



**May 2019 Strategic Case Study Examination**  
**Pre-seen material**



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**Denby Healthcare pre-seen material**

You are a senior manager in the finance function at Denby Healthcare (“Denby”), a private hospital group. You report directly to the Board and advise on special projects and strategic matters.

Denby is based in Keeland where the currency is the K\$. Keeland requires companies to prepare their financial statements in accordance with IFRS.

Denby is quoted on the Keeland Stock Exchange, an active and well-regulated exchange. Companies that are quoted on the exchange are required to adhere to the Keeland Code of Corporate Governance, which sets out detailed regulations relating to the governance arrangements for quoted companies.

## Healthcare in Keeland

Keeland is a developed and prosperous country. Employment levels are high and employers are required by law to pay a minimum hourly rate that is sufficient for full-time workers to support themselves and their families. A large proportion of the working population earn significantly more than that minimum wage.



Keeland's government provides extensive healthcare through the Keeland Health Service (KHS). Every Keeland citizen is registered with a general practitioner (GP). GPs are responsible for their patients' routine preventive and remedial medical treatment. GPs operate out of local offices that are close to patients' homes. Each GP office usually has several GPs, along with nurses, receptionists and other staff. Registered patients contact their GP office to make an appointment in order to seek advice or

treatment. GPs are funded by the KHS and so there is no charge to the patient.

It is standard procedure for patients to consult their GPs with any health problems, rather than going directly to a hospital. GPs can treat a wide range of conditions, usually by prescribing the relevant medication or by dressing minor injuries. GPs refer patients to hospital when they lack the skill, training or equipment to deal with the problem directly. Hospitals are not permitted to treat patients without a referral from either a GP or an accident and emergency doctor.

Hospitals offer both inpatient and outpatient services. Inpatients are admitted to hospital for at least one overnight stay and so are subject to constant medical supervision by doctors, nurses and other staff while they recuperate from their illness or surgical procedure. Outpatients visit hospital in order to consult with specialist doctors and do not stay overnight. Both inpatients and outpatients can be provided with a range of diagnostic and investigative treatments, such as laboratory tests on blood and other samples, x-rays, ultrasound and magnetic resonance imaging (MRI) scans.

Most KHS hospitals also offer accident and emergency (A&E) facilities. In an emergency, sick or injured patients can go directly to their nearest A&E department, using either their own transport or the KHS emergency ambulance service. Medical staff at A&E will then evaluate their condition and will either provide immediate treatment in the A&E department before sending them home to recover, or they will admit them to hospital as an inpatient.

Keeland's citizens are not charged for any medical treatment that they receive from the KHS. The KHS is funded using tax revenues. Visitors from other countries are charged for any consultations or treatment at KHS facilities, including GP surgeries and hospitals.

Keeland spends a large percentage of its revenues on funding the KHS. Despite that, the demand for medical care constantly exceeds the availability of medical resources:

- Ongoing medical research continues to yield advances in preventive medicine. These usually require additional investment in diagnostic equipment and increase the need for patient consultations, to conduct tests and to discuss results.
- The high quality of medical care provided by the KHS has increased life expectancy and an ageing population places an increasing burden on the KHS because elderly patients generally require more care.
- The KHS is the only source of critical care for extremely ill patients, whose survival may depend on intensive nursing in hospital intensive care units and high-dependency wards.

The strains placed on the KHS often mean that patients must wait for GP and hospital appointments. Patients who require surgical procedures or diagnostic tests using high-value equipment such as MRI scanners will, typically, have to wait for several weeks, or even months. Patients on waiting lists will not necessarily be treated in strict chronological order of joining the waiting list because some allowance must be made for the severity of their conditions. A patient whose condition is life-threatening may be seen before another who has waited longer.

In the past, Keeland's government has been accused of underfunding the KHS because some patients have been forced to wait for many months, sometimes even years, for surgical procedures that would cure painful and debilitating conditions. To avoid excessive waits, Keeland's government has made it mandatory that all referrals for hospital treatment will be completed within 15 weeks. Critically ill patients will still receive priority, but all others should be treated within that time limit. Unfortunately, there are times when it is impossible to treat every patient within the mandatory 15-week period. There is no formal penalty for exceeding the time limit, although hospitals that are consistently late may have their funding reduced in favour of more efficient hospitals in the KHS's annual budgeting cycle.

### Private healthcare

Keeland's citizens pay for KHS through taxation and need not make a separate payment for medical treatment from the KHS. Despite that, there is a significant demand for treatment provided by private healthcare providers. Private healthcare ranges from clinics that can offer a "same day" consultation with a qualified doctor, who offers similar services to those offered by the patient's KHS GP, to private hospitals that can carry out diagnostic tests and conduct surgical procedures.

There are several reasons why patients choose to pay for medical treatment at one of Keeland's private hospitals, including:

- *Convenience*

Private healthcare providers are generally far more responsive. Lead times for consultations are generally far shorter than for comparable KHS treatment and appointments may be available outside of normal working hours.

Patients whose conditions are debilitating, but not life threatening, may be willing to pay for their surgical procedures at private hospitals rather than wait for up to 15 weeks. Private hospitals will also offer greater flexibility in terms of scheduling procedures to fit in with work or family commitments.

- *Availability of treatments*



Some treatments are unavailable on the KHS and can only be obtained privately. For example, some private hospitals are equipped with more advanced equipment than is available in the KHS and that may offer the prospect of higher success rates or shorter recovery times.

Patients may also be forced to seek private treatment for procedures that are regarded as discretionary. For example, patients may wish to have facelifts to reverse the effects of aging on their appearance. KHS rules would normally view such treatment as being purely cosmetic and difficult to justify on medical grounds.

- *Comfort*

Inpatients may be willing to pay for private treatment because KHS hospitals are generally designed to be functional rather than luxurious. Most KHS hospitals require inpatients to share rooms, generally referred to as wards, unless they are very ill or are suffering from contagious or infectious diseases. The wards will be designed to be cleaned and disinfected easily and may appear utilitarian. The meals provided to patients will be nutritious but may not be particularly appetising.



