we are open to any questions. Thanks.

Operator: And if you want to ask –

Nada Amin: Operator, can we please – can you please open the floor for Q&A?

Operator: And if you would like to ask a question, please signal by pressing star one on your telephone keypad. If you were using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, that is star one to ask a question. And we will pause for a moment to allow everyone an opportunity to signal.

And our first question will come from Jamie Clark with Bank of America. Please go ahead.

Jamie Clark: Hi. Good afternoon. Thanks for taking my questions. I had two please to start with. The first one, just looking at your revenue mix, you had growth in outpatient sales but your pharmacy sales and inpatient sales were down. I just wondered what drove that disparity, please.

And then secondly, looking at your minority interest, it looks like the profit or the losses in Hail – in your Hail facility increased in the second quarter relative to the first quarter. And I just wondered the reasons behind that, please. Thank you.

Abdel Aleem Shishi: Regarding the pharmaceutical decrease in production, this is good – there is trend from the insurance company to reflect the other patient to other pharmacies to give the medicine there and they've launched some programs for them to –

Ahmed Shebl: Retail pharmacy.

Abdel Aleem Shishi: To retail pharmacy. But we have plan. We have at least planned for this because we are adding now programs for the chronic medications and to deliver the medications to the patients at home even. And also encourage also the customers to get the – to increase the pharmaceutical sales from our branches. Plus also loyalty programs or point savings programs to the phase[?] of pharmaceutical which can be refunded by the patient by other services. We bought up land for this one and we're working on it shortly.

Ahmed Shebl: Thanks, Dr. Abdel Aleem. And for Hail, Mr. Tahir will give you the answer.

Tahir Ayub: Okay. As far as the Hail is being concerned, as the Hail in the process of the ramping up and we are saying that, inshallah, this year it will make – to reach to the breakeven. The reason for the increase in the Q2 is mainly because of the vacations, which is – and the Ramadan month, this is affecting most to the Hail compared to the other hospitals. So this is one of the reason that the Q2 is little bit less compared to the Q1. And this is the trend of the hospital industry, specifically in these regions, that the Q4 is the number one and Q1 is the number two as far as the revenue and the profitability is being concerned, whereas the Q2 is the lowest one in the four quarters.

So this is only the reason. Else there is no specific reason we can say that the increase in the losses of the Hail. The Hail is going well to some extent, our expectation and, inshallah, by the end of this year, it will be the breakeven.

Jamie Clark: Okay. So it's just down to seasonality, nothing else?

Tahir Ayub: Seasonal impact, nothing more than this.

Jamie Clark: Okay, thanks. And just a quick question on your receivables, please. I mean, you said that you've received receivables up until January and February, but your receivables at the second quarter just stable SAR1 billion are up on the first quarter and up on the fourth quarter. Can you just explain why there is – and the receivables days arising as well. Can you just give us an idea as to what proportion of your receivables you have received, please?

Madani Hossain: Actually MoH, the biggest customer, started to pay in July. So till the end of June, the receivables almost of MoH that reached around one year or more even. So it's – this

customer started to pay its dues and reached till end of February this – in Q3, you will see this effect in Q3, not in Q2.

Jamie Clark: Okay. Thank you.

Madani Hossain: You are welcome.

Operator: And our next question comes from Jonathan Milan with Waha Capital. Please go ahead.

Jonathan Milan: Good afternoon, gentlemen. And thank you for taking the time for the call. Could you please give an indication of the occupancy utilization rates across the hospitals or by hospital? And what are the plans to help to improve that, to improve your bottom line as well?

And second question, why are you seeing such a decline in revenue in Jeddah and Aseer? I would have thought that unlike Riyadh where there is a lot of competition, there wouldn't be as much, for example, in Aseer. And that's it actually for now.

Tahir Ayub: Okay. I will explain you one by one reason. The first question is related to the utilization, the occupancy – the utilization of the hospital as a group level, it is 65% as well as inpatient is being concerned. And that's why you will see that the census for that inpatient shows some improvement in it. So the inpatient is 64%, 65% and optimum utilization for the inpatient will be 75-80%. This is an optimum utilization for the bed utilization is being concerned.

Speaker: As for the decrease of Jeddah.

