



IHH Healthcare Berhad

# Proposed acquisition of Fortis Healthcare

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13 July 2018

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- |    |                               |    |
|----|-------------------------------|----|
| 1. | Transaction summary           | 05 |
| 2. | Overview of Fortis Healthcare | 11 |
| 3. | Transaction rationale         | 15 |



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# 1. Transaction summary



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# IHH acquisition of controlling stake in Fortis Healthcare

|                             |   |
|-----------------------------|---|
| <b>Transaction</b>          | <ul style="list-style-type: none"> <li>– IHH to acquire controlling stake<sup>(1)</sup> in Fortis Healthcare Limited (“Fortis Healthcare”) through a combination (“Fortis Acquisition”) of:           <ul style="list-style-type: none"> <li>– Subscription of new Fortis Healthcare shares for INR 40 billion, representing c. 31.1% interest of Fortis Healthcare through a preferential allotment (“Preferential Allotment”); and</li> <li>– Mandatory open offer (“Fortis Open Offer”) for up to 26.0% voting share capital<sup>(2)</sup> of Fortis Healthcare as required under the Indian Takeover Code<sup>(3)</sup></li> </ul> </li> <li>– A public announcement for a mandatory open offer for up to 26.0% interest in Fortis Malar Hospitals Limited (“Malar”) to be made simultaneously with the Fortis Open Offer, as required under the Indian Takeover Code<sup>(4)</sup> (“Malar Open Offer”). The requirement to proceed with the Malar Open Offer will be only after the successful completion of the Fortis Acquisition</li> <li>– Adequate capital to execute long term strategic vision including the buy out of assets of RHT Health Trust (“RHT”), SRL private equity minorities and to address its short term liquidity needs</li> <li>– Fortis Healthcare to remain listed on the BSE and the National Stock Exchange of India, and Malar to remain listed on the BSE post completion of the Fortis Acquisition and the Malar Open Offer, collectively the “Transaction”</li> </ul> |
| <b>Consideration</b>        | <ul style="list-style-type: none"> <li>– Offer price of INR 170.00 per Fortis Healthcare share which represents:           <ul style="list-style-type: none"> <li>– a premium of 19.5% to the share price on 12 July 2018, one day before announcement of the Fortis Open Offer;</li> <li>– a premium of 15.3% to the share price based on sixty-day VWAP<sup>(5)</sup>; and</li> <li>– implied equity value of INR 88.8 billion (RM 5.2 billion / US\$ 1.3 billion) and acquisition multiple of 22.3x EV<sup>(6)</sup> / FY2018 EBITDA<sup>(7)</sup></li> </ul> </li> <li>– The total funding requirement of IHH for the Fortis Acquisition would be INR 40.0 billion (RM 2.3 billion) to INR 73.5 billion (RM 4.3 billion)<sup>(8)</sup>, depending on the acceptance levels for the Fortis Open Offer</li> <li>– Offer price of INR 58.00 per Malar share</li> <li>– The total funding requirement of IHH for the Malar Open Offer is up to INR 290.4 million (RM 17.0 billion)<sup>(9)</sup> subject to shareholders of Malar tendering</li> </ul>  |
| <b>Funding</b>              | <ul style="list-style-type: none"> <li>– Transaction to be funded through existing cash reserves and committed debt facilities</li> </ul>   |
| <b>Regulatory approvals</b> | <ul style="list-style-type: none"> <li>– Approval from Competition Commission of India (“CCI”)</li> <li>– Approval from Fortis Healthcare shareholders for the Preferential Allotment</li> </ul>  |
| <b>Expected completion</b>  | <ul style="list-style-type: none"> <li>– Transaction is expected to be completed in Q4 2018</li> </ul>  |

Note: USD/INR = 68.7725 and RM/INR = 17.0349

(1) Stake representing between a 31.1% to 57.1% interest in Fortis Healthcare on a fully-diluted basis

(2) On a fully-diluted basis after the Preferential Allotment

(3) Acquisition of a controlling interest in Fortis Healthcare will result in mandatory takeover offer requirement as per Regulation 3(1) of SEBI SAST Regulations

(4) Acquisition of a controlling interest in Fortis Healthcare will result in indirect acquisition of shares or control of Malar as per Regulation 5(1) of SEBI SAST Regulations

(5) As of 12 July 2018

(6) EV calculated as implied equity value of INR 88.8bn plus net debt of INR 14.0bn plus minority interest of INR 12.6bn minus value of associates holding in RHT of INR 9.6bn (calculated using EV of INR 46.5bn and external borrowings of INR 11.5bn from February 2018 RHT announcement and Fortis Healthcare indirect stake of 27.6% in RHT as of June 2018)

(7) FY2018 group EBITDA of INR 4.7bn, including other income

(8) Based on 522,496,881 diluted shares outstanding of Fortis Healthcare as of June 2018

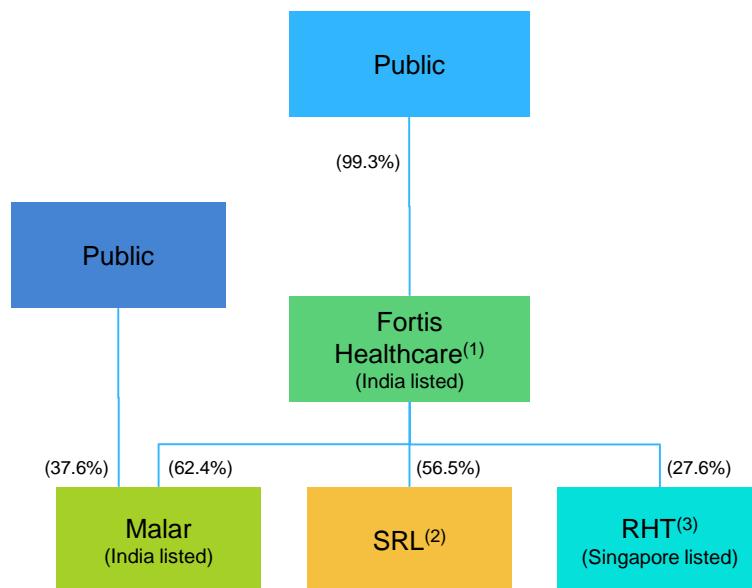
(9) Based on 18,824,259 diluted shares outstanding of Malar as of June 2018. Also includes interest component payable as per SEBI SAST Regulations