Private hospitals generally provide each inpatient with an individual room that is decorated and furnished to the standard of a hotel room, albeit with all of the medical equipment required to monitor the patient's health. Meals will be nutritious but will be of a much higher standard in terms of choice and quality than those served in KHS hospitals.

- *Citizenship*

Keeland has a good reputation for the quality of its medical profession, both in the private and public sectors. Foreign patients frequently travel to Keeland rather than seek treatment at home because they believe that they will receive a higher standard of care than is available in their home countries. The patients usually come to Keeland specifically for their hospital treatment and return home once they are sufficiently fit to travel. Private hospitals can make the necessary arrangements for transport and for any visas that are required.

The KHS will only treat foreign visitors in case of a medical emergency and will charge them for any consultations or treatment. The KHS will not accept foreign citizens for planned hospital procedures unless they are permanently resident in Keeland and are registered with a GP in the country.

Private hospitals do not offer all the services that are provided by the KHS. One major difference is that private hospitals do not have A&E units. A&E is relatively expensive to operate because it requires to be operational 24 hours a day, every day of the year. It would also be difficult for a private hospital to obtain payment for any treatment provided because patients may require urgent treatment before their ability to pay can be checked.

Another major difference is that private hospitals do not have intensive care or high dependency units for the treatment of critically ill patients. On the rare occasions that private hospital patients become so unwell that they require intensive or high dependency care, they are transferred by ambulance to the nearest KHS hospital that offers this facility and has a bed available. Private hospitals choose not to have such facilities because of cost. Intensive care and high dependency units require large numbers of specialised nurses and doctors. Furthermore, patients whose conditions are so severe that they require intensive or high dependency care would generally be treated immediately by the KHS and so there is little demand for private alternatives.

Both KHS and private hospitals require patients to be referred for consultation or treatment by their GPs. Patients who are entitled to KHS treatment can ask their GPs to refer them to their preferred private hospital instead. Foreign patients must be referred by a doctor from their home country before they travel.

The KHS is a major user of private healthcare. KHS hospitals often refer patients who are close to the 15-week deadline to a private hospital in order to prevent their treatment from overrunning. In such cases, the patient's care is paid for by the KHS.

### Private hospitals in Keeland

Private health care in Keeland covers a wide range of business types, ranging from clinics employing individual medical practitioners through to large hospitals that offer a full range of medical services. Keeland has three main providers of private hospital care:

		Number of hospitals
1	Bronty Health	48
2	Denby	43
3	Postar Primary Care	32

All three groups have their hospitals spread widely across Keeland's largest towns and cities. All three groups provide a full range of inpatient and outpatient services (but not A&E facilities).

Denby has no significant direct competition within Keeland, apart from Bronty Health ("Bronty") and Postar Primary Care ("Postar"). These three groups are the only ones that operate full-scale private hospitals. Other private healthcare is provided on an outpatient basis from relatively small business premises. These range from qualified practitioners offering services such as counselling and physiotherapy to clinics staffed by qualified doctors offering "drop-in" GP services.

Denby competes with Bronty and Postar for revenue from four key market segments:

Private health insurance (Keeland)	<p>Employers often provide private health insurance as a perk to their employees. Some individuals pay for their own private health insurance premiums. As with any insurance cover, the insurer takes a premium and accepts the risk. When patients have such cover, their hospital bills are paid for by their insurer.</p> <p>Patients usually have some discretion over where they will receive their treatment, although the insurance company can usually insist on a different hospital if the patient's preferred hospital is significantly more expensive.</p>
Self-pay (Keeland)	<p>Some patients choose to pay directly for private treatment, despite having to bear the full cost for themselves. Such individuals are generally keen to be treated quickly and do not wish to wait for treatment provided by the KHS.</p> <p>Individuals who are paying for their own care generally seek advice from their GPs before reaching a decision as to where they wish to be referred.</p>



Foreign patients	<p>Patients coming from overseas may be funded by health insurance or may be paying for their own treatment. Their choice of hospital is further complicated by the fact that they need not necessarily come to Keeland for treatment. They could, if they wished, use a private hospital elsewhere.</p> <p>Most developed countries, including Keeland, have excellent reputations for the quality of their healthcare.</p>
KHS patients	<p>The KHS frequently uses private hospitals to manage waiting lists for surgical procedures. If a patient is at risk of exceeding the 15-week deadline imposed by government policy then the administrators at the relevant KHS hospital may book that patient into a private hospital.</p> <p>The cost of private care is borne by the KHS under these circumstances. Patients rarely have any influence over the choice of private hospital, although the KHS has strict guidelines that take account of ease of travel for patients and their visitors and so the private hospital will be reasonably close to home. The KHS also takes expertise and cost into account when selecting a private hospital, so a patient requiring back surgery would be referred to a private hospital that is staffed and equipped for orthopaedic surgery.</p>

Bronty, Denby and Postar all offer similar standards of care and similar ranges of services from each of their hospitals. All hospitals offer a range of inpatient and outpatient services.

### Business models

Bronty, Denby and Postar all follow the same business model:

- Firstly, all have well-equipped hospitals that offer the same wide range of diagnostic facilities and treatment. Each has hospitals in most of Keeland's major cities and towns. Each of the groups has two or even three hospitals in larger cities.
- Secondly, the range of treatments offered is determined more by commercial considerations than by clinical need. Unlike the KHS, private hospital groups have no specific duty to treat every medical condition or injury. Some conditions would cost too much to treat on a commercial basis. Others are well served by the care offered by the KHS and so there would be little point in paying for private treatment.
- Thirdly, the standard of medical care offered will at least match and, ideally, exceed that available from the KHS. All three groups study developments in new equipment and techniques and insist that all medical professionals keep up to date through continuing professional development activities. All three groups invest heavily in staying at the forefront of developments in medicine. Equipment is upgraded in response to new developments that improve the quality of patient care and senior medical staff are provided with training in new techniques at the world's leading medical schools.

All three groups spend heavily on advertising on television and in the press. They also sponsor a variety of sporting and cultural activities.

