

## MEAHCO 1Q20 Results Call

Wednesday, 10 June 2020

**Ahmed Moataz** Hello everyone. This is Ahmed Moataz from EFG Hermes. And I'd like to welcome you all to MEAHCO's first quarter of 2020 results conference call. From the company we have Dr Ahmed Shebl, the CEO, and Mr Madani Hozaien, the CFO. The call will start with a brief presentation, followed by Q&A. Management, please go ahead.

**Mr Madani Hozaien** Thank you, Ahmed, this is Madani Hozaien, the CFO. Good day everyone, and thanks for joining MEAHCO 1Q 2020 results conference call. Before we start would like to welcome onboard Mr [unclear] who will join us once the international flights are allowed, as MEAHCO new investor relations and strategic planning director, following the departure of Mr [unclear] who decided to pursue another career opportunity.

As you have seen, from the numbers, we tentatively managed to continue to deliver on our promised turnaround story and grow our nett profits for the quarter by 45% year-on-year to 21 million riyal despite challenging market conditions. And the sort of planning posts related to our new Dammam hospital, which started commercial operations in March.

The quarter showed notable year-on-year recovery in margin, as the gross level driven by patients, growth and cost control measures. However, that growth didn't fully filter through the bottom, throughout the bottom line, due to the increased overheads related to Dammam Hospital. Gross profits for the quarter increased 45% year-on-year to 147 million, while EBITDA was up only 23% to 51 million.

It's worth to note that Dammam Hospital generated losses of around 18.6 million during the quarter, which if we exclude we would have reported a nett profit of 39 million riyal, employing like-for-like growth of 167% year-on-year. On the group level, number of inpatients increased by 20% in 1Q20, and outpatients by 40%.

The recently imposed schedule and reduced working hours by the MOH has significantly impacted our inpatient traffic. Starting mid-March we have taken a number of steps to recover lost chances, including offering home visits, tele-consultation, and delivering of pharma products. We remain committed to reducing our exposure to MOH and focus more on insurance and cash business. Insurance remains the most contributive to top-line, with 50% contribution, followed by MOH, 27%. And cash around 20%.

Receivables day on hand declined to 307 days in Q1, versus 321 in 2019. However, overall cash convergence cycle was flat at 291 days. Merely on increased inventory coverage to accommodate for any possible supply shortage given the ongoing market conditions. Now I will hand over to Dr Shebl, our group CEO, to speak about the crisis management to face the COVID-19.

**Dr Ahmed Shebl** Hello, everyone. Please be safe. During the current unprecedented times the world is undergoing, combined efforts and fast responses of everyone at SGH Group have truly shown. From the start Niko and SGH executive. We created disaster team and regular meeting on a daily basis. This is corporate level and on branch level. With cooperation from all staff. Either medical, admin, or function head together.

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As one team to handle the readiness, and managing the COVID-19 crisis. Also, we, I think all the webinars with MOH and regulatory [unclear] in Saudi Arabia to know the updates and statistics, and to build quick-fix plans and long-term plans according to the situation and their variation, which happened in the daily statistics.

Also worth sharing, on the medical governance, SGH team and infection control teams, with the post of Niko and SGH executive, have decided on a united medical plan that shows the different resolution scenarios of COVID-19 circumstances in the region. They have developed the anti-infection COVID-19 preparation and alternative medical service plan that would support the stability of business and the safety of the patient and staff, which were supported by the SS of marketing supply chain, material and procurement, finance teams.

The alternative medical service includes offering home care visits, tele-medicine consultations, and the medication refilling at the home of the patients. Especially for chronic patients and elderly patients. Also, a lot of service and focusing on the wider community who are restricted to stay home and practice social distancing. Hence replacing the need to physically transport to the hospital and ensuring the stability of the business. Along with continued support from the IT, call centre, marketing and patient experience.

Those efforts have ensured the full integration and ease of the patients' experience when using the new services. Notably there are supply chain efforts have reported the medical operation, and procuring many of the global and local shortages found. So medical and capex supplies to have 20% reserves at any given time for the COVID-19 crisis, and for the hospitals to be prepared on receiving COVID-19 patients, to set 25% [unclear] isolated room, and bed capacity.

And, of course, this percentage is totally away from our regular patients who is wholly dedicated staff dealing with COVID-19 away from the regular staff dealing with other regular cases. In the short period, SGH Group is among the first to receive the license for the home care visits and medication delivery, and the first hospital group to receive the tele-medicine consultation license with partnerships with insurance and corporate companies from the sales and insurance teams.

Lastly, several initiatives to protect the staff have been established and communicated with the staff across SGH Group, including 24/7 HR hotlines to address any concerns that staff may have, along with providing free psychological sessions, counselling, and sometimes additionally the first experience plan to survey the staff infections during the crisis, and to enhance their experience with their feedback.

I think that concludes briefly from the management side what we did during this time. Thank you.

**Ahmed Moataz** Now we are ready for any questions. Thank you very much.

**Operator** As a reminder, ladies and gentlemen, if you'd like to ask a question please press star followed by one on your telephone keypad, or please click the flag icon. Our first question comes from Amir Badran. Amir, your line is now open.

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**Amir Badran** Hello, good afternoon gentlemen. Ladies and gentlemen. I have three questions, if I may. My first question is can you please disclose the number of in- and outpatients in 1Q20. And should we be expecting a significant drop in lockdown, like 30% or 40%, like what happened in the US? My second question is what was the exact reason behind the expenses during 1Q20? Was there any one-offs or recurring expenses going forward? And my third question is, what is the latest update on your accreditations for 2020 and 2021? Thank you so much.