Source: Bloomberg, Company data, Stock exchange filings

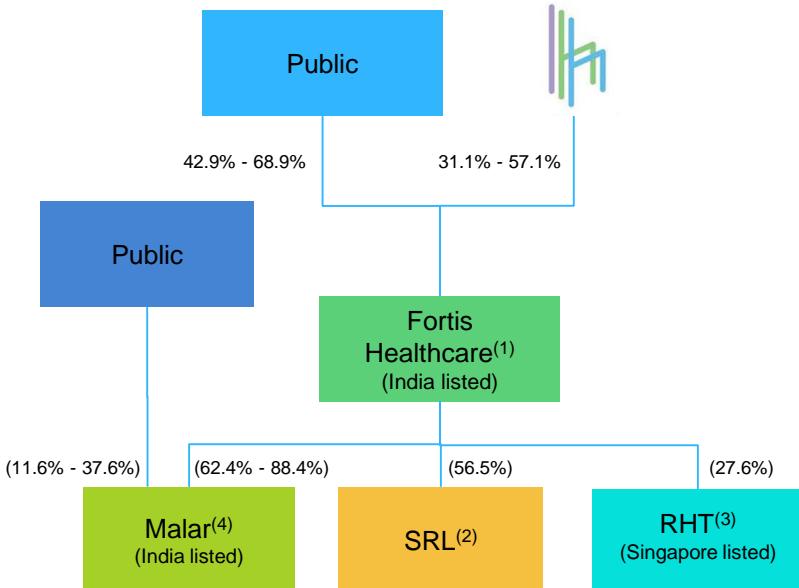
# Overview of Transaction structure

**Transaction will provide IHH a controlling stake of 31% to 57% in Fortis Healthcare**

Pre Transaction shareholding structure



Post Transaction shareholding structure



Note: Pre transaction shareholdings as of 30 June 2018. Fully diluted shareholding levels shown for Fortis Healthcare and Malar

(1) Holds hospital business through subsidiary

(2) Holds diagnostic and pathology business

(3) On 12 February 2018, Fortis Healthcare signed definitive agreement to acquire the entire portfolio of assets of RHT. Post transaction IHH will work with Board and Management of Fortis Healthcare to complete the acquisition of RHT's assets

(4) Following completion of the Fortis Acquisition, Fortis Healthcare will be acting in concert with IHH. Consequently, Malar shares tendered in the Malar Open Offer may be acquired by Fortis Healthcare

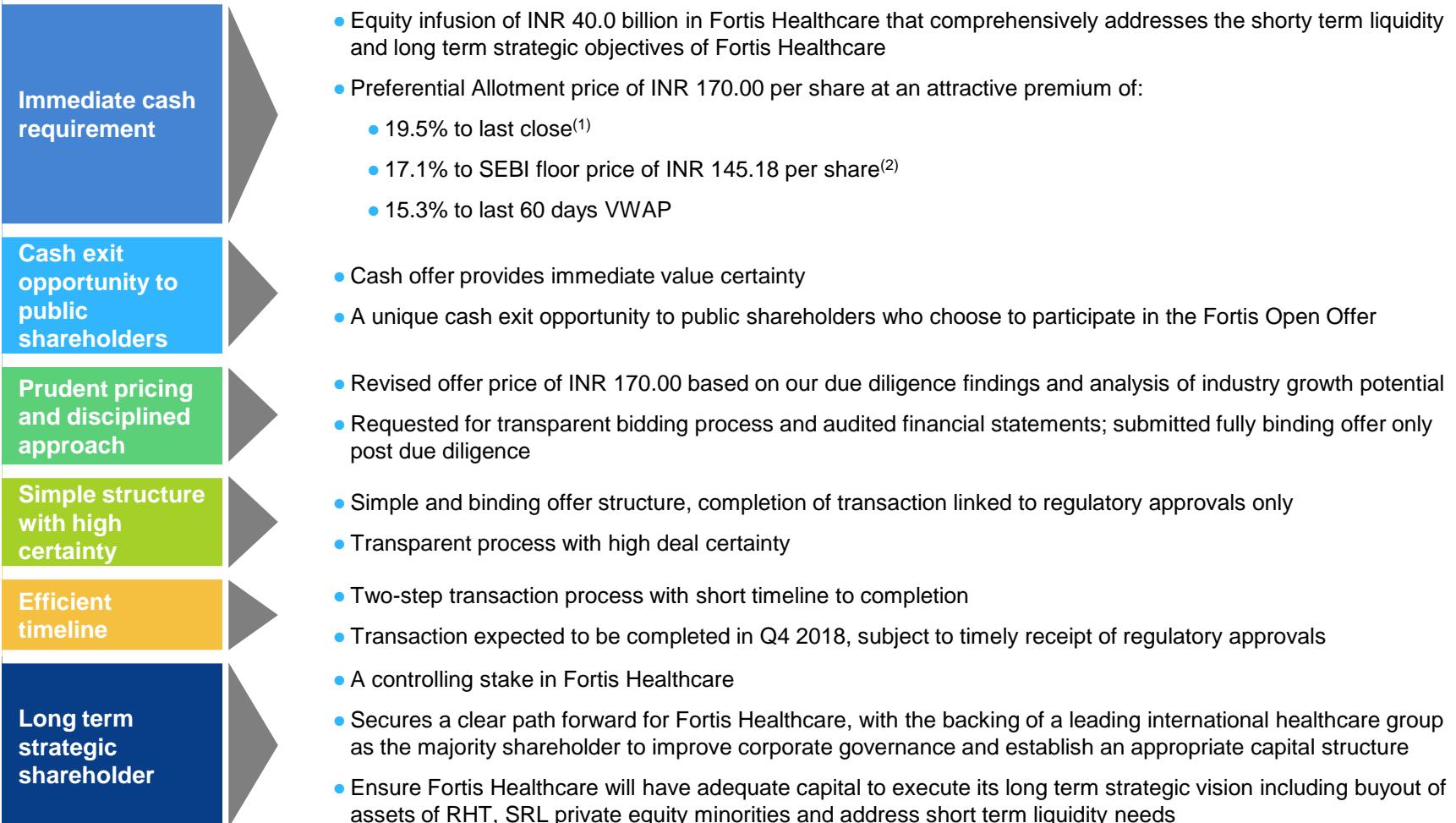
Source: BSE, RHT company website, Fortis Healthcare presentations

