19 December 2019

NMC Health plc

(the "**Company**" or "**NMC**")

Response to Recent Report

NMC Health Plc ("NMC" or the "Company" or the "Group") has considered the report issued by Muddy Waters on Tuesday 17 December 2019. NMC concludes the report to be false and mis-leading, and outlines below factual inaccuracies and provides important additional information.

The Company has a track record of significant, open and increasingly detailed disclosure to the market, as monitored and reviewed by its entirely independent disclosure committee. NMC will continue to provide information to advance investor understanding. The following replies to the main areas of focus from conversations with shareholders regarding the Muddy Waters report.

Brightpoint Hospital

Brightpoint hospital was one of six projects announced at the time of NMC's IPO in 2012 for which the budgeted capex of each project was announced at the time. Thereafter, NMC monitored and disclosed at its results the actual amount spent on each project.

Relative development cost

There are important factors about the logistics of the Brightpoint development which has led to structurally higher development costs: the construction of the hospital is vertical unlike other hospitals which tend to be horizontal. Brightpoint has 17 floors, each of which has to be equipped with independent standard fit-out requirements, such as nursing stations and medical gas provision, for example, at additional cost. Moreover, the building had particular technical issues relating to floor weight and cladding, for which additional work was required to make it as per Ministry of Health & Prevention (MoH) standard. A new lift area was also required to meet MoH regulations. Due to such complexities and structural changes, the overall project was delayed, and the cost of development higher, all of which was also updated in our annual reports.

Brightpoint – clarity over actual capex

Overall capex spent on the project was c.US$80m against US$70m budget. Out of US$80m capex cost, c.US$13m was spent on the cost of equipment and c.US$67m on improvement of the building and fabric. The balance of the spend, c.US$35m was directed towards the lease and operational expense capitalisation of US$29m and US$6m respectively. This capitalisation was done as per IFRS and the accounting policies of the company which were disclosed adequately in the relevant annual report (extract of the same is given below).

> *"Prior to commencement of development of the existing four capital projects, management had an expectation that there would be an element of expense incurred before the new facilities were opened which would be written off through the Income Statement. Following a review certain of these costs have been capitalised in line with the Company's accounting policies (for example lease rent paid and finance costs). The Group expects such costs will continue to be capitalised on these projects during the* construction phase." **– <u>(Extract from Annual report FY 13 and FY 14)</u>**

In order to compare the cost per Sqm, in the correct way, it is necessary to consider the actual capex number of US$80m and exclude lease capitalisation. Furthermore, the overall built-up area is c. 18,600 Sqm and not 14,000 Sqm. This brings down the cost per Sqm (considering actual Sqm given above) to c. $4,300. This will be higher than a typical horizontal hospital set up in light of the asset-specific work required as mentioned above. It is significantly below the inflated costs assumed by Muddy Waters. Considering the above points, the comparison of development costs for Brightpoint as portrayed by Muddy Waters is erroneous

Related parties

Modular Concepts LLC is a reputable contractor which specializes in the healthcare infrastructure space. Over the last 15 years Modular Concepts has completed the construction of a number of flagship projects of various healthcare providers.

NMC has engaged Modular Concepts LLC on a project by project basis through a normal quotation/tendering process.

The Brightpoint Project was awarded to Modular Concepts prior to the company's IPO in 2012 and was completed by the end of 2014.

The total construction contract was awarded to multiple contractors out of which Modular Concept LLC actual capex cost was c.US$33m against a contract value of US$30m.

Mr Pradeep Rai is a non-blood relation of Dr Shetty and became a shareholder in Modular Concepts in late 2015.

Management is aware that Mr Pradeep Rai is a shareholder of Modular Concepts LLC and, at the point he became a shareholder, concluded Modular Concepts LLC is not a related party on the basis that:

1. Mr Pradeep Rai is not a key management personnel of NMC;
2. Mr Pradeep Rai is not in a position to influence any material decisions made with respect to Modular Concepts LLC. Any tendering award decisions with respect to capital projects are made by the Projects Team and not Procurement Team (which Mr Pradeep Rai manages).
3. As per IAS 24 para 11
    a. "two entities simply because they have a director or other member of key management personnel in common or because a member of key management personnel of one entity has significant influence over the other entity."
    b. two ventures simply because they share joint control over a joint venture.
        i. providers of finance,
        ii. trade unions,
        iii. public utilities, and
        iv. departments and agencies of a government that does not control, jointly control or significantly influence the reporting entity, simply by virtue of their normal dealings with an entity (even though they may affect the freedom of action of an entity or participate in its decision-making process).
4. He has the designation of UAE Procurement Manager and reports to the "Head / President of Operations" (who is also not a KMP of the Group).
5. Mr Pradeep Rai is not a bank signatory, nor does he have a PoA to act on behalf of the Group.
6. Finally, since 2015, neither he nor his dependents hold any shares in NMC.

