MLPCARE

November 7, 2019

# Efficient Growth Above Inflation Continued in the Third Quarter of 2019

**MLP Sağlık Hizmetleri A.Ş. ("MLP Care")**

**MLP Sağlık Hizmetleri A.Ş.** (BIST: MPARK), the leading private healthcare service provider in Turkey, today announces its financial results for the third quarter and the first nine months of 2019.

## Summary Financials

| (TL millon) | 9M 2019 | 9M 2018 | Change | Q3 2019 | Q3 2018 | Change |
|---|---|---|---|---|---|---|
| **Revenue** | **2,716** | **2,251** | **20.6%** | **893** | **782** | **14.3%** |
| **Adj. EBITDA** [1] without fx effect of other income/expenses from operating activities | **403** | **313** | **28.6%** | **122** | **95** | **29.4%** |
| Adj. Margin (%) | 14.8% | 13.9% | 92bps | 13.7% | 12.1% | 160bps |
| **Net Profit/(Loss) Before Tax** | **(59)** | **(209)** | **(71.9%)** | **(13)** | **(155)** | **(91.4%)** |
| **Net Profit/(Loss)** | **(47)** | **(143)** | **(67.3%)** | **(8)** | **(135)** | **(94.4%)** |
| **Net Profit/(Loss)**[2] | **(20)** | | | **5** | | |
| **Net Cash from Operating Activities** | **202** | **215** | **(6.1%)** | **12** | **(15)** | **n.m.** |
| Capital Expenditure | 123 | 230 | (46.2%) | 42 | 63 | (33.4%) |
| **Operating Cash Flow / Adj EBITDA** | **49.1%** | **61.0%** | | **10.7%** | **(14.9%)** | |

[1] Adj. EBITDA with foreign exchange gains/(losses) of other income/(expenses) from operating activities recorded 411, 353, 110, and TL102 million respectively in 9M 2019, 9M 2018, Q3 2019, and Q3 2018. Adj. EBITDA is based on Reported EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) adjusted for one-time (income) / expenses, net and non-cash GAAP provision expenses.

[2] Including obligations under operational leases related to IFRS 16

## Financial Highlights

- ✓ In Q3 2019, revenues increased to TL893 million, up by 14% (Q3 2018: TL782 million). When revenues of managed hospitals are included, the nominal revenue growth in Q3 2019 is at 15%. Therefore, the top-line growth was well above (by 6%) the inflation rate of 9% observed in the last 12 months.
- ✓ In Q3 2019, Adj. EBITDA (without foreign exchange effect of other income/expenses from operating activities) increased by 29%, bringing the EBITDA margin to 13.7%. Despite rising unit costs, the Adj. EBITDA margin in Q3 2019 was increased by 160 bps.
- ✓ Despite the good results in operations, net loss of TL8 million was recorded in Q3 2019 due to the sharp rise in TL interest rates and consequent financial expenses of TL63 million. In the following periods, the downward trend in TL interest costs coupled with operational success is expected to support the bottom line.
- ✓ The net debt/Adj. EBITDA ratio including obligations under operational leases related to IFRS 16 was at 2.6x in 9M 2019 and 2.7x excluding IFRS 16 impact.

## Operating Highlights

- ✓ Foreign medical tourism revenue (FMT) increased by 18% in Q3 2019 and 47% in 9M 2019. In Q3 2019, the share of FMT in total revenue increased to 13%.
- ✓ Contrary to the negative EBITDA effect of TL10.9 million in Q3 2018, Pendik and Mersin hospitals, which were opened in the last year, recorded TL0.4 million positive EBITDA in Q3 2019.

- ✓ We are also very proud to announce that in September 2019, MLP Care management has been awarded the best CEO, the best CFO, and the best IR Professionals and IR Program in Emerging market EMEA (Europe, Middle East and Africa) 2019 Research by Institutional Investor. The research spanned nearly 400 companies in over 20 sectors in EMEA and over 12,000 investment professionals.

