

Integrated Diagnostics Holdings Plc

9M2018 Results Update

Wednesday, 21 November 2018

Integrated Diagnostics Holdings Plc Update on 9M2018 Results

(London) Integrated Diagnostics Holdings ("IDH," "the Group," or "the Company"), IDHC on the London Stock Exchange, a leading consumer healthcare company with operations in Egypt, Jordan, Sudan and Nigeria, released today unaudited highlights of its financial and operational performance in the first nine months of 2018, reporting unaudited net profit of EGP 356 million on total unaudited revenues of EGP 1,377 million¹.

Results

	9M2018	9M2017
Revenues	1,377	1,100
Cost of Sales	698	570
Gross Profit	680	528
<i>Gross Profit Margin</i>	49%	48%
Operating Profit	488	390
EBITDA²	543	430
<i>EBITDA Margin</i>	39%	40%
Net Profit	356	280
<i>Net Profit Margin</i>	26%	26%

1 By the terms regulating the company's listing on the LSE, IDH is required to release audited financials at the half- and full-year marks. Management and the Board of Directors have committed to providing performance updates in the first and third quarters as an outgrowth of the Company's commitment to transparency. All figures in this update are accordingly unaudited and provided from Management accounts.

2 EBITDA is calculated as operating profit plus depreciation and amortization.

IDH Chief Executive Officer Dr. Hend El-Sherbini said:

"Our nine-month results leave me increasingly confident that our Group will end 2018 on a strong note with financial performance in line with our targets and having made significant headway on our strategic initiatives. We continued to deliver strong top-line growth of 25%, while our focus on marketing efforts and test mix has seen us extract higher value from increasing patient and test volumes. This in-turn has allowed us to deliver outstanding Group profitability despite of operating challenges, including double-digit inflation, the Sudanese pound's devaluation, and investment costs associated with growing and integrating our newly acquired Nigerian operation into our platform. In that regard, I'm pleased to report that Nigeria's integration efforts and value-building phase are progressing according to business plan, and we expect the operation to begin contributing to Group profitability by 2019.

"More so, I'm also pleased to announce that operations at the Group's first full-fledged radiology branch in Egypt commenced in October 2018 under the AI Borg Scan brand. This marks IDH's venture into the high-value, adjacent radiology segment, serving as a key growth driver for the Group going forward. Our aim is to provide a consolidated service to our millions of customers, leverage our brands' strong equity and enhance our geographic reach to capitalize on the market's favourable dynamics. I look forward to reporting to you on progress in the months ahead as we push forward with the build-up of AI Borg Scan into a leading radiology brand and service provider in Egypt."

"Finally, we reaffirm our full-year 2018 guidance for revenue growth of over 20% and an EBITDA margin of c. 40% at our established businesses in Egypt, Sudan, and Jordan."

Financial & Operational Highlights

- **Revenues** grew 25% year-on-year to EGP 1,377 million in 9M2018 from EGP 1,101 million in 9M2017. Solid top-line growth comes primarily on the back of better pricing and test mix and was further supported by growing patient and test volumes. Revenues from the higher-margin walk-in segment grew especially rapidly in the first nine months of 2018, reflecting the Group's efforts in extracting greater value from the segment.
- **Cost of sales** reached EGP 698 million in 9M2018, up 22% year-on-year, and continues to increase at a slower rate than revenue growth thanks to several cost reduction initiatives. **Raw materials costs** as a percentage of sales have declined to 19% in 9M2018 from 22% in the same period last year.
- **Gross profit** recorded EGP 680 million for 9M2018 - a 29% year-on-year increase and with gross profit margin expanding one percentage point to 49% during the nine-month period. Margin expansion is a result of an increased contribution from the higher-margin walk-in segment and improved test mix, the continuing success of cost reduction initiatives particularly in IDH's home market of Egypt, and the negotiation of more favourable raw material prices.

