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ACTIVE GROWTH STRATEGY: MD MEDICAL GROUP CASE

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Insights | Strategy

HOW CAN GROWTH BE ACCELERATED, AND HOW TO FINANCE THIS GROWTH?

We often say that companies need to grow rapidly, but it is important to clarify what kind of growth we mean. In corporate finance, three growth strategies can be differentiated: (1) internal (organic) growth, (2) sustainable growth and (3) active growth. Each strategy determines the pace of scaling a business depending on financing sources and strategic goals.

Shareholders should not view business growth as an ultimate goal, but rather as a controlled process focusing on efficiency, stability and strategic expansion. Active growth, when carefully managed, allows not only to scale business, but also to increase shareholder value.

1. Internal Growth – a.k.a. Organic Growth

This is the most conservative growth strategy, based only on reinvested profits, without raising additional capital. In this case, growth is driven by retained earnings, which are reinvested instead of being paid as dividends. Under this strategy neither new debt nor additional equity is raised. The pace of internal growth depends on the Return on Assets (ROA – Net Profit to average Total Assets ratio) and the Retention Rate – share of net profit not paid as dividends. Growth rate is described by the formula:

$$\text{Internal Growth Rate} = \frac{\text{ROA} \times \text{Retention Rate}}{1 - \text{ROA} \times \text{Retention Rate}}$$

The internal growth strategy is very typical for conservative companies that prefer independence and financial stability, as well as minimal external financing.

2. Sustainable Growth

Companies pursuing sustainable growth strategy rely on some new debt to finance their expansion in addition to retained earnings. The key factor is that the capital structure (Debt/Equity) does not change – i.e., debt grows only in proportion to the growth of equity through growth of retained earnings.

This is a more flexible and dynamic growth strategy compared to internal growth, but it is still limited by the boundaries of reasonable leverage, the Return on Equity (ROE – Net Profit to average Equity ratio), and the amount of retained earnings:

$$\text{Sustainable Growth Rate} = \text{ROE} \times \text{Retention Rate}$$

Companies committed to sustainable growth strategy aim to maintain business profitability and manage risks, while avoiding ownership dilution and excessive leverage.

3. Active Growth

The **active growth strategy** is a strategy of large-scale expansion, in which the company uses all available sources of capital: retained earnings, new debt and new equity. This approach allows the company to achieve the highest growth rates, actively enter new markets, consummate M&A transactions, and invest in infrastructure and technology. The **active growth strategy** is optimal for companies striving for leadership position in competitive markets.

However, the **active growth strategy** requires strict discipline in capital management: in order not to destroy shareholder value, the Return on Invested Capital (ROIC) must consistently exceed the Weighted Average Cost of Capital (WACC). Only in this case does active growth increase shareholder value. See the [“ROIC > WACC: The Formula for Creating Shareholder Value”](#) article by ink Advisory.

Criteria	1. Internal growth	2. Sustainable growth	3. Active growth
Source of Capital	Net Profit	Net Profit and Debt	Net Profit, Debt, Investors
Raising Capital	No	Partial	Yes
Investor's Returns	Low	Medium	High
Scaling Potential	Limited	Medium	High

ACTIVE GROWTH STRATEGY: KEY PRINCIPLES

> 1. Constant Growth – one of the conditions for success

Companies in competitive markets need to maintain high growth rates, since lagging dynamics means loss of market positions.

The definition of “high” in this concept depends on a specific market and the level of competition in it. As a rule, the growth rate of a business must be comparable to or exceed the growth rate of the market.

In the long run, a business that does not grow or grows more slowly than the market loses strategic influence and appeal to clients, partners, and investors – and risks being forced out of the market.

Business growth ensures:

- Retention and strengthening of market share – if a company grows slower than the market, it begins to cede positions to competitors;
- Strengthening competitive advantages – achieving economies of scale, better terms of financing, procurement and sales;
- Expansion of strategic opportunities – financing R&D, developing the brand, mastering new segments and geographic markets;
- Recruitment and retention of talent – rapidly growing companies are more interesting for professionals;
- Financial stability – large businesses better withstand market shocks and have lower risks.