**Dr. Muharrem Usta, Chairman and Chief Executive Officer of MLP Care, commented:**

*"Our strong real revenue growth continued in the third quarter of 2019 despite a difficult macro backdrop. Our EBITDA excluding foreign exchange effect of other income and expenses from operating activities increased by 29% on the back of strong ramp-up of new hospitals, efficiency initiatives in the group, and cost improvements.*

*The top-up insurance market continues to grow rapidly reaching over 1.1 million people in September 2019. As a major player in this segment, we have benefited from this growth. We expect this strong growth trend to continue going forward.*

*As we emphasized in previous periods, in 2019, we focused on ramping-up our new capacity, operational improvements, and cost efficiency rather than further capacity expansion. In line with our long-term strategy, we accelerated our efforts in increasing use of technology in our operations through digitalization, automation, and artificial intelligence. We believe that not only us but both the sector in general and our country will benefit from these projects which will help us to become the leader of future technologies in Turkish healthcare."*

**Revenue**

| | 9M 2019 | 9M 2018 | Change | Q3 2019 | Q3 2018 | Change |
|---|---|---|---|---|---|---|
| **Total Revenue (TL million)** | **2,716** | **2,251** | **20.6%** | **893** | **782** | **14.3%** |
| Domestic Patient Revenue | 2,147 | 1,834 | 17.1% | 716 | 608 | 17.7% |
| *Inpatient Revenue* | *1,273* | *1,096* | *16.1%* | *424* | *366* | *15.9%* |
| *Outpatient Revenue* | *875* | *738* | *18.6%* | *292* | *242* | *20.4%* |
| Foreign Medical Tourism Revenue | 330 | 224 | 47.0% | 117 | 99 | 18.0% |
| Other Ancillary Business | 239 | 193 | 23.6% | 60 | 74 | (18.7%) |

**Domestic Patient Revenue:** Revenues generated from domestic patients increased by 17.7% in Q3 2019 and 17.1% in 9M 2019, driven by both inpatient and outpatient revenue growth.

The inpatient revenue grew by 15.9% in Q3 2019, on the back of the 13.8% increase in average price and 1.9% increase in volume. In 9M 2019, average price increased by 12.8% and volume increased by 2.9%.

The outpatient revenue grew by 20.4% in Q3 2019, mainly driven by 17.1% increase in outpatient average revenue per visit and 2.9% increase in outpatient volume. In 9M 2019, average price increased by 17.5% and volume increased by 0.9%.

**Foreign Medical Tourism Revenue:** In Q3 2019, 10.3% of the FMT revenue growth was mainly driven by price & FX impact and 7.7% by volume (9M 2019: price and FX 28.7%, volume 18.3%). The FMT revenue, which had grown by 82.7% in Q3 2018, had been impacted by the 60% average exchange rate increase in USD/TL. In Q3 2019, on the contrary, 5% negative impact came from the average exchange rate. Despite the negative FX impact and last year's high base FMT increased by 18% in Q3 2019. We target to grow the share of hard currency revenues in total revenues by increasing our FMT business by effective advertising efforts in the target international markets.

**Other Ancillary Business:** Revenue from other ancillary business decreased by 18.7% in Q3 2019 due to non-renewal of the tender for the laboratory business with the preference of our group. On the other hand, management fees from university hospitals increased by 38.9% in the same period as capacity utilization rises (Currently, we have 5 university hospitals, of which 3 have management service contracts with us).

**Cost of Service and Expenses** (Including Hospitals and Ancillary Business)

| | 9M 2019[1] | 9M 2019 | 9M 2018 | Change (bps) | Q3 2019 | Q3 2018 | Change (bps) |
|---|---|---|---|---|---|---|---|
| **(% of Revenues)** | **77.9%** | **84.8%** | **84.3%** | **51** | **87.7%** | **86.9%** | **80** |
| Material | 23.6% | 23.6% | 22.8% | 84 | 22.8% | 23.6% | (78) |
| Doctor | 21.0% | 21.0% | 22.6% | (166) | 21.5% | 22.5% | (93) |
| Personnel | 17.6% | 17.6% | 18.5% | (83) | 18.0% | 17.7% | 26 |
| Rent | 0.8% | 7.7% | 8.0% | (29) | 8.0% | 8.7% | (70) |
| Outso.serv.purch. | 5.1% | 5.1% | 4.8% | 30 | 5.0% | 5.0% | 6 |
| All other exp. | 9.7% | 9.8% | 7.6% | 216 | 12.5% | 9.6% | 289 |

[1] Including obligations under operational leases related to IFRS 16

Material consumption as a percentage of total revenue increased by 84 bps in 9M 2019 due to the inflation adjustment for drugs by 26% in February 2019, which accounts around 30% of the total material costs. Thanks to cost controls and efficiency initiatives conducted in 2019 it decreased by 78 bps in Q3 2019.

