PRESIDENT & MANAGING DIRECTOR’S REVIEW

DEAR SHAREHOLDERS,
I AM PLEASED TO SHARE WITH YOU KPJ’S FIRST INTEGRATED REPORT (IR), WHICH HAS BEEN PREPARED BASED ON SIX CAPITALS FOR THE FINANCIAL YEAR ENDED 2018 (FY2018), AS GUIDED BY OUR STRATEGIC DIRECTION.

The Group operated within a complex and shifting external environment in 2018, marked by shifts in geopolitical and macroeconomic factors, health regulations and evolving trends, within an increasingly competitive private healthcare sector. In our primary home market of Malaysia, the economy grew at a moderate rate of 4.8%, and this sluggish growth impacted demand for private healthcare services with many corporate employers downsizing and reducing their employees’ medical benefits. At the same time, the new Government in Putrajaya unveiled a more healthcare centric Budget 2019, with Government allocations aimed at reforming the healthcare sector in the country.

Local healthcare trends saw an increase in healthcare expenditure driven by an ageing population, as well as the rising trend of non-communicable diseases. New technologies and lifestyle changes are triggering and impacting patient demands and expectations.

Competition increased significantly amongst private healthcare providers, with both large networks and smaller private clinics competing for top of mind recall in stakeholders’ minds. The increasing number of private hospitals and clinics has also led to difficulties in hiring and retaining talent in the medical fraternity.

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Despite this challenging backdrop, KPJ had a year of record performance, posting our highest revenue and profit to date. We recorded double digit growth, underpinned by solid overall performance. Our key drivers have been the Group’s sustained improvements in operational efficiencies and strict cost discipline. Revenue increased by 4% to RM3.3 billion, from RM3.2 billion in 2017, driven by increased contributions from our Malaysian hospital operations. This was primarily due to an increase in patient visits, as well as growth in the number of operating beds and surgeries performed, especially at KPJ Rawang, KPJ Bandar Maharani and KPJ Pasir Gudang.

The stronger position led to a Earnings before interest, tax, depreciation and amortisation (EBITDA) growth of 18%, from RM428.0 million in 2017, to RM503.1 million in 2018. Profit before zakat and tax (PBZT) stood at RM266.5 million in 2018, compared to RM233.3 million the previous year. The Group posted net profit of RM186.2 million, a 12% increase from RM166.9 million the previous year.

For a complete financial review of our performance, please refer to our Chief Financial Officer’s Review on pages 66 to 68 of this IR.

GROUP FINANCIAL PERFORMANCE 2018

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TURNAROUND OF NEW HOSPITALS

Over the past five years, KPJ has been expanding our network of hospitals. This includes seven new hospitals in greenfield and brownfield locations throughout Malaysia. Achieving profitable hospital turnaround is not an easy task, and therefore 2018 was a particularly good year for KPJ, as two hospitals we had launched in 2014 achieved profit turnaround, namely, KPJ Rawang and KPJ Maharani where each posted a full year
revenue of RM100.3 million and RM47.5 million respectively. Profit after tax for KPJ Rawang and KPJ Maharani were RM4.3 million and RM0.6 million respectively, denoting growth of more than 100% from the previous year.

We view this as a significant achievement and a testament of KPJ’s ability to successfully turnaround hospitals in greenfield locations by adopting the right business model and optimal strategy. It also is indicative of the depth of our Management’s abilities in developing strong hospital leadership teams. As we continue to open new hospitals and expand our hospital network to capture greater opportunities, we are able to sustainably develop talent for our hospital leadership and management to ensure we remain on track with our long-term growth agenda. We remain committed to continue bringing on board talented and capable management and medical talent as we continue with our ongoing network expansion journey.

EXPANDING AND ENHANCING OUR HOSPITAL NETWORK

Armed with the requisite knowledge on how to affect successful turnarounds at new hospitals, KPJ continued our hospital network expansion strategy and opened two new hospitals in 2018. KPJ Perlis opened to the public in Kangar, in the northern-most state of Perlis, with 21 beds, six hospital services and nine specialist consultants on board. The hospital’s official launch was officiated by DYMM Raja Perlis, on 1 November 2018. In the southern-most state of Johor, we opened KPJ Bandar Dato’ Onn in Johor Bahru with 30 beds, nine hospital services and nine consultants.

KPJ Selangor officially launched on 22 December 2018 in Shah Alam. The new block was officiated by DYMM Sultan of Selangor. We further expanded the capacities of five existing hospitals by adding more beds to cater to growing demand, namely at KPJ Johor, KPJ Klang, KPJ Bandar Maharani, KPJ Pasir Gudang.