Tahir Ayub: Okay. And as we have mentioned in the presentation, that the main reason for the decrease is the massive renovation which we are doing in Jeddah, Aseer, as well as in the Riyadh. So this massive renovation is just affecting a little bit but also it has shown some

improvement in some of the quarter. And you will look to the – Q1 to the Q2, you will found that some improvement is available, like in Jeddah the Q2 of 2018 was 93 whereas now it is 103. So it shows some improvement in this region, whereas Aseer is static and the Riyadh is also shows some improvement, which is almost static from 82-83%[?] but the improvement is coming now after this renovation. And actually renovation is affecting the patient inside the hospital. And with having these patient experience, officers and having new team, it is improving day by day.

Jonathan Milan: Okay. Are there any other hospitals that are still in need of renovation? And what do you think will be the pre-operating cost of Dammam or have you started recording pre-operating cost of Dammam? And will you be recording the full impact of depreciation of the Dammam hospital as of Q3?

Tahir Ayub: We are expecting that the Dammam soft opening or the commissioning will be in the Q4 of 2019. And once it is being there, yes, definitely the cost, which is the fixed cost, like the depreciation and other, will come out there. We are start having the interviews for the hiring but it is not on the board. So the pre-operating cost is not on the board but we are start the interviews and these processes.

Ahmed Shebl: But in addition to what Mr. Tahir said, C-suite now onboard, taking training in Jeddah being the mother hospital. Then they will join at mid of October Dammam site to start handover from construction company.

Jonathan Milan: Okay. And any other hospital in need of renovation?

Speaker: Renovation is a trend that is done during the whole year. But in Jeddah and Aseer, it was heavily in Q1. And Riyadh now – in Riyadh, we have renovation and we have expansion, both.

Jonathan Milan: Okay. Thank you.

Speaker: Welcome.

Operator: And again, that is star one to ask a question. And our next question will come from Taseer Abbas with Derayah. Go ahead.

Taseer Abbas: Hi. Thank you for the presentation and the call. My question is regarding revenue from MoH. It declined both in Q1 and Q2. Is this because of number of patients or there is some price changes? And what is the guidance on this going forward? Thank you.

Speaker: What we are trying to do is to more optimize the rationale between the client segments. We have segments like Ministry of Health and we have insurance and corporate clients, as well as the cash segment. So what we are trying to do is to give them more room to other, compared to the Ministry of Health. Ministry of Health is normally – or is only giving us the critical cases while other are giving more than [inaudible] case. So that is just it's a matter to get more reasonable ratio proportion.

As we are saying before that the MoH, between 30-35% is good for us as a client mix. Now it is slightly less and it comes down to 28%. Compared to the same period of the last year. half year, it was 33%. So it is declined by the 5% and this 5% is covered by cash segment and also by the insurance segment.

Taseer Abbas: Okay, thank you.

Operator: And our next question will come from Ashish Agarwal with Decimal Point. Please go ahead.

Aashish Agarwal: Hi gentlemen. Thank you for your call and the presentation. My question relates to what is the – what are the updates on the accreditations that you are going to get? So when do we expect the accreditations to finally come?

Speaker: For an accreditation – yes, for accreditation, already our Jeddah hospital and the Hail hospital went for CAP accreditation; waiting for the result from the board for CAP. Plan3[?] for patient experience, so all hospitals send[?] the recommendation and form to be signed from the all concerned, and we are waiting for the appointment from the Plan3 board.

Yeah, the last – the HEMs accreditation also, our new CIO is working for all hospital in parallel to raise at the same time to HEM 6, and this will allow us to increase flat rates with MoH. Still, AABB accreditation, still we are waiting the reply for them to taking an appointment for an accreditation. AABB, which is American Association Blood Bank accreditation.

Aashish Agarwal: Right. And can you give what will be the CAPEX going forward? Any guidance on that in FY19 and FY20?

Madani Hossain: Yes, for Plan3, we are expecting by end of the first quarter to be Jeddah and Madinah. End of the second quarter would be Hail and Aseer. Still Dammam, of course, will apply for it. For the HEMs accreditation, February 2020.

Aashish Agarwal: Okay.

