

MD & CEO's Message



2021 tested our people's resiliency, financial discipline, and vision. The strong foundation we have built over the years enabled us to weather the challenges arising from COVID-19, financially and operationally. We were able to pursue sustainable growth amid extraordinary circumstances and see the benefits of our efforts.

Dr Kelvin Loh

Managing Director and Chief Executive Officer

Dear Stakeholders,

2021 tested our people's resiliency, financial discipline, and vision. Thankfully, the strong foundations we have built enabled us to weather the challenges arising from COVID-19 financially and operationally.

One lesson I have learnt is that even in the best efforts of mapping out trends and doing strategic planning,

one cannot fully predict the future. Nothing could have exemplified this better than this pandemic. Hence, it is important to build adaptability in our organisation, which in turn provides resilience.

In 2020, I laid out our strategy to sharpen our focus on improving returns while delivering growth and achieving stronger synergies. We are happy to report that we have achieved the Return on Equity (ROE) target set in 2021 ahead of schedule. 2020 was also the year the pandemic hit – our business was most impacted in the second quarter where national lockdowns resulted in the postponement of non-urgent medical procedures and resulted in a drop in foreign patients.

But by sticking closely to our 2020 strategy, underpinned by our purpose of building trust, our performance rebounded in 2021. Thanks to our focus on safety for our people and building trust for both COVID and non-COVID patients, our patient admission into our hospitals has continued to grow over the year. We have also responded swiftly to evolving patient trends such as digitalisation and telemedicine, even before the pandemic, which has allowed us to build on the trust our stakeholders have in us.

Our revenue grew 28% to RM17.1 billion from FY2020, witnessing firm growth across all the countries we operate in. Despite disruptions and movement controls from resurging waves of the pandemic, more local patients returned to our hospitals to seek treatment. EBITDA grew to RM4.3 billion, and Net Operating Income (excluding exceptional items) increased to RM1.6 billion. Net Income or PATMI grew to RM1.9 billion on the back of stronger revenue from returning local patients, contributions from COVID-19 services rendered, and maintaining cost discipline.

In the wake of COVID-19, the global average health spending to GDP ratio jumped from 8.8% in 2019 to 9.7% in 2020. The pandemic has shown the importance of public and private partnerships and that collaboration between these sectors will be the way forward. On our end, we continue to actively support the public healthcare sector and have collaborated with governments to manage COVID-19 through efforts such as testing, screening and vaccination services.

Trust: The Cornerstone of Our Business

Healthcare decisions are deeply personal and based on trust. Only by doing right by our stakeholders can we build a business that touches lives and transforms care for generations to come.

We learned from this pandemic that people need to trust authority figures and remember that healthcare professionals have their best interests at heart. To this

day, we stand firm to our vision of being the world's most trusted healthcare services network by providing patient-centred quality care.

In furthering trust, we have focused on delivering added value through our Value Driven Outcomes (VDO) initiative, where we improve the quality of medical care for patients while optimising healthcare costs. Now practised in five regions – Singapore, Malaysia, Turkey, Brunei, Hong Kong – VDO allows us to look at value from the patient's point of view. Moving forward, we are working to cover all VDO procedures by 2024 and create a culture of improvement with our physician partners. Read more about the VDO in our Case Study on page 4.

Concurrently, we continue to strengthen trust with our stakeholders. We are fighting the COVID-19 war alongside local governments. In Singapore, the Changi Airport Group awarded Parkway Laboratory Services the contract to become a laboratory vendor to provide Polymerase Chain Reaction (PCR) tests for on-arrival travellers at Changi Airport starting from November 2021. For our people, we support and ensure that they are empowered to carry out their work safely while enabling them to grow. For our shareholders, we have achieved ahead of time the goal of doubling our return of equity that we announced at the start of 2020. We are not done yet, and we remain committed to further improving our returns and performance going forward.

Global Operations Synergised

Our sizeable global healthcare network uniquely positions us to leverage our scale and group synergies to generate value across the business. The rollout of the digital Cerebral Plus (C+), a proprietary Hospital Information System developed by our very own Acibadem Group, has been a key milestone in our implementation of synergistic platforms throughout the year. C+ allows for data standardisation, ease of changes, seamless integration of functions, and comprehensive data analytics.

Highlights

RM17.1 billion

Revenue

RM1.9 billion

Net Income

17.15

Earnings per share excluding exceptional items (sen)

8.43%

Return on Equity (December 2021)

C+ was localised and rolled out in Malaysia across Pantai Hospitals and Gleneagles Kuala Lumpur Hospital. This successful rollout is a testimony to our teamwork across borders, during heightened travel restrictions and our commitment to excellence. We have also surpassed the RM100 million target in cost savings with a Group procurement bulk-purchasing initiative in 2021.