In line with changing healthcare trends the Group also launched new services and centres during the year. Sabah’s first private radiotherapy and oncology centre was launched at KPJ Sabah on 9 December 2018 to provide treatment to cancer patients in the state. As well as that, we also developed new acute stroke services which we will initiate at our Klang Valley hospitals, and then rollout to other hospitals in our Group.

Regionally, the Group opened three KPJ Information Centres, one in Batam, Kepulauan Riau, Indonesia; one in Palembang, Sumatera, Indonesia; and one in Dhaka, Bangladesh. This strengthens our regional presence and enhances our marketing efforts for our hospitals in Indonesia and Bangladesh.

For KPJ the expansion of our hospital network and services is not just business as usual. More importantly it represents our commitment towards the development of the healthcare sector both within our home country of Malaysia, as well as within regional operations. In Malaysia, the locations of our hospitals in greenfield areas leads to expanding the access of private healthcare services to fellow Malaysians who live in suburban and rural areas. We are also involved in creating jobs in the medical sector, as well as assisting in the development of local vendors and suppliers who provide us the products and services we require to manage our hospitals efficiently.
STRATEGIC PARTNERSHIP TO GROW OUR PATHOLOGY AND DIAGNOSTICS BUSINESS

A key partnership we concluded in early 2018 was the sale of 49% of equity shares in our diagnostics unit, Lablink (M) Sdn Bhd to Singapore-based private equity firm, Quadria Capital Investment Management Pte Ltd, for a total of RM119.9 million. With the conclusion of the deal, KPJ has retained majority shareholding of 51% of Lablink’s equity.

Our rationale in entering this strategic partnership is to utilise the injection of funds from our new partners to expand the reach of our laboratory service offerings to other hospitals in Malaysia, as well as to expand our footprint regionally in the near future. We will be working with our partners to explore new growth markets in Southeast Asia, with the aim of becoming one of the leaders in the region in pathology and diagnostics services, thus enhancing shareholders’ value in the longer term.

PROVIDING EXCELLENT CUSTOMER SERVICE

A key achievement we are particularly proud of in 2018 is the Gold-Level Excellence in Person-Centred Care certification awarded to two of our hospitals from USA-based Planetree International, a non-profit organisation that assists healthcare providers around the world to transform healthcare delivery services. Adding to our achievement, the two certified hospitals, namely KPJ Ampang Puteri and KPJ Damansara, were also the first two hospitals in the Asia Pacific region to receive this prestigious certification.

The Planetree certification is noteworthy, aimed at providing enhanced service care levels at hospitals, going beyond being patient centred, to being person centred. It prioritises the active participation of patients and their families throughout a healthcare process that emphasises partnership, compassion, transparency, inclusion and quality.

Having embarked on the project in 2013, the Group is immensely pleased to see the outcome of the dedicated and concerted efforts of our two hospitals on their three-year Planetree journey. We strongly believe that providing person centred care will form a unique differentiator for the KPJ brand in the healthcare sector, thus giving us a distinct advantage over our competitors.

Person centred care requires hospital and treatment processes, as well as the mind sets of the people involved in the provision of healthcare services, to focus on the person’s needs. It is a holistic approach to healthcare provision which encapsulates the tagline of “What Concerns You”.

KPJ CONTINUED WITH OUR HOSPITAL NETWORK EXPANSION STRATEGY AND OPENED TWO NEW HOSPITALS IN PERLIS AND JOHOR BAHRU IN 2018.
THE DIVERSITY OF OUR EMPLOYEE BASE IS A KEY COMPONENT OF OUR SUCCESS AND IN 2018, WE EXPENDED CONSCIOUS EFFORTS TO RECRUIT MORE MALAYSIANS FROM DIFFERENT ETHNIC BACKGROUNDS TO REFLECT THE DIVERSITY OF THE MALAYSIAN POPULATION WHOSE HEALTHCARE NEEDS WE ARE SERVING.

More importantly, this is the quality of healthcare service KPJ Hospitals are moving towards. We target to replicate the Planetree model Group-wide, and provide person centred care to drive the sustainable growth of our business. It may be an ambitious goal, but one we are committed to delivering on.

You can read more on Planetree at our hospitals in the Materiality Economic 6 : Certification, Accreditation and Standards section on pages 49 to 52 of our standalone Sustainability Report.

A STRONG TALENT MANAGEMENT PLATFORM
Throughout the years, KPJ has embedded a robust talent management platform, especially within the area of customer service. We believe in training our own people to impart their skills and knowledge to their peers and colleagues, instead of exclusively relying on external trainers. This approach ensures consistency in our customer service levels, as internal trainers have a better grasp and understanding of our core vision, mission and values, and the inter-relation of these with our hospital environments and work processes.

