Hospital Industry - Key Success Factors

BUSINESS RISK ASSESSMENT

Market Position
The analysis will include examinations on the company’s size and market share. Number of beds is one of the measurements to describe capacity and size of the company compared to its competitors. The company’s market position could also be improved by acquiring other hospitals or expanding to other location. The company with a strong market position is expected to have better competitive advantage to deal with tightening competition and penetrate market to capture a wider business opportunity. Strong market position will also lead the company to have favorable bargaining power in negotiation process with the doctors and its suppliers, and to become more flexible in pricing adjustment.

Location/ Demographic Profile
The analysis covers assessment on the hospital’s location. Geographically diversified locations aims to protect against problems affecting a particular region such as negative local economic trends and competitive local market. Demographic of the population in the surrounding area may describe the potential growth of number of patients and the company’s potential revenue growth in the future. The company’s target segment should be in line with the demographic profile on the location, such as middle low or premium residential area, business commercial district or others.

Service Quality
The analysis covers examinations on the quality of services and facilities. On top of the existence of qualified doctors, the array of services and hospital facilities being delivered may attract the patients to come, that will in turn raise the hospital revenue. The company’s investment on advance technology medical equipment and its modernization policy could increase its service quality. Management expertise and its relationship with doctors and medical staffs are also crucial to maintain qualified human resources to service in the hospital.

Operating Management
The analysis includes risk assessments on the company’s efficiency and its ability to control costs. An efficient operation is necessary to generate higher margin. Several measures that can be used in the assessment include occupancy rate, average length of stay, and turnover beds. The company’s compliance to related regulations and having the necessary certifications are also considered as it may affect the company’s business. Pricing strategy and cost management are important factors to be included in our consideration, particularly when the company faces tight competition. The analysis on operating margins (EBIT and EBITDA) is also assessed by comparing the company’s ratios with other players in the same industry or other industry with similar characteristic, which is important in analyzing the company’s competitiveness. The analysis is helpful to measure operating efficiency. Receivable collection especially from health insurance and corporate clients is also considered in rating determination.

FINANCIAL RISK ASSESSMENT

Financial Policy
The analysis includes a review of management’s philosophy, strategy and policies toward financial risk (historical, current and future). It also includes examination of management’s financial targets (growth, leverage, debt structure and dividend policy), hedging and other policies in an effort to reduce the company’s overall financial risk (historical vs. future). The company’s track record on fulfilling its previous financial obligations is also examined to determine the degree of its commitments and willingness and consistency to pay obligations on a timely basis.
Capital Structure
The analysis covers careful examination of the company's historical, current and projected leverage (total and net debt in relation to equity and EBITDA), debt structures and composition (rupiah vs. foreign currencies, short-term debt vs. long-term debt, fixed rate vs. floating rate). Management of its liabilities is also thoroughly reviewed.

Cash Flow Protection and Liquidity
The analysis covers thorough reviews of the company's cash flow generation and capability to meet its short- and long-term financial obligations. The degree of its debt-servicing capability level is measured by the company's interest and debt coverage ratio. The degree of its liquidity in fulfilling its short-term liabilities relative to its sources of cash is also thoroughly assessed. The sources of cash are assessed, which include cash balance, estimated cash from operations, unused credit facilities, and other sources of cash. The uses of cash other than short-term liabilities, such as capital expenditure, are also assessed.

Financial Flexibility
The analysis covers combined evaluations of all the financial measures above to arrive at an overall view of the company's financial health. Analysis of other related factors or figures that are not specifically examined above, such as insurance coverage, restrictive covenants in loan/bond agreements or parental linkage and support, are also covered. Other analytical tasks covered are the evaluation of the company's options under stress, including contingency plans and other capabilities and flexibility to deal with various adverse scenarios. Shareholder support and commitment are also greatly considered.

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