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Integrated Diagnostics Holdings PLC

15 May 2018

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**Integrated Diagnostics Holdings Plc**

**1Q2018 Results Update**

London, 15 May 2018

## Integrated Diagnostics Holdings Plc Update on 1Q2018 Results

**(London)** Integrated Diagnostics Holdings ("IDH," "the Group," or the "Company"), IDHC on the London Stock Exchange, is a leading consumer healthcare company in the Middle East and Africa with operations in Egypt, Jordan, Sudan and Nigeria. The Group released today unaudited highlights of its financial and operational performance in the first quarter of 2018<sup>1</sup>, reporting unaudited net profit of 110 million Egyptian pounds (EGP), up 24% year-on-year. Total unaudited revenues stood at EGP 446 million, up 29% year-on-year. Unaudited EBITDA stood at EGP 168 million in 1Q2018, representing year-on-year growth of 23%.<sup>2</sup>

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

"I am pleased to report that the Group's strong operational and financial performance in 2017 is proving resilient and continues in 2018. Notably, our 29% revenue growth in 1Q2018 was driven entirely by higher volumes and better pricing and exceeded the 26% increase we reported in the same period a year ago, at which time the favourable impact of foreign currency translation of the Group's results from our businesses in Jordan and Sudan into Egyptian pounds contributed c. 9 percentage points of our growth.

"Doctors and patients alike continued to trust our high-quality diagnostic services, as evidenced by strong patient and test volumes in the first quarter. Whilst both contract and walk-in patient segments performed well, I am especially pleased with the sustained positive momentum in our walk-in patient category. In 1Q2018, 23% more walk-in patients performed 16% more tests, leading to 33% revenue growth in the segment. Contract patient revenues continued to be robust, rising 26% in the period.

"We continued to expand our geographic footprint, opening four new branches in Egypt and one in Sudan to end the period with 400 branches across our footprint, representing 10% year-on-year unit growth. Whilst Egypt and Jordan enjoyed very solid first-quarter performances, Sudan's results were negatively impacted in translation by the devaluation of the SDG.

"EBITDA grew 23% in 1Q2018, with an EBITDA margin of 38%. We note, however, that these results include our new Nigerian operation, which is still in the value-building phase and contributed a negative EBITDA of EGP 1 million in the quarter as well as one-time transaction costs of EGP 4 million related to the acquisition of Echo-Scan. Excluding Nigeria, year-on-year EBITDA growth would have been 27% with an EBITDA margin of 39%, similar to same period in 2017.

"The process of integrating our new Nigerian operation began is well underway and sees us revamping a number of operational aspects to reflect IDH's strict high-quality standards.

"Across our geography, strong underlying fundamentals continue to support a favourable outlook for quality medical diagnostic services. I remain confident that our trusted brands, strong supplier relationships and asset-light model will allow us to continue to expand our consumer reach. Accordingly, we reaffirm our 2018 guidance for combined revenue growth of over 20% and an EBITDA margin of c. 40% at our established businesses in Egypt, Sudan and Jordan.

1As per the London Stock Exchange's listing regulations, IDH is required to release audited financials at the half- and full-year marks. However, given IDH's commitment to transparency, the Group's management and Board of Directors have committed to providing performance updates on quarterly basis. All figures in this update are accordingly unaudited and provided based on IDH's management accounts.