- **Operating profit** rose 25% in 9M2018 to EGP 488 million versus EGP 391 million in 9M2017. Strong operating profit growth comes despite increased SG&A expenses amid annual salary and wage raises, higher expenses associated with successful marketing campaigns and pre-operating expenses related to the launch of AI-Borg Scan.
- **EBITDA** increased by 24% to EGP 543 million in 9M2018 compared to EGP 437 million in 9M2017. Despite the negative impacts stemming from the devaluation of the Sudanese pound as well as increased marketing spend, IDH's EBITDA margin remained largely stable at 39.4% in 9M2018 versus 39.7% in the same period last year. It is worth noting that the Group's consolidated EBITDA now includes contributions from its newly launched Nigerian operation - still in the value-building phase - without which consolidated EBITDA would have reached EGP 554 million in 9M2018, with a margin of 41% in line with management's guidance.
- **Net interest income** reached EGP 30 million in 9M2018, up 27% from EGP 24 million in 9M2017. This comes as the Group earned higher rates on its accumulated time deposits and T-Bill balances, particularly during the first quarter of 2018.
- **Net foreign exchange loss** amounting to EGP 12 million in 9M2018 is unchanged from the loss recorded during the same period last year, and is primarily a result of the devaluation of the Sudanese pound and FX transactions related to dividend distributions.
- **Net profit** increased 26% to EGP 356 million in 9M2018 from EGP 283 million in 9M2017, driven by solid top-line growth, gross margin expansion and increased interest income.
- **Total tests** performed stood at 19.6 million in 9M2018, up 4% year-on-year. **Total patients** served climbed 8% year-on-year to reach 5.0 million during the period, reflecting the continued success of IDH's marketing campaigns and growing branch network.
- IDH's key metrics of **average revenue per test** increased 21% in 9M2018 while **average revenue per patient** climbed 16% during the period, demonstrating IDH's ability to pass-on inflationary pressures thanks to patients' loyalty, a growing portfolio of services and its strong brand equity.
- **Management affirms its guidance** for the full year 2018. IDH continues to target combined revenue growth of over 20% and an EBITDA margin of c. 40% at from its established businesses in Egypt, Jordan and Sudan and excluding Nigeria.

Outlook

IDH's forward-looking strategy rests on leveraging its established business model to achieve four key strategic goals, namely: (1) continue to expand customer reach; (2) increase the number of tests per patient; (3) expand into new geographic markets through selective, value-accretive acquisitions; and (4) introduce new medical services by leveraging the Group's network and reputable brand position.

About Integrated Diagnostics Holdings (IDH)

IDH is a leading consumer healthcare company in the Middle East and Africa with operations in Egypt, Jordan, Sudan and Nigeria. The Group's core brands include Al Borg and Al Mokhtabar in Egypt, as well as Biolab (Jordan), Ultralab and Al Mokhtabar Sudan (both in Sudan) and Echo-Scan (Nigeria). A long track record for quality and safety has earned the Company a trusted reputation, as well as internationally recognised accreditations for its portfolio of over 1,400 diagnostics tests. From its base of 414 branches as of 30 September 2018, IDH will continue to add laboratories through a Hub, Spoke and Spike business model that provides a scalable platform for efficient expansion. Beyond organic growth, the Group's expansion plans include acquisitions in new Middle Eastern and African markets where its model is well-suited to capitalise on similar healthcare and consumer trends and capture a significant share of fragmented markets. IDH has been a Jersey-registered entity with a Standard Listing on the Main Market of the London Stock Exchange (ticker: IDHC) since May 2015.

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Shareholder Information

LSE: IDHC.L

Bloomberg: IDHC:LN

Listed: May 2015

Shares Outstanding: 150 million

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Forward-Looking Statements

These Interim Results have been prepared solely to provide additional information to shareholders to assess the group's performance in relation to its operations and growth potential. These Interim Results should not be relied upon by any other party or for any other reason. This communication contains certain forward-looking statements. A forward-looking statement is any statement that does not relate to historical facts and events, and can be identified by the use of such words and phrases as "according to estimates", "aims", "anticipates", "assumes", "believes", "could", "estimates", "expects", "forecasts", "intends", "is of the opinion", "may", "plans", "potential", "predicts", "projects", "should", "to the knowledge of", "will", "would" or, in each case their negatives or other similar expressions, which are intended to identify a statement as forward-looking. This applies, in particular, to statements containing information on future financial results, plans, or expectations regarding business and management, future growth or profitability and general economic and regulatory conditions and other matters affecting the Group.

