

Earnings Release

Care announces 45% year-on-year net income growth to SAR 104 million in 1H 2023

- 1H 2023 saw a 1% rise in total patient count to 317.8k, fueled by a 7% boost in inpatient admissions and 1% increase in outpatient visits.
- Bed occupancy rose by 4.6 percentage points to 80.8%.
- 18% revenue growth, reaching SAR 507 million on improved patient numbers and higher average prices for the Ministry of Health.
- Profitability improvement was reflected in EBITDA margin of 28.5% and net income margin of 20.5%.
- 1H 2023 operations yielded SAR 362 million cash flow, driven by key client payments and better receivables management, pushing Care's cash position to SAR 602 million by 2Q 2023 end.
- A cash dividend of SAR 1.0 per share was distributed.

Riyadh, 7 August 2023 – In the first half of 2023, Care reported robust operational performance. Patient count expanded to 317.8 thousand, marking a 1% year-on-year increase, primarily driven by a greater number of referrals from the General Organization for Social Insurance (GOSI) and the Ministry of Health (MoH). Concurrently, the number of surgeries exhibited a 14% year-on-year surge, while the bed occupancy rate grew by 4.6 percentage points from the first half of 2022, reaching 80.8%.

The steady expansion of the Company's operations, coupled with improved average pricing for MoH throughout 1H 2023, resulted in an 18% year-on-year surge in revenue, bringing the top line to SAR 507 million. Meanwhile, expansion of total expenses was contained to 13% year-on-year, which allowed to leverage the Company's positive operating performance and achieve an EBITDA improvement to SAR 145 million, a 31% year-on-year increase. The EBITDA margin for 1H 2023 expanded 2.8 percentage points to 28.5%. The net profit for the period reached SAR 104 million, demonstrating a 45% year-on-year increase. The net margin improved 3.7 percentage points year-on-year to reach 20.5%.

Dr. Abdulaziz bin Saleh Alobaid, Chief Executive Officer of CARE, said:

"I am pleased to report the solid results Care has achieved in the first half of 2023. The Company's transformation and growth strategy, pursued diligently since 2021, continues to yield notable returns for all the stakeholders. Our team's adaptability and competence in navigating the market landscape have been exceptional, and it is thanks to their hard work we can explore new avenues for Care's growth.

In keeping with our long-term vision, we have made strategic moves to broaden our presence in the lucrative markets within the KSA. The recent Jiwat acquisition is a milestone in this journey, and I am excited about its potential contributions to Care's commitment to our domestic market. As we are gearing up to extend our services to those residing, working, and visiting the vicinity of the Holy Mosque, we consider this not only as a growth opportunity for Care but as a way to cater to the diverse needs of the community and to contribute positively to the wellbeing of the people by delivering high-quality healthcare services.

As we look to the future, the robust performance of the first half of 2023, our strategic acquisitions, and our ongoing commitment to leveraging our strengths, embracing innovation, and pursuing opportunities aligned with our strategic growth objectives, set Care on a promising path for continued success.”

Jahanzeb Ahmed Khan, Chief Financial Officer of CARE, said:

"We have indeed set a firm pace in the year with Care delivering an outstanding financial performance in the first half of 2023. We have seen robust top-line growth, where the driving force was the notable uptick in inpatient admissions and surgeries, a result of higher referrals from our key partners, and improved pricing.

Our diligent focus on cost control has also played an instrumental role in improving the results. By keeping revenue growth ahead of cost expansion, we have achieved a positive operating leverage, strengthening our profitability metrics. On top of that, we have made considerable progress with GOSI in clearing outstanding receivables and securing payments totaling SAR 485 million since the beginning of the year, which has improved our cash flows significantly.

As we progress, we view these results as a reinforcement of our strategy and remain committed to expanding our business while maintaining tight control over costs. We are excited about the future and are confident in our ability to deliver continued growth and shareholder value."

Strategy

Care, as a top-tier specialized healthcare provider in KSA, continues to capitalize on its vast experience and highly skilled professional team. The Company's two existing hospitals, operating in the prosperous Riyadh market, maintain a remarkable track record. The mission to deliver distinctive care has proven successful, demonstrated by improved healthcare outcomes and increased patient satisfaction. The Company's broad patient demographic, enhanced by a growing number of government referrals, reinforces its position as a trusted healthcare provider in the region.

