



# 3Q18 Results

On track to meet  
full year guidance

# Executive summary



The September quarter tends to be our weakest seasonally and this one was no exception. The admissions posted 5.9% growth while sales grew 13.1% on year-on-year comparisons. There was added pressure from supplies and consumables during the quarter, which was partially offset by relative decline in other revenue costs. We report TL0.04 in quarterly earnings per share versus TL0.05 same period last year and TL0.08 in the previous quarter. We are on track to meet our full year guidance. There is room for margin expansion both in 4Q18 and 2019.

# Investment highlights

**A massive and underserved market.**

**Comprehensive provider of medical services with extensive footprint in maternity and cardiology.**

**Leading hospital chain in Central and Eastern Turkey.**

**Execution on strategic priorities under a management focused on shareholders value.**

**Benefiting from operating leverage driving toward profitability objectives.**

# Lokman as at September 2018



**5** Hospitals



**269** Physicians

**2** Outpatient clinics

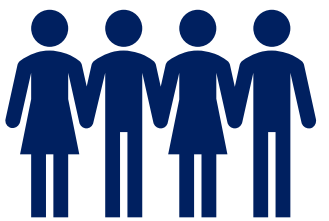
**815** Nurses and technicians



**650** Beds



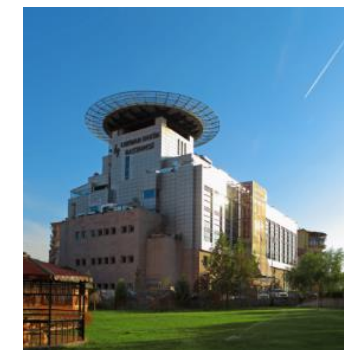
**2,109** Employees



**2** PPP locations

**2** International POS

**1** Helipad





# Lokman as at September 2018



**18** Operating theaters

**93** General medicine ICUs

**15** Cardiovascular ICUs

**24** Coronary ICUs

**103** Infant ICUs



# Lokman Hekim hospitals



**Ankara Etlik  
2002**



Facility – Hospital  
Space: 2,900 SQM  
Current capacity – 37 beds  
Planned capacity – 100 beds

**Ankara Sincan  
2008**



Facility – Hospital  
Space: 17,500 SQM  
Current capacity – 201 beds  
Planned capacity – 220 beds

**Ankara Akay  
2016**



Facility – Hospital  
Space: 18,000 SQM  
Current capacity – 126 beds  
Planned capacity – 146 beds

**Van  
2012**



Facility – Hospital  
Space: 12,500 SQM  
Current capacity – 216 beds  
Planned capacity – 216 beds

**Van Hayat  
2013**



Facility – Hospital  
Space: 4,500 SQM  
Current capacity – 69 beds  
Planned capacity – 75 beds



# Lokman Hekim clinics



**Ankara Demet  
2016**



Facility – Polyclinic  
Space: 2,400 SQM

**Erbil, Iraq  
2013**



Facility – Imaging Centre  
Space: 2,000 SQM

# Lokman Hekim PPP locations



**Elazig  
2018**



Facility – City Hospital Campus  
Bed count – 1,038  
Lokman's mandate – PTR Center  
PTR bed count – 90

**Ankara Bilkent  
2019**



Facility – City Hospital Campus  
Bed count – 3,831  
Lokman's mandate – PTR Center  
PTR bed count – 300