Hospital doctors usually specialise in one particular area of expertise. Some specialisms are classed as “medical” and tend to be characterised by physicians prescribing pharmaceutical drugs to treat their patients. Others are classed as “surgical” and involve surgeons conducting surgical procedures in order to remove or repair diseased or damaged limbs or organs.

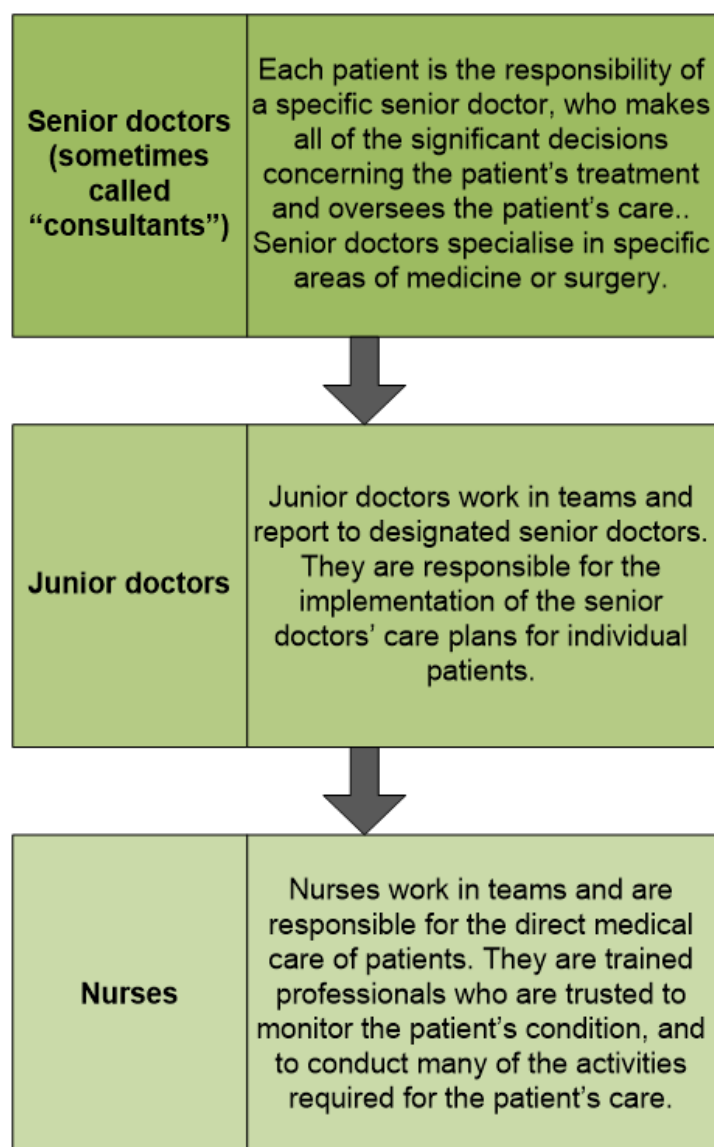
Many of the referrals to private hospitals involve surgery and so private hospitals, including Denby’s, tend to employ a greater proportion of surgeons than would be found in the KHS. Private hospitals do, however, still employ a significant number of physicians to work alongside their surgeon colleagues.

There is further specialisation within both medical and surgical fields. For example, orthopaedic surgeons specialise in treating conditions involving the musculoskeletal system. These include injuries and degenerative illnesses. They may also use non-invasive techniques, such as drugs or the immobilisation of an injured limb so that it heals properly. An orthopaedic surgeon may also treat joints or broken bones.



## Clinical care

All hospitals, both public and private, use the same basic model for the management of patient care:



Every patient is assigned to a specific senior doctor, who will meet with the patient and will decide on the course of treatment that is to be provided. Most of Keeland's senior doctors are employed by the KHS on a contract that permits them to work on a flexible basis. A typical senior doctor will have a moderate patient load at a KHS hospital and will also work on a part-time basis at a private hospital.

All three of the private hospital groups rely heavily on part-time senior doctors. Each group has a policy of insisting that senior doctors can work only for the KHS in addition to their commitment to that private hospital group.

All junior doctors and nurses are full-time employees of their respective hospitals. Doctors are graduates of medical schools and nurses have university degrees in nursing. Both doctors and nurses must join their respective professional bodies, which require a period of supervised practical experience in addition to academic qualifications.

The clinical team is supported by other professional staff who provide essential diagnostic services. For example, doctors frequently send samples of patients' blood, urine and tissue to hospital laboratories so that technicians can analyse them and assist with diagnosis or



measure the success or failure of treatments that are under way. Similarly, hospitals have extensive diagnostic equipment such as x-ray, MRI and ultrasound equipment, all of which are operated by skilled radiographers. This equipment can produce images of bones and internal organs to assist doctors in their evaluation of the patient.

There are other professional staff who interact with patients, such as physiotherapists who help patients to develop muscle tone and regain their mobility after surgical procedures or accidents.

Patient care also involves a number of non-professional staff. For example, ward auxiliaries assist the nurses by providing patients with practical assistance, especially when they are confined to bed. Cleaners are also very important because any infection can cause significant problems for patients who are recovering from surgical procedures or illness. Similarly, staff engaged in laundry and sterile services are responsible to ensure that infections do not spread through contaminated bedding, hospital gowns and surgical instruments.

### **Denby's history**

Demand for medical treatment has grown significantly since the foundation of the KHS, and continues to do so. Advances in diagnostic technology and screening make it possible to identify medical conditions at an early stage, while they are still relatively easy to treat. Improvements in pharmaceutical drugs and surgical techniques have created further scope for prevention and treatment. While these developments have been beneficial and have saved many lives, they have led to a situation in which demand for medical care in Keeland will always exceed the ability of the KHS to meet it.

Denby was founded in the early 1980s by several senior doctors who wished to use the latest and most advanced medical techniques. Those doctors felt that financial constraints were limiting the ability of the KHS to afford the latest treatments. They believed that there were sufficient wealthy individuals who would be prepared to pay a premium for the very best treatment to make a private hospital a financial success.