# IHH's offer to Fortis Healthcare delivers maximum value to all shareholders



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## Simple, holistic and clear with short timeline to completion for IHH to get a controlling stake in Fortis Healthcare



(1) As of 12 July 2018

(2) Calculated as per SEBI floor pricing formula which is the maximum of average of the weekly highs and lows of VWAP for (i) last 26 weeks or (ii) last two weeks in NSE as of 12 July 2018

# Indicative Transaction timeline



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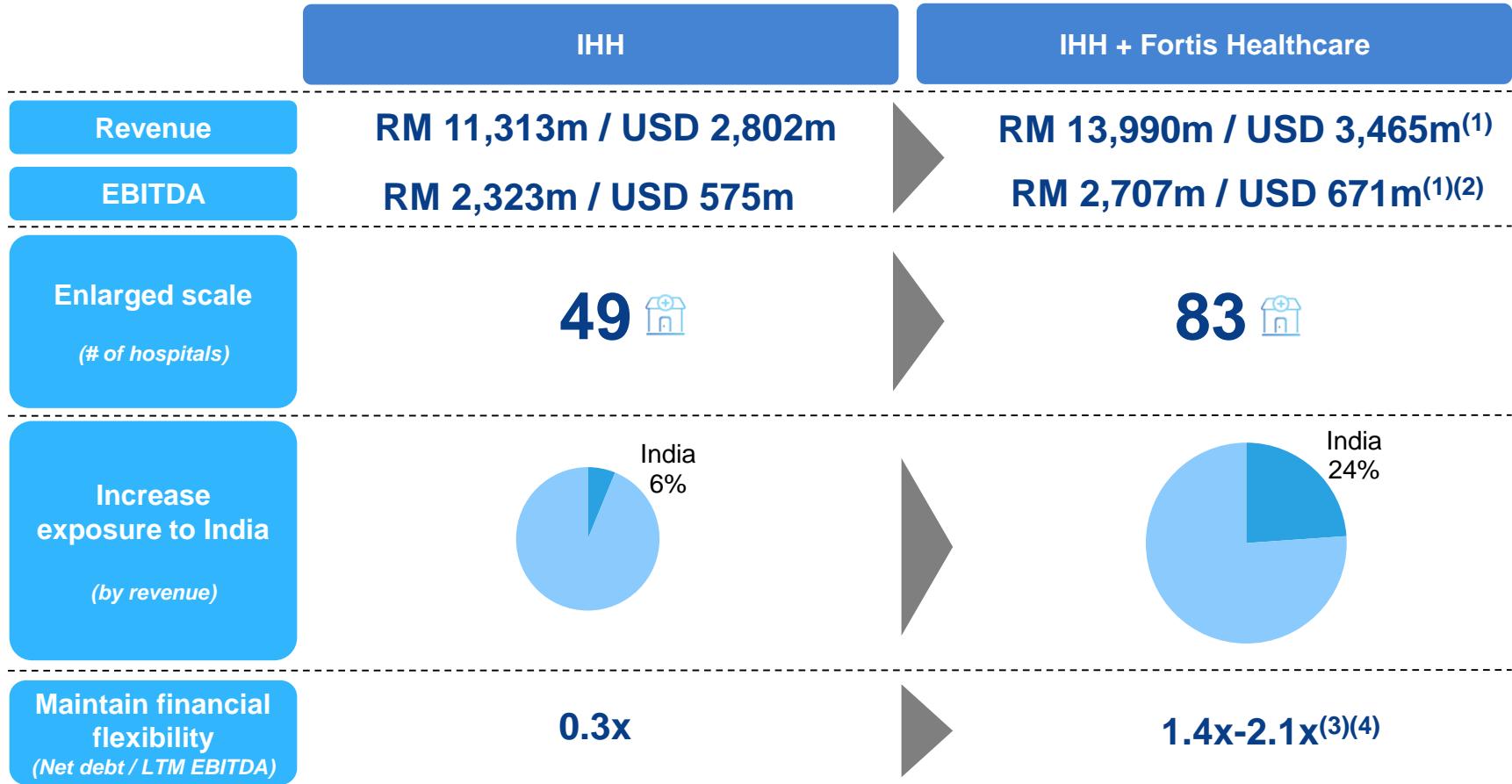
| Key milestones  | Indicative timing        |
|---|--------------------------|
| Fortis Healthcare Board announcement of Preferential Allotment + Execution of the SSA         | 13 July, 2018            |
| Public announcement of the Fortis Open Offer + Malar Open Offer                               | 13 July, 2018            |
| Receipt of Fortis Healthcare shareholder approval for Preferential Allotment                  | August / September, 2018 |
| Receipt of CCI approval   | August / September, 2018 |
| Completion of Preferential Allotment  | August / September, 2018 |
| Expected SEBI clearance   | August / September, 2018 |
| Fortis Open Offer period  | August / September, 2018 |
| Payment to Fortis Healthcare tendering shareholders and acquisition of tendered shares by IHH | August / September, 2018 |
| Detailed Public Announcement to be published for Malar Open Offer                             | August / September, 2018 |
| Malar Open Offer period   | October-December, 2018   |

# Consolidate IHH's presence in India as the leading healthcare player



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Transformational opportunity to acquire a controlling interest in a leading healthcare services provider in India, IHH's fourth home market



Source: Fortis Healthcare presentation (March 2018), Fortis Healthcare Q4FY18 presentation, press releases



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## 2. Overview of Fortis Healthcare

# Overview of Fortis Healthcare

## Hospital Business<sup>(1)</sup>

- Fortis Healthcare is a leading hospital chain in India with 34<sup>(2)</sup> hospitals and 4,685<sup>(2)</sup> bed capacity
- Revenue: INR 3,707 Cr<sup>(3)</sup>
- EBITDAC: INR 493 Cr<sup>(3)</sup>
- Also includes 62%<sup>(4)</sup> owned Malar which operates a hospital in Chennai