Forward-looking statements reflect the current views of the Group's management ("Management") on future events, which are based on the assumptions of the Management and involve known and unknown risks, uncertainties and other factors that may cause the Group's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. The occurrence or non-occurrence of an assumption could cause the Group's actual financial condition and results of operations to differ materially from, or fail to meet expectations expressed or implied by, such forward-looking statements.

The Group's business is subject to a number of risks and uncertainties that could also cause a forward-looking statement, estimate or prediction to differ materially from those expressed or implied by the forward-looking statements contained in this communication. The information, opinions and forward-looking statements contained in this communication speak only as at its date and are subject to change without notice. The Group does not undertake any obligation to review, update, confirm or to release publicly any revisions to any forward-looking statements to reflect events that occur or circumstances that arise in relation to the content of this communication.

Operational & Financial Review

IDH's results for the nine-month period continued on the same upward trajectory with revenues growing 25% year-on-year. Revenue growth was driven primarily by improved pricing and test mix and was further supported by higher patient and test volumes. The company's tactical marketing campaigns were successful in driving volume growth across both the contract and walk-in clients, while simultaneously allowing the company to pass-on price increases following a period of high inflation and eroded consumer spending. The success of this strategy in a challenging operating environment confirms the strong market position of our portfolio of brands.

Top-line growth also comes despite a lower revenue contribution from operations in Sudan, where the devaluation of the Sudanese Pound saw local-currency revenue gains lost to currency translation in IDH's consolidated financials. Additionally, the Group witnessed a slower performance during the month of August on account of the week-long Eid Al Adha holiday.

Management was also successful in increasing revenue contribution for the higher-margin walk-in segment, while at the same time pushed through increased cost efficiency and reduction initiatives. This in-turn helped enhance the Group's profitability margins during the nine-month period, with gross profit up 29% year-on-year in 9M2018 to EGP 680 million and gross profit margin expanding one percentage point to 49%. The Group's EBITDA also recorded a strong 24% year-on-year increase to EGP 543 million in 9M2018, with EBITDA margin remaining largely stable year-on-year at c.39%. Said results include a negative EGP 10 million EBITDA contribution from IDH's newly acquired operation in Nigeria which is still in the value-building phase. Excluding Nigeria, Group EBITDA margin would record 41% in 9M2018. Strong top-line growth, improved gross profitability and higher interest income reflected positively on IDH's bottom-line for the nine-month period, with net profit up 26% year-on-year to EGP 356 million.

On the operational front, the third quarter of 2018 witnessed the inauguration of the Group's first full-fledged radiology branch under the Al-Borg Scan brand. Located in the Cairo district of Mohandessin, the branch offers a comprehensive suite of radiology services, including MRI, CT Scan and PET Scan, and kicks off the Group's venture in the radiology market with a further three branch openings planned during 2019.

Meanwhile, IDH continued to expand its geographic footprint in 9M2018, adding 31 new branches during the nine-month period to reach a total 414 branches, up c. 8% compared to year-end 2017. Branch additions included 10 in Nigeria through acquisition, IDH's newest market, 20 in Egypt and one new branch in Jordan. The Group's expansion drive is supported by its state-of-the-art Mega Lab which allows IDH to deploy its Hub, Spoke and Spike business model in Egypt to roll out capital-efficient "C" labs more rapidly. In February 2018, the Mega Lab was awarded accreditation from the College of American Pathologists (CAP), widely considered the leader in laboratory quality assurance globally.

Branches by Country

	30 September 2018	31 December 2017
Egypt	360	329
Jordan	19	19
Sudan	25	25
Nigeria	10	0

Our Customers

IDH serves two principal types of clients: contract (corporate) and walk-in (individuals). Within each of these categories, the Group also offers a house call service, and within the contract segment, a lab-to-lab service.