Denby's first hospital was opened in 1983 and was followed by another four new hospitals by 1990. By the mid-1990s, Denby had 15 hospitals and was quoted on the Keeland Stock Exchange. There followed a period of consolidation in the industry with Denby acquiring smaller hospital groups in exchange for shares in the Denby group, in addition to opening further hospitals. Denby now owns 43 hospitals and employs 23,500 staff of which 4,000 are senior doctors who practise at Denby's hospitals in addition to their full time roles at other hospitals.

Bronty and Postar adopted Denby's growth strategy. Now the three groups dominate the private hospital industry. Between them, they own almost all of Keeland's private hospitals.

Denby's founders retired more than 20 years ago. The company now has a widespread shareholding and its shares are actively traded.



## **Denby's vision, mission and values**

### ***Vision***

We wish to be recognised internationally as a world-leading healthcare provider.

### ***Mission***

We strive to attract and retain the most committed and skilled employees, each of whom has a passion for creating an excellent clinical environment and for delivering the best available clinical care.

### ***Values***

Denby's values provide a basis for staff to achieve the following aspirations:

1. Delivering the highest possible standard of patient care
2. Maintaining high standards of ethics and professionalism
3. Focussing on patient needs

## Denby's strategy

Denby's strategy is to attract patients by maintaining a reputation for clinical excellence. Ideally, Denby's hospitals will be the preferred choice of self-pay patients, whether from Keeland or overseas. Denby also aims to encourage patients funded by health insurance to request its hospitals in preference to those of other private hospital groups.

There are two aspects to creating and maintaining such a reputation:

- Firstly, Denby must maintain excellent standards of clinical care that match or exceed those of KHS hospitals. As a matter of routine, all hospitals release patients back to the care of their GPs. This gives GPs an opportunity to evaluate the quality of treatment received by their patients.

If GPs are unhappy with the quality of care received by their patients then they may recommend that future patients be referred to a KHS hospital or to one of Denby's competitors.

- Secondly, patients must have positive perceptions of their treatment, otherwise they may discourage their friends and families from requesting a referral to a Denby hospital.

Patients are not necessarily capable of appreciating the quality of the clinical care that they received, but they will be aware of factors such as the responsiveness of their chosen hospital in offering appointments and the speed with which any treatment was conducted. Their opinions will also be affected by the comfort of their stay and the quality of their meals.

Denby also seeks to maximise the revenues to be earned from the referral of KHS patients to private hospitals for treatments that would otherwise miss the 15-week deadline. The issues with that market overlap those of self-pay and health insurance patients:

- The quality of clinical care cannot be lower than that available from KHS hospitals. It would be politically unacceptable for the KHS to refer patients to private hospitals if doing so impaired their prospects of recovery.
- The referral must make good business sense to the KHS hospital that is referring the patient. Factors such as cost and Denby's flexibility and ability to meet KHS needs are paramount.

Patient feedback is less of a concern when the treatment is funded by the KHS. The fact that these patients often perceive treatment from a private hospital to be preferable to the KHS alternative does not generate any additional business.

Staffing is the most important element of patient care. Denby must attract and retain the very best people and must motivate them at all times. Clinical excellence is driven by the ability to recruit the very best senior doctors. Their expertise will drive the quality of the clinical decisions that are being made. Denby will also find it difficult to remain responsive if it does not have sufficient senior doctors to ensure that waiting times for appointments and for treatment remain brief.

All of Denby's staff have a role to play in ensuring excellent clinical care and positive patient feedback. Junior doctors, nurses and auxiliaries will all have significant contact with the patients under their care. Catering and cleaning staff have significant roles to play in ensuring that patients have safe and comfortable stays in hospital.

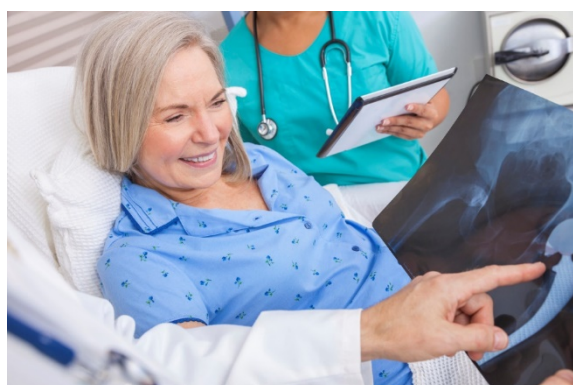
Denby regards human resources management as a major priority. All staff are subject to regular appraisals and all are encouraged to bring any problems to the attention of their managers.

## Costings

Patients are provided with a detailed quotation for the cost of their care before any treatment is provided. Those costs are based on a combination of experience and the senior doctor's evaluation of the patient's condition.

For example, hip replacement is a common orthopaedic procedure that involves fitting an implant to repair damage to the bones in the patient's hip that can cause severe pain and mobility problems. The surgical procedure requires the implant itself, the cost of a surgical team, the use of an operating theatre and some time in hospital to recuperate from the immediate effects of the procedure. Most patients require five days of hospital care after the procedure and would be quoted K\$15,800 for this procedure.

	K\$
Implant	1,280
Operating theatre costs and surgical team	4,844
Hospital accommodation and nursing	<u>2,250</u>
Total cost	8,374
Mark-up	<u>7,426</u>
Charge to patient	<u><u>15,800</u></u>



Each quote is personalised to ensure that the hospital charges for all anticipated costs, allowing for the patient's condition. For example, some patients require more complicated anaesthesia and that may increase the cost of the surgical team. Others may be expected to spend more time in hospital recuperating, which will be incorporated into their quote. Denby adds a substantial mark-up to the total cost, although the rate varies in response to the prices charged by competitors and the ultimate

source of payment, with KHS referrals being charged at lower prices than self-pay.

Denby's hospitals are equipped to offer a full range of services, from diagnosis through to post-operative care. Patients who require hip replacements can ask their GPs to refer them to a Denby hospital as outpatients for their initial diagnosis. A consultation with an orthopaedic surgeon, along with basic x-rays to assist in the diagnosis, would cost roughly K\$500. After their procedures, patients require physiotherapy to bring them back to full mobility. That can be provided by Denby hospital outpatient clinics at a cost of K\$200 per treatment session.