Guided by its vision to remain at the forefront of healthcare, Care's transformation and growth strategy, in place since 2021, continues to yield superior returns. Despite operational complexities, significant improvement in margins underscores a robust financial outlook. The strategic objective to realize the potential of value networks across business units has materialized into a highly integrated corporate model, delivering revenue and cost synergies as well as high customer satisfaction rates. With an unwavering commitment to extending health service offerings within the KSA domestic market and reaching new population segments, Care remains well-positioned to uphold its growth trajectory. Leveraging its well-established brand and footprint, Care is on track to fulfill its long-term strategic objectives and continue its valuable contributions to community wellbeing.

Operational and Financial Review

Operating Indicator Highlights

| | 2Q2023 | 2Q2022 | Δ% | 1H2023 | 1H2022 | Δ% |
|-------------------------------|----------------|----------------|---------------|----------------|----------------|------------|
| Inpatient Admissions | 5,101 | 5,069 | +1% | 10,562 | 9,856 | +7% |
| Outpatient Visits | 146,935 | 149,629 | -2% | 307,225 | 305,162 | +1% |
| Total Patients | 152,036 | 154,698 | -2% | 317,787 | 315,018 | +1% |
| Inpatient Days | 36,644 | 45,096 | -19% | 87,535 | 87,689 | -0% |
| Bed Capacity | 603 | 618 | -2% | 603 | 639 | -6% |
| Bed Occupancy Rate (%) | 67.0% | 80.7% | -13.7 ppts | 80.8% | 76.2% | +4.6 ppts |
| Average Length of Stay (days) | 7.2 | 8.9 | -19% | 8.3 | 8.9 | -7% |
| Number of surgeries | 4,648 | 4,263 | +9% | 9,572 | 8,430 | +14% |

In 1H 2023, the total number of patients rose by 1% year-on-year, reaching 317,787 patients. This growth was fueled by an increase in inpatient admissions (+7% year-on-year) and a rise in outpatient visits (+1% year-on-year), largely as a result of increased referrals from GOSI and the strengthened business relationship with MoH.

The surge in admissions, attributable to GOSI and MoH, also contributed to a 14% year-on-year increase in surgeries during 1H 2023, amounting to 9,572 procedures.

In 1H 2023, the number of inpatient days remained relatively stable, despite the increase in inpatient admissions. This resulted in a further reduction in the average length of stay, now down to 8.3 days (-7%). The ongoing push for shorter hospital stays is attributed to factors such as advancements in medical technology, the shift towards outpatient care, improvements in care management, and the conclusion of National Guard contract.

The bed occupancy rate saw further improvement in 1H 2023 reaching 80.8%, 4.6 percentage points higher year-on-year. The improvement was also supported by a decrease in the bed capacity of the hospitals in 1H 2023 driven by reduction in operational beds due to renovation in our Riyadh Care facility.

The 2Q 2023's operating indicator trends were influenced by the completion of the National Guard contract, as reflected in the slower growth in inpatient admissions, a decrease in inpatient days, and lower bed occupancy. In response, Care intends to reallocate existing bed capacity to other clients.

Income Statement Highlights

| SAR million | 2Q2023 | 2Q2022 | Δ% | 1H2023 | 1H2022 | Δ% |
|--------------------------|--------|--------|-------|--------|--------|-------|
| Revenue | 245 | 216 | +13% | 507 | 428 | +18% |
| Cost of revenue | (164) | (150) | +9% | (335) | (300) | +12% |
| Gross profit | 81 | 67 | +22% | 171 | 128 | +33% |
| Selling & marketing | (1) | (1) | -25% | (1) | (2) | -13% |
| General & administrative | (26) | (21) | +25% | (55) | (43) | +28% |
| Provisions & other | (1) | 1 | NA | (2) | (3) | -7% |
| Total operating expenses | (24) | (17) | +43% | (50) | (41) | +22% |
| Operating profit (EBIT) | 57 | 50 | +15% | 121 | 87 | +39% |
| EBITDA | 70 | 61 | +14% | 145 | 110 | +31% |
| Net profit | 48 | 42 | +14% | 104 | 72 | +45% |
| Gross profit Margin | 33.2% | 30.9% | +2.3% | 33.8% | 30.0% | +3.8% |
| EBIT Margin | 23.4% | 23.1% | +0.3% | 23.8% | 20.3% | +3.5% |
| EBITDA Margin | 28.6% | 28.3% | +0.3% | 28.5% | 25.7% | +2.8% |
| Net profit Margin | 19.5% | 19.4% | +0.1% | 20.5% | 16.8% | +3.7% |
| ROAE | 14.5% | 14.6% | -0.1% | 16.1% | 12.7% | +3.4% |
| ROAA | 10.4% | 10.6% | -0.2% | 11.6% | 9.2% | +2.5% |

Care's revenue in 1H 2023 increased by 18% year-on-year to SAR 507 million supported by higher inpatient and outpatient numbers and improving average prices. The revenue growth deceleration in 2Q 2023 was principally driven by the conclusion of the contract with the National Guard, counterbalanced by a robust double-digit growth in average pricing from the partnership with the MoH, and bolstered by the Company's HIMSS certification obtained in 1Q 2023.