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

## Results *(EGP mn, unless otherwise stated)*

	1Q2018 <sup>1</sup>	1Q2017	% change
<b>Revenues</b>	<b>446</b>	<b>346</b>	<b>29%</b>
Operating Profit	151	123	23%
<b>EBITDA<sup>2</sup></b>	<b>168</b>	<b>136</b>	<b>23%</b>
<i>EBITDA Margin</i>	38%	39%	-1 pt
<b>Net Profit</b>	<b>110</b>	<b>89</b>	<b>24%</b>
<i>Net Profit Margin</i>	25%	26%	-1 pt
Earnings per Share (EGP)	0.73	0.58	29%

1 Unaudited 1Q2018 figures include the Group's Nigerian operations.

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

## Financial & Operational Highlights

- Revenues** increased 29% y-o-y to EGP 446 million in 1Q2018, driven entirely by higher volumes and better pricing.
- Gross profit** advanced 29% y-o-y to EGP 217 million in 1Q2018 with an associated gross margin of 49%, similar to same period in 2017.
- Operating profit** rose 23% y-o-y to EGP 151 million in 1Q2018, with an operating margin of 34% versus 36% a year ago.
- EBITDA<sup>2</sup>** grew 23% y-o-y to EGP 168 million, driven by strong revenue growth. The Group's 1Q2018 EBITDA margin was 38%. Excluding Nigeria, EBITDA growth would have been 27%, with an EBITDA margin of 39%, similar to same period in 2017.
- The **net foreign exchange loss** stood at EGP 9.2 million in 1Q2018 against a net FX loss of EGP 3.2 million in 1Q2017, largely as a result of devaluation of the SDG.
- Net profit** increased 24% y-o-y to EGP 110 million in 1Q2018, recording net profit margin of 25%. Excluding Nigeria, net profit growth would have been 30%, with a net profit margin of 26%, similar to same period in 2017.
- Total tests** performed increased by 8% y-o-y in 1Q2018 to 6.58 million, with **total number of patients** served during the quarter rising 13% y-o-y to 1.69 million, underpinned by successful tactical marketing campaigns.
- Average revenue per patient** was 14% higher and **average revenue per test** increased by 20%, reflecting the Company's ability to mitigate Egypt's inflationary environment through test price adjustments.
- Affirming guidance** for the full 2018 year, IDH continues to target combined revenue growth of over 20% and an EBITDA margin of c. 40% at established businesses in Egypt, Jordan and Sudan.

## 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 383 branches as of 31 December 2017, 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.

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) 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. Learn more at [idhcorp.com](http://idhcorp.com).

## Shareholder Information

LSE: IDHC.L

Bloomberg: IDHC:LN

Listed: May 2015

Shares Outstanding: 150 million

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## 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 results in 1Q2018, with growth outpacing already-robust growth in the same period of last year. The Group's revenue growth was driven entirely by higher patient and test volumes in combination with better pricing.

The Group continued to invest in expanding its geographic footprint, supported by its state-of-the-art Mega Lab, which in February 2018 was awarded certification from the College of American Pathologists (CAP), widely considered the leader in laboratory quality assurance globally. The Mega Lab enables the Company to deploy its Hub, Spoke and Spike business model to more rapidly open capital efficient "C" labs.

During 1Q2018, IDH added five new branches, including four in Egypt and one in Sudan. At the end of 1Q2018, there were 344 branches in Egypt, 18 branches in Jordan, 26 branches in Sudan and 12 in Nigeria, the Group's newest market. The total IDH branch network reached 400 in 1Q2018, representing 10% year-on-year unit growth.

### Branches by Country

	1Q2018	1Q2017	% change
Egypt	344	322	7%
Jordan	18	15	20%
Sudan	26	25	4%
Nigeria	12	-	-
<b>Total Branches</b>	<b>400</b>	<b>362</b>	<b>10%</b>

### Key Performance Indicators

	1Q2018 <sup>1</sup>			1Q2017			% change		
	Walk-In	Contract	Total	Walk-In	Contract	Total	Walk-In	Contract	Total
Revenue (EGP '000)	178,734	267,400	446,133	134,168	212,113	346,281	33%	26%	29%