## Diagnostic Business: SRL (56.5% owned)

- 368 laboratories across India
- Over 5,000 collection points, including 71 international collection centres and about 60 owned collection centres
- Revenue: INR 854 Cr<sup>(5)</sup>
- EBITDA: INR 161 Cr<sup>(5)</sup>

1

**India market opportunity with high growth, rising spending and healthcare penetration**

2

**2<sup>nd</sup> largest hospital player with pan-India market presence**

4

**Leading nationwide diagnostics player with diversified revenue model**

3

**Focus on tertiary and quaternary care**



(1) Effective ownership varies across hospitals

(2) Includes 883 operations and maintenance ("O&M") beds across 8 hospitals (5 in India and 3 overseas)

(3) Fortis Healthcare hospital business revenue and EBITDAC calculated as (consolidated revenue/EBITDAC – India diagnostic business net revenue/EBITDAC)

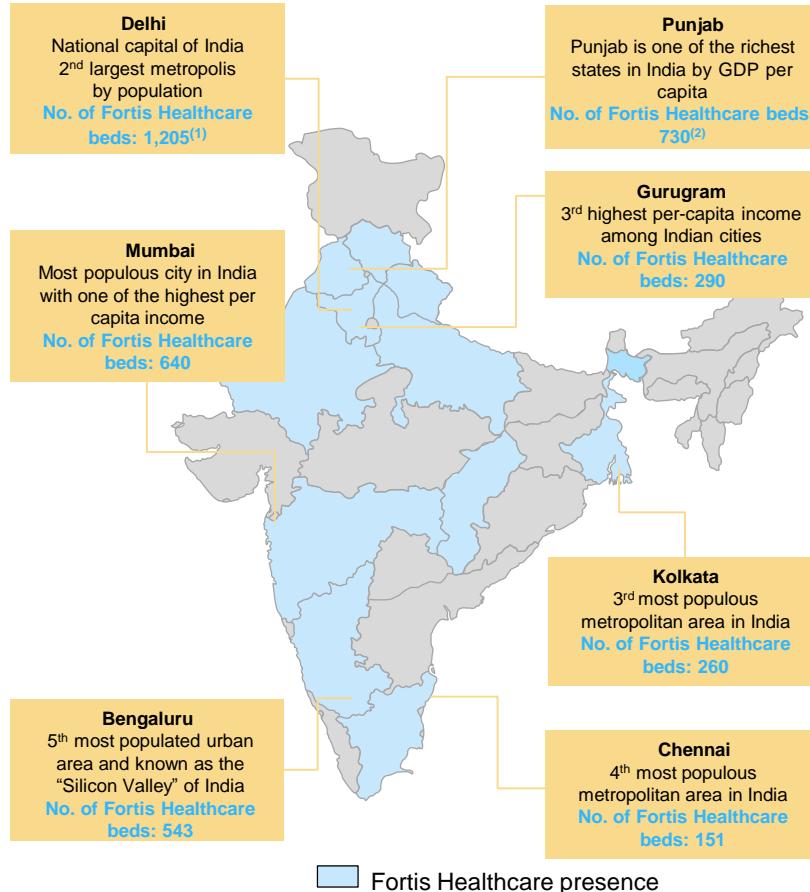
(4) Based on fully diluted shareholding levels

(5) Fortis Healthcare India diagnostic business revenue and EBITDA figures

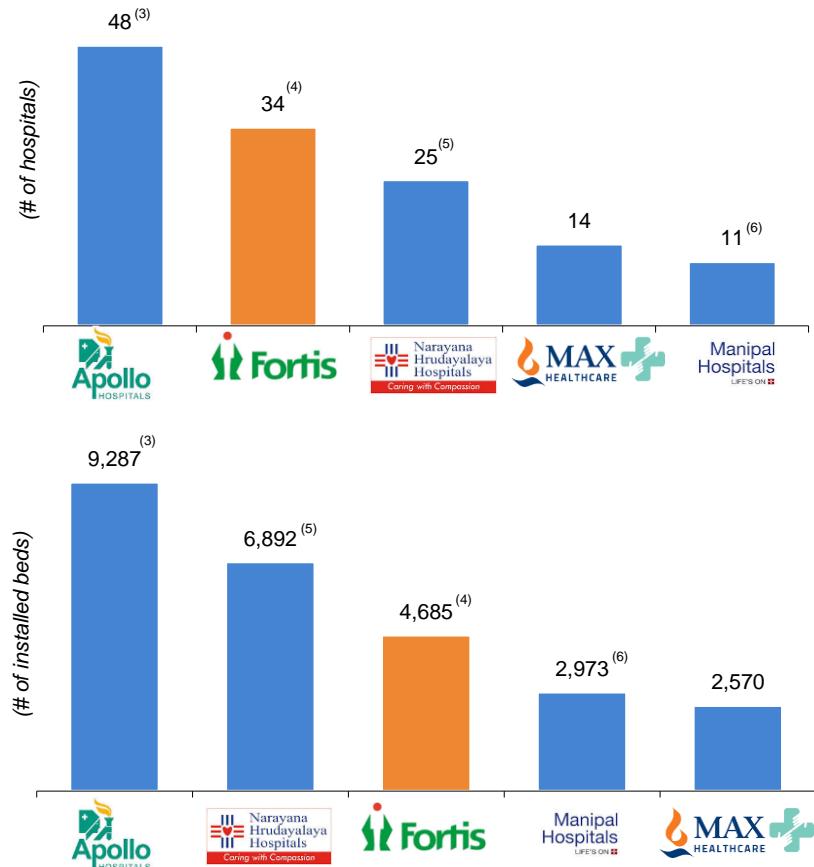
Source: Fortis Healthcare presentation (March 2018), Fortis Healthcare Q4FY18 presentation

# Fortis Healthcare is the 2<sup>nd</sup> largest hospital player with a pan-India footprint

## Strong presence in all key hubs across India



## One of the largest hospital players in an industry mostly comprising small-scale competitors



(1) Denotes number of beds in the National Capital Region (comprising Delhi, Noida and Faridabad)

(2) Denotes number of beds in Amritsar, Ludhiana and Mohali

(3) Excludes 11 day care centers (259 beds) and 11 Cradles (298 beds)

