RNS Number : 8916F
Integrated Diagnostics Holdings PLC
23 May 2017

For the purpose of the Transparency Directive the Home Member state of the issuer is the United Kingdom.

Integrated Diagnostics Holdings Plc

1Q2017 Results Update

London, 23 May 2017

Integrated Diagnostics Holdings Plc Update on 1Q2017 Results

(London) Integrated Diagnostics Holdings ("IDH" or "the Group"), IDHC on the London Stock Exchange, the largest fully integrated private-sector provider of medical diagnostics services in Egypt, Jordan and Sudan, released today unaudited highlights of its financial and operational performance in the first quarter of 2017, reporting unaudited net profit of 89 million Egyptian pounds (EGP) on total unaudited revenues of EGP 346 million.[1] Unaudited EBITDA stood at EGP 136 million in 1Q2017, representing period-on-period growth of 9%.

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

"I am very pleased to report the Group is off to a strong operational and financial start in 2017. Our revenue growth accelerated 26% year-on-year in 1Q2017, up significantly from a fully-year rate of 15% in 2016, spurred by higher patient and test volumes and better pricing, as well as some favourable currency translation impact.

"1Q2017 was the first full quarter of operations following the November 2016 float of the Egyptian pound, which resulted in high inflation for Egyptian consumers and pressure on the cost of imported raw materials. Despite this environment, IDH delivered EBITDA growth of 9%, with the associated EBITDA margin coming under pressure due primarily to these higher raw material costs. Expansion-related expenses were also a factor, as we continued to expand our footprint in the period with the opening of 8 new branches for 14% annual unit growth to a total network of 362. The increased contribution of revenues from lower-margin businesses in Jordan and Sudan was also a factor.

"Strong fundamentals continue to support our growth outlook for diagnostic services in Egypt. I remain confident that our trusted brands, strong supplier relationships, growing branch network and asset-light business model will continue to be our greatest strengths as we aim to grow our business while preserving our healthy margins in a still-developing macro backdrop. Accordingly, we reaffirm our 2017 guidance that targets revenue growth in excess of 20% and EBITDA margins at or above 40% given our expectation that the negative currency translation impact on our costs will be less pronounced as the year progresses."

Results *(EGP mn, unless otherwise stated)*

	1Q2017	1Q2016	% change
Revenues	**346**	**274**	**26%**
Operating Profit	123	115	7%
EBITDA[2]	**136**	**125**	**9%**
EBITDA Margin	39%	46%	*-7 pts*
Net Profit	**89**	**84**	**6%**
Net Profit Margin	26%	31%	*-5 pts*
Earnings per Share (EGP)	0.59	0.56	5%

1By 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.

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

Financial & Operational Highlights

•€€€€ **Revenues** increased 26% y-o-y to EGP 346.3 mn in 1Q2017, driven by a combination of the favourable impact of foreign currency translation of results from the Company's Jordanian and Sudanese subsidiaries into Egyptian pounds; better pricing; and higher patient and test volumes.

•€€€€ **Gross profit** rose 12% to EGP 168.8 mn in 1Q2017 versus EGP 150.3 mn a year earlier, with an associated gross profit margin decline of c. 600 basis points (bp) to 49%. The primary pressure point was higher raw material costs, reflecting the negative effect of the November 2016 devaluation of the Egyptian pound.

•€€€€ **Operating profit** gained 7% y-o-y to EGP 122.9 mn in 1Q2017, with SG&A expenses rising slightly as a percentage of sales due mainly to the translation of the salaries of the Group's Jordanian subsidiary into Egyptian pounds.

•€€€€ **EBITDA** was 9% higher in 1Q2017 at EGP 136.3 mn than a year ago. The Group's EBITDA margin was c. 650 bps lower at 39%, reflecting increases in raw material costs; rent and utilities expenses related to branch expansion; and SG&A costs.

•€€€€ The **net foreign exchange loss** amounted to EGP 3.2 mn, largely related to intercompany transactions. The loss this year was 27% below the EGP 4.4 mn loss recorded in the year-ago period.

•€€€€ **Interest expense** increased to EGP 3.3 mn on the back of a supplier's finance lease contract denominated in US dollars.

•€€€€ **Net profit** increased 6% to EGP 88.7 mn in 1Q2017, with an associated net margin decline of c.500 bps to 26%.

- €€€€ **Total tests** increased 3.5% y-o-y in 1Q2017 to 6.1 mn, and **total patients served** gained 5% to 1.4 mn.