Doctor costs as a percentage of total revenue declined by 93 bps to 21.5% in Q3 2019 and 166 bps to 21.0% in 9M 2019 due to increase in hospital revenues and doctor efficiency initiatives.

Personnel expenses as a percentage of total revenue increased by 26 bps to 18.0% in Q3 2019 due to minimum wage increase of 26% and wage increase to the personnel (excluding personnel with minimum wage) in March 2019. However, thanks to efficiency initiatives it decreased by 83 bps to 17.6% in 9M 2019.

Rent expenses as a percentage of total revenue declined by 70 bps to 8.0% in Q3 2019 and 29 bps to 7.7% in 9M 2019 due to conversion of the FX denominated hospital building lease agreements to Turkish Lira in 2018.

Outsourced services purchases (laboratory, imaging, cleaning, catering, security etc.) consists of expenses in other ancillary businesses.

All other expenses (energy, foreign and domestic marketing expenses etc.) increased by 289 bps in Q3 2019 on the back of increase in energy costs and marketing expenses related to FMT revenues.

**EBITDA**

The Adj. EBITDA (without foreign exchange effect of other income/expenses from operating activities) number increased by 29.4% to TL122 million in Q3 2019. Adj. EBITDA margin came in at 13.7%, increasing by 160 bps. In 9M 2019, the Adj. EBITDA (without foreign exchange effect of other income/expenses from operating activities) number increased by 28.6% to TL403 million and adj. EBITDA margin increased by 92 bps to 14.8%.

The Adj. EBITDA number with foreign exchange effect of other income/expenses from operating activities increased by 7.3% to TL110 million in Q3 2019. In 9M 2019, the Adj. EBITDA number increased by 16.7% to TL411 million.

Including obligations under operational leases related to IFRS 16, the Adj. EBITDA number came in at TL174 million and the Adj. EBITDA margin was 19.4% in Q3 2019. Additionally, in 9M 2019, the Adj. EBITDA number came in at TL601 million and the Adj. EBITDA margin was 22.1%.

**Cash Flow**

The operating cash flow increased from TL15 million negative in Q3 2018 to TL12 million positive in Q3 2019 as a result of the improvement in the cash cycle. Thus, the operating cash flow / EBITDA ratio came in at 10.7% in Q3 2019 and 49.1% in 9M 2019.

Maintenance-related capital expenditures as a percentage of revenues was at 1.5% in Q3 2019 and 1.6% in 9M 2019. Total capital expenditures as a percentage of revenues was at 4.7% in Q3 2019 and 4.5% in 9M 2019 due to lack of new hospital openings in 2019 (Q3 2018: 8.0%, 9M 2018: 10.2%).

**Profit for the Period**

Due to the finance expenses of TL63 million, a net loss of TL8 million recorded in Q3 2019. In 9M 2019, due to the finance expenses of TL290 million, a net loss of TL47 million was recorded. The main reasons behind the TL84 million increase in interest expenses in 9M 2019 were the increase in the borrowing interest of TL loans from 19.9% in 9M 2018 to 24.8% in 9M 2019 and the addition of the hedging cost of EUR denominated loans paid in 2019. The interest rate of EUR denominated loans remained constant at 5.5%. Due to the downward momentum in TL interest rates, finance expenses are expected to decrease in the upcoming periods.

Including obligations under operational leases related to IFRS 16, a net profit of TL5 million recorded in Q3 2019 and a net loss of TL20 million recorded in 9M 2019.

**Borrowings and Indebtedness**

| Net Debt by Currency (TL million) | 9M 2019 | Vertical Percentage | 2018 | Vertical Percentage | Change |
|---|---|---|---|---|---|
| TL | 801 | 53% | 521 | 42% | 53.6% |
| USD + Euro | 504 | 34% | 437 | 35% | 15.4% |
| Euro (Hedged) | 199 | 13% | 285 | 23% | (30.3%) |
| **Total** | **1,503** | **100%** | **1,243** | **100%** | **21.0%** |

The net debt/Adj. EBITDA ratio including obligations under operational leases related to IFRS 16 was at 2.6x in 9M 2019 and 2.7x excluding IFRS 16 impact.

***Currency risk management***

The company has total EUR144 million gross principal and interest debt service pertaining to the foreign currency denominated bank loan and financial leasing. As of September 30, 2019, EUR38 million of total debt service including principal and interest for the 2019-2020 period was hedged using a cross currency swap transaction.