Patients can, if they wish, combine private care with KHS. For example, some may request the initial diagnosis to be carried out privately, but then opt to have the surgical procedure itself carried out at a KHS hospital. Others opt to have the surgical procedure done privately, after being diagnosed at a KHS hospital.

One feature of private healthcare in Keeland is that many senior doctors work for both the KHS and private hospitals. It is not unusual for the senior doctor responsible for the patient's diagnosis at a KHS outpatient clinic to be available to conduct the surgical procedure privately at a Denby hospital. The reverse can also be true, with the doctor's initial diagnosis at a Denby outpatient clinic and the surgical procedure at a KHS hospital. While patients are generally reassured by such continuity of care, it is also commonplace for different doctors to be responsible for different aspects of the case.

## **Denby's Board of Directors**

### ***Professor Maurice Lavelle, Non-Executive Chairman***

Maurice is a retired consultant surgeon. He was head of ophthalmic surgery at University Hospital, Capital City, before he retired from clinical medicine. He also had regular clinics and surgeries at Denby's Capital City hospital. He was responsible for the initial introduction of laser surgery for the treatment of macular degeneration.

Maurice is also a board member of the College of Ophthalmic Surgeons, the professional body responsible for the supervision and regulation of doctors who specialise in eye surgery.

Because of his prior association with the company, Denby does not consider Maurice to be independent.

Maurice was appointed in 2015.

### ***John Jenkins, Chief Executive Officer***

John was Director of Marketing for a major consumer electronics company before he joined Denby as CEO. He had previously served as a board member of a national chain of retail pharmacies.

John has an unpaid and part-time directorship of SS Medicine, a charity that owns a converted passenger ferry that has been converted to a hospital ship in order to provide free healthcare to developing countries.

John was appointed in 2013.

### ***Regina Chikaoanda, Chief Financial Officer***

Regina was a senior accountant with the KHS before she was appointed to Denby's Board. She is a qualified accountant, who has spent her entire career in healthcare.

Regina chairs the disciplinary committee of her professional accounting body.

Regina was appointed in 2011.

### ***Dr Anthony Chan, Medical Director***

Anthony is a qualified physician, specialising in kidney diseases. He has held senior clinical roles in several prestigious hospitals, both public and private. He has worked full-time for Denby since 2001, initially as a senior doctor at Denby's Central City hospital, then head of department and finally chief of medicine. He retired from clinical practice in 2012 and moved to Denby's head office as Head of Clinical Quality.

Anthony was appointed Medical Director in 2014.

### ***Robert Borr, Commercial Director***

Robert has held a number of senior positions in major quoted companies, including a period as Director of Human Resources at Luxury Holidays, a major company in leisure and entertainment.

Robert joined Denby's Board in 2016.

### ***Dr Louise Saunders, Deputy Chair and Senior Independent Director***

Louise trained and practised as a GP before joining the Keeland Medical Council (KMC), the body responsible for the oversight and regulation of Keeland's doctors. She spent almost 20 years with the KMC, rising to the position of Chief Executive.

Louise is a non-executive director with Lenton Pharmaceuticals, a company that develops and manufactures pharmaceutical products. She also serves on the board of Learning Lunch, a charity that provides free school meals to underprivileged children.

Louise was appointed to Denby's Board as an independent non-executive director in 2014 and was appointed to her present position in 2016.

### ***Mark Charles, Independent Non-Executive Director***

Mark is a qualified lawyer who was a partner in one of Keeland's most prestigious legal firms. He continues as that firm's non-executive chairman, but takes no active part in the firm's operations.

Mark was appointed to Denby's Board in 2017.

### ***Kevin Mak, Independent Non-Executive Director***

Kevin is a qualified nurse. He has held senior nursing positions in several KHS hospitals and was Head Nurse at the KHS's Western City Hospital immediately prior to his retirement.

Kevin is a member of the Management Committee of the Keeland Nursing Council, the professional body that supervises and regulates nurses.

Kevin was admitted to his post on Denby's Board in 2012.

### ***Dr Floriana Sanchez, Independent Non-Executive Director***

Floriana was a senior researcher, with a specific interest in antibiotics, at a major pharmaceutical company. She was involved in the development of several very successful products and her former employer holds more than 40 patents that were derived from her work.

Floriana chairs the Chemistry and Life Science Committee of Keeland's School Examinations Board.

Floriana was appointed to Denby's Board in 2015.

### ***Gustav Reiner, Independent Non-Executive Director***

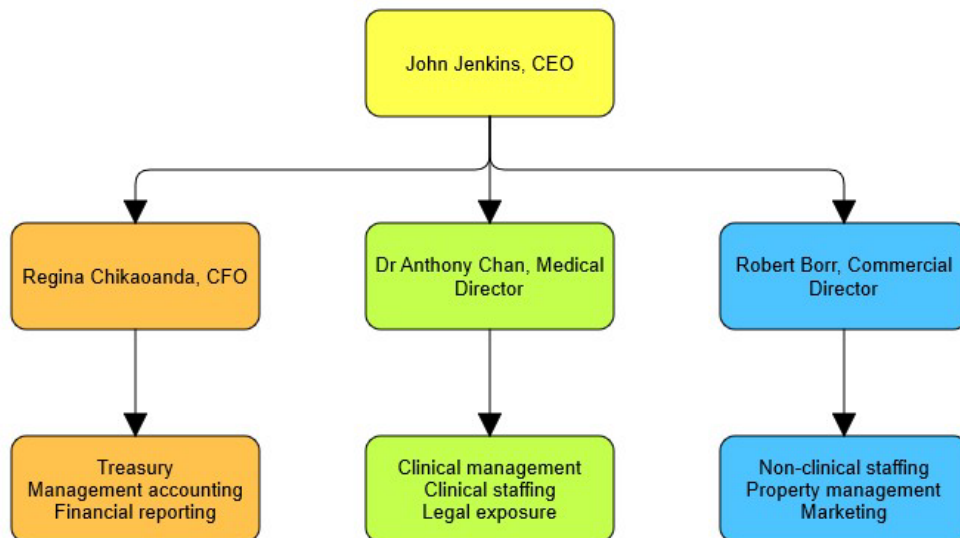
Gustav is a qualified accountant. He spent most of his career working in a variety of media-related roles. He was finance director of a major quoted advertising agency before he retired from full-time work.

