



## **Re-energising KPJ; One Year On**

Dear Stakeholders,

I came onboard as President and Managing Director of KPJ Healthcare in July 2020 during one of the most significant public health crises in recent times. Though times have been challenging for healthcare industry and staff, so far we have managed to pull through and put in a resilient performance over the past year. I am proud of the efforts of our staff, doctors and nurses working in our vaccination centres who are putting in extra effort to help the nation move towards herd immunity.

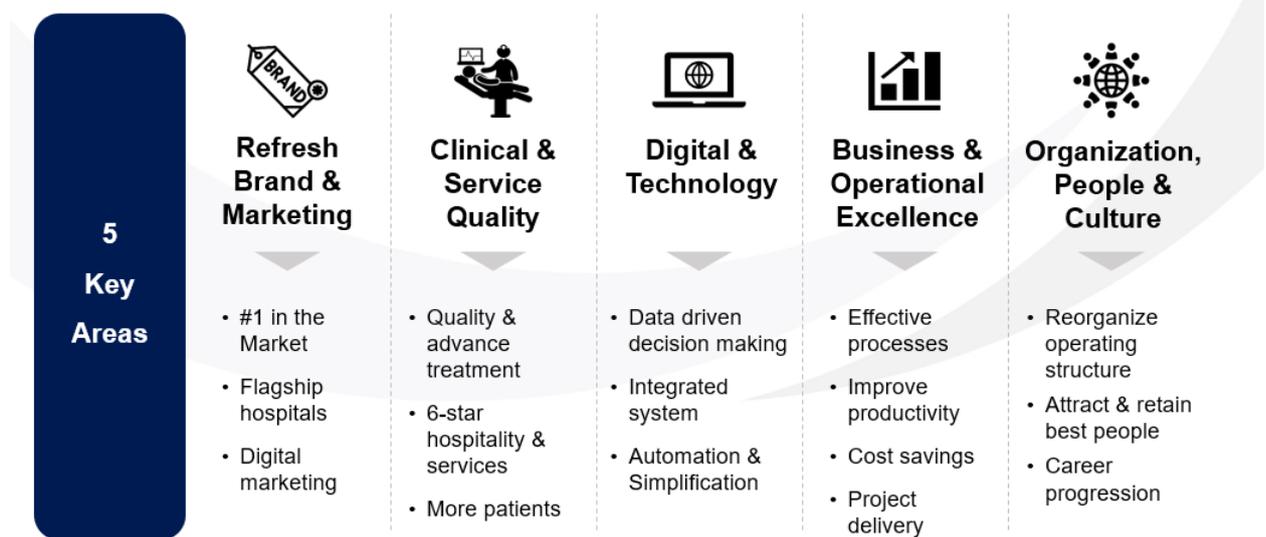
Only recently in May, KPJ Healthcare celebrated its 40<sup>th</sup> Anniversary. Starting out with a single hospital in Johor Bahru, the company has grown to become the largest private healthcare group in Malaysia. Today, the company has a total of 28 hospitals across the country, with a new hospital, KPJ Damansara 2 to be added in 2022. The growth of KPJ Group has been tremendous and we are grateful for the support from all our stakeholders who have helped in building KPJ to where it is today. KPJ has also developed a strong commitment to the communities that we serve. Klinik Waqaf An Nur (KWAN), our flagship community outreach programme established in 1998, has also grown significantly, with total of 23 Clinics nationwide, providing low income groups and communities access to affordable, high-quality healthcare.

While we can celebrate our achievements and progress, shifting consumer preferences are set to shake up the global healthcare industry over the next few years and the COVID-19 pandemic has only served to accelerate the pace of change. Consumers are becoming increasingly more involved in health care decision-making while digital innovations and the use of data is set to become a driving force in the sector. The demands of consumers will set in motion the transition to a more patient-centric approach to healthcare delivery. The key question facing us today is what path

we will take to adapt changes that lie ahead. After a period of aggressive expansion in terms of capacity, our new strategy will adopt a more nuanced approach to expansion opportunities with a focus on technology and achieving operational excellence.