- €€€€ While **total tests-per-patient** declined 2% y-o-y, **average revenue-per-patient** was up 20% and **average revenue-per-test** was up 22%, reflecting the Company's ability to raise prices in Egypt's ongoing inflationary environment.

- €€€€ **Affirming guidance** for the full 2017 year, IDH continues to target revenue growth in excess of 20%, as well as EBITDA margins at or above 40%. While the EBITDA margin was 39% in 1Q2017, management expects the negative impact of the currency translation impact on costs to be less pronounced as 2017 progresses.

About Integrated Diagnostics Holdings (IDH)

IDH is the largest fully integrated private-sector medical diagnostics services provider in Egypt. Jordan and Sudan, comprehensively offering pathology and molecular diagnostics, genetics testing and basic radiology. IDH'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 the Medical Genetics Center, which operates in Egypt. IDH is listed on the London Stock Exchange (ticker: IDHC) and was founded in 2012 by the merger of Al Borg and Al Mokhtabar, the most established diagnostics services brands in Egypt.

IDH's forward looking strategy rests on leveraging its established business model to achieve five key strategic goals, namely: (1) continue to expand customer reach; (2) increase the number of tests per patient; (3) use the Mega Lab's enlarged capacity to provide services to third party labs and hospitals; (4) introduce new medical services by leveraging the Group's network and reputable brand position; and (5) expand into new geographic markets through selective, value accretive acquisitions. Learn more at idhcorp.com.

Shareholder Information

LSE: IDHC.L

Bloomberg: IDHC:LN

Listed: May 2015

Shares Outstanding: 150 million

Contact

Mr. Sherif El-Ghamrawi
Investor Relations Director
T: +20 (0)2 3345 5530 | M: +20 (0)10 0447 8699 | sherif.elghamrawi@idhcorp.com

Forward-Looking Statements

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 Company.

Forward-looking statements reflect the current views of the Company'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 Company'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 Company'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 Company'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 prospectus. 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 Company 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 delivered strong operational and financial performances in 1Q2017, especially given the continuing macroeconomic challenges in its home market of Egypt. The Company's top line was driven by a combination of the favourable impact of foreign currency translation of results from its Jordanian and Sudanese subsidiaries into Egyptian pounds (36% of total), better pricing (33% of total), and higher test volumes (31% of total). The decline in the bottom-line margin reflected expense pressure from higher raw material costs; the currency translation of Jordanian salaries into Egyptian pounds; higher rent and utility costs related to branch expansion; and higher interest expenses.

The Group continued to invest in expanding its geographic footprint, supported by its state-of-the-art Mega Lab with excess capacity that enables the Company to deploy its Hub, Spoke and Spike business model to open capital efficient "C" labs more rapidly. During 1Q2017, IDH added 8 new branches including 5 in Egypt, 1 in Jordan and 2 in Sudan. At the end of 1Q2017, there were 322 branches in Egypt, 15 branches in Jordan and 25 branches in Sudan. The total IDH branch network reached 362 in 1Q2017, representing 14% year-on-year unit growth.

Branches by Country

	1Q2017	1Q2016
Egypt	322	284
Jordan	15	11
Sudan	25	22
Total Branches	**362**	**317**

Egypt, IDH's home market, contributed 82% of total revenues at EGP 283.6 million in 1Q2017, down from 89% in 1Q2016 primarily due to the favourable currency translation impact of the Company's Jordanian subsidiary. This currency translation effect also underpinned Jordan's 144% revenue increase to EGP 49.8 million, representing 14% of total-company revenues in 1Q2017 versus 7% in the year-earlier period. Revenues from Sudan were EGP 12.8 million, accounting for 4% of total 1Q2017 revenues compared with 3% a year ago.

Revenues in Egypt rose 16% to EGP 283.6 million, spurred by both total patient and test growth in the contract patient category. The top line further benefited from price increases of 10% for walk-in patients and 11% for contract patients. In terms of patient mix in the period, a 7% gain in contract patients more than offset a 5% decline in walk-ins (1Q2016: -13%). Contract patient tests were 2% higher, while those for walk-in patients were on par with a year earlier. To help stem the decline in walk-in patients, the Company offered more affordable payment methods on selected tests; launched tactical advertising campaigns raising awareness of chronic disease;

and implemented new customer relationship management (CRM) programs that reached out to patients with marketing messages via SMS, among other steps.

For perspective, Jordan's revenue increase of 144% when translated into Egyptian pounds was actually 10% in Jordanian dinar terms. Jordan's Biolab performed well, achieving a 6% increase in patient volumes and an 11% gain in the number of tests to maintain growth at historical averages. Sudan's 47% revenue increase to EGP 12.8 million reflects substantial year-on-year growth in both patient and test volumes.