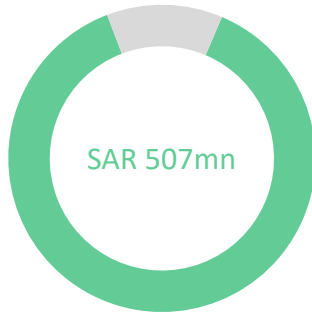
The cost of revenue in 1H 2023 rose by 12% year-on-year, equating to SAR 335 million, while operating expenses saw a 22% year-on-year increase. Continuous cost control efforts and revenue growth outpacing the overall cost expansion provided positive operating leverage, which aided profitability. As a result, EBITDA in 1H 2023 improved by 31% year-on-year, reaching SAR 145 million. The EBITDA Margin improved 2.8 percentage points year-on-year to 28.5% in 1H 2023.

Net profit in 1H 2023 grew 45% year-on-year, amounting to SAR 104 million. This allowed for a 3.7 percentage points improvement in the net profit margin, bringing it up to 20.5%.

Revenue by segment, 1H 2023

(SAR mn)

Sale of pharmaceuticals, 12.2%

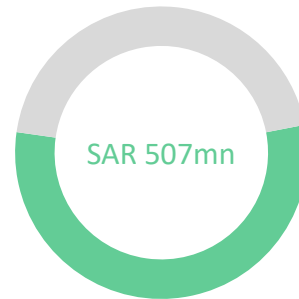


Healthcare services, 87.8%

Revenue by hospital, 1H 2023

(SAR mn)

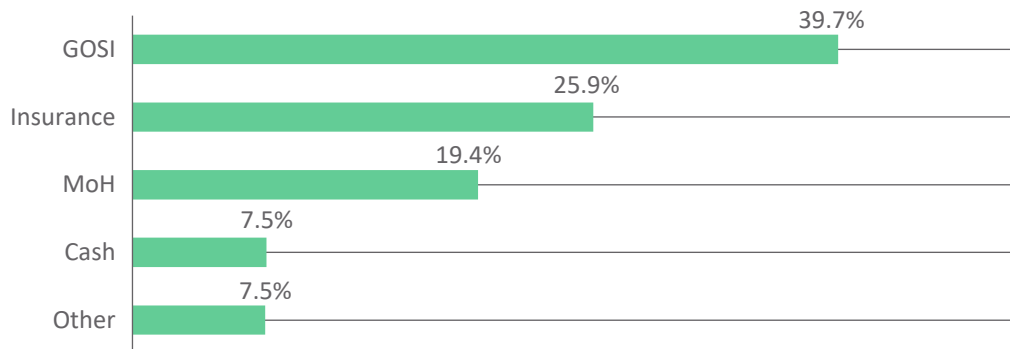
National Care Hospital, 44.7%



Riyadh Care Hospital, 55.3%

Revenue by payer, 1H 2023

(SAR mn)



Revenue in 1H 2023 amounted to SAR 507 million increasing 18% year-on-year. 88% of revenue was coming from healthcare services with Riyadh Care Hospital contributing the larger part of the total revenue in 1H 2023 (55%).

Improvement in revenue during 1H 2023 was primarily driven by higher inpatient admissions (+7% year-on-year) and the growing number of surgeries (+14% year-on-year). A robust double-digit growth in top-line was recorded from both GOSI and the Ministry of Health. GOSI revenue growth was supported by increasing number of referrals under the occupational hazards contract, while higher revenue from the MoH was driven by a mark-up in the prices associated with the Company's HIMSS certification obtained in 1Q 2023 as well as higher referrals. However, this was slightly offset by a reduction in revenue from cash patients, the conclusion of the National Guard contract in 2Q 2023, and a steady, unchanged top-line from insurance companies. Cash revenue has been impacted due to a fall in Bariatric business due to increased benefits under insurance policies, through reduction in BMI requirements and introduction of new medication assisting in weight loss. The management is working with existing partners and other payers as well as focusing on other cash segments such as dental and cosmetics to ensure the impact of loss of revenue from National Guard and drop in Bariatrics segment is offset.