> 2. Constant engagement with various capital sources

Internal sources of financing may not be sufficient to ensure high growth rates. Such growth requires regular use of debt and equity financing, especially in capital-intensive industries or when utilizing growth-through-M&A model.

- One of the conditions for ensuring high growth rates is raising new equity. The Founders must be prepared for dilution of their share in the company when bringing investors aboard.
- This approach ensures maximum shareholder value growth in the medium term, provided that the return on investment projects exceeds cost of capital.

> 3. Proactive steps in planning and implementation

The strategy of active growth is not just a declaration or the Founder's ambitious goal. This strategy requires, on one hand, a clear definition of strategic goals, and on the other hand – resources, competencies, organizational readiness and determination to achieve them.

To implement the strategy, it is necessary to:

- Translate the strategy into an operational plan – break down goals into specific projects, deadlines, responsible persons and performance metrics;
- Form infrastructure to support business growth (processes, IT systems, logistics and sales channels) and develop the team capable of scaling and quick decision-making;
- Plan sources of financing in advance and discuss this with investment bankers;
- Maintain strategic discipline – regularly evaluate progress, adjust actions and keep the focus on priorities.

MD MEDICAL GROUP: ON THE PATH OF ACTIVE GROWTH STRATEGY

One of the striking examples of successful implementation of active growth strategy is demonstrated by a leading Russian private operator of healthcare services – MD Medical Group (MDMG).

MDMG went public in 2012, listing its shares on the London Stock Exchange. At that time, the company had total revenues of ₺ 4,1 b and EBITDA of ₺ 1,7 b for the previous financial year. By the end of 2024, MDMG's revenues reached ₺ 33,1 b and EBITDA grew to ₺ 10,3 b.

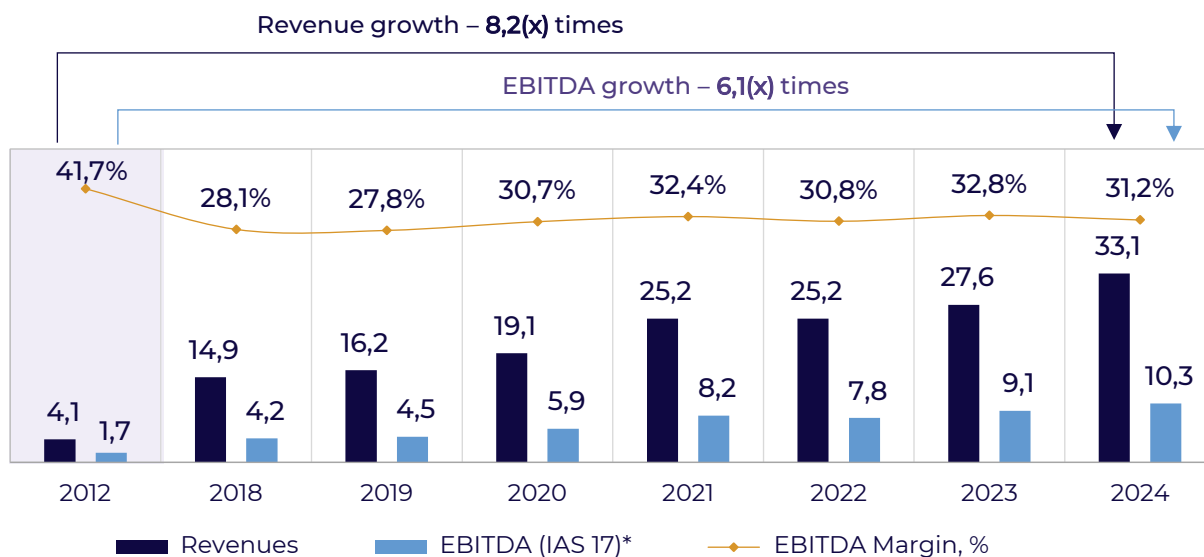
Over a period of twelve years, the company increased revenues more than 8 times and EBITDA more than 6 times, ensuring a significant growth in capitalization and shareholder returns.