Gustav took up his position on Denby's Board in 2013.





**Extracts from Denby's annual report**  
**Organisation Chart**



## Denby's Principal Risks

<b>Risk theme</b>	<b>Risk impact</b>	<b>Risk mitigation</b>
<b><i>Economic environment</i></b>	Private healthcare is vulnerable to economic conditions. For example, many patients have their private care funded by health insurance provided by their employers, so unemployment can restrict that market.	Denby monitors economic conditions and forecasts closely. The Group manages costs carefully to minimise the impact of lost revenues.
<b><i>Competition</i></b>	Private healthcare is a competitive industry and so there is constant pressure on Denby's market share.	<p>Denby pays close attention to the services offered by its competitors and ensures that any innovations are evaluated and, if necessary, adapted for Denby's own use.</p> <p>The Group pays close attention to the quality of its clinical care and to the ambience and comfort of its hospitals. Regular patient surveys indicate that there is a high degree of satisfaction and confidence in Denby. Any complaints submitted by GPs concerning patient care are investigated and the referring GP is provided with a clear and comprehensive response.</p>
<b><i>Staffing</i></b>	There is significant competition to recruit high quality medical staff, particularly experienced doctors and nurses. Patients cannot be treated unless there is a full complement of staff with the necessary expertise.	<p>Denby pays close attention to staff retention. All medical staff who resign are asked to attend an exit interview with a clinical manager.</p> <p>The Group invests heavily in the latest medical technology, partly to take full advantage of automation and partly to demonstrate to staff that they are working at leading hospitals.</p>
<b><i>Clinical risk</i></b>	Reputational issues can arise from accusations of clinical negligence or adverse reactions to surgery or medication.	<p>Denby carefully monitors all clinical standards and procedures.</p> <p>The Group's hospitals are subject to regular external inspections and reviews by KHS Clinical Quality inspectors. All recommendations arising from these are adopted immediately across the group.</p> <p>Denby has significant professional indemnity assurance.</p>
<b><i>Referrals from KHS</i></b>	The KHS is frequently criticised for spending public funds on private healthcare. This is seen to be diverting funds that could be used to expand the KHS.	<p>Denby draws revenues from self-pay and health insurance patients, both from Keeland and overseas. That offers some diversification of income streams.</p> <p>The Group strives to offer a cost-effective service to all patients, including those referred by the KHS. That should serve to protect Denby's share of the KHS market.</p>



The following information has been extracted from Denby's financial statements for the year ended 31 December 2018

**Denby Group**

**Consolidated statement of profit or loss  
for the year ended 31 December**

	<b>2018</b>	<b>2017</b>
	<b>K\$ million</b>	<b>K\$ million</b>
Revenue	1,028	966
Cost of sales	(543)	(521)
Gross profit	485	445
Other operating expenses	(413)	(392)
Operating profit	72	53
Finance costs	(22)	(22)
Profit before tax	50	31
Tax	(10)	(6)
Profit for the year	40	25

**Denby Group**

**Consolidated statement of changes in equity  
for the year ended 31 December 2018**

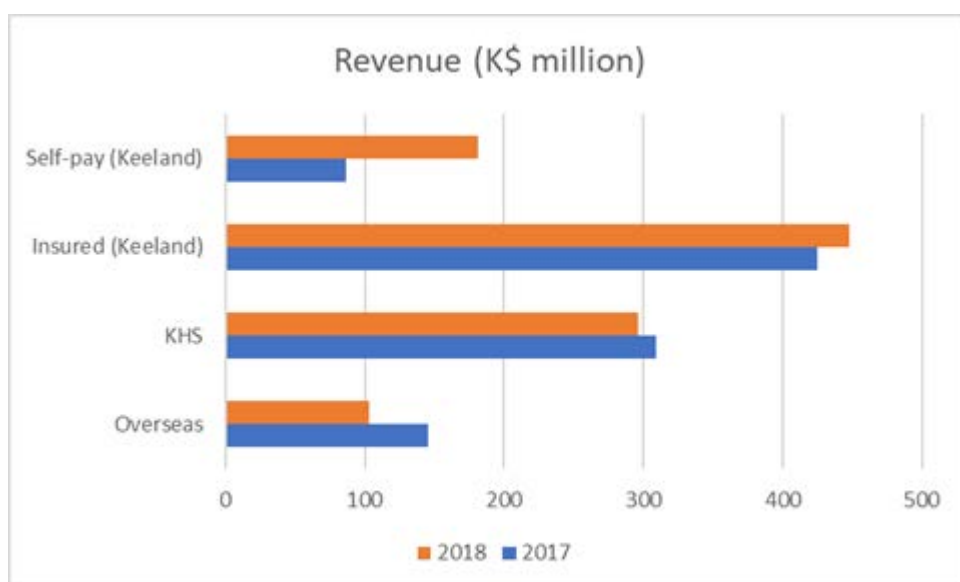
	<b>Shares and share premium</b>	<b>Retained earnings</b>	<b>Total K\$ million</b>
	<b>K\$ million</b>	<b>K\$ million</b>	
As at 1 January 2018	600	527	1,127
Profit for the year		40	40
Dividends		(23)	(23)
As at 31 December 2018	600	544	1,144

**Denby Group**  
**Consolidated statement of financial position**  
**as at 31 December**

	<b>2018</b>	<b>2017</b>
	<b>K\$ million</b>	<b>K\$ million</b>
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	1,042	1,022
Intangible assets	553	553
	<u>1,595</u>	<u>1,575</u>
<b>Current assets</b>		
Inventories	33	29
Trade receivables	116	110
Bank	93	91
	<u>242</u>	<u>230</u>
<b>Total assets</b>	<u><u>1,837</u></u>	<u><u>1,805</u></u>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Shares and share premium	600	600
Retained earnings	544	527
	<u>1,144</u>	<u>1,127</u>
<b>Non-current liabilities</b>		
Borrowings	550	550
<b>Current liabilities</b>		
Provisions	24	17
Trade payables	110	105
Tax	9	6
	<u>143</u>	<u>128</u>
<b>Total liabilities</b>	<u>693</u>	<u>678</u>
<b>Total equity and liabilities</b>	<u><u>1,837</u></u>	<u><u>1,805</u></u>