Two key programmes which employ this approach are the KPJ Service Quality Coach Programme and the Service Quality Management (SQM) Mentoring Programme. Since inception, the KPJ Service Quality Coach Programme has produced a total of 60 dedicated Service Quality Coaches as at end 2018, who impart knowledge they receive from external trainers to their peers through regular training programmes. As for the SQM Mentoring Programme, we have a total of 17 certified mentors as at end 2018, who have graduated from a structured nine-day programme which equips them with the right mind set, tools and techniques to conduct one-on-one mentoring and counselling sessions for their colleagues.

As a fresh take on talent management, in 2018 we aligned our leadership and upskilling programmes with those of our parent company, Johor Corporation (JCorp). This move has presented us with a sustainable pipeline of business leaders for the Group, which is crucial considering our hospital network expansion strategy.

Under the leadership programmes the Advanced JCorp Leadership Programme had eight participants, and the Basic Management Programme had two participants. As for upskilling programmes, our people participated in programmes under the auspices of the Malaysian Institute of Human Resource Management. These included courses for the Certification Human Resources Manager with eight participants, the Certification Training and Development Manager with two participants, and the Certification Human Resources Officer with 11 participants. Within

KPJ Damansara and KPJ Ampang Puteri Specialist Hospitals became the first two hospitals in the Asia Pacific to be awarded the Gold Certification for Person-Centered Excellence by Planetree Internationa
The diversity of our employee base is a key component of our success and in 2018, we expended conscious efforts to recruit more Malaysians from different ethnic backgrounds to reflect the diversity of the Malaysian population. As at end 2018, we have added 344 people from the Chinese ethnic background, 84 from the Indian ethnic background, and 56 from Bumiputera and other ethnic backgrounds from our recruitment drive.

CAPTURING OPPORTUNITIES IN MEDICAL TECHNOLOGY (MEDTECH) INNOVATIONS

By 2024, it is estimated that the digital health market will grow exponentially, fuelled by innovations in Telehealth, Cloud Computing, Telemedicine, Wearables, and other transformative technologies, to exceed USD379 billion. It is therefore imperative for KPJ to focus on the adoption of MedTech innovations, especially those which can enhance the provision of healthcare services to our patients, and improve their wellbeing.

In line with this, the Group embarked on the Digital Transformation Value Innovation Platform (VIP) Programme with the Malaysia Digital Economy Corporation (MDEC) in 2018. Known as the Rainmaking Project, it focuses on the digital vertical of Telemedicine through the DoctorOnCall.com.my initiative. We piloted the project at three hospitals, KPJ Damansara, KPJ Rawang and KPJ Tawakkal Health Centre in the area of remote patient monitoring and surveillance. DoctorOnCall and KPJ is working with specialists for the latter to provide online consultations in the areas of oncology, rheumatology, ophthalmology, gastroenterology, rehabilitation, dental and speech therapy. Although the pilot project is still in its early stages, we hope to report on positive outcomes in the near future.

VENTURING INTO NEW NICHES

Venturing into new healthcare niches in response to healthcare trends is a crucial factor in keeping the Group ahead of the curve. During the year, KPJ continued to explore new niches in our quest to drive the continuous growth of the business.

We re-entered the retail pharmacy business with the launch of a JX Pharmacy outlet in 2018. This full-fledged retail pharmacy represents our reaffirmed commitment to expand the reach of our pharmacies, which were previously only under the umbrella of the KPJ Healthshoppe brand. At present, KPJ Healthshoppe has five retail outlets within our specialist hospitals, while our JX Pharmacy located in Bandar Baru Bangi, Selangor. The brand JX Pharmacy is wholly owned by KPJ Healthshoppe, and part of our plans for its future is to expand into online pharmaceutical prescriptions.

Another new niche KPJ started exploring in 2018, and which we plan to materialise in the year ahead is Ambulatory Care Centres (ACC). ACCs present a cost efficient and capital light means by which we can expand our healthcare network without undertaking the expense of building a new hospital. The ACCs will provide medical care on an outpatient basis, including diagnosis, observation, consultation, treatment, intervention and rehabilitation services. Our ACCs will offer specialist day care services in smaller towns or suburbs where there is an identified gap in the healthcare market. Among the specialist services we intend to offer are eye surgeries, dental surgery, and Ear, Nose and Throat (ENT) services.