Revenues by Country

(EGP '000)	1Q2017	1Q2016	% change
Egypt	283,608	244,937	16%
Jordan	49,841	20,403	144%
Sudan	12,832	8,748	47%
Total	**346,281**	**274,088**	**26%**

Key Performance Indicators

	1Q2017			1Q2016			% change		
	Walk-In Clients	**Contract Clients**	**Total**	**Walk-In Clients**	**Contract Clients**	**Total**	**Walk-In Clients**	**Contract Clients**	**To**
Revenue (EGP '000)	134,168	212,113	346,281	104,361	169,727	274,088	29%	25%	2
% of Revenue	39%	61%	100%	38%	62%	100%			
Patients ('000)	386	1,109	1,496	401	1,020	1,420	-4%	9%	
% of Patients	26%	74%	100%	28%	72%	100%			
Revenue per Patient (EGP)	347	191	232	261	166	193	33%	15%	2
Tests ('000)	1,373	4,743	6,117	1,313	4,597	5,909	5%	3%	
% of Tests	22%	78%	100%	22%	78%	100%			
Revenue per Test (EGP)	98	45	57	80	37	46	23%	21%	2
Test per Patient	4	4	4	3	5	4	8%	-5%	-

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, who in 1Q2017 represented 61% of total revenues, 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 1Q2017, the Company served 1.1 million patients under these contracts and performed a total of 4.7 million tests, with no single contract client accounting for more than 1% of revenues.

Walk-in Clients

The Group derived 39% of its revenues in 1Q2017 from walk-in clients. Walk-in clients numbered 0.4 million in 1Q2017 and received 1.4 million tests. As IDH's markets develop and become increasingly institutionally-oriented, more patients will be having pathology tests performed under corporate agreements, a trend that plays to the Company's strength with the best economies of scale in the Egyptian diagnostics industry.

The ratio of contract to walk-in patients during 1Q2017 was 74:26 compared with 72:28 in 1Q2016, in sync with the general shift in patient mix in recent years toward an increasing number of patients served on corporate contracts. This reflects the natural 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.

Revenue Analysis

Consolidated revenues increased 26% year-on-year to EGP 346.3 million in 1Q2017, underpinned by IDH's strong brands and focused marketing strategies. Beyond gains of 5% and 4% in the number of patients and tests, respectively, selected price increases and a better mix of tests spurred top-line growth. This is demonstrated in the key metrics of average revenue-per-patient (up 20%) and average revenue-per-test (23% higher).

Revenues from contract clients grew 25% to EGP 212.1 million in 1Q2017, supported by an overall trend toward corporate health insurance coverage, especially in IDH's home market of Egypt. These strong revenues were achieved despite lesser rates of gain in both patient and test volumes. While the number of contract patients was up only 9% and the number of contract tests was just 3% higher, revenue-per-patient increased 15% and revenue-per-test gained 21% on better pricing and mix. The number of tests-per-patient actually declined 5%, and given its heavier weighting, more than offset an 8% gain in tests-per-patient in the walk-in category. Thus, total tests-per-patient were 2% lower in the period, further demonstrating IDH's ability to drive revenues through a combination of selected price increases and improved text mix.

Revenues from walk-in clients rose 29% to EGP 134.2 million in 1Q2017, despite a 4% decline in the number of walk-in patients and only a 5% increase in test volumes. In part, this represents consumer migration toward corporate healthcare agreements, a trend expected to continue. Also, consumers continue to curb their spending in reaction to persistent high inflation associated with the devaluation of the Egyptian pound. That said, the Company was able to achieve a 33% advance in revenue-per-patient; and on 8% more tests-per-patient, a 23% upturn in revenue-per-test in the walk-in category, with focused tactical marketing campaigns.

Cost of Sales

Cost of goods increased 43% in 1Q2017 to EGP 177.5 million, or more than the 26% rate of gain in revenues in the period. The associated gross margin decline was c. 600 bps to 49% from 55% a year earlier. The primary pressure point was higher raw material costs, reflecting the negative effect of the November 2016 devaluation of the Egyptian pound. Chemicals and Supplies was the largest component of COGS in 1Q2017, representing 39% of total (1Q2016: 34%). Chemicals and Supplies costs rose 67%, as prices increased by varying amounts on raw materials sourced from the Company's suppliers.

Wages and Salaries, the second-largest component of COGS at 32% of total (1Q2016: 38%), increased 21%.