## Segmental analysis of revenue

	Year ended 31 December	
	2018	2017
	K\$ million	K\$ million
Self-pay (Keeland)	181	87
Insured (Keeland)	448	425
KHS	296	309
Overseas	103	145
	<u>1,028</u>	<u>966</u>



**Extracts from a competitor's financial statements**

**Bronty Health Group**

**Consolidated statement of profit or loss**

**for the year ended 31 December**

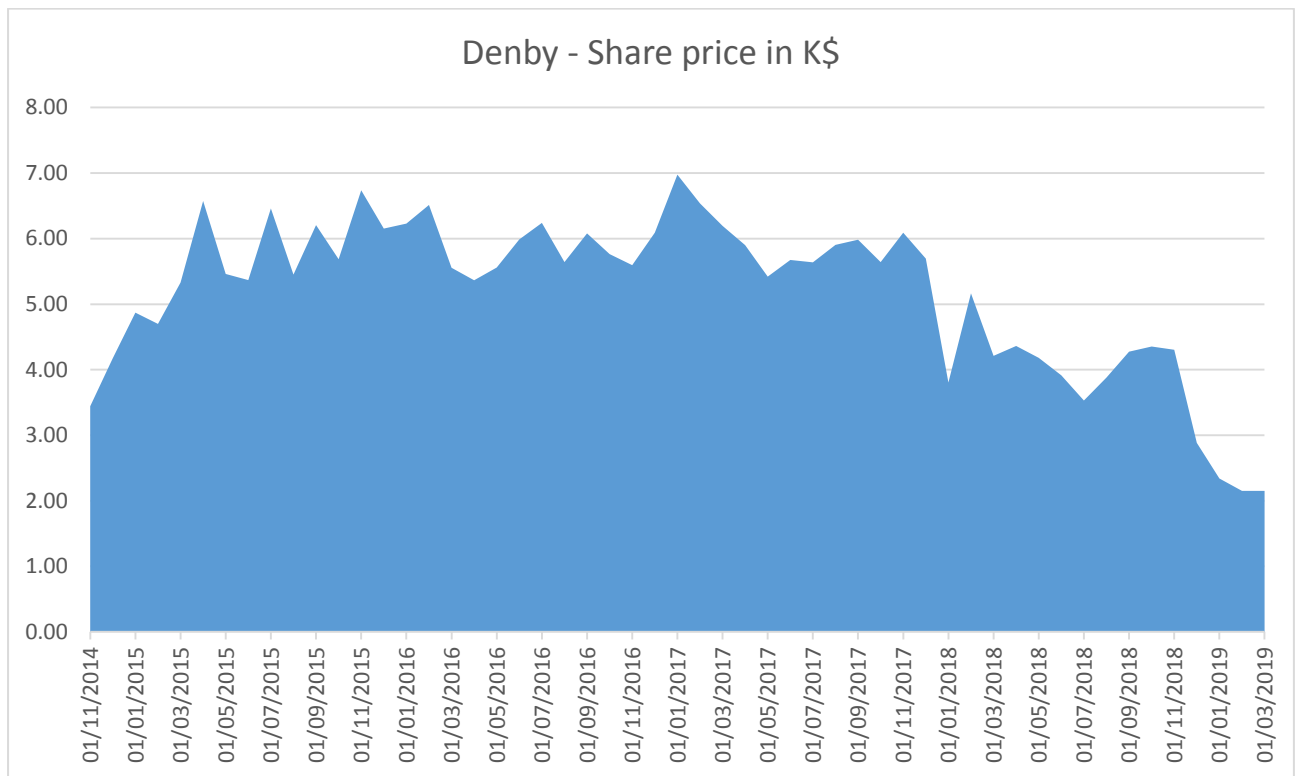
	<b>2018</b>	<b>2017</b>
	<b>K\$ million</b>	<b>K\$ million</b>
Revenue	1,243	1,156
Cost of sales	(644)	(612)
Gross profit	599	544
Other operating expenses	(480)	(456)
Operating profit	119	88
Finance costs	(26)	(26)
Profit before tax	93	62
Tax	(18)	(12)
Profit for the year	75	50

**Bronty Health Group**  
**Consolidated statement of financial position**  
**as at 31 December**

	<b>2018</b>	<b>2017</b>
	<b>K\$ million</b>	<b>K\$ million</b>
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	1,430	1,492
Intangible assets	560	560
	<u>1,990</u>	<u>2,052</u>
<b>Current assets</b>		
Inventories	39	29
Trade receivables	137	130
Bank	52	49
	<u>228</u>	<u>208</u>
<b>Total assets</b>	<u>2,218</u>	<u>2,260</u>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Shares and share premium	800	800
Retained earnings	611	671
	<u>1,411</u>	<u>1,471</u>
<b>Non-current liabilities</b>		
Borrowings	640	640
<b>Current liabilities</b>		
Provisions	22	16
Trade payables	128	122
Tax	17	11
	<u>167</u>	<u>149</u>
<b>Total liabilities</b>	<u>807</u>	<u>789</u>
<b>Total equity and liabilities</b>	<u>2,218</u>	<u>2,260</u>



## Share price history



Denby's geared beta is 0.62. Its ungeared beta is 0.41.

# Healthy Living

## *A healthy attitude works wonders*

### **Dr Brenda's Medical Column**

Over the years I have discovered that some of my patients benefit more from a referral to a suitable adviser than they would from any of the pharmaceuticals that I prescribe. Many of my fellow GPs seem to agree with me because there is now a wide range of professional advisers, ranging from dieticians to life coaches.

One of my patients had suffered from chronic fatigue and I had sent him for every medical test that I could think of. Finally, I sent him to a life coach who helped him to realise that he was unhappy because his job was not sufficiently challenging. He invested in online training to enhance his career prospects and applied for promotion. His fatigue disappeared quickly, even before he changed job.