Madani Hossain: We will update our system to be HEM 6.

Aashish Agarwal: Okay. I would like to understand what is your capital expenditure going forward for FY19 – financial year 2019 and financial year 2020?



Speaker: In 2019, we will finalize Dammam completely. The total cost of project is around SAR350 million. 2020, we will have the opening of Makkah. Makkah, the total cost of project – in 2021, Makkah. So but we are spending – we are capitalizing the work in process during the year. The total cost of the project is around SAR300 million – or SAR400 million.

Aashish Agarwal: Right. So out of the SAR350, million how much has –?

Madani Hossain: We have also renovations during the two years that can go up to SAR100 million in all hospitals.

Aashish Agarwal: Right. I actually wanted to understand – okay, fine. That's it. And the other thing is I can see that your inpatient revenue has declined by around 1.59 percentage, whereas your outpatients have increased. So is the reason this disparity – is it because of the renovations which are going on in the hospitals? Is it because of that? Or what is the reason basically? Because if your outpatients are growing by like 15% and your inpatients is declining, it's bit opposite. It's not in line, so is it between – yeah?

Speaker: Just I explain that we are looking for a better client mix inside this and the Ministry of Health is only giving us a critical nature and the critical nature prices is definitely higher than the normal cases. So to have a better optimization, which mean all the clients utilization, so the Ministry of Health is reduced whereas the other segments are increased. So if the Ministry of Health is only giving us the critical nature, so that's why the inpatient revenue is declined, the critical nature of the MoH is little bit reduced, whereas the other things are covering these decline or these proper utilization of the Ministry of Health patient with us. So this is only the reason. Otherwise you will see that the census for the outpatient is also increased and – which is quite a good under the current circumstances when the peoples are leaving the country, either in the shape of sending the family back permanently or temporarily.

But this season it seems to be rebound back and these all are based upon whatever the renovations we are doing. And whatever the patient experience of the journey, we are trying to build more satisfaction from the customer point of view.

Aashish Agarwal: All right, fine. Thank you.

Operator: The next one is from –

Speaker: Actually we are – sorry, just, we are working heavily in the customer satisfaction to improve our –

Speaker: People experience, either customer satisfaction or even staff satisfaction. Of course, now we are applying customer satisfaction, including the patient and patient relative, plus the staff. And this already under control and reporting from Press Ganey, even they – we can benchmark our activities against other competitors locally, regionally and in GCC areas also.

Operator: And next we'll hear from Nitin Garg with EICO Asset Management.

Nitin Garg: Yeah, hi. Thank you for the call. My question is on future strategy and the way forward. Now what is the plan to turnaround this company? Because if you see second quarter last three years, 2017, 2018 and 2019, your revenues are most – almost flat, SAR350 million, but your net profit has come down from SAR70 million to SAR12 million. So what is the root cause of the problem? Are you losing high-margin business? And what is the way forward?

Speaker: Actually, we – for the current hospital, we cannot say that we are losing the high-margin customers but the global – the macro economy in the country, due to the fees imposed for the expats, reduced a little bit the expats number. But we are opening this – by the end of this year we will open Dammam. Dammam is the eastern region, is the only region that is not heavily

affected by debt[?]. In addition to the fact that this is the region where we have the biggest corporate customers in the Kingdom. So opening our Dammam branch will increase revenues next year and the following years, much more than this, in addition to Makkah that will open in 2021, by mid-2021.

So what we do with our new sales and marketing teams, we do it in a very scientific way to increase our – to improve the patient experience that will increase the number of patients in the hospitals. In addition to the cost optimization projects that we started already and we will see the effect next year. So increasing sales is our objective and optimizing cost together would lead to change the results.

Speaker: I will just add one thing over here, that as we are saying that the Q2 of the last three years, the revenue is flat, whereas the losses or the profitability is being reduced, the only reason for this reduction in the profitability is increase in the cost. And the main increase is coming on the caregiver side. Why this happens? Because during the last three years since 2016, we are expanding in beds, we are expanding in clinics. And the ramping up of these facilities is little bit less, compared. And on top of this, the condition of the expats here in the Kingdom is slightly different as it was before in 2016 and before 2016.

