An NMC facility in Dubai © Reuters

Cynthia O'Murchu and **Robert Smith** in London DECEMBER 20 2019

NMC Health has held talks to raise hundreds of millions of dollars of off-balance sheet debt to fund new hospitals, despite the FTSE 100 healthcare provider having faced increased scrutiny from short-sellers over the scale of its borrowing.

The Middle Eastern healthcare group, which is controlled by a small group of UAE-based billionaires, was previously one of the star performers on the London stock market with its shares starting the year up more than 1,000 per cent from its 2012 initial public offering.

But the company's shares dropped as much as 42 per cent on Tuesday after short-seller Muddy Waters raised "serious doubts" about NMC's finances in a 34-page report, taking more than £2.3bn off its market value. Its shares tumbled 16 per cent on Friday.

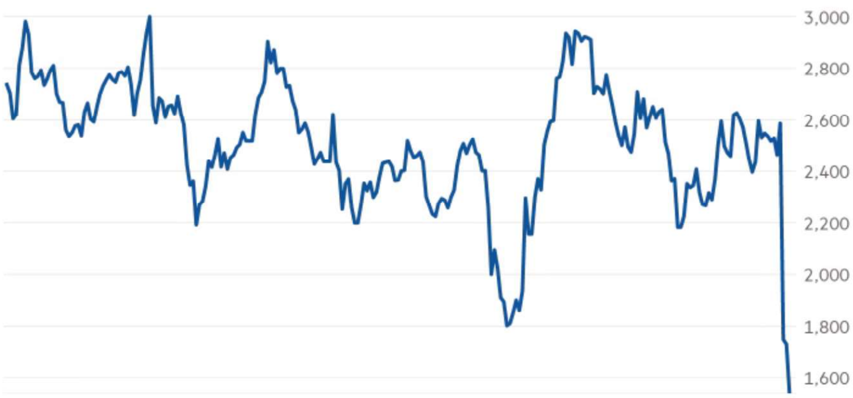
The Abu Dhabi-based company has faced mounting questions from analysts, investors and short-sellers this year about its apparent use of off-balance sheet financing techniques, which do not count to its official debt levels. It is one of the most heavily shorted stocks in the FTSE 100, with about a quarter of its free float out on loan for use by hedge funds.

While NMC has made public statements reassuring investors about its limited use of such structures, the company has this year sought to raise a €200m loan through a complicated chain of special-purpose vehicles, according to people familiar with the matter.

Draft deal documents seen by the Financial Times and dating from the spring and summer show that NMC planned to raise the loan through a Dubai entity, to fund the construction of hospitals as it seeks to continue its aggressive expansion in the Middle East. NMC operates facilities in 19 countries and said it served about 4m patients in the six months to June.

NMC Health

Share price (pence)



Source: Refinitiv
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This Dubai project company would borrow the €200m from a financing vehicle in Luxembourg, backed by shares in two of the company's existing hospitals in the UAE.

Estates SA, a Luxembourg investment firm listed in the documents as helping set up the special-purpose vehicle in the grand duchy, confirmed to the FT that they had "analysed this project".

"In the end, the project has not been implemented with us," it added.

While the deal documents clearly state that NMC Health plc would guarantee the loan, two people with direct knowledge of the deal said the complicated structure was aimed at allowing the company to exclude the facility from its corporate debt figures. As the deal has not yet been completed, however, it is not possible to know how it would have been disclosed.

NMC declined to comment before this article was first published. But in a statement on Friday*, the company said that the article was based on "false information" and that it finds speculation about "a transaction that did not occur to be completely unproductive".

The group, whose share price has not recovered since Muddy Waters' report, initially hit back calling it "unfounded, baseless and misleading" and subsequently published a detailed rebuttal on Thursday evening.

Muddy Waters homed in on NMC's use of reverse factoring or supply-chain finance, which is a form of borrowing against supplier payments that accountants do not class as debt. The financing technique is controversial because of its role in the collapse of UK outsourcer Carillion and Spanish energy company Abengoa.

The California-based hedge fund described a statement made by NMC last month about its use of supply-chain finance as "an attempt to mislead" investors. NMC, in a detailed rebuttal to Muddy Waters' allegations, said that it "simply provided an undertaking in the form of a guarantee to settle the accepted trade payables against each invoice".

While not mentioned in Muddy Waters' report, much of NMC's supply-chain finance has been arranged by Blackstar Capital, a London-based firm that specialises in helping companies raise working capital finance.

Blackstar is also behind the efforts to raise the €200m loan to fund new hospitals. In contrast to the supply-chain finance facilities, which are commonly used if controversial, several people familiar with the proposed deal described it as highly unconventional.

"This is not how you expect a FTSE 100 company to finance itself," said one.

Blackstar declined to comment.

South Korean asset manager Hyundai Asset Management was in talks to invest the full amount, according to several people familiar with the negotiations. One person directly involved in the deal said that the investor's reservations about some aspects of the complicated structure had delayed the financing.

"Hyundai AM is not related to the NMC Health investment case," the Korean group said, without providing further clarification.

**This article has been updated with comment from NMC Health.*