**Mr Madani Hozaien** Thank you. For the first question, the number of outpatients. Outpatients, actually, however in Jan and Feb we had a good increase in outpatients, in addition to the inpatients, but during the last ten days of March we can had curfew or most of the day curfew. So the number of outpatients were flat for the full quarter. As last year. Around 300,000.

For the [inaudible], yes, we have an increase in Q1, versus Q1 last year. But it is the same as Q4 last year. As in the second half of last year we created the corporate structure of the group which was not there in the first half of last year. In addition to the corporate office in Jeddah, which was not... Before it was part of the hospital of Jeddah. So there is an increase that will be permanent in this view. And this is the same as, or probably the same as last quarter, last year.

**Dr Ahmed Shebl** For the question of accreditation, originally we built a plan for different type of accreditation that will impact our prices even with MOH. In the form of JCI [unclear] accreditation, have accreditation. AABB. The new and update is an ACAP accreditation where is Jeddah, Medina, and the Ha'il already accredited by CAB accreditation. And this will add 5% of the delivery price with MOH.

All our hospitals are CBI accredited. All our hospitals, except Ha'il and Dammam are JCI accredited. Ha'il, actually the joint commission, international in Chicago, they [unclear] because there is no, right now, transportation or flight that's [unclear] for Ha'il. Waiting until opening of the international flights. But we are ready for Ha'il. Dammam in process.

AABB, which is American Association of Blood Bank, we started the process with all our hospitals. But again, because of this closing the flights between countries, still bending. But we are preparing all logistics, all documents, even got technical experience from some government organisations already have AABB, to be sure that in first visit will be successful for the inspector soon.

The same time, also for the Hems, we already started the process. And we expect to be fully accredit for our 6 branches by maximum Q1 2021.

**Amir Badran** Okay, thank you so much.

**Dr Ahmed Shebl** Welcome.

**Operator** Our next question comes from Abdulrahnal Alawabhi from Derayah Financial. Your line is now open.

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**Abdulrahnal Alawabhi** Hi everyone. Thanks for the call. I have a question on Dammam facility. Could you please tell us what we can, the occupancy rate? And when do you think it will reach the cash flow breakeven? Second question is on the... I'm sorry?

**Mr Madani Hozaien** Sorry, the question is about Dammam or about the old...?

**Abdulrahnal Alawabhi** No, Dammam. Dammam facility.

**Mr Madani Hozaien** Okay.

**Abdulrahnal Alawabhi** Yes, second question is do you expect to achieve any savings from the participation in [unclear] That's it.

**Dr Ahmed Shebl** Okay, for Dammam have we actually Dr Mai in Dammam. Because we are in Dammam now, Dr [unclear]. And Dr Mai is beside us, so she can tell you where we are today.

**Dr Mai** What was the question?

**Dr Ahmed Shebl** Occupancy, and how many patients.

**Dr Mai** Okay. In Dammam we opened commercially in March. Actually, of course you would think that this is the worst luck that this hospital opened during COVID-19 crisis. And also with all of the circumstances around us. However, we were able to use the opportunity during this time. We actually established relationship with the MOH, established relationship with corporate companies here like Aramco and others.

And our hospital occupancy quickly, in a very short time, grew dramatically up to, let me say, in the range of 50% occupancy. Which is huge achievement in a very short time. In addition to that our relationship has been started with insurance companies, big insurance companies like Bupa. Other big corporate companies like [unclear].

We also used the opportunity to start some programmes or initiatives related to COVID-19. For example, a special PCR testing for sampling for corporate companies. And relationships with MOH in terms of admissions of patients for COVID and non-COVID surgical patients and other critical care patients.

So we used the opportunity to provide a lot of bed spaces supporting the increased demand currently for critical care, and for regular beds. In addition to that we have also been progressing with our other programmes. For example, we established programmes that are unique in the area. Our stroke programme, for example, is well established, and we started receiving patients for that programme. This is the only complete comprehensive programme in the eastern province for dealing with stroke patients. Including neuro-intervention.

We established trauma centre programme also, and this is a second programme. We have connections with Red Crescent. We started connections with Red Crescent for that programme in order to establish relationship with them

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for transferring of trauma cases to our hospital. In terms of other activities, as mentioned by Dr Shebl, we started our project plan of target dates for our accreditations.

For example, Tibahi and JCI which we expect a slight [unclear] logistics can get results, that we would be able to get those by end of the fourth quarter. Tibahi and JCI. We also started our process for other accreditations for the laboratory, CAB, and AABB, and we expect that we will get those also by end of the quarter, beginning of first quarter next year.

We have been having, in addition to other inspections related to the government, Tibahi infection control inspections, which broadly we say that we have been achieving high scores in those. So in addition to that we started looking forward to the next phase which is preparing for living with COVID-19. COVID-19 will not go away, so it will continue to be there. So how hospitals will continue to function in the post-COVID-19, and will continue to function in the next year.

So we started looking at other programmes. Some of them are surgical and some of them are medical, as unique services to be added to the hospital. So this is, in general, what we have been doing in the last three months.

**Mr Madani Hozaien** So as Dr Mai has said, actually we as management, Dr Shebl and myself and our corporate team, we are to tour to all our branches, just after the opening slide. And here in Dammam, we are here with full support to our new branch. We think that [unclear] Dammam will meet the expectations.

**Abdulrahmal Alawabhi** Okay. Any expected timelines to when you expect to reach the cash flow break even for the month?