Such growth of MDMG business became possible thanks to consistent adherence to **active growth strategy** based on:

- systematic investments in opening new clinics and medical centers;
- active pursuit of M&A opportunities;
- efforts to improve operational efficiency and cost control;
- a balanced policy of capital management and financing.

Adherence to this strategy allowed MDMG not only to take leading positions among private healthcare providers in the Russian market but also to demonstrate a sustainable model of scaling for the entire private healthcare sector.

MD Medical Group: Revenues and EBITDA for 2012-2024, ₺ b



* EBITDA (IAS 17) – Earnings Before Interest, Taxes, Depreciation and Amortization under IAS 17 (taking into account operating lease expenses)

Sources: www.mcclinics.com, consolidated IFRS financial statements, ink Advisory calculations

MD MEDICAL GROUP: VALUE GROWTH FACTORS

Several key factors form the basis for MDMG's business growth, and each factor plays an important role.

1. Investment Programs

Commitment to large-scale investments in infrastructure and geographic expansion lies at the heart of MD Medical Group's active growth strategy. Over a period of 12 years, MDMG's investments, including capital expenditures and M&A deals, totaled ₺ 39,0 b.

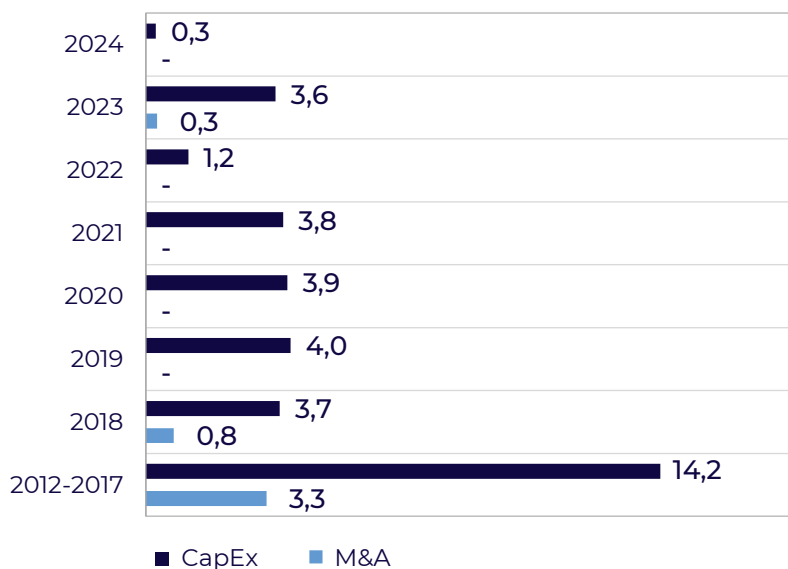
The company consistently invested both in the construction and launch of new medical centers, and in the acquisition of existing assets. If at the time of IPO in 2012 the company operated only four hospitals and ten clinics, by the end of 2024 this number had grown to 65 medical institutions, including 54 clinics and 11 hospitals.

In 2025, MD Medical Group continued regional expansion, acquiring GK Expert – a prominent chain of healthcare centers – for ₺ 8,5 b.

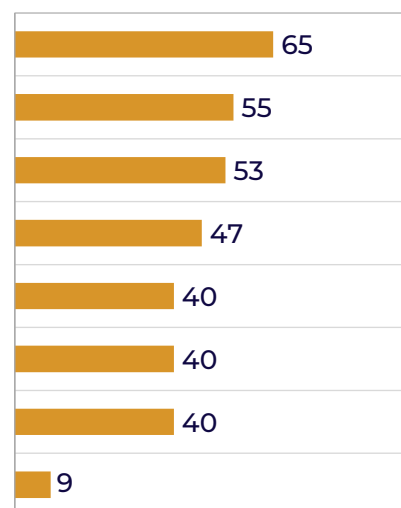
This bold move allowed MDMG to expand its coverage – the number of medical institutions increased to 71, annual revenues grew to ₺ 64,4 b (+19%), and EBITDA – to ₺ 16,5 b (+15%). As a result, MD Medical Group has strengthened its position as one of the leaders of the Russian private healthcare sector.