So you are seeing these right, that the revenue was flat, but because of the expansions in the beds and the clinics and the new facilities, the cost was high, which is the fixed cost nature. And only what we are trying to do develop a more customer base in which we will be able to optimize this cost in the shape of the better revenue segments.

And for the expansions, Dr. Abdel Aleem Shishi will give you some more light over it.

Abdel Aleem Shishi: For also – looking for to compensate the decrease of the expats in the Kingdom as well as the net figure that decreased from last year SAR1 million with Kingdom, the insured

members, was compensating this one by new deals with the insurance companies for adding new networks and new type of clients out of the downsizing [inaudible]. So we are adding also new deals and new country[?] and new network which will compensate the decrease in the volume.

Also, we are making more sales promotion to address these clients, the customers to our branch. We're also increasing by adding new services to all the branches, like what you will compete with the other competitors in each area to be the most attractive hospital for them. This is mainly what we're targeting to increase the volume and to compensate what's decreasing around the market.

Nitin Garg: Yeah, I have one follow-up, if I may ask. See, I agree with your expansion story, that you are expanding in Dammam, you're expanding in Makkah. My question is what is the plan to turnaround these hospitals, like Jeddah, Riyadh, Madinah, Aseer? I mean, coming to your –

Speaker: Yeah. As we see it – yeah, actually – we do not only say that revenues will come from the new branches. But as we say it, we are working in the patients' experience to the increase number of patients in the current hospitals in addition to optimizing the costs. So this will make a turnaround, increasing space[?] and decreasing –

Nitin Garg: So how are you optimizing? What is the program?

Speaker: Actually we have several projects that we started already. One of them is the central buying. We are centralizing the bank[?]. We used to have one buying unit at every hospital –

Speaker: Procurement department.

Speaker: Procurement departments. Now we have central procurement department. We have a project with McKinsey that will lead to huge discounts from the big suppliers for the consumables.

We have also a project that we are now starting, which is the offshore office. Offshore office will increase the staff cost tremendously actually.

Speaker: Decrease it.

Speaker: Decrease it. So these two projects, in addition to other similar other small projects, will lead to decrease optimizing cost, let's say, and the sales effort to increase sales.

Speaker: Also, performance management system already implemented in the group. And this facilitate to us to keep talented and good performer and try to learn the moderate performer and get rid of the bad performer.

Nitin Garg: Okay. So how much cost you were expected to save from these projects? And any timelines like one year, two year – any ball park number if not exact – I mean, how much you can save from these projects which you mentioned?

Speaker: We can go to 10-20% annually.

Nitin Garg: 10-20% of what, the current cost?

Speaker: Of the net area[?].

Nitin Garg: Okay, thank you.

Speaker: Welcome.

Operator: And next we'll have a follow-up from Jonathan Milan with Waha Capital. Please go ahead.

Jonathan Milan: Thank you for taking the follow-up question. Just to follow up on the previous gentleman's questions. I mean, I understand that you're being impacted by IRX[?] bad levies, by exodus of expats and the lower payments by the MoH. But so are all the other hospitals and they've all had other openings. They all have utilization across the board of less than 50% while yours is at 65%, so you have better utilization across the board and yet your margins are well below everybody else's. So there must be something specific to Saudi German Hospital and not something on a macro level.

And this is basically the concern because this has been going on for several years. And at the same time you have openings this year, for example, Dammam. In a couple of years you've got Makkah. You've got an expansion in Riyadh. And it seems like you will always be hampered by pre-operating cost and lower utilization and it seems like recovery to EBITDA margins of, say, 20% and above seem very unlikely in the medium term as well. I mean, do you even think that going back to 20%, 25% EBITDA margin is even possible, five, 10 years down the line?

Speaker: Actually what affected the result this year is in addition to the macro conditions, is the renovations in our main hospitals, Jeddah, Riyadh and Aseer. And we didn't have any revenues coming from the rich area, which is the eastern province. Next year we will have Dammam with us, which is – which we expect to be the black horse of the year that will ramp our revenues up more than other branches.