**Mr Madani Hozaien** Yes, maximum we can have this breakeven in Q1 or Q2 next year.

**Abdulrahmal Alawabhi** Okay.

**Operator** Our next question comes from Raghav Duhaiby from HSBC. Raghav, your line is now open.

**Raghav Duhaiby** Hello gentlemen, good afternoon. Thank you for the call. I have a couple of questions. First of all, you did mention regarding Dammam that you are... Already have established a relationship to Aramco and SABIC, so my question is, do you already have, or have you already signed a contract with John Hopkins in Aramco, and are you receiving already Aramco patients? In Dammam. That's my first question.

My second question is regarding your inpatient [unclear] in relation with the growth that we have seen because apparently, or very clearly from the first quarter results, you have done tremendously well in terms of growth and revenue. And you're saying of course you had difficulties [unclear] other [unclear] in the last parts of the quarter because of the lockdown. So I would assume that the positive impact from tightening was higher than the positive impact from traffic.

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And I just want to understand where the improvement in pricing came from. Since you're saying that right now you're trying to focus more on insurance and cash, and yet I see percentages, [unclear] for example in insurance [overtalking].

**Mr Madani Hozaien** I am so sorry. I'm letting this go. Can we just go through it question by question?

**Raghav Duhaiby** Okay. Sure. So the first question [overtalking]. The first question is regarding Dammam. Have you signed with John Hopkins already?

**Dr Mai** We are in discussions with John Hopkins so that we will finalise the contract to transfer patients to us. And those discussions have been going on in the last ten days or two weeks. And they are almost finished. And actually they are going to visit us tomorrow morning so that this thing will be finalised. So it is a visit tomorrow morning to finalise the relationship with John Hopkins. That's for Aramco.

Once that finishes we will be happy to announce that we are receiving referrals from [unclear] to the referrals that we get from big insurance companies, and from the MOH.

**Mr Madani Hozaien** And for SABIC it's the [unclear] so they already started from the first day with us.

**Raghav Duhaiby** Excellent. Okay. Perfect, thank you. That's very clear. Now, my second question, I'll just try to phrase it in a more concentrated way. The growth in the first quarter revenue, it seems like it's more related to pricing that traffic.

**Mr Madani Hozaien** Come again, please? There's a problem in the... Yes, now. Go ahead.

**Raghav Duhaiby** Okay. So the growth in the first quarter revenue year-on-year is more related to pricing, rather than traffic.

**Mr Madani Hozaien** No, it's more related to outpatient traffic more than prices actually. The pricing is not too much. The traffic in the outpatient, if you look to the presentation you'll find that outpatient traffic will increase already. Prices is in [unclear] for the 5% concerning the cap. The [unclear]. Just the accreditation in February, we didn't see [unclear]. Especially that March was affected by the COVID, by the curfew. In Jeddah and all the cities.

Medina at the beginning were affected hugely by COVID as they were good for hours their curfew there. And the old, at the beginning, maybe mid-March, [unclear] the clinics were closed completely. In both Medina and [unclear]. Now everything is working, but March and maybe part of April were hard affected at that time by 100% closing of clinics in both Medina and [unclear].

**Raghav Duhaiby** Excellent. You did mention, Doctor, at the beginning of the call, another question, that outpatient number was almost flat year-on-year. So if you're saying that there was improvement in traffic I would assume there's growth in inpatient. How was the growth in inpatient in the first quarter?



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- Mr Madani Hozaien** If you look to the last year inpatient, less than 15,000. And this year it's around 18,000.
- Raghav Duhaiby** Around, pardon?
- Mr Madani Hozaien** 18,000.
- Raghav Duhaiby** 18,000?
- Mr Madani Hozaien** Yes.
- Raghav Duhaiby** Okay, perfect. Thank you.
- Operator** Our next question comes from Matthew Menezes from Millennium. Matthew, your line is now open.
- Matthew Menezes** Thank you very much, and afternoon everyone. Thank you for the call. So a couple questions. The first is, so you showed excellent growth in revenue, but clearly there was a negative effect at the end of March. So I'm wondering what, if you just looked for the first ten weeks of the quarter or something like that, what revenue growth was running at before you had the lockdown at the end of March.
- Mr Madani Hozaien** Until mid-March [sound slip] patients and inpatients. We can say that the last 15 days [unclear], only in March, were affected by the curfew and by COVID. But this 20<sup>th</sup> of March it was [unclear].
- Matthew Menezes** Yes. And I understand. But I'm wondering what effects that ten days had. You had 25% growth, what could it have been without that negative effect?
- Mr Madani Hozaien** Actually the effect that really would be very positive. We were ready to open Dammam starting first day of Jan. We had the full start there. We had everybody waiting to start. But getting the civil defence license and MOH license took more time than what was expected, and we got it by end of February. And then we waited to get the [unclear]. To get the PHI approval to start work with the insurance company, early March.
- Once we started early March, COVID came. Yes. [Overtalking] really what affected the results. Not the ten days only.
- Matthew Menezes** Okay. So if I try and think about it a different way, can you give me any guidance on how things have been during May, when we think about patient volumes?
- Mr Madani Hozaien** Usually we... Our expectations in May, even in the initial budget, were very low, as this is Ramadhan month. And usually in Ramadhan, even in Saudi Arabia, this is the very low season. However, this year Ramadhan was better than our expectations. A little bit better. Because this came from the curfew, and a lot of people were waiting to go to the hospitals. So revenues in May were better than our expectations. In June we see in all our hospitals we are back to normal.
- Matthew Menezes** Okay, and April?

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**Mr Madani Hozaien** April was the month that was fully affected.