(4) Includes 883 O&M beds across 8 hospitals (5 in India and 3 overseas)

(5) Comprises 21 owned / operated hospitals (with P&L responsibility) in India, 3 managed hospitals and 1 hospital in Cayman islands

(6) As of 31 December 2017, excludes 3 teaching hospitals

# SRL is an attractive nationwide diagnostics platform

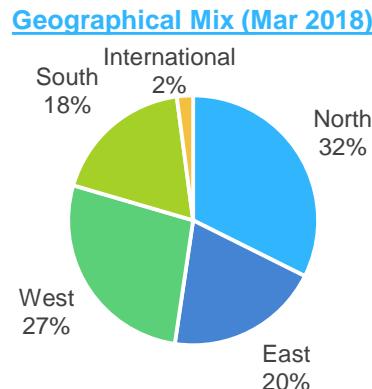
## Key business highlights

- ✓ 368 laboratories and over 24 wellness centres with pan-India network across approximately 550 towns and cities across the country
- ✓ Over 5,000 active collection points, including 71 international and about 60 owned collection centres
- ✓ Over 38 million tests conducted in FY2018
- ✓ Diversified revenues stream with limited dependence on Fortis Healthcare

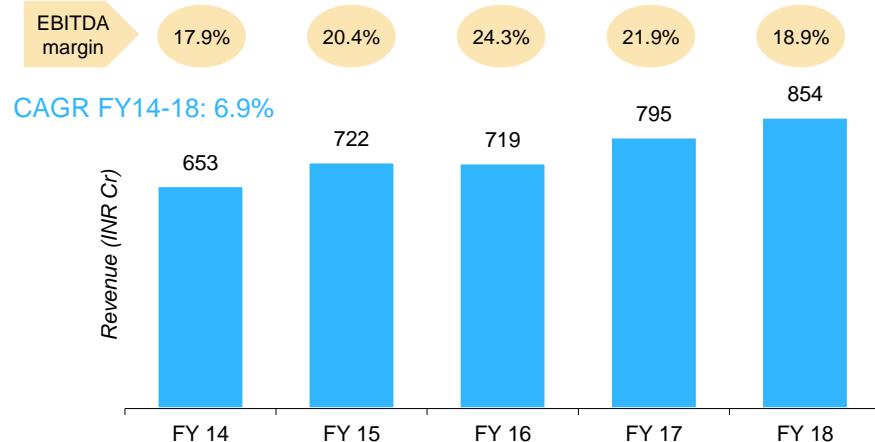
## Accreditations and capabilities

- ✓ Accreditation by CAP, NABL and NGSP
- ✓ Compliance with Clinical Pathology Accreditation (CPA), U.K standards and US Clinical Laboratory Standards Institute
- ✓ Diagnostic labs across cities connected nationally and internationally with on-line tracking
- ✓ 24-48 hours transit for international shipments
- ✓ All shipments under temperature controlled conditions

## Diversified business model across regions



## India diagnostic business net revenue



Source: Company website as of July 2018, Fortis Healthcare presentation (August 2016), Fortis Healthcare company presentations



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### **3. Transaction rationale**



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# Transaction rationale

1

A unique opportunity that fits IHH's core strategy

2

Significant expansion of IHH's exposure to India, its fourth home market

3

A complementary presence in North India, providing IHH a strong pan-India portfolio on a combined basis

4

Potential to build SRL into a lab powerhouse and part of a global lab franchise

5

Leveraging IHH's international private healthcare experience, operational breadth, best practices from other home markets, and 16-year experience of operating hospitals in India

6

Significant upside potential from an established asset which is facing headwinds and internal challenges

# A unique opportunity that fits IHH's core strategy

| Strategy   | Value proposition to IHH  |
|--|---|
| <b>In line with IHH's strategy to focus on key emerging markets like India</b> | <ul style="list-style-type: none"> <li>✓ Significant upside potential in under-served healthcare infrastructure market in India</li> </ul>  |
| <b>Increasing exposure to India by acquiring a leading healthcare company</b>  | <ul style="list-style-type: none"> <li>✓ IHH predominantly operates in South India with some operations in the West and East clusters and Fortis Healthcare acquisition builds our presence in North India, largest market by population</li> </ul>   |
| <b>Inorganic route as the preferred method of expansion</b>                    | <ul style="list-style-type: none"> <li>✓ Brownfield asset opportunity to accelerate future growth potential</li> </ul>  |
| <b>Focus on multi specialty tertiary / quaternary care</b>                     | <ul style="list-style-type: none"> <li>✓ Leadership position in complex and innovative medical procedures</li> <li>✓ Deep expertise in the area of organ transplants, cardiac sciences, orthopaedics, mother and child health and oncology</li> </ul> |



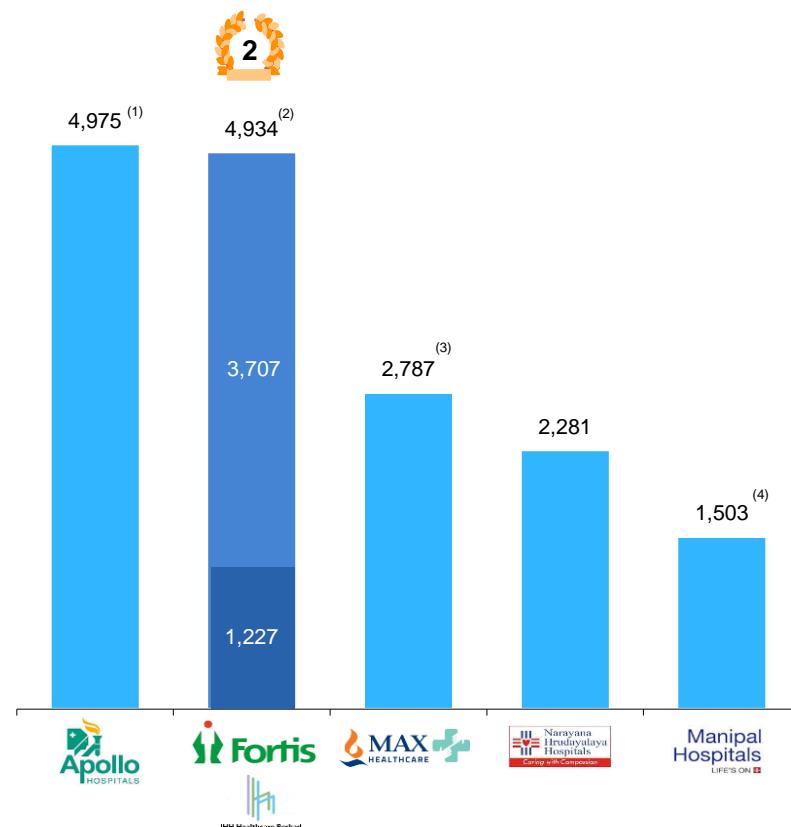
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2