Contract Clients

IDH's contract clients include institutions such as unions, private insurance companies and corporations who enter into one-year renewable contracts at agreed rates per-test and on a per-client basis. During 9M2018, contract clients represented 58% of IDH's total revenues, with the Company having served 3.6 million patients under these contracts and performed a total of 14.7 million tests, with no single contract client accounting for more than 1.5% of revenues.

Walk-in Clients

Walk-in clients contributed 42% to the Group's total revenues in 9M2018, up from 39% in the same period last year. The segment regained its growth momentum where total walk-in clients numbered 1.5 million in 9M2018, up 19% year-on-year, and received 4.9 million tests.

The ratio of contract to walk-in patients during 9M2018 was 71:29 compared with 74:26 in 9M2017, reflecting IDH's sustained marketing effort to target walk-in patients. That said, we expect the ratio to remain skewed in favour of contract patients; this is in step with the general market-wide shift in patient mix in recent years and is a natural outgrowth of market dynamics in Egypt, as companies are extending additional benefits to their staffs. The trend has been encouraged by continued high inflation, which is eroding consumer spending power and thus putting incremental pressure on corporations to provide either health insurance or corporate plans.

Key Performance Indicators

	9M2018			9M2017		
	Walk-In	Contract	Total	Walk-In	Contract	Total
Revenue (EGP '000)	581,037	796,313	1,377,350	434,557	666,260	1,100,817
<i>% of Revenue</i>	42%	58%	100%	39%	61%	100%
Patients ('000)	1,465	3,553	5,018	1,231	3,429	4,660
<i>% of Patients</i>	29%	71%	100%	26%	74%	100%
Revenue per Patient (EGP)	397	224	274	353	194	233
Tests ('000) ³	4,933	14,703	19,636	4,367	14,545	18,912
<i>% of Tests</i>	25%	75%	100%	23%	77%	100%
Revenue per Test (EGP)	118	54	70	100	46	55
Test per Patient	3.4	4.1	3.9	3.5	4.2	4.0

³During the period, IDH reclassified some tests from contract to walk-ins. Without the reclassification, walk-in tests would have recorded a 9% year-on-year growth in 9M2018 while contracts test would be 2% higher than the same period last year.

Revenue Analysis: Contribution by Patient Segment

Consolidated revenues increased 25% year-on-year in 9M2018 to EGP 1,377 million, with both the corporate and walk-in segments contributing to growth. Total patients served across both segments climbed 8% year-on-year and total tests grew 4% during the nine-month period. Parallel to volume growth, selective price increases and better sales mix also made important contributions to revenue growth. This is clearly reflected in IDH's two key revenue metrics of average revenue per patient (up 16% in 9M2018) and average revenue per test (up 21%).

Revenues from contract clients recorded a 20% increase in 9M2018 to EGP 796 million, supported by an overall trend toward corporate health insurance coverage, especially in IDH's home market of Egypt. Better pricing mix saw the contract segment record a 15% increase in average revenue per contract patient and an 18% increase in average revenue per contract test; surpassing volume growth of 5% in number of contract patients and a 1% increase in associated tests.

Revenue from the walk-in segment increased at a faster pace during 9M2018, recording a 34% year-on-year increase to EGP 581 million during the period. Segment growth was driven by both improved pricing and a continued turnaround in walk-in patient trends. Total number of walk-in patients increased 19% in 9M2018 while total tests were up 13% during the same period. Higher volumes reflect the Group's efforts to target the segment with tactical marketing campaigns - including attractive features such as discounts on chronic disease tests and partnerships with banks for affordable payment programs. Meanwhile, with inflationary pressures in Egypt gradually easing (coming off a high base) and as consumers are increasingly adapting to new price levels following the late 2016 devaluation of the Egyptian pound, IDH has been successful in passing-on prices increase to consumers. This is clearly reflected in average revenue per walk-in patient recording a 10% increase and average revenue per walk-in test increasing 20% in 9M2018. Whilst the segment contributes the smaller share to total revenues (9M2018: 42%), the dual effect of strong volume growth and better pricing saw walk-in patients contribute 53% to total revenue growth for the period.