Sustainable Growth for Generations to Come

We are at the point of our journey where we are poised to accelerate our growth, do so in a sustainable way, and continue to improve our ROE for all our stakeholders.

Journeying into 2022, we have set our sights on four strategic pillars anchored on 'Care. For Good.'. We will provide sustainable growth for all stakeholders, including patients, people and the public. This is the new Growth Strategy as we celebrate our 10th anniversary as a listed company. Our four strategic pillars are; build a trust culture, improve operations locally, synergise globally, develop growth engines, and have a compelling sustainability agenda.

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We have identified five areas of sustainable growth engines. First, we begin with post-COVID-19 recovery as we emerge into the new normal. Second, we will grow organically by improving bed occupancy and utilisation of existing facilities. We seek to continue to improve operating efficiency and revenue intensity through more sophisticated and complex medical offerings. This will fundamentally enhance the returns on our current asset base.

Third, we will acquire strategic assets utilising cluster strategy and into adjacent markets with our deep operating know-how. We are well-positioned to seize merger & acquisition opportunities, and will explore investments in the healthcare value chain to deepen our home markets presence. This expansion of our clusters will allow us to improve operational efficiencies and tap on synergistic savings from operating overheads in our localities.

Fourth, we aim to develop our laboratory business in the various markets to become a global laboratory platform. COVID-19 has propelled the robust growth of this space, and more frequent testing is required as we move towards endemic living. Laboratory services is a core business in our portfolio and in 2021 accounted for RM2.0 billion in revenue.

Fifth, we will see us driving innovation and embarking on a digital transformation journey through digital and health tech platforms. Today's patients are seeking new ways to access healthcare. We want to fulfil that need and offer our patients an omnichannel health experience.

Digital technologies enable the shift of care downstream, and we see this as an opportunity. Investing in technologies will enable us to seamlessly deliver parts of our care beyond the hospital walls. This enables our patients to continue to trust us, as we innovate to provide them with greater convenience, confidence and empower them to make active decisions in their healthcare journey. We see increased investments in digitalisation and innovation as a host of new technologies are integrated into care delivery, genomics and precision medicine.

Sustained Recovery and Resilient Performance in Our Operations and Markets

Malaysia

There has been sustained recovery in Malaysia, with contributions from increased local patient admission, complex medical cases and COVID-19 related services. This is despite the movement control order (MCO) enacted in January 2021. At the same time, we have made significant progress with the rollout of C+ at Pantai Hospital Ipoh and Pantai Hospital Penang. Looking into 2022, our goal is to increase patient volumes and bed occupancy to pre-Covid level as the situation normalises, to grow via the cluster strategy approach, and to extend reach to a rapidly growing middle-class population in the country.

Singapore

The performance of Singapore's hospitals has remained resilient despite lower foreign patient volumes. On the other hand, Parkway Laboratory Services is the first private laboratory in Singapore to run the PCR test for COVID-19 testing. Our laboratory capabilities have been enhanced for COVID-19 to increase testing capacity.

A new master lease agreement with PLife REIT for three Singapore hospitals will extend our term until 2042. The move strengthens IHH's ability to operate at its prime locations and serve patients in Singapore. The agreement includes an approximate RM460 million in renewal capital expenditure, further enhancing our hospitals' competitiveness and quality positioning.

Our goal is to drive revenue intensity as a "super" specialisation hub in the future. In 2023, IHH will be the first private hospital in ASEAN to open the Proton Therapy Center in Mount Elizabeth Novena Hospital. We will also be placing our focus on growing the primary care and ambulatory care segment.

Turkey & Europe

For the full year of 2021, our Turkish and European business has been on a strong recovery path. Our Non-Lira contribution from operations has increased since 2017 to about 40%. In addition, prices adjustments for our service offerings were adjusted to counter inflation in the country.

With that, Acibadem has continuously been enhancing its services in Turkey and Europe by undertaking more complex cases during the year. In Q3 2021, Acibadem performed a highly complex, 27-hour milestone operation to separate a set of conjoined twins.

Through cross-currency swaps, we have hedged our foreign debt exposure and stabilised earnings. We diversified our European based earnings to about 28% of revenue. We aim to expand our footprint in Europe to funnel more medical tourism to our Turkey hospitals.

India

We saw a strong recovery of core non-COVID business, driving cost discipline and increasing productivity. With the streamlining of operations, our cost savings plan for Fortis has borne fruit.