**Matthew Menezes** Okay. It's difficult for us to have an idea of how badly affected. I think that the previous gentleman said maybe down 30% or 40% that he saw in the US. Is that how we should think about April?

**Mr Madani Hozaien** We expect Q2 to be maximum 10-20% less than last year. But by any means the year to date will be better.

**Matthew Menezes** Okay. That's very helpful, thank you. And then the second question is, I think in your slides you've got a very helpful slide of your turnaround plan. Can you just say where you are in the process of cost control? Reducing staff and offshoring, how much more benefit is there to be had?

**Mr Madani Hozaien** COVID delayed a lot of our [unclear] because we had to manage the crisis. To concentrate on getting out from this crisis with no losses. So yes, we had to increase our stock actually because all the technical items, we cannot have our [unclear] without the technical items, without the technical drug items very secure.

We increased our stock in these items for six months. So that was the concern. At this time when we managed the crisis it was not the cash management that took reduction. It was the cost reduction is our concern. But having our hospital fully secured with all infection control stock. And having our staff safe.

**Matthew Menezes** Understood. Okay, thank you very much.

**Mr Madani Hozaien** Cost cutting, because of some regulation, happened [overtalking]. Like closing some of the wellness clinics. Like the dermatology, [unclear], plastic surgery. So we reduced the cost for such clinic. Plus onshore, government had some initiatives to reduce the load on the governmental... Sorry, on private section, like finance programme. That pushed Saudi staff to sit at home with 60% coverage of their salary. And this [unclear] to reduce the cost. As were the lows of the country.

**Matthew Menezes** That's great, thank you.

**Operator** Our next question comes from Dasser Basseer from Beriar Financial. Basseer, your line is now open. Basseer Daseer, your line is now open, ready for your question.

**Daseer Basseer** Hi. This is Daseer Basseer [unclear] Financial. Thank you so much for the call. Most of my questions have been answered already. I just wanted to ask that we noted a significant increase in inpatient revenue compared to last quarter, while the number of patients was not that bigger, the bed utilisation was even lower. Maybe because of Dammam. So what's driving this increase in particular? This is my first question.

Second, are you expecting any reduction in cost either by the government support, or reduction in headcount by your end? The third thing that I wanted to check is receivables. Can you please provide some colour on government payments? If you are getting them timely? With your expansion plans should we expect receivables to continue?



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What's the management plan on this particular issues? My last question is [unclear]. Given the current environment, do you have any...? The planned expansions are going as expected or we should expect some delays over there?

**Mr Madani Hozaien** First one was focusing on what environmental initiatives will end. [Overtalking].

**Dr Ahmed Shebl** Concerning the inpatient increase, yes.

**Daseer Basseer** Yes. The first one is the inpatient, that the revenue from inpatient is significantly high. But the number of inpatients are not that much. So I think this was asked previously by a lady.

**Mr Madani Hozaien** Usually revenue comes from two factors. Number of patients and the revenue mix. It may be difficult cases or comorbidity in same patient can increase their bills. And the technicalities. So both were better than last year. The case mix and the number. And both are [unclear] in the increase of revenue.

**Daseer Basseer** Okay.

**Mr Madani Hozaien** What was the second question?

**Daseer Basseer** The second question was any reduction in cost from your side, or from the government support that you will have seen?

**Mr Madani Hozaien** No, the government support for this quarter, the second quarter, not the first quarter. It was the second quarter they participated with [unclear]. Two initiatives. For some of our Saudi staff. That in the departments there was no, due to the COVID, for something like that. And even in June, as business is normal, is back to normal, we asked all our staff that are on a standing project to come back. Yes, in April we had a decrease in the staff costs. An important decrease in the staff costs due to [unclear].

**Daseer Basseer** Okay. Are you planning any reductions in head count or salary cuts or something like this? I can see there's a significant percentage of staff, particularly in the admin side, 45% of the total staff is on the admin. So is there any room for cost reduction on the top [unclear]?

**Mr Madani Hozaien** We started working in the cost reduction since the second half last year. But in the operation, like what we said last year, the projects concerning the procurement, we consolidated a lot of efforts that were done branch by branch, now which is done centrally.

**Jonathan Milan** Management system.

**Mr Madani Hozaien** Yes, we have now a very strong HR department.

**Daseer Basseer** I do remember that. Is there any further room that you see, or this is the level that you think we should be seeing going forward?

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**Mr Madani Hozaien** No, we continue our project as is. The only thing new for us is the government support for both [unclear]. That we used in April. Maybe May also. But in June we asked our staff to come back. We are resuming business.

**Daseer Basseer** Fair enough. The last thing was receivables. They are increasing every quarter. First I would like to know whether you are receiving payment from the government. The times of payment.

**Mr Madani Hozaien** Actually receivables increased in Q1 tremendously, yes, because the first payment this year for MOH were in late April and May. So you will see the payments of MOH in the Q2, not Q1. But Q1 we had revenues without collection.

**Daseer Basseer** Okay. And given now you have an expansion plan in place. So when the expansion comes online do you expect receivables piling up again every quarter? Or is there any specific plan the management is following?

**Mr Madani Hozaien** No, actually the [unclear] concerning the new hospital in [unclear] and the new tower in Riyadh. There was a delay of one month or one month and a half. Yes, because of the curfew and they stopped the construction at that time. But now we are back to the construction. We want to have our hospital in [unclear] operating before the season of [unclear] next year.

**Daseer Basseer** Okay. I remember from the last call that even though you had spare capacity available, but you did not want to do more business with the government. Just because of the receivables in the thing. So what I wanted to know is what's the plan going forward?