# Lokman Hekim University

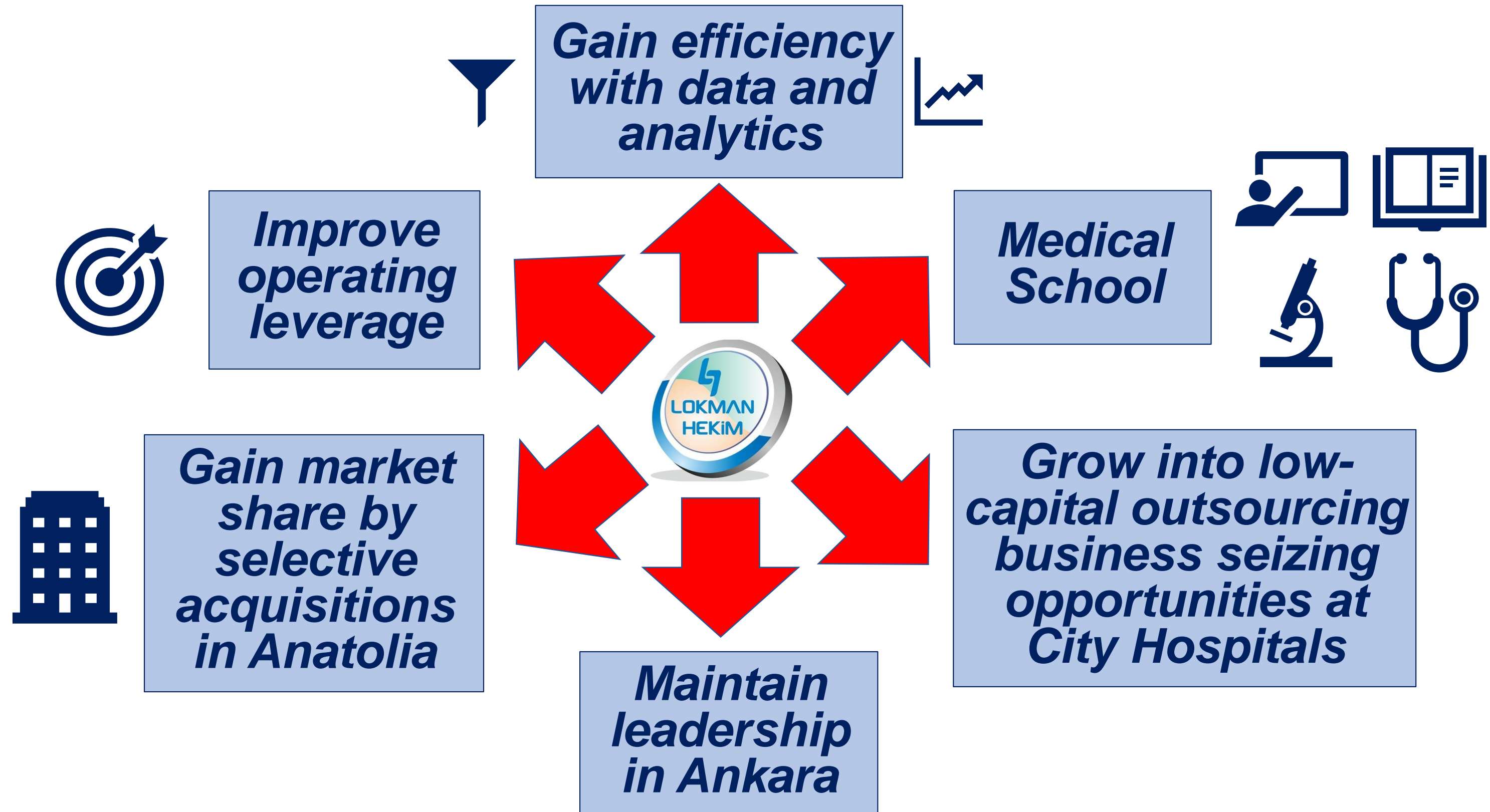


**Ankara – 2018**

# Medical service locations



# Strategic priorities





# 3Q18 headlines

**3Q18**

**265K** patient admissions  
**14.3K** inpatient treatments

**2Q18**

**267K** patient admissions  
**14.6K** inpatient treatments

**3Q18**

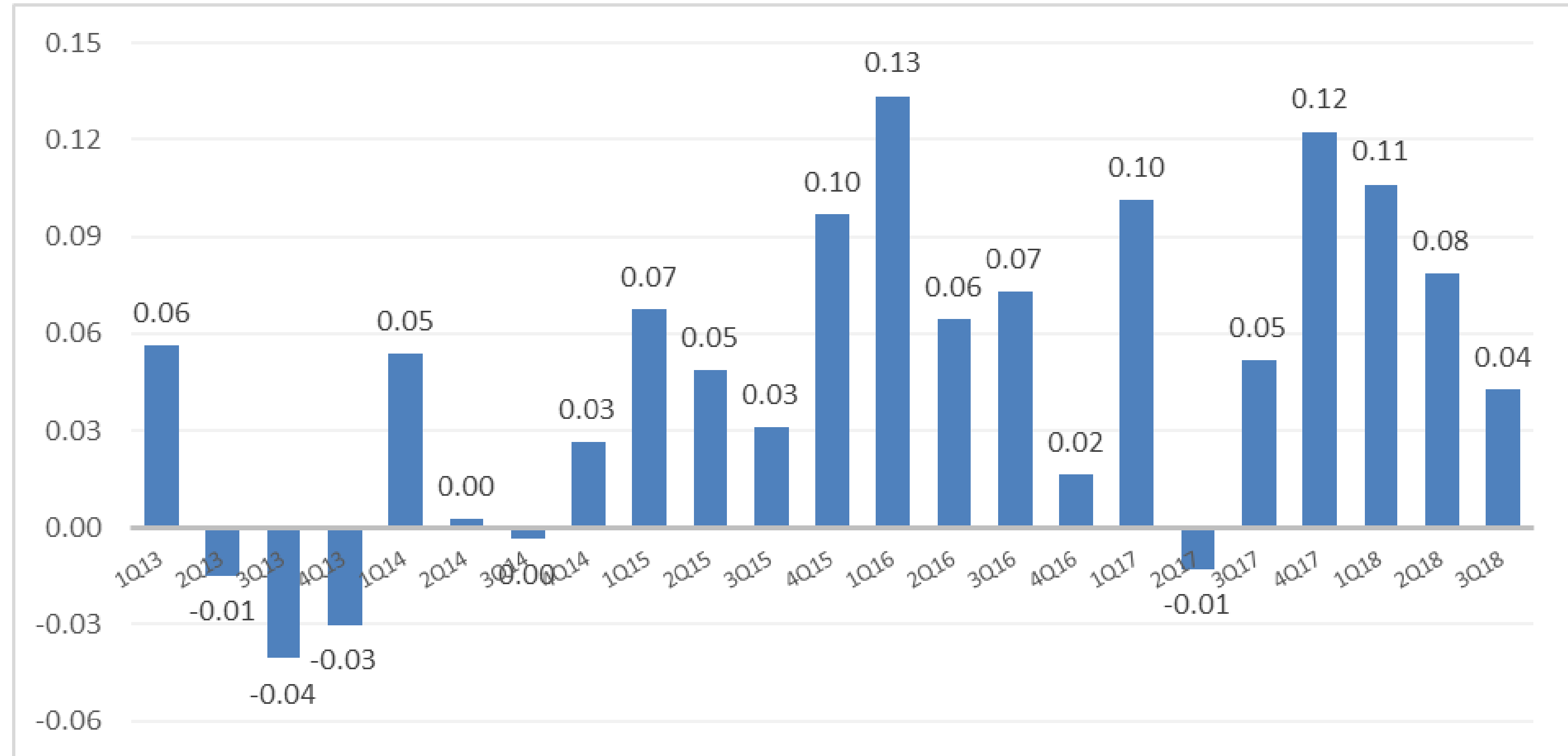
**Revenues TL69.7M**  
**EBITDA TL6.9M**  
**Earnings TL1.0M**