Cost Trends

| SAR million | 2Q2023 | 2Q2022 | Δ% | 1H2023 | 1H2022 | Δ% |
|---------------------------------|------------|------------|-------------|------------|------------|-------------|
| Salaries and benefits | 110 | 94 | +17% | 214 | 194 | +10% |
| Medicines and consumables | 36 | 40 | -11% | 84 | 76 | +11% |
| D&A | 9 | 8 | +11% | 17 | 17 | +3% |
| Repairs and maintenance | 4 | 4 | +11% | 8 | 7 | +18% |
| Rent, utilities and other | 5 | 3 | +38% | 11 | 6 | +98% |
| Total Cost of revenues | 164 | 150 | +9% | 335 | 300 | +12% |
| Selling & marketing | 1 | 1 | -25% | 1 | 2 | -13% |
| General & administrative | 26 | 21 | +25% | 55 | 43 | +28% |
| Provisions & other | (3) | (5) | -46% | (6) | (3) | +77% |
| Total Operating Expenses | 24 | 17 | +43% | 50 | 41 | +22% |
| Total Expenses | 188 | 166 | +13% | 386 | 341 | +13% |

Total expenses in 1H 2023 witnessed a 13% year-on-year increase, primarily due to a rise in the cost of revenues (+12% year-on-year). Key contributors to this expansion included payroll expenses, medicines, and costs of medical materials and consumables. Nonetheless, these increases remained significantly lower than revenue growth in relative terms.

Operating expenses observed a 22% increase, driven primarily by an escalation in the general & administrative expenses, which was largely attributed to an upswing in professional fees related to ongoing M&A activities. To balance this increase, repairs and maintenance costs were lower in 1H 2023, and a rise in recoveries during the current period resulted in lower provisions for doubtful accounts.

The management kept expenses under stringent control in 1H 2023, with growth rates remaining substantially slower than that of revenue. This disciplined approach to cost control allowed for a notable improvement in profitability.

EBITDA and Net Income

| SAR million | 2Q2023 | 2Q2022 | Δ% | 1H2023 | 1H2022 | Δ% |
|-----------------------------|-----------|-----------|-------------|------------|------------|-------------|
| EBITDA | 70 | 61 | +14% | 145 | 110 | +31% |
| Depreciation & amortization | (13) | (11) | +13% | (24) | (23) | +3% |
| Zakat expense | (9) | (8) | +17% | (17) | (15) | +10% |
| Net Income | 48 | 42 | +14% | 104 | 72 | +45% |

EBITDA for 1H 2023 showed an increase of 31% year-on-year, amounting to SAR 145 million.

The Company benefitted from the absence of finance costs related to servicing the debt, given the interest-free status of the Company's loans. This factor contributed to a strong bottom line for the period.

As a result, the net profit for 1H 2023 rose by 45% year-on-year, amounting to SAR 104 million.

Cash Flow Highlights

| SAR million | 2Q2023 | 2Q2022 | Δ% | 1H2023 | 1H2022 | Δ% |
|---------------------------------------|-------------|--------------|--------------|-------------|--------------|--------------|
| Net Profit before zakat | 57 | 50 | +14% | 121 | 87 | +39% |
| Non-cash adjustments | 18 | 14 | +27% | 36 | 35 | +3% |
| Working capital changes | 214 | 78 | +175% | 226 | (55) | NA |
| Zakat and end-of-service benefits | (17) | (15) | +16% | (21) | (19) | +10% |
| Net cash, operations | 272 | 127 | +114% | 362 | 48 | +654% |
| Capex ¹ | (13) | (189) | -93% | (25) | (196) | -87% |
| Net cash, investing activities | (32) | (189) | -83% | (44) | (196) | -77% |
| Net cash, financing activities | (45) | (45) | +0% | (45) | (45) | +0% |
| Net changes in cash | 195 | (107) | NA | 273 | (193) | NA |

Following robust operational performance, the Company delivered significantly improved cash flow from operations in 1H 2023, amounting to SAR 362 million, a 7.5x increase year-on-year. This enhancement was primarily supported by the improved management of working capital, particularly evident in the handling of receivables during 2Q 2023. During this period the Company secured a substantial volume of payments from GOSI, totaling SAR 485 million by the close of 2Q 2023 including SR 101 million relating to older receivables till April 2020.