Separately, NMC maintains a related party register to record all material related party transactions in accordance with the requirements of IAS 24 (Related Party Transactions).

Inflated acquisition price for Premier

The business of Premier was acquired as a strategic investment to strengthen the current home healthcare program run by the group. In particular, its niche specialised home dialysis business is an important addition to NMC's overall healthcare service offering.

Prior to concluding this acquisition, the Group followed its standard M&A evaluation process which included completing an FDD using an independent "big 4" accounting firm. As part of our due diligence process, we confirmed that at the time of acquiring the company the total employee count was 232 which includes 181 nurses. To facilitate the disposal of the 70% interest in the Premier Group, an SPV was created by the previous owners through which they retained their remaining 30% shareholding, NOVA health Investment LLC. In addition, as per the requirements of IFRS 3, NMC completed a PPA exercise, which was also completed by another independent "big 4" accounting firm.

As part of the above process(es) we confirmed that the benchmark multiple for recent homecare acquisitions ranged between 13 to 16x EV/EBITDA. This provided management the comfort that the valuation of the Premier Group was reasonable.

In March 2018, Group acquired 70% controlling stake of CosmeSurge, Aesthetic and Wellness clinics from a related party who was also an Executive Vice Chairman and a substantial shareholder of NMC in the Company. CosmeSurge, Aesthetic and Wellness are an industry leader in the UAE in providing quality cosmetic surgery and aesthetic medicine. The agreed arm's length purchase consideration for these entities was US$170m translating into 10.6x 2018E EV/EBITDA. This transaction amounts to a smaller related party transaction as defined in 'Listing Rule 11.1.10' and all compliance work as per listing rule for such related party transaction was adequately done by a leading multinational investment bank. In addition, for the purpose of approval of this transaction from the board, the related party who is on the board, was not part of this transaction approval process due to conflict of interest. The related party aspects of this transaction were disclosed to shareholders in the 2018 Report and Accounts.

Other Governance

NMC Health, being listed on premium segment of LSE, is cognizant of the UK governance framework and has been following the same and making adequate disclosures to the shareholders about all such events falling under UK governing law.

Audit relationship

With respect to accusations of rotating audit partners, the first change of audit partner happened in FY 16 after completion of 4 financial years audits. The second change of audit partner (for the current audit year), after completion of 3 financial years audits, is due to the secondment overseas of the audit partner, something over which the group has no control.

Related party share transactions

NMC Health has also disclosed all the share transactions done by the board members, key shareholders and other key personnel. The list of such transactions which is mentioned in Muddy Waters' report has, as its source, disclosures made by NMC. In addition, the group has separately disclosed, whenever required, the private arrangements made by the key shareholder in their personal capacities.

The Board remains committed to continuously improving transparency and enhancing the Group's governance and ESG framework. To further enhance governance, given the volume of related party transactions driven by our sustained business growth, the Board has decided to follow the approach taken by other relevant FTSE 100 listed companies, and to have a Committee providing independent oversight over related party transactions across the Group, as detailed in recent announcements.

Aspen leases

Background

In August 2018, NMC acquired 100% of the share capital of HCN European Surgery Center Holdings Limited, which is the holding company of Aspen Healthcare Limited. Aspen Healthcare Limited is the lessee with respect to the leases that are in question and the its financial statements (for FY 17 and FY18) are publicly available at the UK Companies House.

Muddy Waters' accusations are heavily caveated, due to the fact that they are making a large number of assumptions to try to support their accusations. These assumptions are demonstrably false.

IFRS introduced a new accounting standard for leases, IFRS16, on January 1,2019. Prior to IFRS16, leases were classified as either 'operating leases' or 'financial leases' (analogous to rental contracts and lease-to-own or mortgage contracts). Under IAS17 (the prior accounting standard), operating leases were not required to be accounted for as liabilities, but simply entailed a charge for rent to the income statement; financial leases required a liability to be recorded for the future lease payments, but a corresponding asset was recorded (for the asset being leased).

Lease accounting in the books of Aspen Healthcare Limited

The Aspen leases run for a tenure of 25 years and in the FY 17 financial statements of Aspen (i.e. prior to the acquisition by NMC), these leases were accounted for as OPERATING LEASES. This means that the contractual lease payments were disclosed in the notes to the financial statements but were NOT brought onto the balance sheet of Aspen Healthcare Limited.

This accounting treatment is consistent with best practice and it would be unusual to bring a 25-year property lease onto one's balance sheet as a finance lease as the underlying economic life of the property probably extends beyond 50 years.