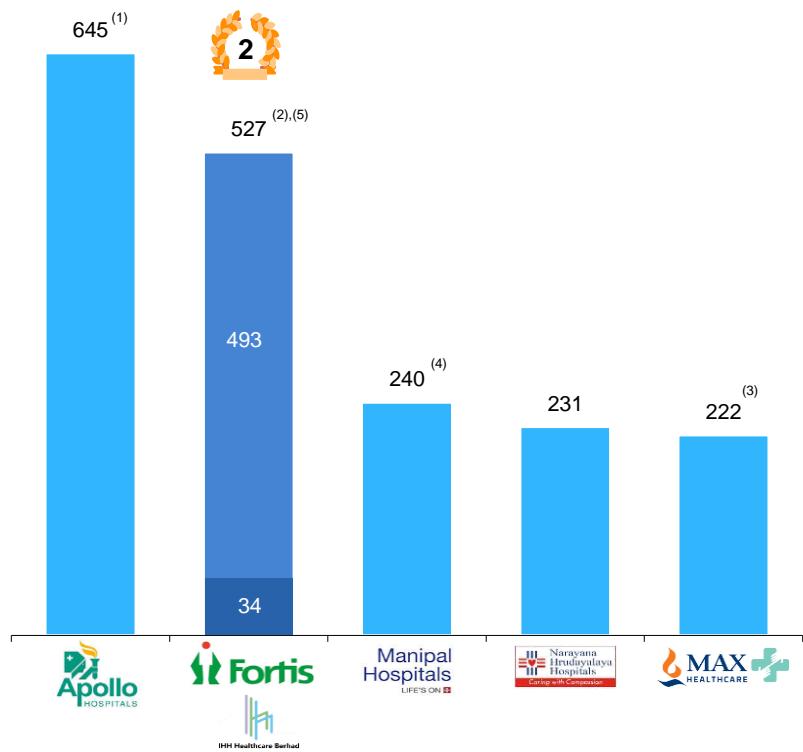
## Significant expansion of IHH's exposure to India, its fourth home market

With Fortis Healthcare, IHH will become a leading Indian hospital

Hospital Business Revenue (FY18, INR Cr)



Hospital Business EBITDA (FY18, INR Cr)



Note: RM/INR = 17.0349

(1) Apollo hospital business revenue and EBITDA calculated as (consolidated revenue/EBITDA – standalone pharmacy business revenue/EBITDA)

(2) Fortis Healthcare hospital business revenue and EBITDAC calculated as (consolidated revenue/EBITDAC – India diagnostic business net revenue/EBITDAC)

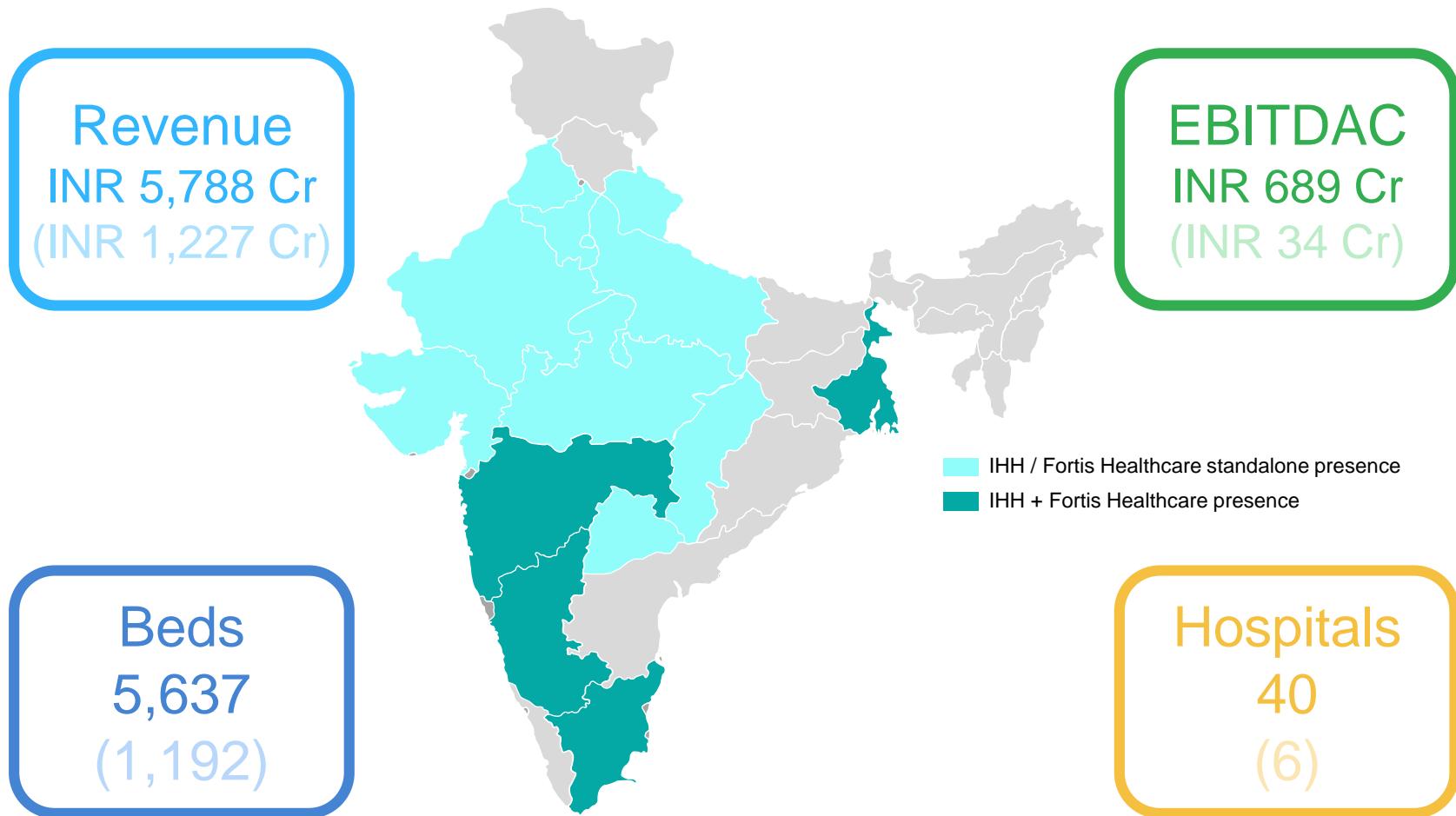
(3) Figures correspond to Max Healthcare's gross revenue and EBITDA (including Max Labs)