Investments continued throughout 1H 2023, with Capex totaling SAR 25 million, which largely reflects maintenance capital expenditure. The Company also completed an acquisition of Jiwar Medical Services Company for a total consideration of SAR 29 million, with an initial payment of SAR 19 million made in 2Q 2023.

A dividend payment of SAR 1.0 per share was distributed in 2Q 2023.

Considering the aforementioned factors, the Company saw a net increase in cash and cash equivalents of SAR 273 million during 1H 2023. Consequently, the Company's cash position as of 30 June 2023 stood at SAR 602 million, representing an 83% increase year-to-date.

¹ Not including the initial payment for purchase of Jiwar, which amounted to SAR 19 million in 2Q 2023 (net of cash acquired).

Balance Sheet Highlights

| SAR million | 2Q2023 | 4Q2022 | Δ% | 2Q2022 | Δ% |
|---|--------------|--------------|-------------|--------------|-------------|
| Total Non-Current Assets | 759 | 657 | +16% | 664 | +14% |
| Total Current Assets | 1,105 | 1,056 | +5% | 923 | +20% |
| Total Assets | 1,864 | 1,713 | +9% | 1,586 | +17% |
| Total Equity | 1,323 | 1,264 | +5% | 1,151 | +15% |
| Total Non-Current Liabilities | 193 | 163 | +18% | 182 | +6% |
| Total Current Liabilities | 347 | 286 | +22% | 253 | +38% |
| Total Liabilities | 541 | 449 | +20% | 435 | +24% |
| Cash & cash equivalents | 602 | 329 | +83% | 182 | +231% |
| Net debt | (484) | (246) | +97% | (93) | +420% |
| Days Sales Outstanding ² | 212 | 265 | -20% | 270 | -22% |
| Days Payable Outstanding ² | 113 | 106 | +6% | 100 | +12% |
| Days Inventory Outstanding ² | 24 | 26 | -6% | 27 | -10% |
| Cash Conversion Cycle ² | 123 | 185 | -33% | 197 | -37% |

As of 30 June 2023, Care's total assets grew by 9% year-to-date, amounting to SAR 1,864 million. The primary catalyst behind this growth in non-current assets was acquisition of assets related to Jiwir Medical Services Company transaction. A boost in current assets was also noted, largely due to improved collections in 2Q 2023.

Total liabilities for the Company escalated by 20% year-to-date, standing at SAR 541 million as of 30 June 2023. This increase was largely driven by growth in current liabilities, primarily due to higher payables stemming exclusively from timing differences.

The Company maintained a negative net debt position as of 30 June 2023, thanks to an 83% increase in cash and cash equivalents since the start of the year, bolstered by better receivables management.

Key cash conversion cycle indicators showed considerable improvement in 2023. The days sales outstanding metric decreased by 20% to 212 days in the LTM of 2Q 2023 compared to the LTM of 4Q 2022. An improvement in inventory turnover and longer days payable outstanding further contributed to a shortened cash conversion cycle. The overall enhancement in the cash conversion cycle was substantial, with the indicator standing at 123 days in the LTM of 2Q 2023 versus 185 days in 4Q 2022.

² Based on LTM (trailing) indicators.

Earnings Call

The Company is holding an earnings call to discuss 2Q 2023 financial results with analysts and investors on Wednesday, 16 August 2023, at 3:00 pm Riyadh time (1:00 pm London, 4:00 pm Dubai, 8:00 am New York).

Webcast link: [Care 2Q 2023 webcast](#)

Institutional Investor Contact

Care Investor Relations

Care.IR@care.med.sa

+966-11-493-1881 ext. 123 & 135

Corporate Headquarters Address

National Medical Care Company

P.O. Box 29393,

Riyadh, 11457,

Kingdom of Saudi Arabia

About Care

National Medical Care Company (Care, Tadawul: 4005) is a leading healthcare provider based in Riyadh, Kingdom of Saudi Arabia. The Company manages two state-of-the-art healthcare facilities, Riyadh Care Hospital (RCH) and Care National Hospital (CNH), totaling 622 beds as of the end of 2022. Its dedicated team of 3,000 healthcare practitioners, administrators, and support staff attended to 638.7 thousand patients and performed 18.6 thousand complex surgeries in 2022. The Company posted a revenue of SAR 917.9 million in 2022 (+9% year-on-year), an EBITDA of SAR 244.2 million (26.6% margin), and a net income of SAR 170.1 million (18.5% margin).

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