Acquisition accounting – assuming assets and liabilities of the target

We have reassessed and reconfirmed the lease accounting done by Aspen as of acquisition date and we were comfortable with the accounting of lease done by Aspen which was consistent as per IFRS and concluded it as operating lease. On acquisition of a business, the acquiror ordinarily assumes all assets and liabilities of the target. Based on the above, it is clear that since the lease was recorded as an operating lease in the books of the target, NMC too would record this as an operating lease and not finance lease (which is what NMC did in 2018).

Accounting in the books of Tenet

Though we do not comment on the accounting treatment adopted by our peers, it should be noted that under US GAAP, Tenet in FY 18 recorded both a lease liability of US$320m under liabilities held for sale in its financial statements and a lease asset of US$310m under assets held for sale with respect to the Aspen lease.

This classification as a capital lease may have been made at the Tenet level based on judgements made and circumstances that are unique to Tenet. We confirm that NMC and Aspen Healthcare Limited both reassessed the accounting for this lease at the date of acquisition and at 31 December 2018 to conclude that it was reasonable to account for it as an operating lease.

Accounting for the Aspen leases in 2019 – on adoption of the new IFRS 16

IFRS 16 the new leasing standard requires all leases to be brought onto balance sheet and this is what NMC has done with effect from 1 January 2019. Therefore, the rental commitments under the Aspen lease which were previously treated as an operating lease have now been included as a lease liability, on NMC's balance sheet.

In summary, the Aspen lease payment appears, in the lease liability, figures disclosed as at 1 January 2019, 30 June 2019, as well as being contained in our guidance.

Reconciliation of amounts disclosed as per the commitments note to the lease liability amount

The implementation of IFRS 16 is complex and involves significant amount of investment and data gathering. The identification of additional operating lease commitments is not unique to NMC. This is evidence to a robust IFRS 16 implantation process and is a “regular” line item in the reconciliation for most companies adopting the requirements of IFRS 16 using a modified approach (including other FTSE 100 companies which we would prefer not to name).

Debt and Cash Balance

Suppliers’ use of supply chain financing

The Group has never given an impression to investors or other stakeholders that our suppliers have not used, or are not using, supply chain financing. These facilities remain commercial matters for these suppliers and only have recourse to them. NMC has been publicly clear on that position for several years and the Group accounts for its obligations to such suppliers as trade payables.

The Group is not assuming any recourse on any such supply finance facilities. NMC has simply provided an undertaking in the form of a guarantee to settle the accepted trade payables against each invoice.

Accordingly, the supply chain finance programs that Muddy Waters claims could be “not on the balance sheet at all” are accounted for as trade payables on the balance sheet, which is the correct classification under IFRS.

Under these types of supply chain finance programs, suppliers accept discounted payments for their invoices in return for receiving immediate payment from the financer, who then collects the full amount of the invoice from the purchaser (NMC in this case) at the original invoice payment date. Clearly, for the purchaser (NMC) these payments relate to trade payables, with no actual borrowing by NMC from the financer to pay suppliers early or providing direct credit support for the suppliers. Readers of the financial statements should expect to see these liabilities as accounts payable rather than as short-term borrowings as Muddy Waters claims.

Cash and debt facilities

NMC has been in high-growth delivery phase which is backed by the Group’s long-term debt facilities. The modest financing fees incurred by NMC reflect normal course refinancing of such facilities. Furthermore, at each renewal/refinancing, NMC has successfully negotiated for better margins and commercial terms. The most important of which was converting the loan from secured loan to unsecured and without any restrictions on the collection from our receivables.

Looking at the nature of the business, the following are the rationale for keeping the cash balance:

- The average cash float required for operational requirement of 100 and above healthcare entities spread across various geographies coupled with cash requirement to support one of the largest trading entities, with topline of c.US$600m, of UAE is sizable.
- for strategic initiatives like repayment of debt, share buyback, expansion and growth capex and;
- for unexpected contingencies and to manage payment timing.

First Energy Bank relationship

Mr. Khalifa is the chairman of the First Energy Bank and does not hold any ownership in the Bank. Like any other professional body, the bank too has its independent committees to decide on its investments. The facility was a back stop for an acquisition which did not materialize.

As stated in our financials, short-term borrowings include trust receipts and invoice discounting facilities which mature between 90 to 180 days. Overdraft value amounts to US$50-55m out of total short-term borrowings. The Group seldom makes the public announcement of each deal unless it is a landmark or sizable deal also there isn't any regulatory requirement as well. To further clarify, Group acknowledges the signing of the facility with Kuwait International Bank and Warba. As a listed company we are bound by strict reporting and disclosure obligations and adequate disclosures of the same will be given in the financial statements which are issued as per the regulatory requirement.