**Mr Madani Hozaien** Actually, when we are during crisis we didn't care with whom we worked. So we didn't refuse any referrals from MOH during the crisis. Especially all COVID work. Whether COVID was suspected patients, or for the patients are MOH patients, referrals. So maybe in Q2/Q3, still the COVID, it's finished, our initial plan to reduce MOH concentration will not be the main target as it was before.

**Daseer Basseer** Fair enough, thank you so much.

**Operator** Our next call comes from Keyur Vora from Templeton. Keyur, your line is now open.

**Keyur Vora** Yes, thank you for the opportunity. I just wanted to get a sense of what's the share of expats in your inpatient and outpatient volume.

**Mr Madani Hozaien** It's around 50%.

**Keyur Vora** Five zero?

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**Mr Madani Hozaien** And all except comes from the insurance companies. So even if some of these expats will leave the country, they will be replaced by people that are covered by insurance. Even if the expat is leaving and will be replaced by Saudi employee, he will be covered by insurance which is part of our portfolio.

**Keyur Vora** All right. So just to confirm the number, you mentioned 50%. Five zero?

**Mr Madani Hozaien** Around, yes.

**Keyur Vora** Okay. It's not one five, right? It's five zero.

**Mr Madani Hozaien** It's five zero. Especially in the branches like [unclear] and Riyadh. Maybe in other branches it's less than 25%. In [unclear 00:42:00], Dammam, Medina. Higher than 25%, even one five sometimes. But in Jeddah and Riyadh, expats are more than our... Most of the [unclear] to the MOH hospital. And number of non-Saudis are moved.

**Keyur Vora** Okay, that's helpful, thank you. And in terms of margins, do you have any specific target on margins that you intend to at least pursue over the next year, one and a half years? What was the steady state margin you would kind of be more comfortable to work with more medium term?

**Mr Madani Hozaien** Actually we are now working on a fully-reduced budget, but our target was to get a better margin in the high teens.

**Keyur Vora** In the high teens?

**Mr Madani Hozaien** That was our strategy. High teens.

**Keyur Vora** Okay, fair enough. Thanks a lot.

**Mr Madani Hozaien** So we expect to be inside the Q3 and Q4.

**Keyur Vora** Okay. That's what you're aiming for.

**Mr Madani Hozaien** Even in Q2 will be less due to the COVID, especially in [unclear] with the full curfew. But we know that it will be completely compensated in Q3 and Q4.

**Mr Madani Hozaien** And fortunately the business grew too. Almost [unclear] because of Ramadhan, because of [unclear]. This is no [unclear] in the whole [unclear]. Fortunately this happened in [unclear].

**Keyur Vora** Okay. But just thinking beyond 2020, so in 2021, what's the targeted EBITDA margins? Will it still be high teens or it will be higher than that?

**Mr Madani Hozaien** Sorry, your voice was interrupted.

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**Keyur Vora** Okay, I'll repeat myself. So just keeping 2020 aside, beyond 2020, if we were to think about 2021 or even 2022, what's the steady state EBITDA margins you're targeting? Is it high teens or is it higher than that?

**Mr Madani Hozaien** As far as we are still in the expansion phase. So this year we have the [unclear] that will contribute with some losses. Next year we will have [unclear] that will contribute losses. So as far as we are in the expansion piece, the high teens is [unclear]. In case we don't have any expansion which will not happen soon, yes, we have... In case we don't have expansions, yes, we expect to have more than 25%. But as far as we have the expansions continue, the high teens will be [unclear].

**Keyur Vora** So once expansions normalise you are indicating 25% EBITDA margin? That's the target [overtalking].

**Mr Madani Hozaien** Once everything is normalised, yes.

**Keyur Vora** Okay, fair enough. Excellent. Thanks a lot.

**Mr Madani Hozaien** You're welcome.

**Operator** Our next question comes from Varun Yelaverty from Decimal Point Analytics. Varun, your line is now open.

**Varun Yelaverty** Hi. Thank you very much for the opportunity. My first question is on the [sound slip] slide number 13.

**Mr Madani Hozaien** Sorry, your voice is interrupted.

**Varun Yelaverty** Yes, can you hear me now?

**Mr Madani Hozaien** Yes, go ahead please.

**Varun Yelaverty** Yes. If I'm referring to your slide number [sound slip 00:46:16] it says the total capex is around 790 million.

**Mr Madani Hozaien** Which slide?

**Varun Yelaverty** Slide number 13, the capex expansion plan.

**Mr Madani Hozaien** Yes?

**Varun Yelaverty** Yes. Out of this 790 million of capex, how much has been incurred already? What is the spending in capex?

**Mr Madani Hozaien** You speak about the capex of Dammam housing?

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**Varun Yelaverty** No, all the [sound slip] Dammam housing, everything. So if I'm adding all this capex it's coming to around 790 million. If you can let me know how much of this has already been incurred and what is the spending capacity for...

**Mr Madani Hozaien** Actually, for the Makkah Hospital 50% of it is already incurred. We can see... I'll just open the financials. We have here in the financials around... It's around 50% of this, or 40% is already incurred. And the remaining... Most of it will be incurred during this year. To be accepted. The Makkah housing is not yet part. But both Makkah Hospital and Dammam housing should be finalised, Makkah Hospital by end of Q1 or start of Q2 next year. Dammam housing by end of next year as well.