A key exercise we conducted in 2018 involved the merger between KPJ Sabah and KPJ Damai, in line with our hospital operations restructuring plan to achieve greater efficiencies and maximise the profitability of both hospitals. With effect from 1 June 2018, all operations at KPJ Damai were transferred to KPJ Sabah, and KPJ Damai has been rebranded as Damai Wellness and Care Centre, focused on offering niche healthcare services within the segments of Senior & Assisted Living Care, Confinement Care and Rehabilitation Services.
LEVERAGING ON DIGITALISATION TO DRIVE EFFICIENCIES
Like any other business entity, private hospitals need to focus on efficiencies, especially within the area of customer service. Since 2016, we have been utilising an online appointment and queue system for the convenience of patients. This online system allows for patients to make hospital appointments by going to individual hospital websites, and reserving dates and times which are convenient for them, as well as enabling them to change their appointment dates if they need to. As at end 2018, a total of 16 KPJ Hospitals are utilising this system.

Within the area of cybersecurity, we enhanced our IT infrastructure to better manage our IT services and safeguard our data security as well as the data privacy of our patients. In particular, we brought a second data centre online, thus ensuring we now have two data centres up and running at two separate locations, with both conducting real time backups. This is of critical importance for our smooth operations in the event of any potential disasters, as we will have up to date business critical information required to ensure that there are not any unnecessary time delays or information gaps.

CONTINUOUS BUSINESS PROCESS IMPROVEMENT
Towards ensuring continuous business process improvements, KPJ focused on the dynamics of setting up a centralised Business Support Service covering marketing, finance and human resource aspects in all our hospitals for the year ahead. We embarked on a Group-wide study to identify how we could centralise this function, and have prioritised functions and tasks related to payroll, financial and banking services. By centralising these functions, we can ensure that it is not duplicated, and thus reduce the administrative load of our staff on the ground and free up their time to focus their attention on our patients. This will have a transformative effect on the Group, both in terms of cost efficiency, as well as changing the function and role of our people in hospitals, in alignment with our journey towards a person centred healthcare model.

OUTLOOK
As we move into the year ahead, we expect the Malaysian economy to continue to grow at a slow pace of 4.9%, while inflation is projected to increase from between 1.5% and 2.5% in 2018 to between 2.5% and 3.5% in 2019. The slower pace of growth, coupled with rising inflation may have an impact on both corporations provision of medical insurance for their employees, as well as consumers accessing private healthcare services, which cost more than public healthcare services.
Against this backdrop, KPJ remains focused on our forward moving strategy to create continuous growth for the Group and bring value to shareholders. Our plan to develop ACCs are firmly aligned with taking on board a more muted economy, where people seeking medical treatments will be exploring more cost conscious healthcare offerings. We also plan to continue with our hospital network expansions in locations where there is demand, and new hospital developments in greenfield areas, as part of our plan to maintain our leadership position. The Group has allocated more than RM2 billion towards upgrading and adding new hospital developments and ACCs throughout the country, with a target of 35 hospitals and 21 ACCs by 2023.

To ensure a sustainable pipeline of leadership talent to support the management of our expanded and enhanced healthcare network, we will be focusing on effective succession development planning. The Group’s talent management strategies, which are aligned with ensuring that we are able to attract and retain the best people in the sector, will continue to focus on building, nurturing and sustaining a performance driven culture, in line with our business objectives. To remain as employer of choice, we aim to bring about a holistic employee experience, within a diverse, talented and engaged workforce, whilst embedding a culture of innovation Group-wide.

In tandem with Industry 4.0 digital transformations, our future focus will see us digitalising human resource, administrative, and transactional roles and functions to achieve efficiency and effectiveness to drive organisational change. As well as that, in an era where the Internet has changed the way businesses market themselves, KPJ will be employing greater focus on digital marketing efforts through social media, mobile apps and websites to expand our market reach.

We remain optimistic that our focused efforts in line with our strategy will keep us on track to achieve our goal of long-term sustainable growth for the business.

ACKNOWLEDGEMENTS
On behalf of the Management of KPJ, I would like to thank our Board of Directors, for continuing to steer us forward with our strategic objectives and goals whilst upholding the highest standards of governance, ethics and integrity. Their industry insights and wisdom are a central factor in the Group’s ability to sustain our good performance.

To KPJ’s more than 13,000 employees nationwide and more than 700 staff abroad, we are extremely grateful for their dedication and commitment to providing the highest quality of healthcare services, in line with our mission and vision. Our deepest appreciation also goes to our investors, partners, media and all stakeholders. As for the Government and healthcare regulators, we thank them for their sustained belief in the Group, and allowing us to contribute towards the healthcare and socioeconomic needs of the nation.

Most of all, thank you to our three million patients, for their continued faith in the KPJ brand. We reaffirm our commitment to continue to provide the best quality of healthcare services which places our patients at the heart of all we do.

Dato’ Amiruddin Abdul Satar
President & Managing Director
KPJ Healthcare Berhad