- €€€€ Annual staff salary raises and new hires for new branches opened resulted in a net increase of EGP 9.5 million in 1Q2017 versus 1Q2016;
- €€€€ Higher employee profit share entitlement for Egyptian operations in the period resulted in an additional EGP 0.2 million owing to the period-on-period growth in net profit.

Depreciation was 30% higher year-on-year in 1Q2017 at EGP 12.2 million, as capital expenditures grew to EGP 28 million during the period. The aforementioned amount is mainly related to the following:

- €€€€ EGP 13.5 million for new branches in Jordan
- €€€€ EGP 4 million associated with a new warehouse located in 6th of October city
- €€€€ EGP 3 million in leasehold improvements of 10 new branches
- €€€€ EGP 6.5 million related to the renovation of existing branches

Other costs were up 48% on the back of 45 branches operational in 1Q2017 that were not present in 1Q2016, as well as increases in utilities' expenses, especially electricity; and higher maintenance expenses related to the Siemens contract.

EBITDA

EBITDA increased 9% to EGP 136.3 million in 1Q17 versus EGP 125.3 million a year earlier. The associated EBITDA margin declined 650 bp to 39% compared with 46% a year earlier primarily due to higher raw materials prices (c. 500 bp), while expansion-related rent and utilities expenses (c. 100 bp) and other SG&A items (c. 50 bp) were also pressure points. The slight increase in SG&A expenses as a percentage of sales to 13.2% was attributable to translating Jordanian salaries in dinars into Egyptian pounds, as well as to the upward pressure created by the difference in exchange rates between the two periods when translating other expenses associated with IDH's two companies at the holding level.

The Company's Egyptian operations contributed 91% of consolidated EBITDA down from 96% in the year-earlier period, mainly as Jordan's contribution rose to 5% from 2% on favourable currency translation. Sudan contributed 4% of consolidated EBITDA, up from 2% a year ago.

Interest Income / Expense

IDH recorded interest income of EGP 8.7 million in 1Q2017, almost double that of EGP 4.4 million in 1Q2016. Beyond the proper management of excess cash, higher time deposit rates offered by Egyptian banks this year than last and the associated higher average yields were also beneficial.

Interest expense increased to EGP 3.3 million on the back of a supplier's US dollar-denominated finance lease contract.

It is noteworthy that going forward, interest expense will also reflect additional borrowings to finance the Company's new corporate headquarters. To support future growth plans, the Group will be consolidating its current corporate offices in downtown Cairo into a new headquarters. IDH has acquired a building in Smart Village, a corporate office park in the city of 6th of October located slightly west of Cairo that will provide sufficient space for headquarters and central staff.

Foreign Exchange

In 1Q2017, IDH's foreign exchange loss amounted to EGP 3.2 million that was mostly related to intercompany transactions. The loss this year was 27% below the EGP 4.4 million loss recorded in the year-earlier period.

Taxation

Income tax expenses recorded in 1Q2017 were EGP 36.4 million compared with EGP 28.5 million in 1Q2016, with an effective tax rate of 29% versus 25% a year ago. There is no tax payable for IDH's two companies at the holding level. All tax is paid within the operating companies in Egypt, Jordan and Sudan.

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 in 1Q2017 was EGP 5.1 million (loss) versus EGP 0.1 million (gain) in the year-earlier period.

Net Profit

Net profit increased 6% year-on-year to EGP 88.7 million, with an associated net margin decline of 500 bps to 26%.

Balance Sheet

On the assets side of the balance sheet, accounts receivable stood at EGP 111.4 million at the end of 1Q2017 compared with EGP 107.2 million at 2016 year end. Notably, IDH adopted a new collections process that successfully reduced "days-on-hand" to 110 days at 31 March 2017 from 133 days at 31 December 2016. In Egypt, accounts receivables days dropped to 108 days from 116 days for the same periods.

On the liabilities side, accounts payable stood at EGP 168.2 million versus EGP 126.1 million at 2016 year end. The Company's "days payable outstanding" increased to 190 days at 31 March 2017 from 181 days at
31 December 2016 primarily due to raw material price increases and delayed payments to suppliers, in particular Roche and Siemens. The Group has since reached a final agreement with Siemens to pay its balance over a 10-month period in equal monthly instalments.

IDH's US$ cash balance stood at US$ 28.6 million at 31 March 2017, which is more than sufficient to cover proposed dividend distributions amounting to US$ 21 million.

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 by expanding the Company's services portfolio; (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.

-Ends-

END

TSTFMGZKVZGGNZM