**2Q18**

**Revenues TL68.3M**  
**EBITDA TL7.2M**  
**Earnings TL1.9M**

# Earnings per share

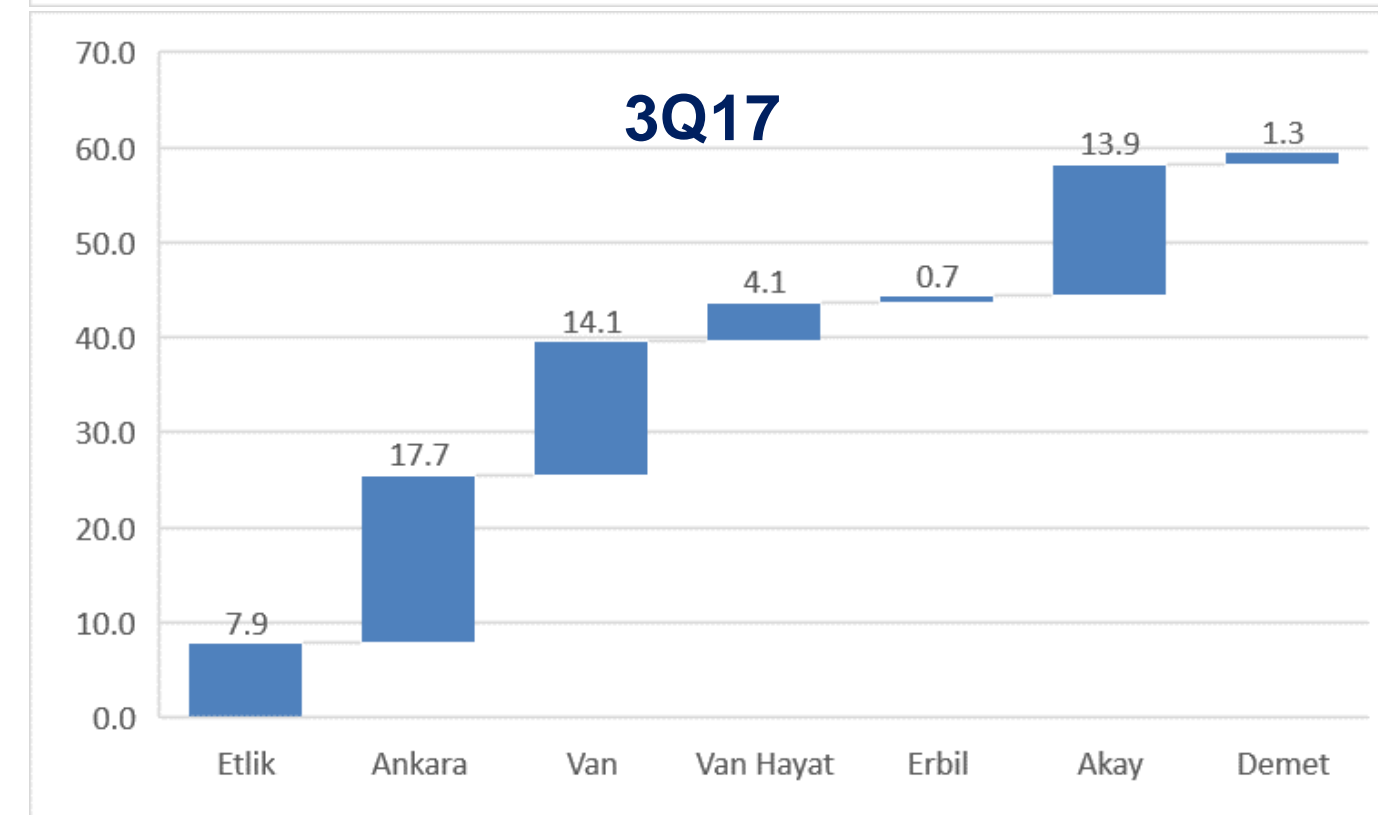