Our “Re-energising KPJ” transformation programme, which we began last year, represents our longer-term vision for the company that will set in us good stead to meet the conditions and environment to come moving toward the year 2025. The main thrust of the strategy is to develop a culture of excellence that will emphasise the delivery of a 5-star patient experience that will propel KPJ to be the number 1 Healthcare brand in Malaysia and one of the most respected throughout the region. To achieve this, a new Transformation Management Office (TMO) has been set up to oversee the successful implementation of the key elements of this plan. I am pleased to share with you a brief overview of the main strategic thrusts of this plan and the progress we have made to date.

### Our transformation journey focuses on the 5 value drivers



## **Pillar / Value Driver 1 – Refresh Brand and Marketing**

The KPJ brand has many strengths which we can build upon to achieve our goal of becoming “The Preferred Healthcare Provider and Brand in Malaysia”. Plans are already underway to leverage on our size as the largest healthcare provider in Malaysia and the prominence our flagship hospitals within the Group who have built a reputation for excellence and quality service. By capitalising on these flagship hospitals and linking them to the smaller community-based hospitals and the bigger state capital hospitals, we intend to show how the entire KPJ hospital network is able to work together in a synergistic manner to provide better service to all of our patients, regardless of their location. The realisation of this hub and spoke model has already been facilitated through a re-organisation of our structure which was completed earlier this year. In an effort to reinforce the image and positioning of KPJ, we also plan carry out a complete revamp of the KPJ branding later in 2021.

The growth and prominence of digital marketing has been apparent over the years and our transformation programme has set this as a central theme for strengthening our brand. With the younger generation naturally attuned to social media, this medium will become increasingly important to generate patient demand in the future. We have already begun the process of boosting our digital presence via platforms such Facebook Live and various other social media platforms, increasing public awareness on the existence of the KPJ marketplace and our brick-and-mortar outlets.

## **Pillar / Value Driver 2 – Clinical & Service Quality**

Over the years, KPJ has already developed a comprehensive set of measures, processes and procedures to ensure excellent clinical and service quality for our patients. However, a commitment to putting the patient experience at the centre of our strategy requires us to continuously strive for improved performance in this area. Tracking, monitoring and improving our clinical and service quality will be key developing competitive advantage over our peers and achieving our goal of boosting the KPJ brand.

As part of our transformation process, we have already established a brand-new set of clinical and service quality targets along with a digital dashboard for key personnel

to monitor our progress and delivery on these key performance indicators. In terms of patient satisfaction, for FY2020 we are pleased that we have maintained our track record of continuous improvement, with our Customer Satisfaction Index (CSI) increasing to 90.1% (from 88.1% in 2019) and our Net Promoter Score registering a significant improvement from 61.15 in 2019 to 74.90 in 2020.

### **Pillar / Value Driver 3 – Digital Roadmap**

The Covid-19 pandemic has acted as a catalyst in spurring the adoption digitalisation across the healthcare sector. Digital innovations such as virtual healthcare, which had previously been approached with hesitation, have now rapidly materialised. In meeting the demands of consumers, KPJ also initiated its own foray into this field with the launch of our telemedicine initiative last year. Moving further into Industrial revolution 4.0, the healthcare sector is expected to transition towards IT systems powered by cloud computing and data and analytics tools enabling real-time, smart digital healthcare solutions. Healthcare providers will begin adopting interoperable data platforms supported by deep learning capabilities and behavioural research able to ascertain and shape consumer beliefs and actions. Artificial intelligence, machine learning and data science technologies will facilitate a more personalised patient experience and enable real-time care interventions.

At KPJ, we have established a digital roadmap for the company take advantage of new technological advancements and digital innovations that will help improve efficiencies and facilitate a better patient experience. We have begun the process of replacing our long serving Hospital Information System (HIS) to a new system capable of delivering on the initiatives and integration necessary to meet KPJ's new business vision and goals. With our new digital roadmap, in the future we plan leverage on the vast amount of data we have to enhance patient experience, use and monetise data for insights and improve our service levels.

#### **Pillar / Value Driver 4 – Business & Operational Excellence**

Our focus on business and operational excellence is based on continuously striving for higher productivity, cost savings and developing more effective processes. In this respect, this year we plan to begin the process of centralising a number of key business services such as procurement, credit management and facilities management which will help us to operate more efficiently and derive significant cost benefits through economies of scale. Since project management is also a key part of our business, this year we have already set up a new project update committee which ensure timely delivery of all our projects in the future.