As part of our strategy to increase returns for our stakeholders, we divested Continental Hospitals in Hyderabad and Apollo Gleneagles Hospital Joint Venture in Kolkata. We remain committed to growth in our India operations and Fortis is our largest platform. This is in line with the Group's continued execution of its strategy, one pillar of which is to review its portfolio and capital deployment to prioritise returns.

Additionally, Fortis and Gleneagles Global Hospitals in India are providing increasingly complex procedures in India, including removing a 10kg tumour in Gurugram and a hand transplant in Mumbai.

In the coming years, our focus will be on improving the performance of Fortis and Gleneagles Global Hospitals to capture the high growth potential of private healthcare and laboratory services, through SRL Diagnostics, in India.

Greater China

We are pleased to announce that Gleneagles Hospital Hong Kong (GHK) achieved EBITDA breakeven in May 2021 and it is in a strong growth trajectory. Patient growth continued despite COVID-19. GHK will focus on increasing services and operational beds with our goal to grow EBITDA continuously.

A delay in the ramp-up of Gleneagles Chengdu Hospital, hampered by the COVID-19 pandemic, saw the impairment of its assets. However, we will continue to focus on ramping up the hospital's operations with the introduction of high acuity specialties and re-examining the physician engagement model to expand the patient base in Chengdu. Meanwhile, we will work on minimising start-up costs for new hospitals in China, as the Group looks to open Parkway Shanghai Hospital in late 2022.

Our Gratitude

We have certainly been hit with curveballs from the pandemic, but are beginning to see a return to normality with the broader rollout of vaccines and booster shots. While patients are at the centre of our healthcare delivery, we are cognizant that we are not able to deliver care without our people.

I thank our people who are doing their best for our patients and our doctors and nurses who go home with mask marks on their faces after a long day of caring for their patients. Our cleaners have stepped up their sanitising frequency to keep our patients safe. These are the very people who can count on us to stand by them when they do the right thing for our patients.

To this end, we assure our people that we will protect their livelihoods and make sure they have the equipment and resources they need to fight the pandemic war.

Future Forward

Our core operations have rebounded from the challenges we faced in the past two years. Our focus is to ensure that our people and patients continue to trust us.

The COVID-19 outbreak has underscored the importance of doubling down on preventive and primary care to ensure hospitals can manage any future outbreaks. The World Health Organization noted that healthy, productive, and economically secure populations are backed by primary health care systems that leave no one behind. At the same time, as the Asian population ages, the need for hospital beds will increase. Acute tertiary care will continue to rise in physical settings such as complex surgeries, cardiovascular illness, and cancer treatment.

COVID-19 has shown a number of spike mutations and beyond Omicron, we might continue to see new variants. However, we will remain resilient by sticking closely to our strategy of putting the patients at the centre of all we do.

This year we are excited to mark the 10th anniversary of IHH's listing in Malaysia and Singapore. In commemoration of the listing, we will launch various campaigns to celebrate the rich legacy of the various brands under IHH, and unveil IHH's 'Care. For Good.' Strategy anchored on four strategic pillars, and #CareForGood initiatives, which drives our sustainability agenda for the Group. Since our initial public offering in 2012, we have seen the Group grow from strength to strength. For the full year of 2021, IHH's share price has improved by 33% and outperformed the KLCI by 37%.

Our focus in the next phase will be centred on our commitment to care for patients, people, the public and our planet. We will continue to strengthen our trust culture; improve operations locally, synergise globally; and develop sustainable growth platforms, with a clear goal to increase ROE, including our focus on growing the laboratory business and setting aside US\$100 million over the next three years for our digital transformation journey.

We are pursuing a patient-centric digital transformation roadmap to deliver better, seamless, and affordable care over the next few years. In building our digital

Combining our online and onsite services will enable us to give our patients greater convenience, empowerment and the ability to do self-care. We seek to create a consumer-first, patient-centric model to allow patients to draw from an even wider network of services.

ecosystem, we see an opportunity to deliver our core services seamlessly from within the hospital walls and beyond. We seek to create a consumer-first, patient-centric model to allow patients to draw from an even wider network of services.

Keeping our focus on our vision to be the world's most trusted healthcare services network, we are on track for sustainable growth in the new normal.

As we emerge from the pandemic, IHH will not lose sight of our True North, our purpose to touch lives and transform care, and to keep our people and patients safe. We are poised for sustainable growth and are committed to growing our returns as we execute our growth strategy.

Thank you.

Dr Kelvin Loh Chi-Keon

Managing Director and
Chief Executive Officer