Also, from the –

Jonathan Milan: Okay, but in Dammam, there is already competition there. Sorry, if I may interrupt – in Dammam, Mouwasat is very well established there. They have numerous hospitals, whether it's Dammam or Khobar or neighboring areas. They've been there for a quite while, they have a very good reputation. Sulaiman Habib is opening a giant hospital over there. It seems like there is

already enough competition in Dammam. So maybe a ramp-up of Dammam won't be as easy. And in any case, how long do you think will it take to ramp up Dammam hospital?

Speaker: Actually, we are covering different segment than them. And this area is – the market is not fully covered by the existent providers. So we don't think that we – Dammam is – Dammam yes, competition is very hard but we have – we are – we can presume that we are the preferred provider for insurance companies due to our coverage in all around the Kingdom. This will help us to start there stronger than other regions[?].

Yes, every branch at the beginning is not a profitable one. This year, we have Hail and we have Beverly that are still making losses, in addition to the renovations of the three other main projects. Hail, we expect it to be – to reach the breakeven before the end of the year. Beverly sales is more than double. And we expect it to recover very soon. So this kind of polyclinic projects started to be fruitful and we expect it to be better next year.

Jonathan Milan: Okay. And what kind of EBITDA margin do you think you can reach five years down the line once of all these optimization efforts are implemented?

Speaker: The EBITDA is between 25-30%. So we expect – excuse me.

Jonathan Milan: Okay, in Dammam. Yes, so you're saying 25-30%?

Speaker: Yes.

Jonathan Milan: And how long do you think will it take for Dammam hospital to breakeven?

Tahir Ayub: Normally the hospitals take the breakeven 1.5 year to the two years, so we're expecting Dammam will be, inshallah, 1.5 year or maybe lesser, but as the – I think 1.5 year is better.

Speaker: Mr. Tahir is very conservative but let's say one to 1.5 year, yes.

Tahir Ayub: Okay, one to 1.5 years.

Speaker: Because the business in eastern province is different than other regions in the Kingdom. If you apply the standards for corporate clients like Aramco, like in Petrochemical, like SABIC, you will get a good number of their staff from Aramco and you can build your business rapidly than other regions.

Jonathan Milan: Okay. Thank you.

Speaker: Welcome.

Operator: Once again that is star one to ask a question. And our next question will come from Nora Alagil with JI. Go ahead.

Nora Alagil: Hello? Can you hear me?

Speaker: Yeah.

Nora Alagil: My question is to follow-up on MoH client or referrals. Is that – is there something specific for MEAHCO why the number has dropped or it's across the board? It's just those number [inaudible] by the government that has dropped?

Abdel Aleem Shishi: Well, in the case of numbers, actually, it's was plan[?] to make distribution to our business to increase the business of the insurance. As you will note, the business of the MoH was critical and the critical areas and the ambition. And we are giving some space also for the



insurance because what happened for the delay of the transaction from MoH was not here and [inaudible]. So this one was to increase the business.

Speaker: So the fact that MoH didn't – was not paying during more for a year to a year and a half, this is encourages us to increase the holding business at this time.

Nora Alagil: Okay. So the change in mix is because of – it's internal not, from the government?

Speaker: No, not from the government.

Nora Alagil: Because I see it below the optimal level that you guided for was that even – are we saying we want to keep it between 30% to 70%? This is –

Speaker: Usually they send the case to the hospital and the hospital is accept or do not respond[?].

Nora Alagil: Yeah, sure. But also if you look at the inpatient level, you're still 10-15% below your full utilization, so what stops you from accepting if you have unutilized space?

Speaker: It was the question of sales.

Nora Alagil: Only paying[?].

Speaker: As you are saying that the utilization – the optimum utilization is 75%[?] and we are at 65%. So we are 10% behind this optimum and what is the reason; is this is the question?

Nora Alagil: Actually, it's a combined question, so what I'm trying to understand is that you reduced the optimal level of MoH contribution from 30-70% down to 28%. So you're below the lower end

of it. Yet you still have unutilized capacities. So I'm assuming majority, at least might cover your fixed cost. So I just want to understand the whole process how you see it from your behalf?