#### **Pillar / Value Driver 5 – Organisation, People & Culture**

Effective 1 February 2021, we introduced a new organisational structure for managing our hospitals which provides us with a more effective means of control over our operations utilising our hub and spoke model. We have now divided our network of 28 hospitals in Malaysia into seven Regional Hospital Groupings helmed by seven Regional CEOs who report to the Chief Operating Officer (COO). These Groupings encompass the Northern Region (6 hospitals), Central Region I (5 hospitals), Central Region II (4 hospitals), Southern Region I (3 hospitals), Southern Region II (4 hospitals), East Coast Region (2 hospitals), and East Malaysia Region (4 hospitals). The COO is tasked with overseeing hospital operations, providing overall direction to the regional CEOs, and overseeing the implementation and development of agreed upon strategic objectives successfully.

To drive through transformational changes, KPJ has strengthened the management team, bringing in several new members who have added their wealth of experience to the company. The new additions included our new Chief Corporate Officer, Pn. Ariesza Noor; Chief Operating Officer, Pn. Nik Zainon Yussoff; Chief Commercial Officer, En. Nik Izhar Nik Mohammed; Chief Transformation Officer, Mr. Suriaghandi a/l Suppiah; and Chief Talent Officer, En. Shathiran bin Mohd Idrus. New talent management initiatives to develop the performance culture at KPJ and help to attract a retain talent also been introduced. These include a new leadership development programme; a new development programme for junior and middle management; a new appraisal framework and career development framework.

## **Financial Performance & Valuation**

The operating environment for our hospitals has been challenging since the start of the movement control order in March 2020 which had been relaxed and then reinstated. The restrictions on movement implemented nationwide have resulted in weaker operational numbers as patients have postponed elective and non-urgent treatments and find it more difficult to reach services provided at our hospitals. As a result, our financial and operational performance for the past few quarters has been reflective of the unprecedented circumstances facing the company. To mitigate these impacts, we have responded with initiatives to mitigate the impact of the pandemic, including cost optimisation measures across the organisation facilitated through digitalisation measures and the adoption of technology. Despite adverse conditions, KPJ delivered a resilient financial performance in FY2020, with EBITDA margin falling only slightly to 22.5% in 2020 from 23.4% the previous year.

Creating value for our shareholders is one of the key reasons for the need to transform KPJ. Despite being the largest private largest healthcare company in Malaysia with a good track record in providing quality healthcare and high patient satisfaction levels, the market capitalisation and relative valuation of the company remains below the level of its peers in Malaysia and the region. Over the last 10 years, despite growth in operational numbers, the share price and market capitalisation of the company has remained relatively static. To address this, our transformation plan seeks to address a number of key financial elements, including conducting review of the group capital structure and debt maturity profile and measures to improve our financial ratios. We have also begun to strengthen our investor relations programme, starting with our first quarterly analyst briefings in an effort to boost the profile of the company within the investment community.

## Moving Forward / Conclusion

While we are cautiously optimistic with the rate of Covid-19 vaccinations ramping up helping the nation build towards herd immunity, the current rate of infections is likely to continue to impact performance for the remainder of the year. With the effects of the pandemic yet to play out over the second half of 2021, we expect the beginnings of the recovery process will likely begin starting next year in 2022.

With this in mind, we can clearly separate our Reenergising KPJ transformation into two distinct phases. Phase 1 of the transformation, or “transforming the base,” which will last until the end of 2021, will see us complete the major foundational and organisation changes that will put us in a firm position to recover with a rebound in operational conditions expected to come next year. The second phase of our transformation, starting in 2022 and moving through until the end of 2025, will be our growth phase, with KPJ able to capitalise on a return to a more positive business environment building on our progress made during Phase 1. Phase 2 will see us deliver in 3 strategic focus areas:



Looking back on the 1<sup>st</sup> year of our transformation, whilst the effects of the pandemic continue linger and impact performance, throughout 2021, we have still been able to forge ahead with our longer-term strategic plans to transform and bring the company on to the next level strategically. We have already begun to deliver on the foundations of re-energising the KPJ brand with the first phase of our transformation plan. With the rate of immunisations ramping up significantly, we hope to play our part in breaking the chain of infection by playing our role in the vaccination drive. With a move towards more favourable economic conditions in 2022 and beyond, we plan to execute on the second phase of our transformation, delivering more growth and creating greater value for all our stakeholders over the years to come.



**Ahmad Shahizam Bin Mohd Shariff**

*President & Managing Director*

*KPJ Healthcare Berhad*