

Questions and Answers at Telephone Conference Concerning the Acquisition of Additional Shares of IHH Healthcare Berhad, Asia's Largest Private Hospital Group

1. Date: December 5, 2018(Thu), 15:15-16:15

2. Mitsui & Co. speakers:

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3. Questions and answers

Question 1

- Please explain the factors that led to the decision of this additional acquisition of shares, even though, in the past, you had sold your shares partially. Did Khazanah inform you of their intention to sell their shares?
- I understand that the healthcare area has high long-term growth potential, but is your strategy to realize returns based on capital gains, or to maintain a long-term shareholding?

Answer 1

- Since our initial investment in IHH in 2011, through the nomination of directors and secondment of our employees to the management team, we have accumulated expertise in hospital business management, while awaiting for the opportunity to become the leading shareholder. Furthermore, we have selected healthcare as a targeted growth area in our Medium-term Management Plan. We have gained a renewed awareness of the importance of the hospital business as the core of this business area through our investment in IHH in 2011 and Columbia Asia in 2016. We viewed Khazanah's decision to sell, which is in part, a result from the change of government in Malaysia, in a positive light, and that led to this decision to acquire additional shares. The partial sale in 2016 reduced our interest in IHH from 20% to 18%, but there was no significant change in our position on IHH, or in the way in which we participate in its management. Back then, our intention was merely to sell sufficient shares, for the purpose of balancing accumulation of assets and realizing returns, to the extent that did not reduce our influence on IHH.
- We will focus on achieving returns through dividends while continuing to consider a balance with new investment to drive further growth by IHH. In the medium-term future, we will aim to bring cash in by spinning off ancillary service business and creating a healthcare data platform. As in the past, by utilizing our comprehensive strengths, we also aim to double the corporate value of IHH over the next 4-5 years, and to achieve a further doubling in 10 years.

Question 2

- Healthcare is a sector that is generally characterized by high EBITDA multiple, so the purchase price of IHH share does not appear to be overvalued. However, I would like to hear what kind of discussion was held concerning the purchase price within Mitsui & Co.
- Concerning the balance with M&A, IHH is currently increasing the number of beds in its facilities in China. Is it possible that you will review the pace of increase?

Answer 2

- The parties to this transaction were Khazanah as seller and Mitsui & Co. as purchaser. Both parties individually have a good understanding of the business operations of IHH and its future potential. Obviously various valuation methods can be used to determine a purchase price. We used those methods rather as attestations, and our discussion centered more on how we could visualize the value. The outcome was that the price settled at a level that we saw as appropriate, and we were able to reach agreement on that basis, in part because the other party was Khazanah.

- In the current fiscal year, IHH has acquired Fortis, India's second largest hospital group, and it is also establishing new hospitals in China. We will make sure to successfully ramp up hospital business that is currently at the start-up stage. We will then think about the longer-term future, including a review of the past pace of increase in the number of hospital beds.

Question 3

- Would you comment on how IHH has been able to gain the people's confidence with its hospital business?
- Concerning CF allocations, part of free cash flow after shareholder returns has been allocated to this additional investment. Can we assume that the remaining free cash flows will be allocated to additional shareholder returns or repayment of interest-bearing debt?

Answer 3

- The IHH Group includes Pantai, Parkway, and Acibadem hospital groups, which provide high-level advanced medical care. They enjoy very high market shares and have powerful brands, allowing IHH to build and maintain a solid business base in Asia. The result is a virtuous circle in which it becomes easier for IHH to recruit highly skilled physicians and attract patients.
- We estimated CF allocations for 3 years at the start of our Medium-term Management Plan, and we have since revised the amounts in step with environmental changes. We have increased both investment and shareholder returns, compared to when the Medium-term Management Plan was launched, and we have allocated to each by management discretion during the Medium-term Management Plan period. We will continue to seek an optimal balance of allocation among shareholder returns, repayment of interest-bearing debt, and additional investment, while monitoring various environmental factors.