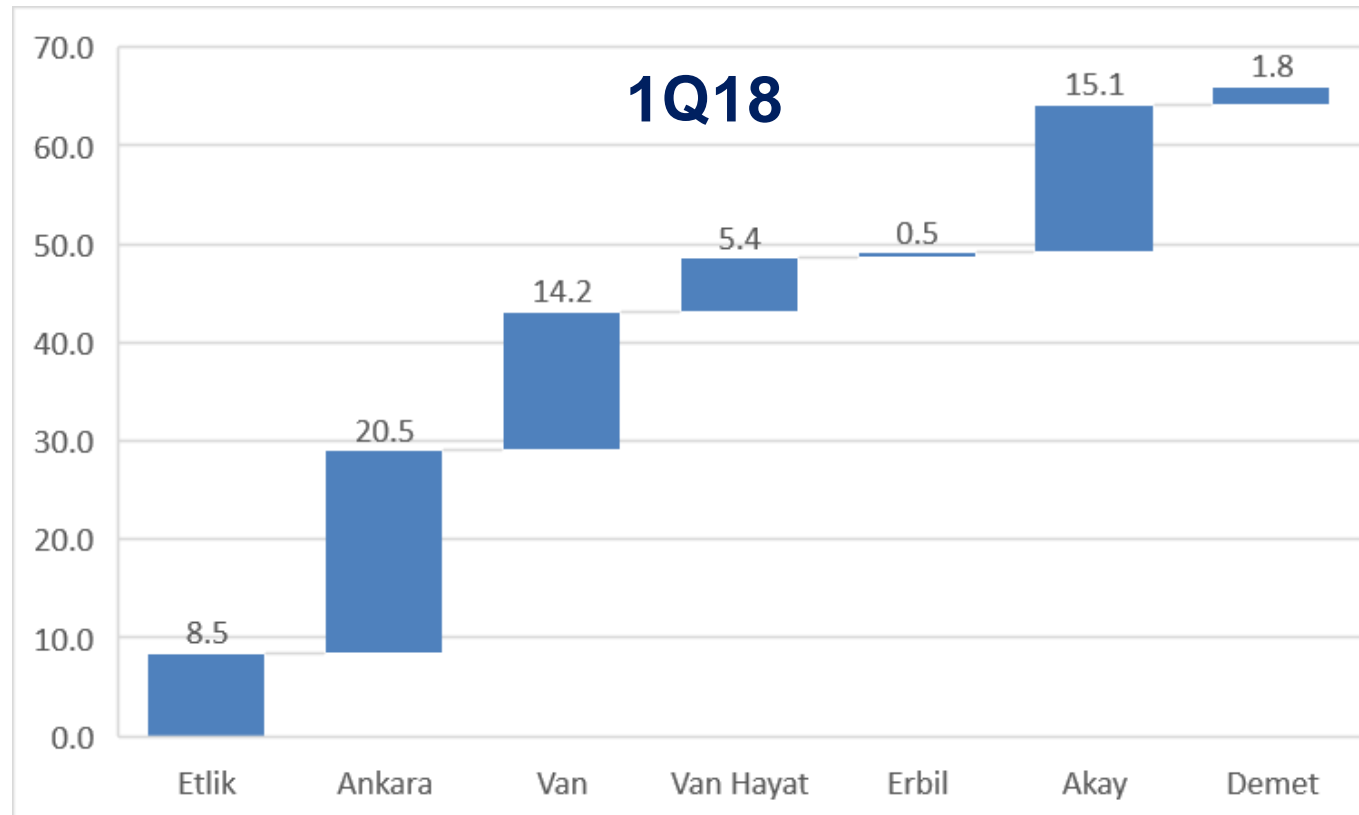
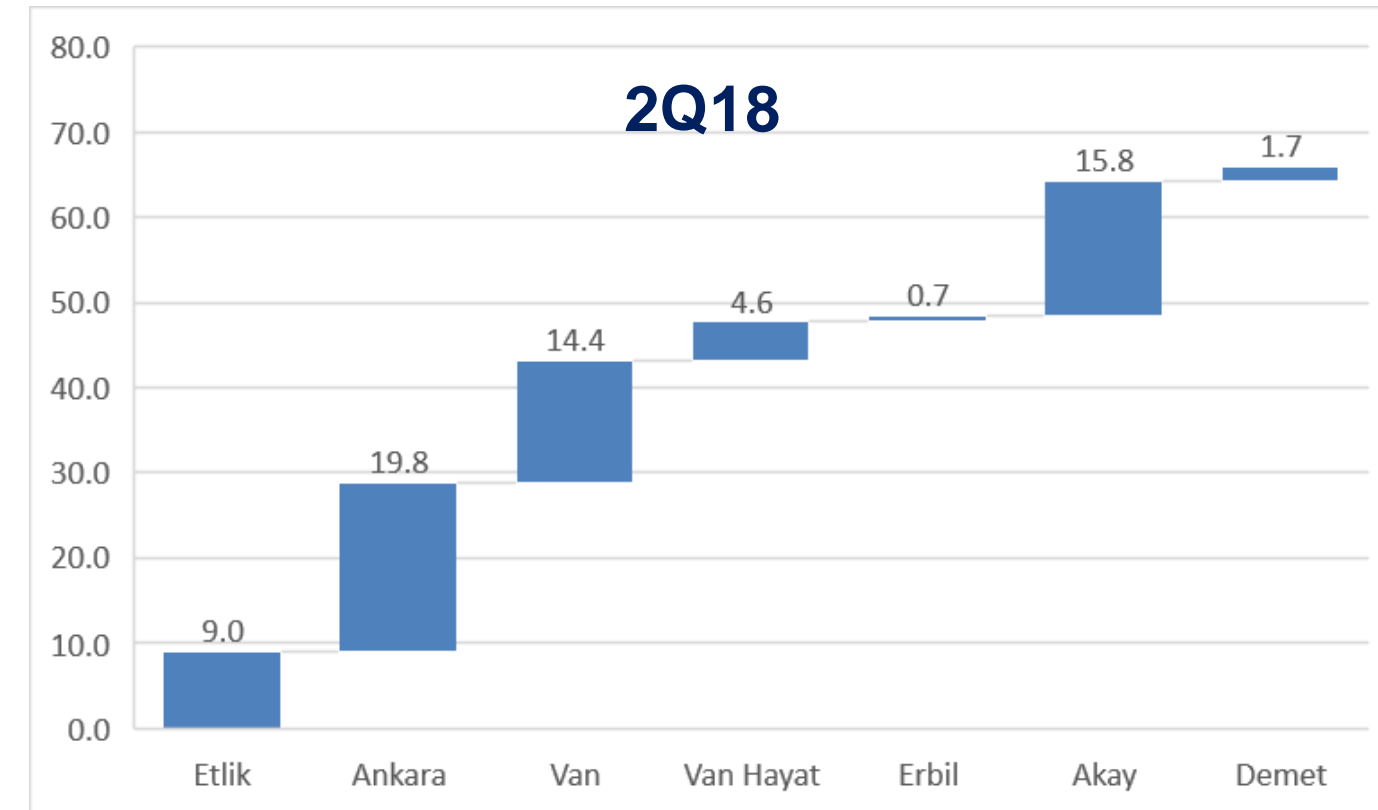
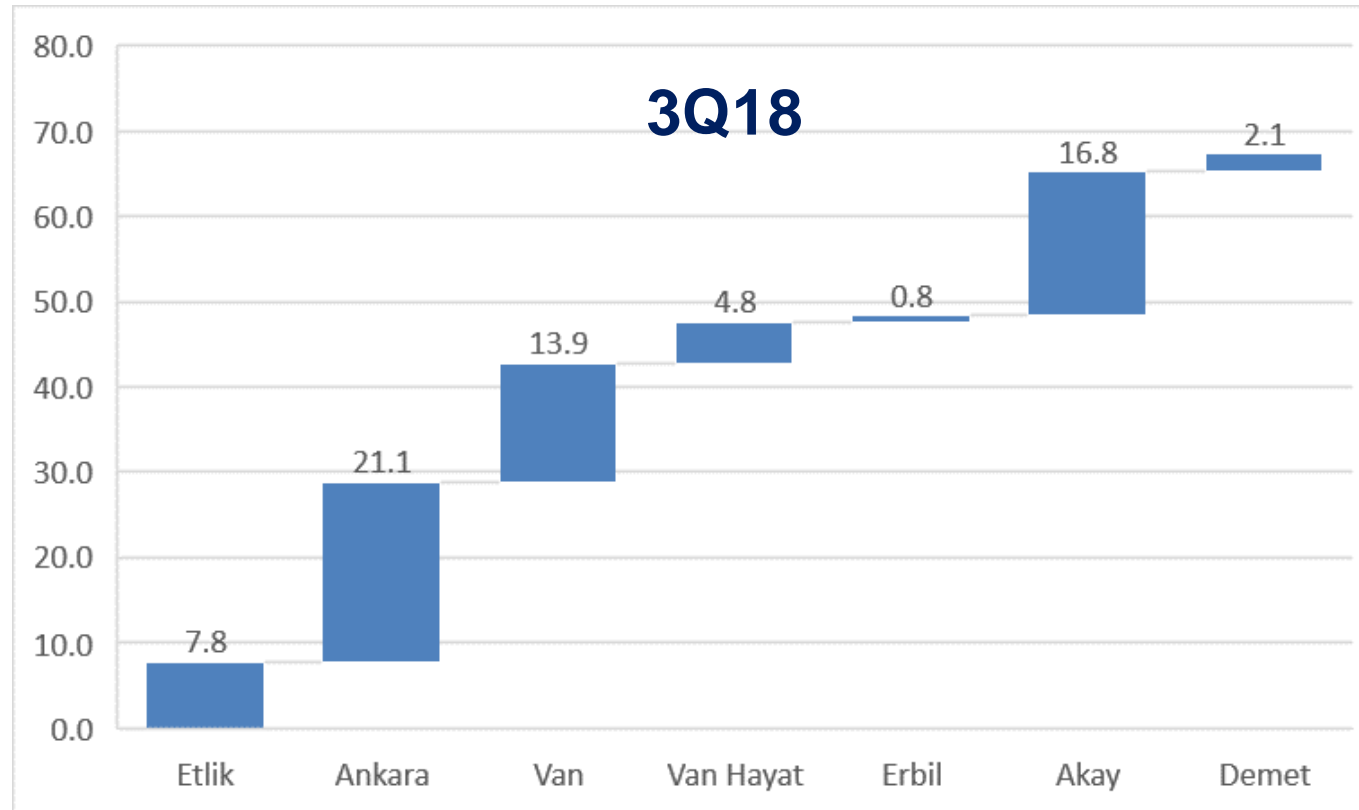
TL