(4) Manipal Hospitals revenue and EBITDA are TTM Dec'2017 figures. EBITDA value excludes one-off expense of INR 15cr and loss from operations of INR 27cr from a newly commissioned hospital

(5) Fortis Healthcare EBITDACP (EBITDA before business trust costs)

Source: Company presentations, Fortis Healthcare Q4FY18 presentation, Fortis Healthcare presentation (March 2018)

## Significant expansion of IHH's exposure to India, its fourth home market (cont'd)



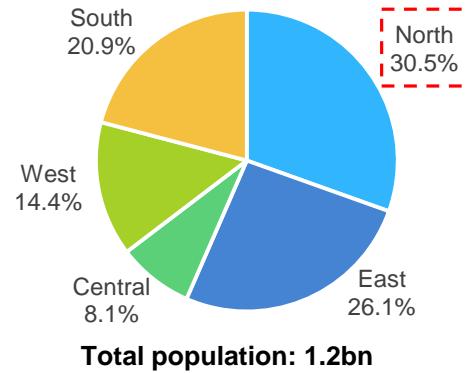
### Notes:

- (1) RM/INR = 17.0349
  - (2) Figures in bubbles indicate IHH + Fortis Healthcare combined values while those in parenthesis are IHH India standalone figures
  - (3) Fortis Healthcare figures are consolidated including 100% of SRL
  - (4) Beds represent operational beds
  - (5) Revenue and EBITDA TTM March 2018, EBITDA considered for IHH and EBITDAC for Fortis Healthcare
- Source: Fortis Healthcare Q4FY18 presentation, Fortis Healthcare presentation (March 2018)

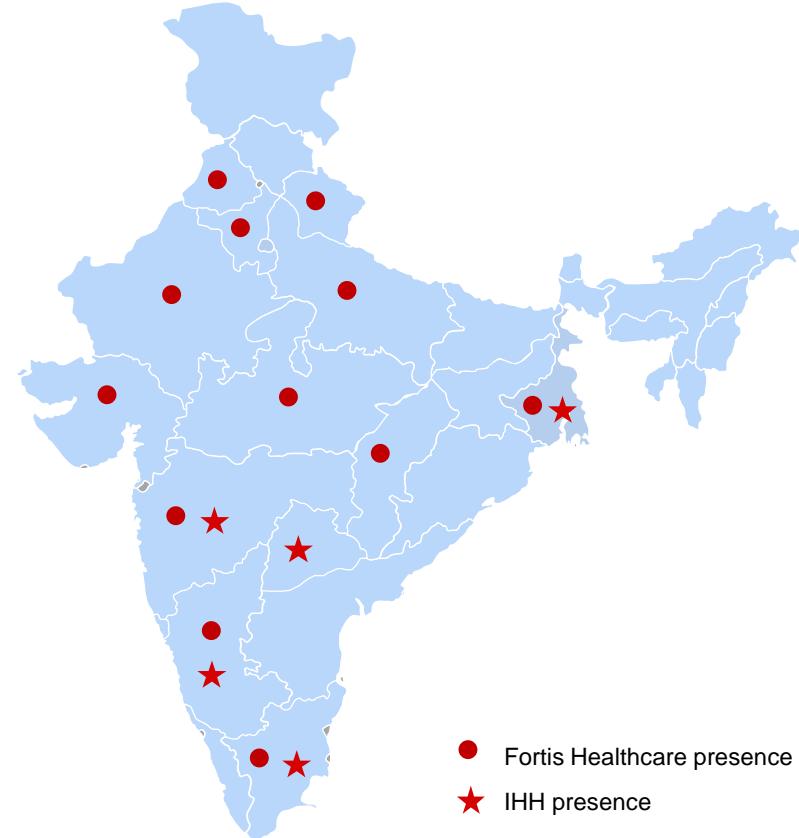
## A complementary presence in North India, providing IHH a strong pan-India portfolio on a combined entity basis

North India is the largest market by size...

Regional split of India market by population (as of 2011)<sup>(1)</sup>

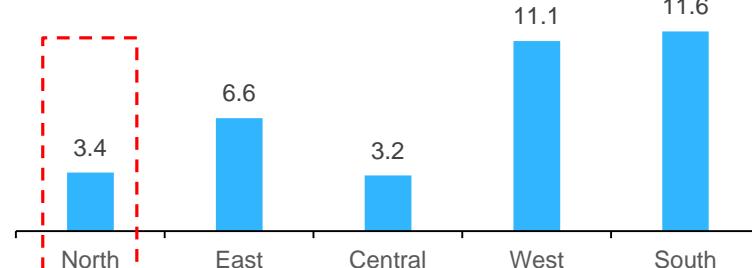


Fortis Healthcare acquisition enables IHH to establish foothold in North India<sup>(3)</sup>



...with one of the most underserved healthcare infrastructure sector

Doctors per 10,000 population (as of 2011)<sup>(1)(2)</sup>



(1) North region comprises Chandigarh, Haryana, Himachal Pradesh, Jammu & Kashmir, NCT of Delhi, Punjab, Rajasthan, Uttar Pradesh and Uttarakhand; South region comprises Andaman & Nicobar Islands, Andhra Pradesh, Karnataka, Kerala, Lakshadweep, Puducherry and Tamil Nadu; East region comprises Arunachal Pradesh, Assam, Bihar, Jharkhand, Manipur, Meghalaya, Mizoram, Nagaland, Orissa, Sikkim, Tripura and West Bengal; West region comprises Dadra and Nagar Haveli, Daman and Diu, Goa, Gujarat and Maharashtra; Central region comprises Chhattisgarh and Madhya Pradesh