% of Revenue	40%	60%	100%	39%	61%	100%			
Patients ('000)	475	1,213	1,688	386	1,109	1,496	23%	9%	13%
% of Patients	28%	72%	100%	26%	74%	100%			
<i>Revenue per Patient (EGP)</i>	377	220	264	347	191	232	8%	15%	14%
Tests ('000)	1,595	4,983	6,579	1,372	4,744	6,117	16%	5%	8%
% of Tests	24%	76%	100%	22%	78%	100%			
<i>Revenue per Test (EGP)</i>	112	54	68	98	45	57	15%	20%	20%
Test per Patient	3.4	4.1	3.9	3.6	4.3	4.1	-5%	-4%	-5%

1 Unaudited 1Q2018 results include the Group's Nigerian operations.

## 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 1Q2018 represented 60% 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 1Q2018, the Company served 1.21 million patients under these contracts and performed a total of 4.98 million tests, with no single contract client accounting for more than 1% of revenues.

### Walk-in Clients

The Group derived 40% of revenues in 1Q2018 from walk-in clients. Walk-in clients numbered 0.48 million in 1Q2018 and received 1.59 million tests. The ratio of contract to walk-in patients during 1Q2018 was 72:28 compared with 74:26 in 1Q2017.

## Revenue Analysis: Contribution by patient segment

Consolidated revenues increased 29% year-on-year to EGP 446 million in 1Q2018, with both the corporate and walk-in patient segments performing well. Beyond gains of 13% and 8% in the number of patients and tests, respectively, price increases and a better mix of tests underpinned top-line growth. This is demonstrated in the key metrics of average revenue per-patient, up 14%, and average revenue per-test, 20% higher.

Revenues from contract clients grew 26% year-on-year to EGP 267 million in 1Q2018, supported by an overall trend toward corporate health insurance coverage, especially in IDH's largest market of Egypt. Whilst the number of contract patients was up 9% and the number of contract tests was 5% higher, revenue per patient increased 15% and revenue per test gained 20% on better pricing and mix.

Revenues from walk-in clients rose 33% year-on-year to EGP 179 million in 1Q2018. Increases of 23% in patient volumes and 16% in test volumes indicate that the momentum established in 2017 to turn around walk-in patient trends continued in 1Q2018. In Egypt, whilst inflation remains high, it has begun to abate in recent months; and consumers have gradually been adjusting to new higher prices following the late 2016 devaluation of the Egyptian pound. Importantly, the Group continues to target walk-in patients with successful tactical marketing campaigns with attractive features such as discounts on chronic disease tests and partnerships with banks for affordable payment programs.

## Revenue Analysis: Contribution by geography

### Revenues by country<sup>1</sup>

(EGP '000)	1Q2018	1Q2017	% change
Egypt	369,642	283,608	30%
Jordan	57,202	49,841	15%
Sudan	10,754	12,832	-16%
Nigeria	8,535	NM	NM
<b>Total</b>	<b>446,133</b>	<b>346,281</b>	<b>29%</b>

1 Unaudited 1Q2018 results include the Group's Nigerian operations.

Egypt, IDH's largest market, contributed 83% of total revenues and Jordan represented 13%, whilst Sudan and Nigeria each accounted for 2%. Notably, the impact of currency translation on revenues was negative in the period: In 1Q2018, currency translation effectively reduced revenues by EGP 24 million in Egyptian pound terms, primarily due to the devaluation of the Sudanese pound. This compared with a positive impact of EGP 28 million in 1Q2017 following the November 2016 devaluation of the Egyptian pound, creating a EGP 52 million negative currency translation swing between the two reporting periods.

Egypt was the Group's fastest-growing market in 1Q2017, gaining 30% year-on-year to EGP 370 million driven by patient and test volume growth of 10% and 6%, respectively. The top line was also helped by price increases ranging from 10-12%.

Patient volumes in Egypt were strong in both the contract patients (+9%) and walk-in (+16%) segments. Contract patient tests increased 4%, whilst those for walk-in patients rose 14%. 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.