Speaker: I will divide this in this way: in the beds, there are two types of beds, critical beds and normal bed. The critical bed, there is a limited number of critical beds. We cannot go beyond a certain number of the critical bed and the patient's availability is also the question. The Ministry of Health is referring us to what's only critical-nature business. So they are utilizing our critical bed. Whereas the normal beds, we have a different types of normal bed where there is a single bed in a room or there is also the shared bed in the room. Sometimes the shared, nobody is allowing that it should be used. As a B class, there is a shared room. So that is the reason that why we are not been able to reach to the 75% while we are – the availability is there and we are at 65%.

The reduction in the Ministry of Health, it show – this is not from the Ministry of Health side. It is only to have a better client mix inside the hospital. And if you will found that it's an opportunity we got it is through increase the cash patient segment compared to the Ministry of Health. So this is one of the reason that we are reducing from the Ministry of Health and is there[?].

Regarding the availability of the patient inside the market, the Jeddah is situated and other there is a little bit less patients available compared to the Jeddah region. So there is plus minuses of the availability of the patient inside the market. Some patient need the critical but we have already utilized the critical, so we cannot put the critical patient on the normal bed, so we are refusing this. So these are the reasons that the optimum utilization and where we are reached[?] to the current utilization of this.

How we are calculating the utilization and how you are assessing the utilization, this is also a methodology to be adopted and it's also based upon the average length of stay which we have use[?].

Nora Alagil: Yeah, okay.

Speaker: So it's not a simple formula to calculate. It's a complex formula to look into this utilization.

Nora Alagil: Okay, thank you.

Operator: And our next question will come from Aashish Agarwal with Decimal Point Analytics. Go ahead.

Aashish Agarwal: Thank you for taking the follow-up question. My question relates to the increase in cost – expected increase in cost from Dammam hospital which you are starting. So may I know how much will be the impact on gross margin terms when it starts in the Q4? Because I believe the major caregivers hiring cost will kick in from Q4, if I'm not wrong. So can you just explain what will be the expected impact on the gross margins because of this?

Speaker: What we are being expecting as far as the opening of the Dammam, the Q4 normally to be the best quarter for throughout the year. And again in the Q4 of the revenues, we are expecting that it will try to compensate, to some extent, the additional cost of the Dammam fixed – the additional fixed cost of the Dammam. So we are expecting that the Q4, the gross margin, either it will be remain same or maybe it will be slightly down. But we are expecting that and we are trying our best that it should not be more affected to the gross profit margin of the – by the opening of the Damman in the Q4.

Speaker: And usually Dammam will be opened in mid Q4, inshallah. So we speak about the month or a month and a half.

Ashish Agarwal: Okay. And another question that I have is your deferred income has increased from SAR19 million to SAR49 million. It's more than 100%. Can you please explain this, if possible?

Speaker: Which revenues?

Ashish Agarwal: No, the deferred income in the balance sheet under non-current liabilities. It relates to some government grants that you receive. I am not clear on that. What is the nature of this?

Speaker: That's – actually, this deferred income is related to the IFRS 19 and the government grant which – we cannot say the government grants. Actually these are the loans which is interest-free and the IFRS is saying that nothing called interest-fee, so you have to be a growth of your loans in such a way that by the end of terms of this loan period, this mark-up should become in the same way as what we have been in generated in the income.

Speaker: So the net effect of the financial – so the income statement is zero.

Speaker: Is zero.

Speaker: But once we get the loan, we report it at the present value. And with every payment, we recognize both revenue and interest cost. The net effect is zero.

Ashish Agarwal: Okay, because... No, because the financial statements does not say that government grants have been received for the purchase of certain items of PP&E, property and plant. And where – so that's why I referred to the term government grants, because from my understanding the interest-free loan should be accounted in the loans and borrowings.

Speaker: The interest portion, which we have been saying that it is in the P&L side, yes, it is the part of the financial course, but as far as those – the present values, which is not being converted to the primary loan it is shown as the deferred income. And the deferred income as of 31<sup>st</sup> December 2018 is SAR18 million, which I have in my mind, and also in 2019 it is also SAR18 million. There is no major changes being happened as far as the deferred income is concerned, which is shown on the balance sheet.

Ashish Agarwal: Okay, all right.

Speaker: There is no change in the deferred income. It is the same value that is appearing.