This type of advice and assistance can help deal with the stresses and strains of modern life. Surprisingly, it is often successful individuals who require mentoring and advice because they feel insecure through having a great deal to lose. They must also make difficult decisions over matters such as balancing work commitments with family life.

There are also different types of counselling available which can help to deal with a variety of problems, ranging from post-traumatic stress, to addiction and attitude adjustment in the form of cognitive behavioural therapy. For example, I referred a patient who was suffering from anger management issues to a cognitive behavioural therapist. After several consultations, my patient was able to identify the causes of her outbursts and could control her temper.

You should ask your doctor's advice before seeking any form of therapy. I always ensure that my patients are referred to trained professionals, who are qualified in their claimed area of expertise. There are, however, many unqualified therapists and their advice could prove unhelpful and even dangerous. Sometimes patients come to seek a referral to a therapist only for me to discover that they had an underlying medical problem that I needed to treat.

*Dr Brenda is a practising GP*



# Healthy Living

## Ask your GP about microsurgery



Surgical techniques are improving constantly. Surgeons are highly trained and competent. Side effects are rare, but they can happen. Furthermore, some surgical procedures require an extended period of convalescence while the wound heals.

Some surgical procedures can be carried out by microsurgery. This involves making only a tiny incision, through which the surgeon can insert specially-designed instruments that can conduct a surprisingly wide range of surgical procedures.

The good news is that the small incision reduces the risk of infection, when compared to more traditional surgery. The fact that the procedure is less intrusive means that there are fewer risks of side effects.

Traditional surgery is the only treatment that is available for many procedures, but it is always worth asking your GP whether you might be referred to a hospital that can offer the microsurgery alternative.

# Keeland Telegraph

## Health Minister vows change on senior doctors' working practices

The KHS has commenced negotiations with the professional body that represents senior hospital doctors over the practice of external work. Senior doctors' contracts permit them to work for private hospitals, provided that the work does not interfere with their commitments to the KHS.

The doctors claim that this flexibility is necessary in order to compensate for the fact that senior doctors are frequently asked to be flexible in terms of their working hours in order to treat patients and advise junior colleagues. Many senior doctors believe that working in private hospitals on a part-time basis gives them an opportunity to work with the latest technology and apply more advanced procedures.

A spokesperson for the KHS commented that this flexibility had arisen for historical reasons and had never been withdrawn because of resistance from senior doctors. It was, however, becoming a problem because many doctors were insisting on signing what were effectively part-time contracts with the KHS so that they had significant amounts of time to devote to their private work. Some KHS hospitals have struggled to manage their waiting lists because of this.

# Keeland Daily News

## Applications soar for nursing degrees



The Keeland University Admissions Service revealed that nursing degrees were attracting more applicants than ever before. Applications from home-based applicants had increased by 7% since last year and those from overseas applicants had increased by 11%.

Nursing is an increasingly attractive career. Nursing degrees typically involve spending 50% of the course gaining practical experience. Once

qualified, nurses have a wide range of options. Most seek employment in a KHS hospital in the first instance and many spend their careers with the KHS. It is, however, easy to seek a fresh challenge in a foreign country because Keeland's nursing qualifications are accepted worldwide. There is also scope to work in private healthcare.

The rise in applications has led to an increase in entry qualifications. Nursing is an expensive subject to teach and universities cannot afford to increase the number of places to meet demand.

# Keeland Telegraph

## Travellers told to check their insurance before travelling for private surgical procedures

The Keeland Insurance Association, the professional body that represents insurance companies, warned customers to be careful when travelling abroad for private health care. It is becoming increasingly common for patients to travel abroad for treatment because they do not wish to wait for an appointment from the KHS and cannot afford to pay for private treatment here in Keeland. One alternative is to seek treatment from a private hospital in one of the countries that offer cheaper healthcare that is comparable in quality to that of a hospital in Keeland.

There has been an increase in cases of problems arising with the return journey. These include airlines refusing to board patients who are clearly unfit to travel because they have not allowed themselves sufficient time to recover from their surgical procedures. In one or two cases, aircraft have had to divert in flight to offload passengers who have become unwell on their return journey.

Insurers are unlikely to compensate travellers for any costs incurred because of the effects of planned medical treatment undertaken during a foreign trip. This could leave passengers liable for the cost of rebooking their return flight or for any additional medical and accommodation costs before they are deemed fit to fly.

If in doubt, passengers should always discuss any medical matters with their insurers before they travel.

# Keeland Daily News

## Jose Mantobal's flight to save career



The press office of Capital City United issued a press statement today that the soccer club had flown Jose Mantobal, its top-scoring player, for treatment at an unnamed private hospital in Cornopia. The club's doctor had recommended the hospital because it could offer specialist care that was not available in Keeland.

Mantobal suffered a serious injury to his right leg during Saturday's match against Western Town. He is unlikely to play again this season.

## Recent extracts from Vic the currency trader's blog

### Another long day!



The K\$ rose by 3% over the course of today. The government intervened to take some of the heat out and threatened to increase interest rates if we didn't behave ourselves.

I have to admit that this job would have killed me if I didn't love it so much. The last couple of years has been crazy, with no way to tell the direction that the markets are moving in from week to week. Sometimes day to day. There are big gains to be made when I get it right, but I have logged some big losses too.

#### COMMENTS

Vic, don't pretend that you know what you are doing! All you do is guess and then gamble with money that belongs to other people.

Cynical Tom

Vic, I agree with you mate! Too bad I work for a different bank and all your losses are my profits. I look forward to trading with you tomorrow.

Secret Sandra

### What else would I do?



I was tempted to call in sick today. Currency trading is well paid and I love earning a lot of money, but I am not convinced that this is how I want to spend the rest of my life. I wanted to be a gardener when I was growing up, but ended up as a currency trader instead.

Anyway, tomorrow is another day and it will soon be the weekend.

#### COMMENTS

Vic, it sounds like you had a hard day today. Tomorrow will be better. Take care not to let your boss know that you feel this way or you might find yourself out of a job.

Maybe it's time to look for a promotion and get away from the direct pressure of trading.

Secret Sandra