(2) Chart shows number of doctors possessing recognized medical qualifications (Under I.M.C. Act) and registered with State Medical Councils (calculation excludes doctors registered with the Medical Council of India), taken as a proportion of population in the respective regions

(3) Indicators represent the states in which the hospitals are present

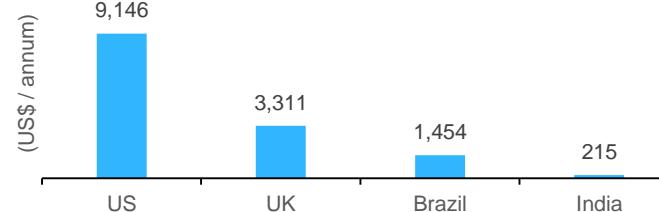
## Potential to build SRL into a lab powerhouse and part of a global lab franchise



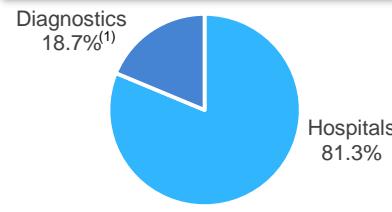
India remains a largely under-served and unorganized lab market

### Per capita spend in diagnostics

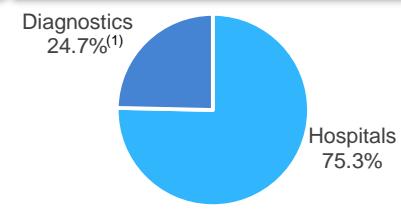
2013 data adjusted for purchasing power



### FY2018 revenue share



### FY2018 EBITDA share



### Combined IHH + SRL metrics



Potential value creation from consolidation of SRL as part of IHH's global lab franchise



(1) Calculated as India diagnostics revenue and EBITDA as a proportion of Fortis Healthcare consolidated revenue and EBITDAC, respectively

(2) Including planned commencement of IHH operations in China from 2019

(3) Including one lab which is outsourced by IHH India

# Leveraging IHH's international private healthcare experience, operational breadth, best practices from other home markets, and 16-year experience of operating hospitals in India

5



## Develop Fortis Healthcare as the market leader

- Fortis Healthcare's doctors, patients and medical staff will benefit from IHH's global network of hospitals
- Potential to expand in international markets, particularly in South and Central Asia and Indo-China
- Drive significant growth in inbound medical tourism revenue by leveraging our global network
- Implement IHH's world-class multi-organ transplant program at Fortis Healthcare hospitals

## Cost rationalization

- Bring operational performance back in line with 'best in class' industry standards
- Additional savings through streamlining processes, centralized procurement and IT synergies
- Immediate margin improvement by buying out RHT assets and consolidating EBITDA

## Build SRL into a lab powerhouse

- Tremendous scope to develop SRL in India's under-served and unorganized diagnostic market
- IHH plans to operationally consolidate SRL as part of its larger global lab franchise
- IHH will support buyout of SRL minorities post transaction

## Implement strong corporate governance

- Implement highest standards of governance within Fortis Healthcare by working with the Board of Directors
- Expand the Board with global thought-leaders from within and outside healthcare industry, including IHH's representatives

## Optimize financing costs

- Leverage IHH's strong credit profile and strong balance sheet, deep financial resources and global banking relationships to optimize debt funding costs
- Potential saving of c.2-4% post the transaction as compared to the current financing cost of Fortis Healthcare

## Brand benefits

- Internationally recognized brands synonymous with highest clinical standards and outcomes

Singapore



IHH Brands  
Malaysia



India



# Significant upside potential from an established asset which is facing headwinds and internal challenges

This transaction provides IHH with the mandate to partner and support Fortis Healthcare to be a leading healthcare provider in the country

## Fortis Healthcare has a high quality asset portfolio...

- ✓ Second largest hospitals portfolio in India with hospitals across key cities pan-India
- ✓ Focus on tertiary and quaternary care
- ✓ Leading nationwide diagnostics business

## ...but is facing significant headwinds

- ✗ Several ongoing investigations and litigations hampering management bandwidth and ability to execute strategic transactions
- ✗ Tightened credit situation impacting the ability to fund operations and fuel growth
- ✗ Multiple issues on liquidity and regulatory challenges leading to a tepid operational performance vis-à-vis peers
- ✗ Significant board turnover delaying decision-making
- ✗ Regulatory headwinds such as price caps affecting all private healthcare providers

## IHH value proposition to Fortis Healthcare

- ✓ Global hospitals operator of scale with best industry practices
- ✓ Strong financial position and balance sheet
- ✓ Demonstrated ability to create value for shareholders
- ✓ Long term strategic shareholder
- ✓ Proven history of significantly improving operations at acquired entities
- ✓ Track record of working in close co-operation with management and employees at acquired entities
- ✓ Strong corporate governance standards

## IHH's strategy for Fortis Healthcare

- ✓ Leverage IHH's expertise, network and resources to integrate and continue to grow Fortis Healthcare
- ✓ Improve margins in key hospitals and diagnostics business
- ✓ Build SRL into a lab powerhouse and part of a global lab franchise
- ✓ Remain open to exploring additional capital raising options and capital markets access, including rights/preferential issue
- ✓ Implement strong corporate governance standards
- ✓ Optimize financing costs using IHH's strong balance sheet and global banking relationships

# Key takeaways

1

**Tremendous growth opportunity afforded by the Indian healthcare market – IHH's fourth home market**

2

**Transformational opportunity for IHH to acquire a controlling interest in a leading healthcare services provider in India**

3

**Fortis Healthcare has a high quality asset portfolio but is facing significant challenges, which IHH is best positioned to address**

4

**Compelling cash offer for Fortis Healthcare shareholders who are looking to monetise a majority of their shareholding at a premium**

5

**Transaction creates stability for Fortis Healthcare in the long term with IHH as a strategic shareholder**