# Revenue bridge by location



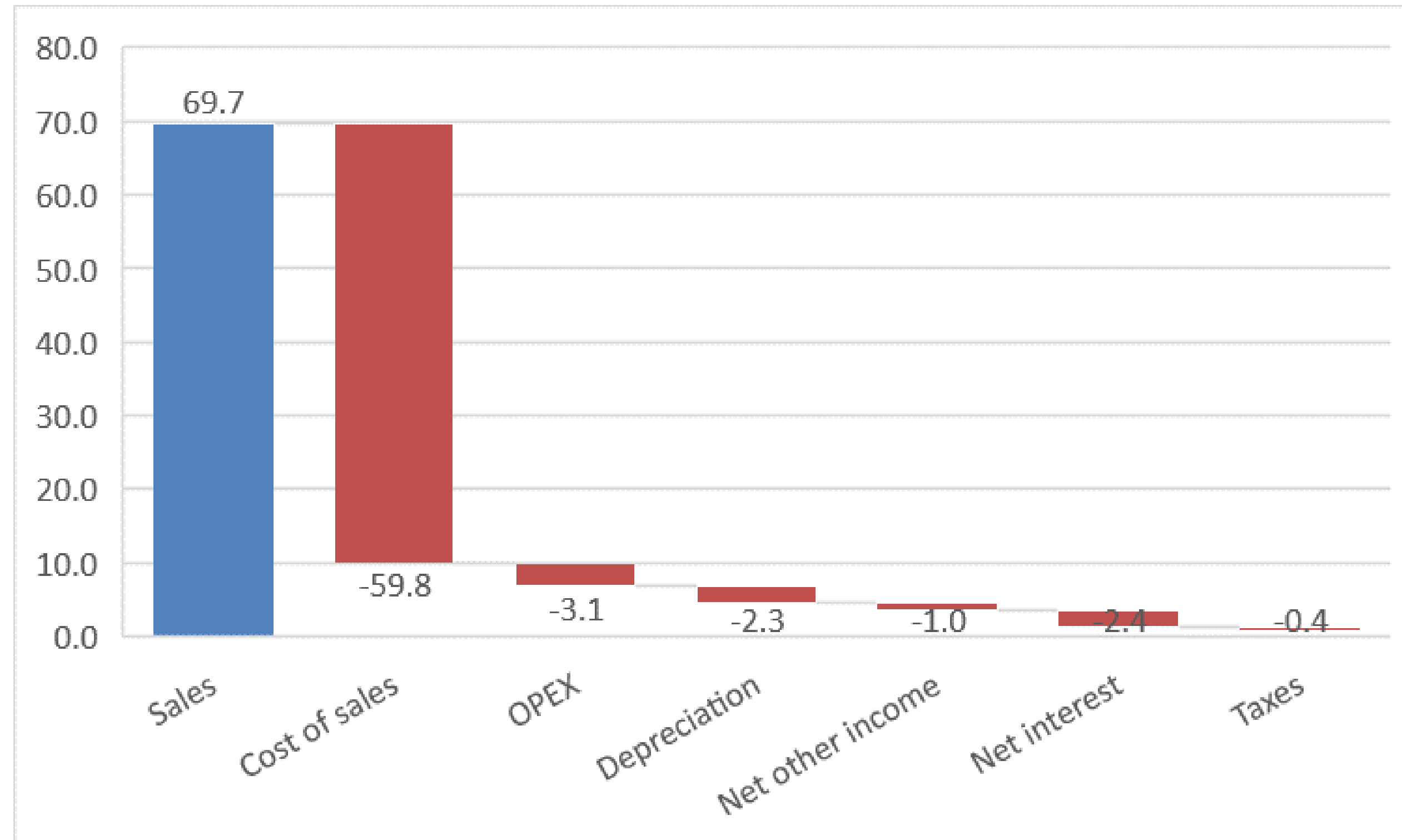
TLM





# Earnings bridge – 3Q18

TLM

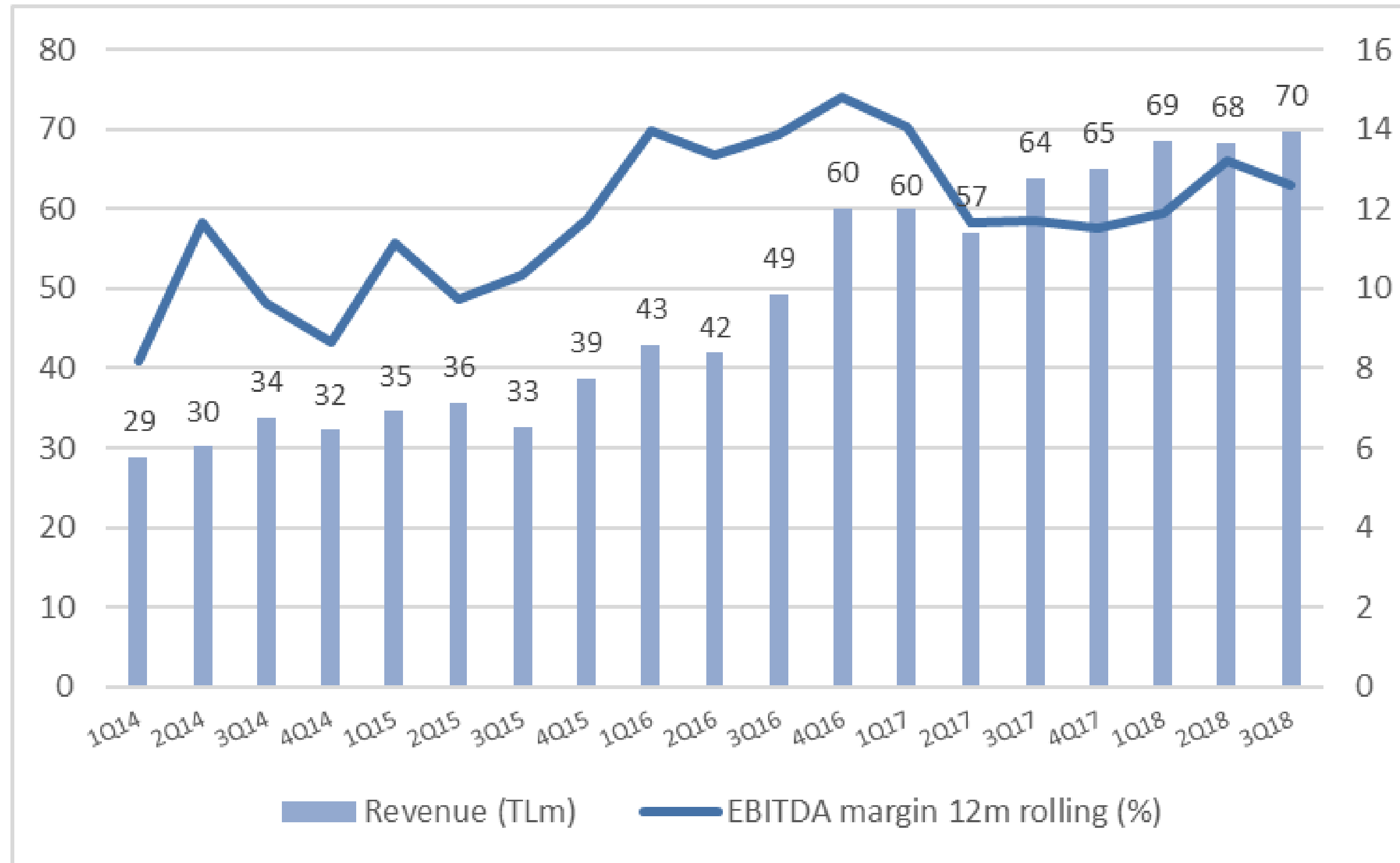


# Income statement summary

	9M18	3Q18	1H18	2Q18	1Q18	2017	4Q17	9M17	3Q17	1H17	2Q17	1Q17	2016
<b>Income statement summary (TLm)</b>													
<b>Sales</b>	<b>206.6</b>	<b>69.7</b>	<b>136.9</b>	<b>68.3</b>	<b>68.6</b>	<b>246.1</b>	<b>65.1</b>	<b>181.0</b>	<b>63.9</b>	<b>117.1</b>	<b>57.1</b>	<b>60.0</b>	<b>194.5</b>
Cost of sales	-172.7	-59.8	-112.9	-58.0	-54.9	-207.1	-52.9	-154.2	-53.7	-100.5	-51.0	-49.4	-156.9
<b>Cash gross income</b>	<b>33.9</b>	<b>9.9</b>	<b>24.0</b>	<b>10.3</b>	<b>13.7</b>	<b>39.0</b>	<b>12.2</b>	<b>26.8</b>	<b>10.2</b>	<b>16.6</b>	<b>6.1</b>	<b>10.6</b>	<b>37.5</b>
OPEX	-9.0	-3.1	-6.0	-3.1	-2.9	-10.7	-2.8	-7.9	-2.5	-5.4	-2.7	-2.6	-8.8
<b>EBITDA</b>	<b>24.9</b>	<b>6.9</b>	<b>18.0</b>	<b>7.2</b>	<b>10.8</b>	<b>28.3</b>	<b>9.4</b>	<b>18.9</b>	<b>7.7</b>	<b>11.2</b>	<b>3.3</b>	<b>7.9</b>	<b>28.8</b>
Depreciation	-6.8	-2.3	-4.5	-2.1	-2.4	-9.4	-3.5	-5.9	-1.8	-4.1	-1.9	-2.2	-7.2
Net other income	-1.1	-1.0	-0.1	0.0	-0.1	-2.2	-1.2	-1.1	-0.3	-0.8	-0.4	-0.5	-2.3
<b>EBIT</b>	<b>17.0</b>	<b>3.6</b>	<b>13.4</b>	<b>5.1</b>	<b>8.3</b>	<b>16.7</b>	<b>4.7</b>	<b>11.9</b>	<b>5.7</b>	<b>6.3</b>	<b>1.1</b>	<b>5.2</b>	<b>19.3</b>
Net interest	-7.7	-2.4	-5.3	-3.0	-2.4	-9.3	-3.0	-6.3	-3.0	-3.3	-2.1	-1.2	-4.1
<b>EBT</b>	<b>9.3</b>	<b>1.2</b>	<b>8.1</b>	<b>2.1</b>	<b>6.0</b>	<b>7.4</b>	<b>1.7</b>	<b>5.6</b>	<b>2.7</b>	<b>3.0</b>	<b>-1.0</b>	<b>4.0</b>	<b>15.1</b>
Taxes	-1.1	-0.4	-0.7	0.9	-1.6	5.8	3.6	2.2	-0.1	2.3	2.2	0.2	1.2
<b>Net income</b>	<b>8.1</b>	<b>0.8</b>	<b>7.4</b>	<b>3.0</b>	<b>4.4</b>	<b>13.2</b>	<b>5.3</b>	<b>7.8</b>	<b>2.5</b>	<b>5.3</b>	<b>1.1</b>	<b>4.2</b>	<b>16.4</b>
Minorities	-2.7	0.2	-2.9	-1.1	-1.8	-6.9	-2.4	-4.5	-1.3	-3.2	-1.4	-1.7	-9.5
<b>Income available for shareholders</b>	<b>5.5</b>	<b>1.0</b>	<b>4.4</b>	<b>1.9</b>	<b>2.5</b>	<b>6.3</b>	<b>2.9</b>	<b>3.4</b>	<b>1.2</b>	<b>2.1</b>	<b>-0.3</b>	<b>2.4</b>	<b>6.9</b>

**September quarter net income available for shareholders reads TL1.0M versus TL1.2M same quarter last year and TL1.9M reported in the June quarter of 2018.**