**Varun Yelaverty** Okay. Can I assume that all 790 million of capex, only 200 million has been incurred so far?

**Mr Madani Hozaien** Excuse me?

**Varun Yelaverty** Out of this 790 of capex can I assume that only 200 million has been incurred so far? That is only at the Makkah Hospital, if you're [unclear] incurred. Can I say that's 200 million of capex is spending?

**Mr Madani Hozaien** Actually I don't have the figure in mind, but I can say that to you.

**Varun Yelaverty** [Sound slip] is on the [sound slip] information. Out of this...

**Mr Madani Hozaien** There is an interruption of the voice, I cannot hear.

**Varun Yelaverty** Can you hear me now?

**Operator** I would perhaps recommend unplugging and replugging in the headset.

**Varun Yelaverty** Excuse me? Yes, can you hear me now?

**Mr Madani Hozaien** Yes, that's better now.

**Varun Yelaverty** Hello?

**Mr Madani Hozaien** Yes, it's better now.

**Varun Yelaverty** Sorry for the [sound slip] information that I'm looking. So if I'm looking at your expansion plan and everything you have given [sound slip] capacity. Can I...

**Mr Madani Hozaien** There is the same issue. I cannot hear you.

**Varun Yelaverty** Hello? Can you hear me now?

**Mr Madani Hozaien** Yes. Go ahead.

00:49:51

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**Varun Yelaverty** Yes, in terms of... Hello?

**Mr Madani Hozaien** Yes.

**Operator** Due to continued line distortion we will move on to our next question from Alanoud Alrasheed from Yadwar Investment. Your line is now open.

**Alanoud Alrasheed** Hello, [non-English]. I have a couple of questions if you'll please bear with me. So the increase in basically the contribution of the insurance and cash patients to total revenue, is it safe to assume that this is due to Dammam? Or is it across the board?

**Mr Madani Hozaien** No, Dammam we can say that Dammam in Q1 didn't contribute to the revenues at all. It's less than 20,000. It was very minor amount. But the full increase comes from the old branches.

**Alanoud Alrasheed** Okay. Have you signed insurance companies for Dammam, or not yet?

**Mr Madani Hozaien** We signed with around 12 companies, including Bupa. Missing few companies that we will sign with them [unclear].

**Alanoud Alrasheed** Okay. My other question is were there any reverses in provisions during first quarter 2020?

**Mr Madani Hozaien** No, we have an increase in provision.

**Alanoud Alrasheed** Okay.

**Mr Madani Hozaien** We didn't reverse provisions.

**Alanoud Alrasheed** My other question...

**Mr Madani Hozaien** And this increase might be part of it will be reversed in Q2 as we have more collections in Q2. It's a formula.

**Alanoud Alrasheed** So yes, okay. So my other question is related to basically the John Hopkins contract that you're trying to sign up for Dammam. Could you just share some more details on that? How big is the contract? What's the nature? Is it for long-term care? Or is it for Aramco patients to visit through the Bupa association, or is it a different arrangement?

**Dr Mai** It's a referral contract. And this referral contract would be open for any kind of patients, whether it's critical care patients, long-term, or surgical patients, or any type of patients. And it's a fee for service contract.

**Alanoud Alrasheed** Sorry, could you repeat the last part?

**Mr Madani Hozaien** So it's a referral...



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**Dr Mai** It's a referral contract, referral contract for all types of patients, whether critical care patients or surgical patients or any type of patients. And it would be a fee for service contract.

**Alanoud Alrasheed** Okay, so you have a price list basically for Aramco? It's not a per capita format?

**Dr Mai** No, it's not per capita format. It's a referral contract. And the referral contract is fee for service. So for each service that we provide would have a special price. And it's open for any type of patients to be referred from there to us.

**Alanoud Alrasheed** Okay, thank you very much. My last question is just related to the other expansions you have. You mentioned about Makkah specifically. But about the rest, are they on track to open at the scheduled times, or should we expect some delays?

**Mr Madani Hozaien** Maximum delay will be two, three months, no more. As the curfew in Makkah, we've got exception for the construction company to start as the government is supporting all the healthcare projects actually. So they give exceptions for any healthcare projects. But March and April were completely closed in Makkah.

So what we lost really is March and April, and in the remaining, starting May was Ramadhan. You know Ramadhan is not a fully-functioning work for the construction. But people are now back to work. Maybe not 100%, but we are pushing them to be fully efficient. I know that in Makkah they are fully dedicated to the project. Also, they know that if they will finish on time they will get their money earlier. So they will be happier.

**Alanoud Alrasheed** Okay. Thank you very much.

**Mr Madani Hozaien** You are welcome.

**Operator** Our next question comes from Brahim Atiya from HSBC. Brahim, your line is now open.

**Brahim Atiyah** Good afternoon everyone. Congrats on your results. I have a couple of questions. My first question is regarding that you have mentioned you renewed contracts with insurance company and the renewal was at a premium. So if you can quantify how much premium is it?

**Mr Madani Hozaien** Depends on the company Some of them we renewed with minor increases. When we say increase, it's not a flat percentage, but it's a list of services. Every service has a price. That we discussed the price per service. And then we assume the usage during the year. Then what is the average. The weighted average. We can say that we do not renew all the contracts at the same time, but we renewed the contracts per hospital, the company has renewal date.

[Overtalking]. The contracts that are renewed during COVID are renewed without increase, as it is not a proper time to speak about increases of price. But the contracts that were renewed before COVID, we had an average of 4-5% increase.

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**Brahim Atiyah** Excellent. And that effectively started 2020, is that right?

**Mr Madani Hozaien** Every contract is starting from the end of the last contract. But again we do not speak about 100% of the contract, but part of the contract.