Revenue Analysis: Contribution by Geography

On a geographic basis, Egypt contributed 83% of total revenues in 9M2018 (9M2017: 82%), followed by Jordan at 13% (9M2017: 15%) and Sudan and Nigeria each contributing 2% to total revenues (Sudan 9M2017: 3%).

Revenues by Country

(EGP million)

	9M2018	9M2017
Egypt	1,141	904
Jordan	183	163
Sudan	28	34
Nigeria	24	-
Total	1,377	1,102

Revenues from IDH's home market of Egypt recorded the fastest growth in 9M2018 at 26% year-on-year to EGP 1,141 million. Constituting the largest share of total revenue and coupled with strong year-on-year growth saw operations in Egypt contribute the lion's share

to the Group's total revenue growth at 86% in absolute terms. Total patients served in Egypt were up 6% during the nine-month period, whilst tests performed rose 3%. On a segment basis, walk-in patient volumes recorded strong growth of 15% in 9M2018 while volumes in the contract business recorded a 3% increase.

To drive both the acquisition of new patients and expanded test volumes, the Group offered payment plans and packages for selected tests; launched tactical advertising campaigns to raise awareness of chronic diseases; and implemented a new customer relationship management (CRM) program that reached out to patients with marketing messages via SMS.

In Jordan, revenues were up 12% year-on-year in 9M2018 to EGP 183 million and contributed c. 7% to the Group's consolidated revenue growth in absolute terms. IDH's Jordan-based subsidiary Biolab delivered a strong operational performance despite the economic challenges, with a 19% increase in number of patients served and a 15% gain in number of tests performed.

Revenues from Sudan increased 45% in SDG terms during 9M2018, however, the devaluation of the Sudanese pound saw top-line gains muted when translated into EGP for the Group's consolidated financial statements. The average SDG:EGP exchange rate was 0.63 in 9M2018 versus 1.10 in 9M2017, with the result being an 18% decline in Sudan revenues in EGP terms to EGP 28 million.

Nigeria, IDH's newest market, contributed revenues of EGP 24 million in 9M2018 with key metrics surpassing budgets despite the operation still being the value-building phase. The country's contribution to total consolidated growth stood at 2% during the period.

Cost of Sales

Cost of sales posted EGP 698 million in 9M2018, up 22% year-on-year, and continued to increase at a slower rate than revenue growth thanks to several cost reduction initiatives. As a result, IDH's gross profit margin rose by one percentage point to reach 49% in 9M2018. Gross profit reached EGP 680 million for 9M2018 - a 29% year-on-year expansion.

Raw material costs continued to be the largest contributor to COGS at 37% in 9M2018. Due to the increased volume of business, raw material costs grew 9% year-on-year to record EGP 261 million in 9M2018, including the cost of tests sent abroad. This translates to an average raw material cost per test of EGP 13.3 in 9M2018, up only 5% versus 9M2017 despite the prevailing double-digit inflation. It is also worth noting that management's efforts in improving patient and test mix and negotiating more favourable raw material prices have led to an overall decline in raw material costs as a percentage of sales to 19% in 9M2018 from 22% in 9M2017. This is particularly true in IDH's home market of Egypt where cost-reduction efforts have seen gross profit margin expand significantly from 51.4% in 9M2017 to 54.0% in 9M2018.

Direct salaries and wages, the second-largest component of COGS at 33%, increased 32% year-on-year to EGP 230 million in 9M2018. The increase was driven by staffing of new branches including the consolidation of IDH's new Nigerian operation, along with higher incentive compensation tied to strong revenue growth. Salaries and wages remained stable as a percentage of revenues, rising by less than one percent year-on-year to 17% in 9M2018.

Other expenses, including branch utilities and rent, were up 35% year-on-year posting EGP 157 million in 9M2018. Growth in the expense item was driven by utility price hikes implemented in Egypt in July 2017 and July 2018, increases in branches' rental contracts in early 2018, and the overall increase in the number of branches.