# Sales and EBITDA margin





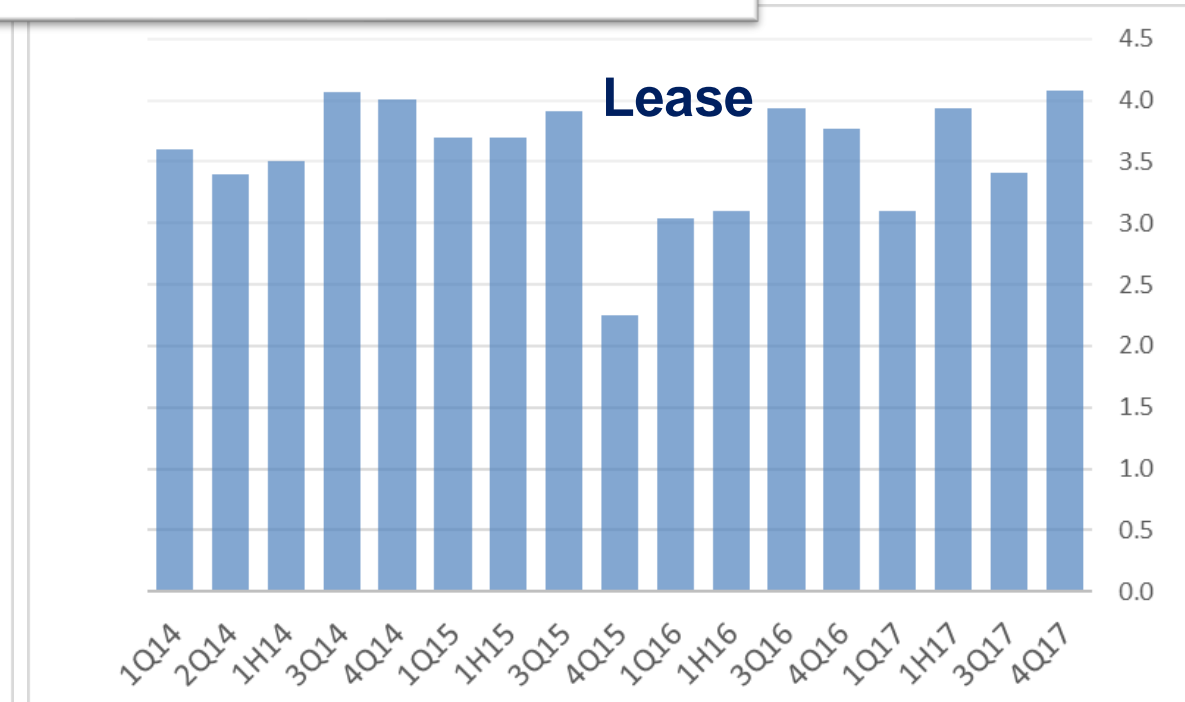
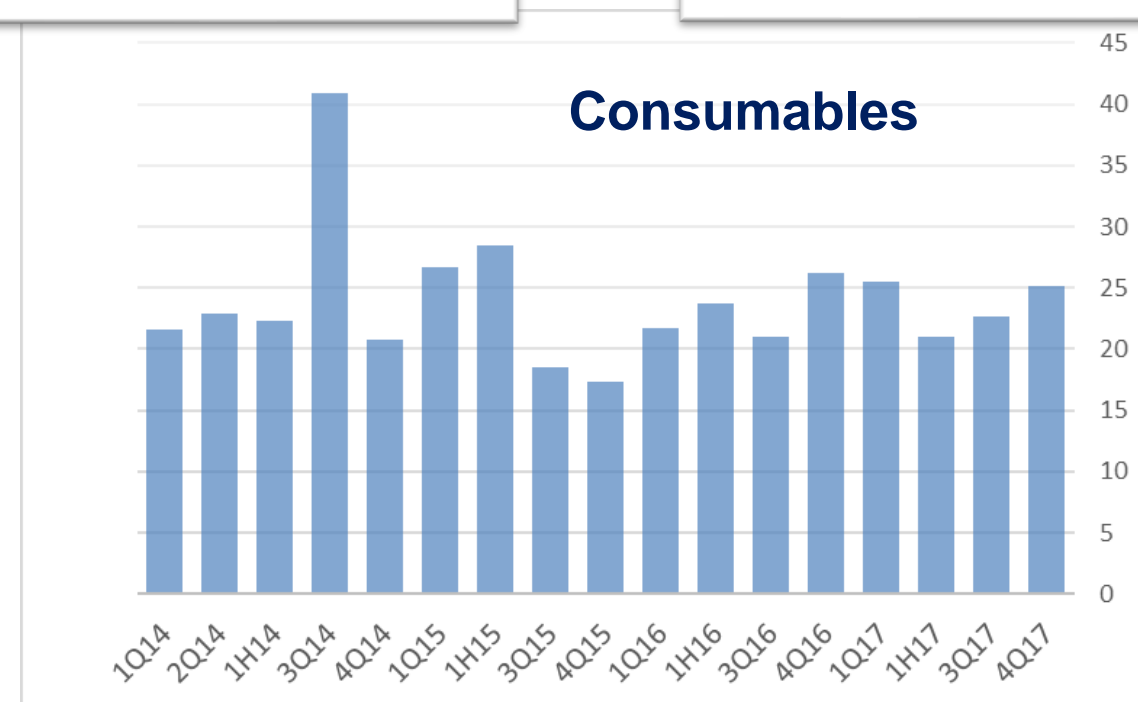
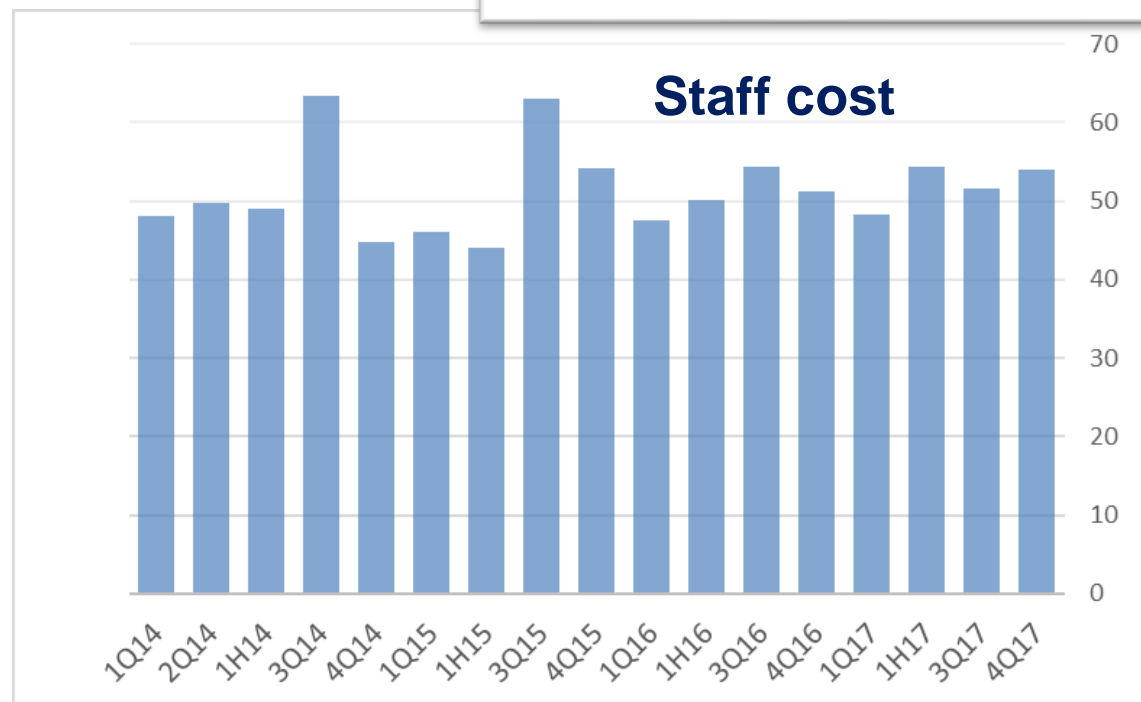
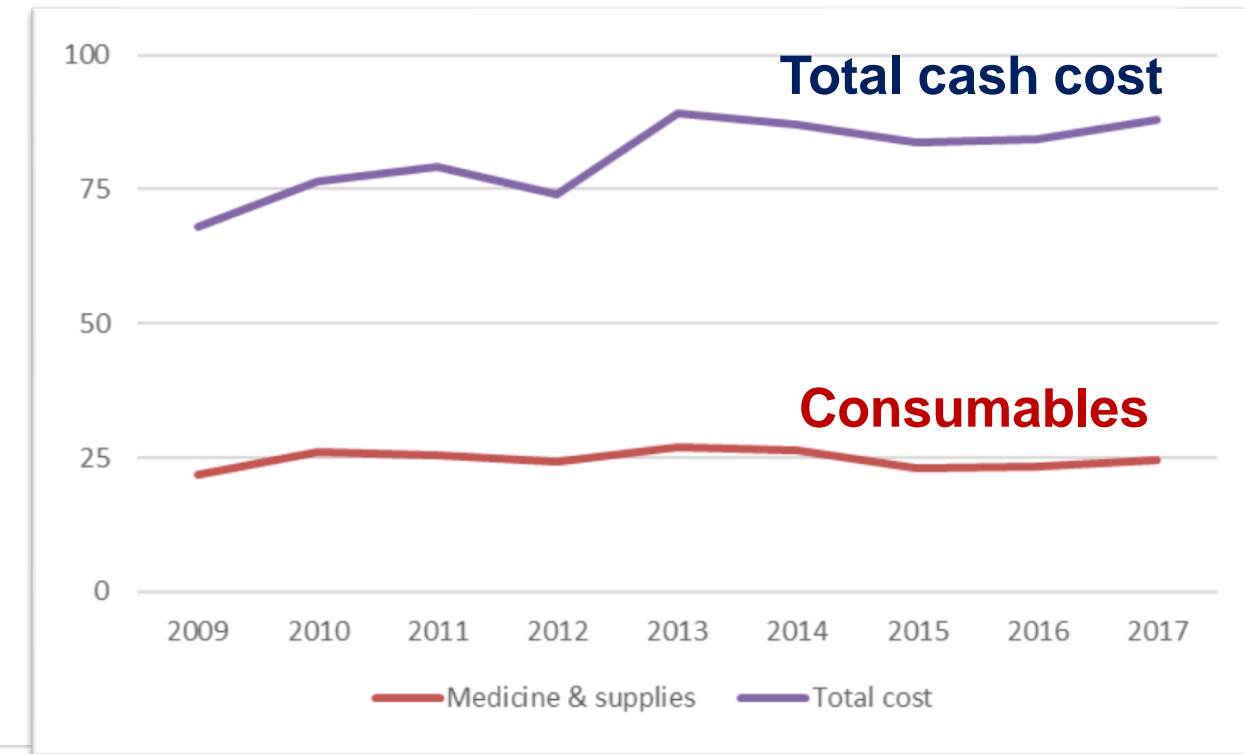
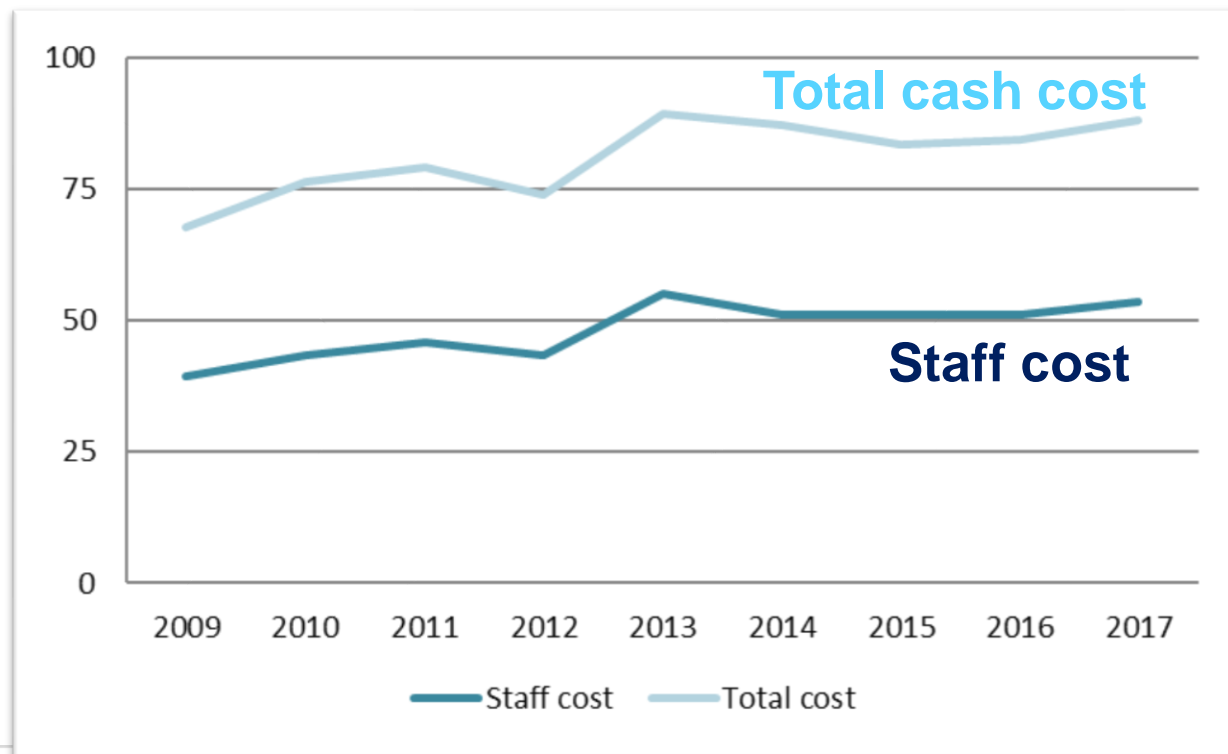
# Margins in context