Ashish Agarwal: Sorry, I'm referring to that number 4-9-0-5-7. It's there in the presentation, 30<sup>th</sup> June 2019 under the heading other non-current liabilities, 4-9-0-5-7.

Speaker: Is it in the presentation?

Ashish Agarwal: Yeah, in the presentation.

Speaker: Yes.

Ashish Agarwal: Non-current liabilities. If you see other non-current liabilities, 4-9-0-5-7.

Speaker: Other non-current, the 4-9-0 – 2018{?} is the deferred income and also in the June – 2018 is the deferred income. Another is the non-current{?} liabilities{?}. This is something else. It is not the deferred income. It is something else.

Ashish Agarwal: Okay. Because we –

Speaker: There is some change in this. Actually, the last year, it is 2018[?] and 2020[?], also 2018. The figure which is non-current[?] as added in the June figures but it is not added in the December figure, so that's why it is -- something is being reconfigured[?]. I agree with you this.

Ashish Agarwal: Okay. Sure.

Speaker: This is – if you would look to the financial statement, you will found the same, there is no change in it.

Ashish Agarwal: Okay. All right. Thank you.

Operator: And our next question will come from Methan Mete with Waha Capital.

Methan Mete: Hi. Just wanted to ask you something. Given the elevated CAPEX, capital expenditure requirements, would you, at some point, ever consider raising capital?

Speaker: We don't have the intention to have raising – to raise capital. For the time being, as we are still – the leverage allow us to go to banks, so why to raise capital.

Methan Mete: What are the leverage covenants within the bank loans?

Speaker: Actually the total liabilities – the total loans is around SAR1 billion and total equity is SAR1.5 billion for the current – for the time being. Total liabilities including the long-term loans for the building of the new hospital.

Methan Mete: Sure. Thanks.

Operator: And again that is star one to ask a question. And our next question will come from Raghad Duhaiby with HSBC. Go ahead.

Raghad Duhaiby: Good afternoon, gentlemen. Thank you for the call. I have few questions. I want to start with the staff cost. Since you did mention that you want to start outsourcing your staff to save. So what is the potential saving that will come from that and what is the number of staff that you have currently between medical and non-medical staff?

And my second question will be regarding receivables and the aging of the receivables. At the point we have right, has it reached more than SAR1 billion?

Speaker: One by one question. First question is related to the staff, right?

Raghad Duhaiby: Staff, yes.

Speaker: You will see in the presentation, yes, there is an increase in the staff cost and the main reason for the increase in the staff cost is we are hiring the caregivers, is the main reason. More doctors, more nurses to have better care facilities for the patients and this is the only reason that the cost is being increased. They are the two parts. One is the increase in the existing and second is the hiring of the new one.

And also there is some more increase on the administrative cost side for the salaries is being concerned because we are hiring more consultant-based [inaudible], which Dr. Shebl said, for new projects as well as the existing projects, like patient [inaudible], patient caregivers and all these situations.

As far as the receivable is concerned, yes, the receivable is so any – go ahead.

Raghad Duhaiby: Yeah, a follow-up on the staff. I do understand why you have higher costs in staff. However, I would like to know the number of staff members that you have in medical and non-medical. What is the increase that you're talking about? And if you go to outsourcing your staff, then what is the cost savings that we're talking about? What is the reduction that we are talking about?

Speaker: I am coming over this point. Currently, we are around 5,000 staff as in total. And from this 5,000 staff, almost 50% staff is related to the administration and the 50% staff is related to the doctors, nurses, pharmacist and other [inaudible]. So we have 50:50 percentage in this. What we are trying to do – and in addition to this, we had – the staff labor cost is increasing – not as a 10%, 25%, it is 100% increasing from year-on-year, which is actually a more burden on having [inaudible] over there.

As it is mentioned in the presentation and also Mr. Madani explained that we are trying to do certain things outsource, so that we will have a lesser staff. So all the government-related cost will be reduced, whereas we will use the same sources which is outside. So we have the 50%, the administrative staff from this and 50% administrative staff, we are trying to be do something to an outsource other than the [inaudible].

Speaker: And not only outsource, we speak about offshore function.

Speaker: I'm sorry – not outsource, offshore.