Question 4

- In Japan, a shareholding in excess of 33.3% generally gives the shareholder a veto right. What is the significance of the 32.9% shareholding after the additional acquisition? Will there be any change in what Mitsui & Co. is able to do with a 32.9% shareholding after this acquisition, compared with its current shareholding of 18%?
- I would like to hear the correlation between hospital bed numbers and PAT. Your quantitative forecasts indicate that there will be no significant increase in bed numbers between the FYE 2023/03 and 2028/03, so why are you forecasting a dramatic increase in profitability?

Answer 4

- If our targeted shareholding reaches 33%, we will be required to launch a takeover bid. In that sense, 32.9% is the upper limit for our additional acquisition. On the other hand, conventionally in Malaysia (while this is not mandated by law), the leading shareholder tends to have significant say in the nomination of the chairperson of the Board of Directors and members of advisory committees, and in the appointment of the CEO and CFO. Therefore, our minimal goal was to become the leading shareholder. We would also like to increase our influence on the nine-member IHH board, which currently includes just one director seconded from Mitsui & Co.
- We are considering to moderate the pace of M&A activities. In addition, in hospital business, it is true that the P/L is negatively impacted by the fact that operating rates do not rise quickly just after opening. However, profitability tends to improve at an accelerating pace once a ramping-up has been completed, owing to a rise in operating rates.

Question 5

- Your forecast figure of 25,000 beds by the FY ending 2028/03 appears to be a substantial increase compared with the present total of 12,000 beds. Is the future growth scenario based on continuous capital expenditure and acquisitions, or will you increase the percentage of contribution by sophistication and efficiency improvement of the hospital business and the incorporation of the ancillary service business?

- Please provide a more detailed explanation on returns in excess of the investment hurdle rate.

Answer 5

- Under the main scenario, we aim to moderate the pace of M&A so that we can focus on the ancillary service business and efficiency improvement in existing hospitals. There are 12,000 beds at present, but the acquisition of Fortis will add another 4,000-5,000. When the increase of bed numbers in existing hospitals, including those in China, are also taken into account, there is a strong possibility that the total will reach 20,000 by the FY ending 2023/03. Given the pace of growth to date, we believe that a further increase of 5,000 by the FY ending 2028/03 is achievable—not through M&A, but through sustained growth in the number of beds in existing hospitals. Concerning profit, our forecast regarding the progress toward the ramping-up of existing hospitals is rather conservative, and we believe that the profit expansion shown in our quantitative targets is fully achievable.
- Profit generated by normal business activities are collected through dividends. We will moderate new investment compared with past levels, and if the resulting surplus cash is produced, it will be allocated to shareholder returns as appropriate. The hospital-related ancillary business usually has higher multiples compared with the hospital business, so we can expect a certain scale of cash in by spinning off the ancillary business.

Question 6

- In your IR meeting on the financial results for the second quarter, you stated that the healthcare business was capital gain-oriented, and that it would be necessary to realize returns part-way through. If you can show that the business value is steadily improving, is long-term holding of core elements of business a possibility without divestiture?
- What factors are contributing to IHH's competitiveness and its differentiation from its competitors?

Answer 6

- We aim to achieve a balance between both approaches. We will expand our business base in the healthcare field, and also realize capital-gain. We implemented partial sale in 2016 for the same reason.
- A key advantage that IHH has is the fact that its hospitals are able to provide advanced medical care. This ability has significant rarity value in Asia and contributes to IHH's ability to attract patients. The names of its hospitals, such "Gleneagles" and "Pantai", also have strong brand value and are able to secure the best physicians.

Question 7

- IHH appears to have the potential for steady income growth. That said, what are the upsides and downsides risks?

Answer 7

- IHH is a multinational hospital group with a presence in nine countries. As a result, its exposure to economic impacts and country risks are relatively dispersed. While the impact of exchange rate movements, such as the recent depreciation of the Turkish lira, is a factor that will require caution in relation to the management of IHH. The healthcare sector as a whole is relatively immune to the effects of economic upswings and downturns, so we believe that the possibility of an impact from that risk is rather remote.