## Profit and cost margins – %

	9M18	3Q18	1H18	2Q18	1Q18	2017	4Q17	9M17	3Q17	1H17	2Q17	1Q17	2016
Cash gross	16.4	14.2	17.5	15.1	20.0	15.9	18.7	14.8	16.0	14.2	10.6	17.6	19.3
Cash gross (healthcare)	16.1	15.8	16.3	14.7	17.8	15.1	18.1	14.1	14.6	13.8	10.4	17.0	19.0
Staff cost	52.7	50.5	51.7	63.1	52.6	53.6	53.9	53.5	51.7	54.4	50.0	48.3	51.2
Consumables	21.6	22.5	22.7	18.5	21.4	24.6	25.1	24.5	22.7	21.0	23.7	25.5	23.4
Rent	4.2	4.3	3.4	3.9	4.1	4.0	4.1	4.0	3.4	3.9	3.1	3.1	3.4
EBITDAR	16.2	14.2	16.6	14.4	19.9	15.5	18.5	14.4	15.4	13.5	8.9	16.3	18.2
EBITDA 12m rolling	12.6	12.6	13.2	13.2	11.9	11.5	11.5	11.7	11.7	11.7	11.7	14.1	14.8
OPEX	4.4	4.4	4.4	4.5	4.2	4.3	4.3	4.4	3.9	4.6	4.8	4.4	4.5
EBIT	8.2	5.1	9.8	7.4	12.1	6.8	7.3	6.6	8.8	5.4	1.9	8.7	9.9
EBT	4.5	1.7	5.9	3.1	8.7	3.0	2.6	3.1	4.2	2.5	-1.8	6.7	7.8
Net	2.6	1.5	3.2	2.8	3.7	2.6	4.5	1.9	1.9	1.8	-0.6	4.1	3.5

**Staff cost margin is lower QoQ while the margins on consumables and rental space have edged up. Operating expense margins have otherwise changed little. We are on track to meet our margin guidance for 2018.**

# History of cost margins



# Balance sheet summary

## Book and market equity, capital metrics and leverage

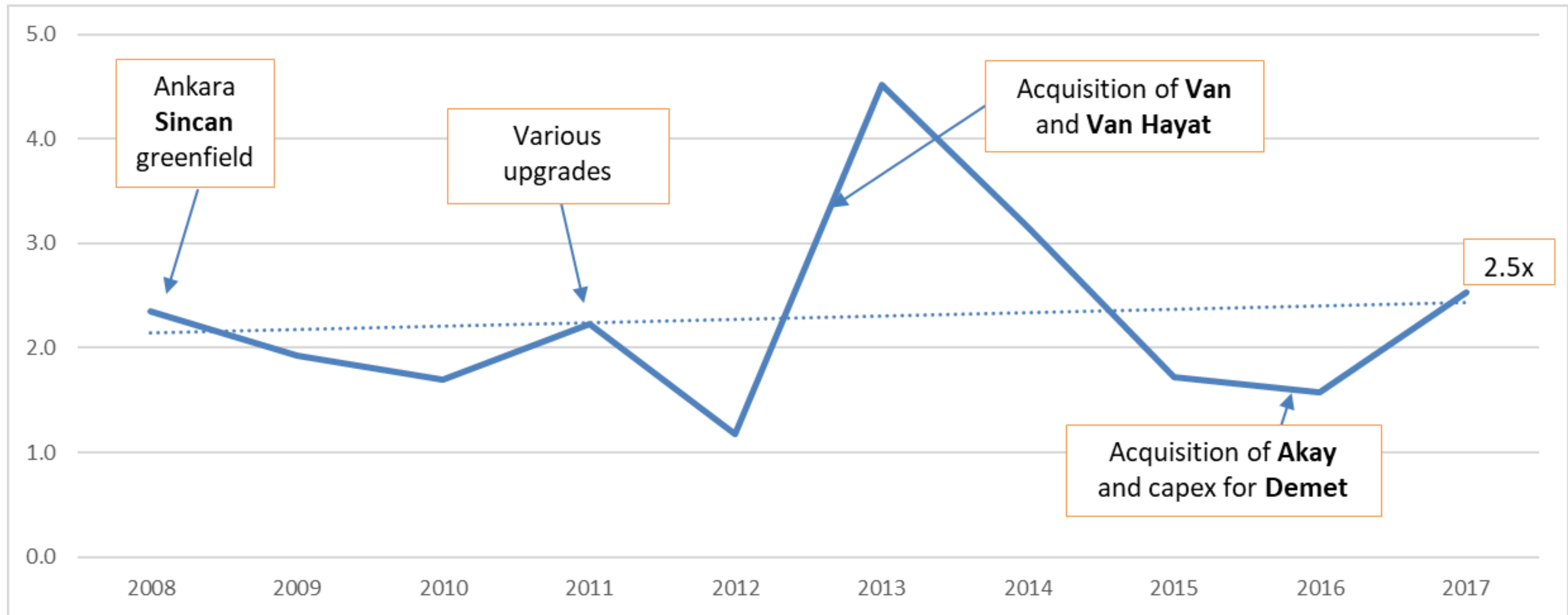
TLM

	9M18	3Q18	1H18	2Q18	1Q18	2017	4Q17	9M17	3Q17	1H17	2Q17	1Q17	2016
Book value of equity	60.4	60.4	61.9	61.9	61.8	60.5	60.5	59.6	59.6	63.7	63.7	65.1	62.3
Net debt GAAP	108.3	108.3	93.0	93.0	75.9	71.5	71.5	66.5	66.5	55.2	55.2	49.9	45.4
Medical School	-12.1	-12.1	-10.6	-10.6	-2.0	-1.3	-1.3	-1.0	0.0	0.0	0.0	0.0	0.0
Treasury stock	-8.5	-8.5	-8.5	-8.5	-8.5	-8.5	-8.5	-8.5	-8.5	-8.5	-8.5	-8.5	-8.5
Net debt adjusted	87.7	87.7	73.8	73.8	65.3	61.7	61.7	57.0	58.0	46.7	46.7	41.3	36.9
Market value of equity	108.0	108.0	108.0	108.0	108.0	108.0	108.0	108.0	108.0	108.0	108.0	108.0	108.0
Minorities	17.9	17.9	18.1	18.1	19.5	13.2	13.2	15.3	15.3	14.0	14.0	12.5	13.2
Enterprise value	213.6	213.6	199.9	199.9	192.8	182.9	182.9	180.3	181.3	168.7	168.7	161.8	158.1
<b>Leverage and capital</b>													
Net debt to sales (x)	0.32	0.31	0.27	0.27	0.24	0.25	0.24	0.24	0.23	0.20	0.20	0.17	0.19
Net debt to EBITDA (x)	2.64	3.19	2.05	2.56	1.51	2.18	1.64	2.26	1.88	2.08	3.52	1.31	1.28
Net debt to equity (x)	1.45	1.45	1.19	1.19	1.06	1.02	1.02	0.96	0.97	0.73	0.73	0.63	0.59
EV to sales (x)	0.78	0.77	0.73	0.73	0.70	0.74	0.70	0.75	0.71	0.72	0.74	0.67	0.81
EV to EBITDA (x)	6.43	7.77	5.54	6.94	4.45	6.46	4.87	7.15	5.89	7.51	12.73	5.11	5.50