**Brahim Atiyah** Excellent. My second question is regarding your bed capacity. When I compared to your previous third quarter 19 presentation I had noticed that some of the hospitals, like Asir, Riyadh, Medina and Ha'il hospital, the bed capacity has increased. So, for example, For Asir has increased from almost 200 to 400 bed. So can you elaborate on that please?

**Mr Madani Hozaien** The number of beds at Asir are as per license. Sometimes operational beds, when we have a renovation, we close some of them. But once we finish the renovation, we open it.

**Brahim Atiyah** All right, clear. Thank you very much.

**Mr Madani Hozaien** You are welcome.

**Operator** Our next question comes from Jonathan Milan from Waha Capital. Jonathan, your line is now open.

**Jonathan Milan** Hi, good afternoon, and thank you very much for taking the time for the call, and congratulations on fantastic [unclear] results. Two quick questions on my end. One, you mentioned in the press release increase in credit loss provisions compared to the previous quarter under the COVID-19 pandemic. Could you please quantify this increase in credit loss provisions in the context of the 40 million in SGNA expense? And what is the run rate SGNA expense?

Because you mentioned before that you had an increase for the headquarters and that this is the current run rate. But it's a 50% increase, I think. And the second question is on receivables. How much of the total 500 million receivables from MOH are overdue? And you mentioned 600. And you mentioned that they paid some in Q2. Could you please quantify that as well?

**Mr Madani Hozaien** For the SGNA, we have this year the offshore office of Cairo that we already rented. And it is under renovation. We already started. So there is the rent, there is some staff. Especially in the IT already recruited there. We have our office, our offshore office in Dubai, where we have all the brand and communications team, that if you see the budget of the communication this year is much more than last year. It is a very important budget.

We have our new corporate team completely. And at that time last year we had only Dr Shebl that started to recruit all over. But he didn't have his team with him at this time last year. Me personally, I was hired in July. Our HR director was hired this year. Sales team were hired also in April or May. So all the corporate teams, in addition to the office itself, were not there last year. In Q1 and Q2.

**Jonathan Milan** Okay, so how much [overtalking]?

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**Mr Madani Hozaien** But if you compare this amount, compared to Q4, for example, you will find it not far. And it's the only new thing in Q1 this year is the Cairo Hospital, the increase of the branding and communication budget.

**Jonathan Milan** Okay. And the increase in credit loss provision, how much is it?

**Mr Madani Hozaien** It's around six million, not too much.

**Jonathan Milan** Okay. And the receivables from MOH, the 617 total, how much did they pay roughly in Q2, and how much is way overdue? So from before 2019/2018?

**Mr Madani Hozaien** In Q2 to now they paid around 100 million. And we have some promises to collect more. But that 200 million in two months, this is something that we never saw actually. Since long time. Since 2016, as said by the journal.

**Jonathan Milan** Do you think there's a possibility of a settlement for the remaining 400 million?

**Mr Madani Hozaien** Actually, there are discussions now to do it. And I think that this is the best time to do it. So all the private sector hospitals are pushing for this. Together, we are pushing together.

**Jonathan Milan** Okay, thank you very much.

**Mr Madani Hozaien** You are welcome.

**Operator** Our next question comes from Christine Kalindjian from Arqaam Capital. Christine, your line is now open.

**Christine Kalindjian** Thank you. Good afternoon, gentlemen. Thank you for the call. I'll keep it short. My question relates to COVID business. Are you able to cater for patients across your entire hospital metric? I'm asking because given the hassle of isolation, et cetera. That's my first question. Approximately how many patients do you currently have for COVID? And if you could shed light on profitability for this business versus other services, that would be very helpful. Thank you.

**Dr Ahmed Shebl** Now we are managing almost 20-25% our patients are COVID. All our governmental and private sections share in treating COVID patients. Most of the cases are stable. Not too much critical. For the business of COVID I think it is good business because mild to moderate cases doesn't need anything except medical observation. PCR. And this is the diagnostic test. And CT.

And that's all. All other services are supplied by already available staff like nursing, like doctors, and allied health. And I think at this time COVID business first is a national rule. Second, it is a good profit for the organisation. They will work [unclear].

**Christine Kalindjian** Perfect, just to double check 25%...

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**Dr Ahmed Shebl** At the same time, we have fully isolated spaces for this COVID. So they are completely away. They have even different staff to the other patients. Excuse me?

**Christine Kalindjian** Across all hospitals? So you're able to isolate across all hospitals?

**Dr Ahmed Shebl** Yes. This is done in all our hospitals.

**Christine Kalindjian** Just do double check, 20-25% of your patients are COVID patients at this stage, right?

**Dr Ahmed Shebl** For the current time. It was not in Q1.

**Christine Kalindjian** Okay, thank you so much.

**Dr Ahmed Shebl** Welcome.

**Operator** Our next question comes from Ashish Shegabel. Ashish, your line is now open.

**Ashish Shegabel** Just a question on the [sound slip] margins.

**Dr Ahmed Shebl** Very interrupted.

**Operator** Apologies, ladies and gentlemen, I have cut off that for the poor quality. Our next question will be from Reema Alnemer from Saudi Fransi Capital. Reema, your line is now open.

**Reema Alnemer** Hello, thank you for taking the call. I just have a few questions. My first is, as you mentioned you already received the CAP accreditation for three hospitals, and you plan to receive the JCPI, AABB, and HEM. So I just want to know how much the price increase would it contribute to 2020 and 2021. Going forward. And also, you mentioned that the main increase in inpatients is due to the revenue mix.