Speaker: Offshore function for the shared services that can be managed from outside. Like when we speak about call center, we speak about a lot of other activities that can be managed outside the country.



Speaker: As far as the receivable is being concerned, yes, at December, it was SAR900 million and it is increased to SAR1 billion. By the way, the increase is a little bit but we have to understand the receivable there is a multiple components in the receivables. The first I have to say that the receivable is divided into the three parts. One is what we have invoiced to the payers – insurance companies or the corporate clients, whoever is this. Another portion is related to the bills, which is we have still in hand and it is not billed. Why? Because we have a monthly billing process.

Speaker: So it's the last month's bill.

Speaker: The last month it is still in hand. The third part is related to those patients, which are still in the hospital admitted and they are not discharged. And we are billing only to the companies those patients who are discharged. So we have current inpatients. We have almost equal to one month revenue which is not billed and we have the billed version of this. So we have the three components in this process. Whenever there is an increase is coming in the revenue, the one month bill is being increased. This is the normal.

What happened in the Q2, normally this is being happening, not only us, all other – the payer is also on vacation, so the payment process is little bit reduced in the Q2 compared to the other quarters. So the revenue is being over there but the ratio between the collection and the revenue generation between this quarter is slightly disturbed. This is – one of the reason is this.

Another reason is also the receivable, there is the provisions, which is under IFRS 9 is being there, which is also being some plus and minuses is coming over there, which has, to some extent, a similar impact, not having the major impact over there. But sometimes if it is the provision goes down, so the receivables either goes up, and if the provision goes up, the receivable figures goes down; such type of impact is also being over there.

So that's why the receivable is going up and down. The receivable, if you were to divide the receivable as we have divided the revenue in those segments, all those, definitely there is no cash for the receivable side. But we have the Ministry of Health, insurance and other corporate clients as the receivable side is concerned.

The ratio proportion between the receivable is still at the same. We are saying that the 50% of the receivable is related to the Ministry of Health and remaining 50% is related to the – is related to the insurance and as well as the direct corporate clients.

Ministry of Health now is coming to the same portfolio of what the insurance companies are doing. Why I'm saying is this is the insurance company we are submitting the bills to them. They are processing their claims and they are given us the payment, and certain portion they keep it with them only for the reconciliation purpose. The same Ministry of Health is also doing because they hired the insurance company [inaudible] for their processing of the claims.

Whatever they have processed, they pay to us. Remaining, they are keeping for the reconciliation for this. So once it is being done, inshallah, this receivable will be reduced.

Raghad Duhaiby: All right. Okay. Please, be – I had a third question regarding the investments you were talking about for renovations in Jeddah. Are these renovations done already or are they still in progress? And how much is it costing?

Speaker: The renovation is still in process. You can see almost 70% of the renovation is being done as the renovation is being concerned. Some of the renovation is still ongoing and it will be completed by the end of this year. And there is also some expansion in the Jeddah as far as critical beds is being concerned. So this will take a little bit longer time but the renovation is – will be finished by the end of this year and the total cost for the renovation is somewhere around SAR100 million.

Raghad Duhaiby: SAR100 million?

Speaker: Yes.

Raghad Duhaiby: So you're renovating the inpatients area, the beds –?

Speaker: We are renovating the whole hospital, the outpatient as well as the inpatient and also expansion in the inpatient and also the look of the hospital from the outside.

Speaker: Actually, Jeddah is our first hospital and we are in a very energetic market here in Jeddah, where we have to renovate the hospital to be in a better shape – in the young shape, actually.

Abdel Aleem Shishi: Also, we are adding, with this renovation, new VIP lounges in all the branches, which we'll be launching soon.

Raghad Duhaiby: Okay, perfect. Thank you.

Speaker: Thanks.

Operator: Gentlemen, would you like to take a final question?

Speaker: Okay.

Operator: And again, that's star one if you would like to ask a question.

And we have no further questions at this time.

Speaker: Thank you.

Speaker: Okay. So thank you very much.

Nada Amin: Thank you everyone. And thank you for the management for taking the time for today's presentation. Have a good afternoon.

Speaker: Thank you.

Operator: And this concludes your conference. Thank you for your participation. And you may now disconnect.