EBITDA

The Group's consolidated EBITDA grew by 24% year-on-year to stand at EGP 543 million in 9M2018 compared to EGP 437 million in 9M2017. EBITDA margin remained stable at c.39% despite the inclusion of a negative EBITDA of c.EGP 10 million from IDH's new Nigerian operations - currently in the value-building phase - as well as the devaluation of the Sudanese pound which offset the country's top-line gains. Excluding the Nigerian operation, EBITDA growth would have recorded 27% year-on-year with a margin of 41%.

The Group's Egyptian operation contributed 95% of consolidated EBITDA in 9M2018, up from 90% during 9M2017 on the back of strong business in the market, a stable contribution from Jordan, and negative contributions from Sudan and Nigeria during the period. Lower raw material costs and favourable operating leverage on strong revenues have seen the Egyptian operation's EBITDA margin grow to 45% in 9M2018 compared to 43% in 9M2017. The Sudanese operation's EBITDA margin dropped to negative 2% in 9M2018 from 21% in 9M2017, impacted by the devaluation of the Sudanese pound, higher salaries paid in US\$ to expatriates, and lower patient volumes. IDH is working to limit expatriate salaries by increasing dependence on local hires. EBITDA from the Group's Jordanian operation, Biolab, contributed 7% to consolidated EBITDA and delivered a stable EBITDA margin of 21%.

Interest Income / Expense

IDH recorded interest income of EGP 40 million in 9M2018, up from EGP 33 million in the same period last year. Higher interest rates along with prudent cash management saw the Group maximise return on its accumulated time deposits and treasury bills balances.

Interest expense, which is primarily related to the Company's finance lease contracts, increased by approximately EGP 1.1 million to reach EGP 10.2 million for 9M2018. The increase was driven by a supplier's finance lease contract being denominated in US dollar.

Foreign Exchange

IDH recorded a net foreign exchange loss amounting to EGP 12 million in 9M2018. The figure is unchanged from the loss recorded during the same period last year, and is primarily a result of the devaluation of the Sudanese pound and FX transactions related to dividend distributions and salary expenditures.

Taxation

In 9M2018, IDH recorded a tax expense of EGP 135 million compared to EGP 97 million in 9M2017, with an effective tax rate of 27% versus 24% during the same period last year. There is no tax payable for IDH's two companies at the holding level. All tax is paid on profits generated by operating companies in Egypt, Jordan, Sudan, and Nigeria.

The Group's dividend policy is to distribute any excess cash after taking into consideration all business cash requirements and potential acquisition considerations. As a result, a deferred tax liability is recognised for the 5% tax on dividends for the future expected distribution payable by Egyptian entities under Egyptian tax legislation. Deferred tax expense in 9M2018 was EGP 13 million versus an expense of EGP 22 million in the same period a year earlier.

Net Profit

IDH posted a consolidated net profit of EGP 355 million in 9M2018, up 26% versus the EGP 283 million recorded in 9M2017. This bottom-line expansion comes on the back of strong revenue growth, an increase in EBITDA, and prudent cash management policies. IDH's net profit margin remained stable at 26% for 9M2018.

Balance Sheet

On the assets side of the balance sheet, net property, plant and equipment (PPE) rose to EGP 847 million at 30 September 2018 from EGP 685 million at 31 December 2017, primarily due to the consolidation of Echo-Scan's fixed assets amounting to EGP 43 million. Other investments included EGP 40 million in CAPEX outlays for the Group's new corporate headquarters, slated for completion in 4Q2018, as well as EGP 122 million related to branch network expansion and renovations.

Accounts receivable stood at EGP 172 million at the end of 9M2018 compared with EGP 140 million at year-end 2017. IDH continued to benefit from its collection strategy with accounts receivables days-on-hand (DOH) decreasing to 120 days at 30 September 2018 from 123 days at 31 December 2017.

The Group's "days inventory outstanding" decreased slightly to 82 days as at 30 September 2018 from 83 days at 31 December 2017.

On the liabilities side, accounts payable stood at EGP 133 million versus EGP 126 million at year end 2017. The Group's days payable outstanding (DPO) decreased to 143 days at 30 September 2018 from 148 days at 31 December 2017.

- Ends -

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