Given that you plan to reduce your exposure to MOH we know that most of the referrals from MOH are critical cases, which have higher revenue. So should we assume the revenue per bed to...? What should we assume for revenue per bed given your plans to reduce MOH exposure, as well as the accreditation. So just to get a better understanding. That's my first question.

**Mr Madani Hozaien** Can we answer one by one?

**Reema Alnemer** Of course.

**Mr Madani Hozaien** When we speak about accreditation we're already, all our branches except Ha'il are [unclear]. Since long time. All our branches are JCPI since long time. It's including Ha'il. Only Dammam is in process. What we've got, the new accreditation that we've got is only CAP. But in Ha'il, Q1, Q4 last year. And this late Q1 this year. And any of these accreditations will give 5% increase from the base price. Not from the price that we are getting now. Because the price that we are getting now is already increased by both [unclear] and JCPI.

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So it's 5%, what we've got. Now is 5% for CAP. We are working for AABB. We expect to have it soon, once the flights will be back. In addition to CAP for our branches, Riyadh and [unclear] also, most branches are ready for it and waiting for supplies to be back. Hence which is the most important is the huge project that we already started. And hence will increase our prices MOH by 20%. Any other accreditation is only 5%.

**Reema Alnemer** Perfect. And when do you plan to...

**Mr Madani Hozaien** And hence we expect to have it in Q1 next year.

**Reema Alnemer** Perfect. And can you just shed light to explain the revenue per bed situation, revenue per patient, given the fact that you want to reduce exposure to MOH?

**Mr Madani Hozaien** The question is what is the revenue per bed?

**Reema Alnemer** No. The question is... I'm sorry, let me rephrase it. So your plan, I just want to know how the prices will be for expectation, for revenue per bed, for inpatients, given the fact that you plan to reduce MOH. So you have planned to reduce MOH, as well as the plan to get accreditation. So I want to know, will there be an increase or will they offset each other?

**Mr Madani Hozaien** We know that MOH prices might be higher than any insurance company, yes. But collection takes too much time. At the same time, the efficiency of the turnover of our beds to MOH is not good. So even if insurance companies prices are less, but there is an important turnover. And more efficiency. This can lead, with better management, to higher profitability.

**Reema Alnemer** Okay. Perfect. Thank you for that. If you could just... I just have a few more questions. The first is if you could just please tell us the number of inpatients and outpatients for the full year of 2019. And the last question would be just to have a better idea about the revenue. Is this mainly coming from Ha'il and the clinics that just opened? And if not, it's mainly due to the revenue mix, can you just specify which surgeries or which critical cases are from MOH for Q1 for 2020?

**Mr Madani Hozaien** I will try to remember what you asked. When you speak about revenue, revenue didn't come only from one branch. Increase of revenue came from all the branches. Specifically Jeddah maybe. More than... Jeddah and the clinics. [Unclear] clinics. More than Ha'il. But the increase came from Jeddah, from the clinics, maybe only Asir and Medina has the full curfew in 15 days of March. These are the only two branches where we didn't have increase in revenue.

**Reema Alnemer** Okay. Can you just give us a hint about what drove the increase?

**Mr Madani Hozaien** We have more efficient field team. We invest more in the branding and communications, so we have a lot of promotions. We have better relations with insurance companies. We are concentrating in increasing, having better relations with insurance companies. And the increasing the sales promotions. Which require increasing the branding and communication budget, which is in the increase in the [unclear].

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- Reema Alnemer** Perfect. Thank you very much. If you can just tell me about the number of inpatients and outpatients for the full year of 2019?
- Mr Madani Hozaien** Can I just send them to you later? Because I don't have the figures with me now.
- Reema Alnemer** Of course. Just one more thing. I just want to make sure I got the utilisation for Dammam Hospital alone correct. It's five zero, right? In Q120.
- Mr Madani Hozaien** Now.
- Reema Alnemer** 50%?
- Mr Madani Hozaien** Yes, in the last week Dammam utilisation is around 50% of the current capacity.
- Reema Alnemer** Five zero, right?
- Mr Madani Hozaien** That was not the case in March at all. In March it was 1%. Less than 1% in March.
- Reema Alnemer** So less than 1% in March and now it's five zero?
- Mr Madani Hozaien** It's five zero now, yes. Since a week.
- Reema Alnemer** Perfect. Thank you very much for your time.
- Mr Madani Hozaien** You are welcome.
- Operator** At present we have no further questions. As a reminder, press star one on your telephone keypad to ask a question, or if you're joining us online, please press the flag icon. We have a question from Abdulavis Alamadi from Samba Capital. Abdulavis, your line is now open.
- Abdulavis Alamadi** Hello?
- Mr Madani Hozaien** Yes, hello.
- Abdulavis Alamadi** Yes. Thanks for giving me the opportunity. I have a question regarding the slide 13, about the capex and the expansion plan. So basically you have around 787 million. How much did you spend already from it, and how much is remaining?
- Mr Madani Hozaien** As I already answered the question, we spent less than 50%. We have for the projects, the hospital of Makkah should be ready completely in the first half of next year. Together the Dammam housing should be ready by end of next year. And then the housing of Makkah should be ready at the beginning of 2022.
- Abdulavis Alamadi** Much appreciated, thank you.
- Mr Madani Hozaien** You are welcome.



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**Operator** Thank you for your time, ladies and gentlemen. I will now hand it back to the management team for closing.

**Mr Madani Hozaien** Thank you very much. It was a pleasure actually today and we hope that we meet soon. Whether in one of our events or in the next call.