The total hedged portion was 27% of the total euro-denominated loans principal and interest payments. With this transaction, currency risk for the 15-month period has been mitigated.

## EBITDA RECONCILIATION

| TL million | 9M 2019[1] | 9M 2019 | 9M 2018 | Q3 2019[1] | Q3 2019 | Q3 2018 |
|---|---|---|---|---|---|---|
| **Net profit / (loss)** | **(20)** | **(47)** | **(143)** | **5** | **(8)** | **(135)** |
| Tax (income) from operations | (5) | (12) | (66) | (3) | (6) | (20) |
| Depreciation and amortization of tangible and intangible fixed assets | 198 | 161 | 141 | 69 | 59 | 51 |
| Total interest expenses/(income) and fair value differences of derivative instruments | 385 | 266 | 438 | 92 | 57 | 239 |
| Net (gains) / losses from the disposal of tangible and intangible assets | (2) | (2) | (1) | (1) | (1) | (1) |
| **Reported EBITDA** | **556** | **366** | **370** | **162** | **98** | **134** |
| Rent expenses | 23 | 210 | 181 | 8 | 71 | 68 |
| **Reported EBITDAR** | **578** | **577** | **551** | **170** | **169** | **202** |
| Net one-off (gains) / losses | 29 | 29 | (20) | 7 | 7 | (31) |
| Non-cash GAAP provision expenses | 17 | 17 | 3 | 4 | 4 | (1) |
| **Adjusted EBITDA** | **601** | **411** | **353** | **174** | **110** | **102** |
| **Adjusted EBITDA Margin (%)** | **22.1%** | **15.2%** | **15.7%** | **19.4%** | **12.3%** | **13.1%** |
| Foreign exchange gains/(losses) from operations | 9 | 9 | 39 | (12) | (12) | 8 |
| **Adjusted EBITDA[2]** | **592** | **403** | **313** | **186** | **122** | **95** |
| **Adjusted EBITDA Margin (%)[2]** | **21.8%** | **14.8%** | **13.9%** | **20.8%** | **13.7%** | **12.1%** |
| **Adjusted EBITDAR** | **624** | **622** | **533** | **182** | **181** | **170** |
| **Adjusted EBITDAR Margin (%)** | **23.0%** | **22.9%** | **23.7%** | **20.3%** | **20.3%** | **21.8%** |

[1] Including obligations under operational leases related to IFRS 16

[2] Adj. EBITDA and Adj. EBITDA margin without foreign exchange gains/(losses) from other income/(expenses) from operating activities

## SUMMARY CONSOLIDATED INCOME STATEMENT

| TL million | Unaudited 9M 2019[1] | Unaudited 9M 2019 | Unaudited 9M 2018 | Change (%) | Q3 2019[1] | Q3 2019 | Q3 2018 | Change (%) |
|---|---|---|---|---|---|---|---|---|
| Revenue | 2,716 | 2,716 | 2,251 | 20.6% | 893 | 893 | 782 | 14.3% |
| Cost of service (-) | (2,098) | (2,248) | (1,902) | 18.2% | (698) | (748) | (671) | 11.4% |
| **Gross profit** | **617** | **467** | **349** | **33.8%** | **196** | **146** | **110** | **31.9%** |
| General administration expenses (-) | (218) | (218) | (189) | 15.1% | (74) | (75) | (66) | 12.3% |
| Other income from operations | 242 | 242 | 467 | (48.2%) | 97 | 97 | 310 | (68.8%) |
| Other expenses from operations (-) | (260) | (262) | (382) | (31.3%) | (118) | (119) | (266) | (55.4%) |
| **Operating profit/(loss)** | **381** | **229** | **245** | **(6.7%)** | **100** | **49** | **88** | **(44.3%)** |
| Income from investing activities | 2 | 2 | 2 | 42.7% | 1 | 1 | 1 | (14.9%) |
| Expense from investing activities (-) | -- | -- | (0) | (100.0%) | -- | -- | (0) | (100.0%) |
| **EBIT** | **383** | **231** | **246** | **(6.2%)** | **101** | **50** | **89** | **(43.8%)** |
| *EBIT margin* | *14.1%* | *8.5%* | *10.9%* | *(224bps)* | *11.3%* | *5.6%* | *11.4%* | *(582bps)* |
| Interest expenses (-) | (367) | (254) | (170) | 49.3% | (114) | (77) | (69) | 12.1% |
| Net foreign exchange profit / (loss) (including hedging cost) | (42) | (36) | (285) | (87.4%) | 15 | 14 | (175) | (107.9%) |
| **Net profit / (loss) before tax** | **(25)** | **(59)** | **(209)** | **(71.9%)** | **2** | **(13)** | **(155)** | **(91.4%)** |
| Tax income / (expense) from operations | 5 | 12 | 66 | (81.9%) | 3 | 6 | 20 | (71.4%) |
| **Net profit / (loss)** | **(20)** | **(47)** | **(143)** | **(67.3%)** | **5** | **(8)** | **(135)** | **(94.4%)** |