Revenues in Jordan rose 15% to EGP 57 million in 1Q2018. Biolab performed well, achieving a 20% increase in patients served and an 18% gain in the number of tests performed. Revenues consolidated from Sudan were negatively impacted by the substantial devaluation of the SDG in the period. In SDG terms, revenues increased 48% year-on-year, driven by patient and test volume gains of 8% and 12%, respectively. This translated, however, into a 16% decline in Egyptian pound terms to EGP 11 million as the average SDG:EGP exchange rate was 0.69 in 1Q2018 versus 1.2 in 1Q2017.

### Cost of Sales

Cost of goods sold increased 29% year-on-year in 1Q2018 to EGP 229 million, rising at the same pace as revenues. The Group generated a gross margin of 49% in 1Q2018, on part with the same period last year. Lower cost of raw materials (the largest component of COGS) was offset by higher spending on wages and salaries along with utilities and rent.

Wages and salaries, the second-largest component of COGS, increased 32% year-on-year. Utilities costs were negatively affected by price hikes in July 2017 as part of the Egyptian government's reform programs, and rent costs reflected yearly contact increases.

Depreciation was 24% higher year-on-year in 1Q2018 at EGP 15.2 million. Other costs were up 38% year-on-year on the back of 38 branches operational in 1Q2018 that were not present in 1Q2017, including 12 in Nigeria.

## **EBITDA**

EBITDA grew 23% year-on-year to EGP 168 million in 1Q2018, driven by strong revenue growth. The associated EBITDA margin was 38% compared with 39% a year ago. The Group's new Nigerian operation, which is still in the value-building phase, contributed a negative EBITDA of EGP 1 million in the quarter as well as one-time transaction costs of EGP 4 million from the acquisition of Echo-Scan

Excluding Nigeria, EBITDA growth would have been 27% and the EBITDA margin would have been 39%, matching that of 1Q2017.

Egypt contributed 98% of consolidated EBITDA, up from 91% a year earlier; Jordan's EBITDA contribution was 4% versus 5% a year ago; and Sudan's EBITDA contribution was reduced to less than 1% in translation from SDG to EGP.

## **Interest Income / Expense**

IDH recorded interest income of EGP 17.4 million in 1Q2018, double that of EGP 8.7 million in 1Q2017, on the back of good cash management and favourable interest rates.

Interest expense, primarily related to lease finance contracts with the Group's major suppliers, was roughly stable at EGP 3.4 million in 1Q2018 compared with EGP 3.3 million in the prior year.

## **Foreign Exchange**

In 1Q2018, IDH's foreign exchange loss stood at EGP 9.2 million against an FX loss of EGP 3.2 million a year earlier. The FX loss owed predominantly to the devaluation of the SDG.

## **Taxation**

Tax expenses recorded in 1Q2018 were EGP 44.9 million compared with EGP 36.4 million in 1Q2017. The effective tax rate was 29%, which was the same as in the prior year. 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.

## **Net Profit**

Net profit increased 24% year-on-year to EGP 110 million in 1Q2018. The net margin was 25% versus 26% in 1Q2017. Excluding Nigeria, net profit would have been 30% higher year-on-year and the net profit margin would have been the same as the prior year at 26%.

## **Balance Sheet**

On the assets side of the balance sheet, accounts receivable stood at EGP 159 million at the end of 1Q2018 compared with EGP 139.9 million at the end of 2017. Management continued its successful collection strategy, which led to a reduction in "days-on-hand" to 111 days at 31 March 2018 from 123 days at 31 December 2017.

On the liabilities side, accounts payable stood at EGP 126.2 million versus EGP 126.1 million at the end of December 2017. The Company's days payable outstanding declined to 107 days at 31 March 2018 from 129 days at 31 December 2017.

The Group's "days inventory outstanding" dropped to 75 days as at 31 March 2018 from 83 days at 31 December 2017, reflecting management's decision to decrease safety stock levels given the improvement in the availability of goods in the Egyptian market, especially as banks continue to make available hard currency for imports.

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