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In this edition of my monthly letter I will focus on the concept of value creation.

- **Creating value as an active investor with hands-on management support**
- **Amanat's three-pronged value creation approach across corporate strategy, corporate finance and corporate governance; with examples across our healthcare and education portfolios**
- **Case study – the evolution from a 'drag' asset to an investment that builds accretive value for a portfolio**

CEO MONTHLY

DR. MOHAMAD HAMADE

Friends,

Creating value has become ever more important in 2020, with less consumer spending meaning that companies across most sectors have had to find innovative ways to compete for business.

In Amanat's case, we have found new and innovative ways to build value in the healthcare and education sectors, which are our core investment focus. As one of the few listed investment firms in the MENA region, and the only one focused on the healthcare and education sectors alone, we are incentivized to focus on building long-term value, without being limited to mandated time frames and exits.

We are an active investor, and we provide holistic and hands-on management for our investments in order to build them into market-leading operations, whether we are a minority or majority shareholder. We do this through a three-pronged approach covering - corporate strategy, corporate finance and corporate governance.

Examining these components one by one to understand how they help us to build long-term value, lets first look at **corporate strategy**. When developing organic or inorganic strategies for growth, Amanat's investment team focuses on driving efficiencies across portfolio companies while defining the strategic growth and expansion plan of the firm's investment platforms.

Wherever possible, we look for ways to establish platforms, and promote cross-asset integration and synergies so that we can derive value from our firm’s centralized expertise and broad-based operational teams, as well as from economies of scale.

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Our approach to corporate strategy is best exemplified through our work with **Taaleem**, one of the largest education providers in the Middle East, which focuses on the development and management of early childhood, primary and secondary schools. Since investing in Taaleem in April 2016, our efforts to focus on the organic growth of the operator and restructure schools into clusters helped us build scale, expand footprint and increase synergies amongst schools. We have identified further efficiency and cost management initiatives for 2021. Taaleem launched the new Al Raha International School in Abu Dhabi (due to open fully in September 2021), structured effective recruitment efforts for the 2021 academic year, and drove an increase in the KHDA rating for Dubai British School Jumeirah Park.

Moving on to **corporate finance**, this is the formulation of efficient strategies to optimize capital structures, support funding requirements, and execute opportunistic add-on acquisitions, JVs and public-private-partnerships (PPPs).

A prime example of this work is at our investment in **International Medical Center (IMC)**, which operates a 300-bed multi-disciplinary tertiary care hospital serving Saudi Arabia’s Western Region. During the height of the pandemic, Amanat stepped-in alongside IMC’s management to ensure business continuity and a healthy balance sheet through the development of different strategic initiatives and cash flow structures. Another example was when Amanat led on a strategic bolt-on acquisition alongside IMC’s Board of Directors. Such an acquisition paved the way for IMC to become a hub-and-spoke model adding significant outpatient, radiology and day surgery capacity in the group’s core market.

Last but certainly not least, our approach to **corporate governance** focuses on implementing decision-making frameworks to ensure long-term, sustainable value creation. At **Royal Hospital for Women and Children (RHWC)**, a 32 bed-inpatient hospital located in the Kingdom of Bahrain, we have laid the foundation for governance frameworks driven by the Board and Steering Committee as well as financial and operational KPIs to track department-wise performance. Part of this work involved defining an authority matrix for all department heads in addition to organization structure, roles, responsibilities, and KPIs.

Our focus on all three of these areas – corporate strategy, corporate finance, and corporate governance – combine to create powerful long-term value that can withstand the many economic, regulatory and social pressures currently facing the healthcare and education businesses that we invest in.

“Corporate strategy, corporate finance, and corporate governance combine to create powerful long-term value ”

The combined impact of our multi-pronged value creation approach is seen through our work with **Sukoon International Holding Company CJSC (Sukoon)**, a healthcare provider in Saudi Arabia which provides acute extended care, critical care and home care medical services to patients who are no longer suited for care within a traditional hospital setting. Amanat invested in Sukoon in August 2015 at the peak of the growth of Saudi's long-term care market, as demand was driven by the growing incidence of lifestyle diseases, road traffic accidents and congenital or postnatal pediatrics conditions.



Sukoon Hospital Building

At the time of our investment, reimbursement rates in the sector were not yet well defined, but soon afterwards, regulation was introduced, causing prices to drop quite dramatically. Sukoon continued to act as a main provider for the Saudi Ministry of Health for post-acute care services, representing more than 80% of services provided in this area. But we lost revenues, which contributed to one-off provisions for our business.

The loss-making position provided the impetus for us to restructure Sukoon using our '3-pronged' approach, and we have seen underlining performance improve significantly since. The business turned EBITDA-positive during Q3 2020 and is on the path to recovery to become profitable moving forward.

How did Amanat contribute to this turnaround as an active investor? We refreshed Sukoon's corporate strategy to focus on new revenue streams, diversifying the client base away from the Ministry of Health and improving revenue cycle management. We invested in renovation to increase efficiency and capacity, with a goal to generate operating leverage and further profitability down the line. And we optimized Sukoon's capital structure to utilize excess cash so that growth plans could be financed by internal funds, while overseeing improvements to the recovery of receivables. We also initiated a long-term cost-saving plan.

On the corporate governance side, a new CEO and CFO were hired in December 2019 and board committee charters and an internal audit function were developed to improve controls. As a result, we were able to maintain accreditations from The Saudi Central Board for Accreditation of Healthcare Institutes (CBAHI) and the Joint Commission International (JCI), which accredits and certifies health care organizations and programs across the globe.

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The path to Sukoon's success has not been smooth, but I think it demonstrates that despite external challenges, an investment can evolve from a 'drag' to an asset building accretive value for a portfolio with the right management approach. For Amanat, this means ensuring adequate resource is allocated to enhancing the firm's corporate strategy, corporate finance approach and corporate governance model. We are confident that Sukoon will continue improving to green territory over the next year and furthermore in the coming years. And we see significant opportunity in the Saudi market due to a rise in PPPs and our relationship with premium insurers in the market. Watch this space for more value creation...