[1] Including obligations under operational leases related to IFRS 16

## SUMMARY CONSOLIDATED BALANCE SHEET

| TL million | Unaudited September 30, 2019[1] | Unaudited September 30, 2019 | Audited December 31, 2018 |
|---|---|---|---|
| Cash and cash equivalents | 231 | 231 | 223 |
| Trade receivables | 966 | 966 | 899 |
| Inventory | 83 | 83 | 80 |
| Short term other assets | 312 | 312 | 276 |
| **Current assets** | **1,592** | **1,592** | **1,479** |
| Tangible and intangible fixed assets | 1,266 | 1,266 | 1,305 |
| Right of use assets | 215 | -- | -- |
| Deferred tax assets | 396 | 317 | 282 |
| Long term other assets | 230 | 230 | 173 |
| **Non-current assets** | **2,106** | **1,813** | **1,760** |
| **Total assets** | **3,698** | **3,405** | **3,239** |
| | | | |
| Trade payables | 736 | 736 | 808 |
| Short term other liabilities | 276 | 276 | 246 |
| Short term financial liabilities (incl. financial and operational leases) | 833 | 715 | 455 |
| **Current liabilities** | **1,845** | **1,727** | **1,509** |
| Long term other liabilities | 52 | 52 | 55 |
| Deferred tax liabilities | 138 | 138 | 136 |
| Long term financial liabilities (incl. financial and operational leases) | 1,457 | 966 | 964 |
| **Non-current liabilities** | **1,647** | **1,156** | **1,154** |
| Shareholders' equity | 157 | 401 | 474 |
| Non-controlling interest | 50 | 121 | 101 |
| **Equity** | **207** | **522** | **576** |
| **Total liabilities & equity** | **3,698** | **3,405** | **3,239** |

[1] Including obligations under operational leases related to IFRS 16

## ABOUT MLP CARE

We are the largest private healthcare service provider in Turkey in terms of number of hospitals, beds and geographic scope based on our footprint of 31 hospitals and more than 6,000 beds in 17 cities across the country. We treat more than 2 million people per year, with our patients primarily drawn from the upper-mid segments of the market. We provide a full range of healthcare services from gynaecology, cardiology, oncology, orthopaedics, intensive care to complex treatments such as organ and bone marrow transplants. As of September 30, 2019, we have approximately 20,000 personnel, including over 2,200 physicians, managed by a head office team which integrates field operations, sets strategy and monitors real-time performance across all 31 hospitals.

## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This document may contain certain forward-looking statements concerning our future performance and should be considered as good faith estimates made by the Company. These forward-looking statements reflect management expectations and are based upon currently available data. Actual results are subject to future events and uncertainties, which could materially impact the Company's actual performance.

## WEBCAST

9M 2019 Results Presentation & Webcast will be held on November 8, 2019 at 4:30 p.m. (Istanbul), 1:30 p.m. (London) and 8:30 a.m. (New York).

Audio Conference:

- Singapore Toll: +6564298400 PIN: 36046722#
- Turkey Toll: +902123755127 PIN: 36046722#
- United Kingdom Toll: +442071943759 PIN: 36046722#
- United States Toll: +1 6467224916 PIN: 36046722#

(Participants will have to quote the above code when dialling into the conference)

Webcast:
http://event.on24.com/wcc/r/2099308-1/D25FC5C6670F1252D98DB1DE7CFB881E?partnerref=rss-events

Replay: On demand webcast will be available on the above link for 12 months
The presentation will be available prior to the conference call at our website.

## ENQUIRIES

For financial reports and further information regarding MLP Care, please visit our website at http://investor.mlpcare.com/en/ or you may contact:

**Dr. Deniz Can Yücel**
Strategy and Investor Relations Director
**T** +90 212 227 5555 (Ext: 1148)
**E** deniz.yucel@mlpcare.com