Interest income

The interest income yield shown in the table on Page 14 of the Muddy Waters' report is misleading. The interest income percent calculation provided in the report is on the average of total cash and bank balance instead of average of only Bank Deposits. If the interest income percent is calculated on average of Bank Deposit each year, this would be more comparable.

Also, the major portion of our cash balance is to support the working capital required for the trading and naturally it will be in low interest-bearing CASA accounts and our deposits carry interests rates which are standard rates in Middle east i.e. (2%).

Other contentions

EBITDA margin comparison with competitors

EBITDA margin comparison given with the competitors is again misleading and not comparable. As per our Group strategy history (which was based on first Capacity, then Capability and later geographic expansion). Unlike any other competitors, NMC has additional service capabilities which results in high margins healthcare services. This is why NMC is differentiated from other competitors who are primarily multispecialty focused businesses. NMC benefits in terms of margins from other specialized verticals like IVF, long term care and O & M verticals which are high margin businesses.

FY 2014 EBITDA margins of our competitors i.e. Mediclinic and Al Noor hospitals were at 22% and 19% respectively and NMC EBITDA Margin in FY 2014 stood at c. 16%. The NMC group started to add capabilities from acquisitions starting from FY 2015 wherein high margin businesses like Long term care & Homecare, IVF, Cosmetic business and Operations & Management contracts were added. This was complemented with geographical expansions and utilization of the new facilities which were opened in FY 2014 and FY 2015 which helped group to sustain higher margins over the years.

Unimpaired receivables over 1 year

Recently published report mentions about the percent of unimpaired receivables overdue by more than one year over total receivables. This analysis is again misleading as it is showing the percent as of closing date of each year. An important point which is not factored into this analysis is the acquisitive growth of the Group, as stated above, which means that the Group has taken over the receivables of the acquired companies which needs to be adjusted to show the real movement compared to previous year.

This important point of acquisition impact was also missed while doing the payable days analysis. Comparison of payable days of H2 2016 vs H1 2019 wouldn't be an accurate measure as there would be impact from acquisitions which needs to be considered appropriately in calculation and comparison.

Further, Group is comfortable that the unimpaired receivables over one year are recoverable and hence are not provided.

Rejection Rates

Historically, NMC's revenue is predominantly coming from UAE market and it is very important to understand how the UAE insurance market works. In this market, the rejection rate is directly correlated with cost per claim which means that the rejection rate increases as the cost per claims increases. It is known fact that NMC's cost per claim in overall UAE market is lowest and this is the major reason for enjoying the lower rejection rates. This coupled with effective RCM processes, addition of cash-based business and other initiatives which group has taken over the years have resulted in lower rejection rates for which we are very proud of. As such, Muddy Waters' assertion that the Group's low rejection rate is false or unreasonable. In addition, we cannot comment on the rejection rates of our peers or the data sources underlying this assertion.

UAE Ministry of Health & Prevention

The Muddy Waters report claims to have had correspondence with an employee of the UAE Ministry of Health & Prevention (the "Ministry") which was disparaging in nature. NMC enjoys a close and constructive relationship with the Ministry, with whom it has been in touch to clarify the nature of Muddy Waters' dialogue. The Ministry denies that it has provided any comments concerning NMC and confirms that it supports the role of the private healthcare companies in the UAE in accordance with the applicable legislations enforced in the country.

Contacts

NMC	
Asjad Yahya, Investor Relations	+971 (0)56 219 0975
Media	
FTI Consulting, London	
Edward Bridges / Simon Conway / Victoria Foster Mitchell	+44 (0)20 3727 1000
FTI Consulting, Gulf	
Shane Dolan	+971 (0)4 437 2100

About NMC Health

NMC is one of the leading private healthcare operators in the Gulf Cooperation Council ("GCC") with an international network of multi-specialty inpatient and outpatient clinics and hospitals, specialized maternity and fertility clinics, and long-term care homes hospitals across nineteen countries. NMC also ranks as one of the top two in-vitro fertilisation operators globally. The NMC Health group is recognised as a leading provider of long-term medical care in the UAE through its subsidiary ProVita. Pursing a selective international expansion programme since 2016, NMC has total capacity of 2,207 licensed beds across its network. Moreover, the recent formation of a joint venture with GOSI/Hassana Investment Company provides a solid platform for continued growth in the GCC region's largest healthcare market. The NMC Health group treated over 7.5 million patients in 2018. The NMC Health group is also a leading UAE supplier of products and consumables coming from healthcare related products. NMC reported revenues of US$2.1 billion for the year ended 31 December 2018.

In April 2012, NMC was listed on the Premium Segment of the London Stock Exchange. NMC is a constituent of the FTSE 100 Index.