**Net debt adjusted for the Treasury stock and the University project stands at TL87.7M. The net debt to EBITDA as at September 2018 is 2.64x.**



# Investments and leverage



# 2018 Guidance – unchanged

Revenue	TL275-295M
EBITDA	TL36-40M

# Projects summary 2018-2020



**Ankara Akay** – Room, technology infrastructure upgrades nearly done. Expected completion: 2018.

**Ankara Demet** – The roll-out nearing end with dental clinic now in operation. Expected completion: 2018

**Ankara Etlik** – The work which commenced in 2017 constructs a second hospital building adjacent to our existing facility, which should nearly treble the capacity at the location. Expected completion: 2019

**Lokman Hekim Medical School** – The School is now open for its first academic year.

**Elazig City Hospital** – We have a 5-year mandate to operate Elazig City Hospital's physiotherapy and rehabilitation center. The hospital has recently commenced its operations. Expected start: 2018

**Bilkent City Hospital** – We have also secured the rights to operate Bilkent City Hospital's PTR center. Expected start: 2019.





# Etlik project recap

Ankara  
Etlik  
1996



**37** beds now

2017 Sales = TL32.1M

Ankara Etlik  
2<sup>nd</sup> hospital  
building  
2018



**63** beds additional

CAPEX 2017 thru 2019  
TL25M

New Etlik  
2019



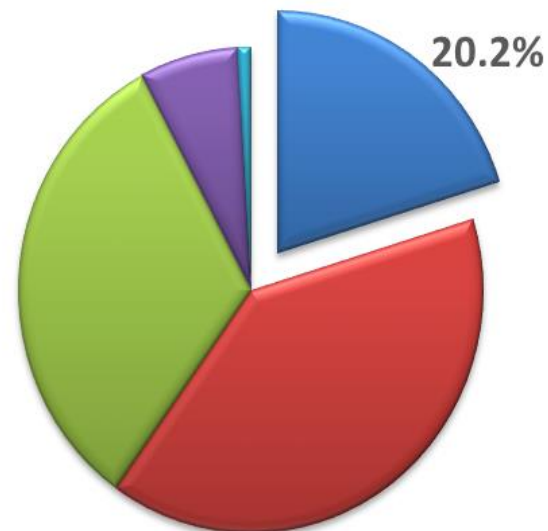
**100** beds

# Etlik project rationale

Etlik's share in floor space



Etlik's share in revenues



## Etlik commands the highest sales per square meter of floor space in the Network

**Space at Etlik is scarce.** If you visited the location, the first thing you would notice is a crowded hospital lobby. You would see patients trying to register with the reception or locate the very physician they are looking for. You cannot find a single Lokman employee idle. The rooms are always occupied.

**Here is what these mean in terms of numbers.** Etlik operates on 2,900 sqm of floor space (7.4% of the group as a whole) or 35 beds (7% of the group's total bed capacity). On these, Etlik generated 20% of group sales in 2015, which makes the location 3x more profitable than the group average. We are using full year 2015 numbers to exclude Akay and Demet, which became operational late 2016.

# Medical school project



**The project is moving ahead.** Lokman Hekim and Sevgi Foundation have secured regulatory approvals to start the work to establish Lokman Hekim University in Ankara. The University will offer range of graduate degrees in medical sciences and related disciplines. The school is open for its first academic year.

**Two Ankara hospitals to become research hospitals.** Sincan and Akay, two of Lokman's Ankara locations will be affiliate hospitals to house research and practical training activities of the Medical School, which will be the source of much needed talent and top quality medical staff supplying Lokman group of hospitals.

**A major milestone in Lokman's history.** The School will help Lokman grow its footprint in the sector, improve brand recognition, and above all, raise the quality of product and services to become a key provider in Turkish healthcare industry. The work is underway to form the academic units.



# The school project rationale



**The School to have its own P&L.** The Medical School will have its own balance sheet and revenue sources – tuition and fees, donations and rental income – The School is non-profit.

**The academic staff will not be in Lokman's payroll.** The academic personnel will be in School's payroll irrespective of their involvement in patient-care at Lokman Hekim hospitals. Any revenue generated by doctors with academic titles *net of* doctors' shares will go through Lokman Hekim's P&L.



**We expect the project to become earnings accretive by 2020.**



# Elazig PPP project

**Elazig City Hospital mandate.** Lokman obtained a service outsourcing mandate from Ronesans Holding, the company managing Elazig City Hospital PPP project. Lokman Hekim will be the exclusive provider of all physiotherapy



And rehabilitation (PTR) services offered at Elazig for a 5-year period.

**Elazig to operate 1,038 beds.** Ronesans, through its sister company ELZ Saglik Hizmetleri A.Ş., has a 28-year concession from the Turkish Health Ministry to design, build, finance, equip and maintain a 1,038-bed hospital campus in Elazig. EBRD was the major donor helping fund the project with a €288M euro-denominated bond to finance. The PTR division is allocated 90 beds, which Lokman will operate. The hospital has started operations.

# Elazig PPP project rationale

**Elazig project gives an easy and low-cost access to a major town in Turkey.** The project Elazig does not require any major capital expenditures from Lokman. Our mandate is to equip and man the PTR division for a 5-year period. The contract is renewable.

**Our third location in Eastern Turkey.** Elazig's location in the East complements our geographical reach and the business model. The city is ideally located between Ankara and Van. The project effectively adds a third location to our growing presence in Eastern Turkey, an under-served region in the country.

**Project Elazig preliminary expectations and margins.** We plan to generate TL2.5-3M in annual revenues with an estimated EBITDA margin of 25%, on our preliminary assumptions.



# Bilkent PPP project

**Bilkent City Hospital to operate 3,831 beds. CCN Holding, through its subsidiary BDB Klinik Destek Hizmetleri A.Ş., has a concession from the Turkish Health Ministry to design, build, finance, equip and maintain a 3,831-bed hospital campus at Bilkent, Ankara. The campus itself centers around 8 hospital buildings constructed on 950,000sqm space.**



# Bilkent PPP project rationale



**Bilkent City Hospital mandate.** We have obtained a service operation mandate from CCN Holding, the company managing Bilkent City Hospital PPP. We will be the sole provider of all physiotherapy and rehabilitation services to be offered at Bilkent for a 5-year period.

**Lokman PTR to run 300 beds.** The bed capacity Lokman Hekim's PTR business will operate at Bilkent is 300. The hospital is set to commence operations late 2018.

**Two key reasons why Bilkent matters for us.** Bilkent PPP project is important for us for two reasons. First, it uniquely fits our strategy to become “the provider of choice” in Turkey's broader City Hospital undertaking. Second, it firms our position in Ankara expanding our reach to remain the leading operator in medical services in Nation's capital. Bilkent will become our fifth location in Ankara.



# Bilkent PPP projections

**Financial projections depend on MoH classification.** The project Bilkent is much larger in scale and more complex than our PPP mandate in Elazig. Bilkent project's revenue and cash flow stream will depend, more than anything else, on Turkish Health Ministry's classification of the hospital.

**Preliminary projections.** On our preliminary assumptions, the Bilkent PTR will generate and estimated TL20-30M in annual revenues. If the MoH classifies Bilkent as a *State* hospital, we should be closer to the low-end of the revenue range we quote here. If the Ministry concluded Bilkent is a *University/Education* hospital, our revenue estimate would then be closer to the high-end of our guidance.

## Disclaimer

This document contains "prospective statements". Except for retroactive information, all statements including but not limited to the statements about group's operations, financial position and business strategies may contain prospective statements. In addition, prospective statements may be specified with prospective terms like "possibly", "inevitable", "expecting", "aim", "plan", "foresee", "estimate", "believe" ve "continue" in general.

Though the company believes that the expectations specified in prospective statements are reasonable as of today's expectations, it does not guarantee that these expectations will be realized. Due to this uncertainty, our readers should not take action based on the prospective statements in question. These cautionary explanations will be applied as a whole for all written or oral statements that may be stated by us from now on.

Lokman Hekim Group Consolidated Financial Statements can be reached from the following website <http://lokmanhekim.com.tr/tr/yatirimci-iliskileri/yatirim-bilgileri/faaliyet-raporlari>.