MD Medical Group: Investment Programs for 2012-2024, ₺ b

(i) Capital Expenditures and M&A



(ii) Medical Institutions at the Year End, units



Sources: www.mcclinics.com, consolidated IFRS financial statements, ink Advisory calculations

➤ 2. Focus on Efficiency

In addition to expanding its network, MD Medical Group also initiated steps to improve operational efficiency. Even with rapid business growth, the company maintains high profitability: EBITDA (including operating lease under IAS 17) consistently exceeds 30%, and NOPAT margin remains above 19%. This means that the company is not only increasing sales, but doing so with sustainable profitability.

MD Medical Group operates with high operational efficiency – its **Return on Invested Capital (ROIC)** consistently exceeds the **Weighted Average Cost of Capital (WACC)**, which allows it to generate positive **Economic Profit (EP)** – one of the key indicators of added value for shareholders.

Since 2018, MD Medical Group has generated positive EP every single year, and in 2024 EP reached ₺ 1,1 b.

This performance illustrates that the company effectively utilizes capital and creates long-term shareholder value.

MD Medical Group: ROIC and Economic Profit (EP), ₺ b

Reporting period	2018	2019	2020	2021	2022	2023	2024
Revenues	14,9	16,2	19,1	25,2	25,2	27,6	33,1
NOPAT ^[1]	3,0	3,0	4,3	6,5	4,8	7,3	8,8
<i>NOPAT margin</i>	<i>20,1%</i>	<i>18,4%</i>	<i>22,7%</i>	<i>25,7%</i>	<i>19,1%</i>	<i>26,6%</i>	<i>26,5%</i>
Average Invested Capital ^[2]	20,4	23,0	25,3	27,1	27,4	30,8	32,7
Equity	15,3	16,9	18,9	21,5	25,0	30,8	32,7
Debt	5,1	6,1	6,4	5,6	2,4	0,0	0,0
ROIC	14,7%	12,9%	17,2%	23,9%	17,6%	23,9%	26,9%
WACC ^[3]	14,4%	12,1%	11,9%	15,9%	16,3%	20,0%	23,4%
EP Spread	0,3%	0,8%	5,3%	7,9%	1,2%	3,8%	3,5%
Economic Profit (EP) ^[4]	0,1	0,2	1,3	2,1	0,3	1,2	1,1

[1] Net Operating Profit After Tax, calculated as EBIT × (1 – Corporate income tax rate).

[2] Average book value of invested capital calculated as the sum of book value of Equity and book value of Debt excluding operating lease

[3] For comparability purposes, WACC is calculated based on the company's actual capital structure from the balance sheet (book value of equity and debt under IFRS), rather than on market capitalization, in order to avoid equity cost distortion in the case of a bullish phase of the company's stock..

[4] Economic Profit – an analytical (evaluative) indicator that demonstrates the efficiency of invested capital and is calculated as NOPAT – Average Invested Capital × WACC.

Sources: www.mcclinics.com, consolidated IFRS financial statements, ink Advisory calculations

3. Capital Structure Policy

Over the past years, MD Medical Group has adhered to a conservative policy regarding leverage, fully financing its growth with equity. At the end of 2024, the company had no financial debt, and 100% of capital was comprised of equity.

This approach allowed MDMG to maintain a high level of financial stability. During the analyzed period, the Debt/EBITDA ratio consistently remained below 1,5(x), which corresponds to the minimum credit risk level on the S&P scale (A level and above).

In 2022, the company paid out all of its financial debt, thus decreasing leverage to zero. This means a lot of opportunities for the company, as MDMG still retains significant potential for raising debt in the future. If necessary, MDMG could raise up to ₺ 20–25 b in debt without compromising its financial stability, increasing Debt/EBITDA to 2,0(x) and the debt-to-equity ratio (D/E) to 1,0(x).

This would allow the company to reduce its Cost of Capital (WACC) and increase shareholder returns through financial leverage, while maintaining a low level of credit risk.

MD Medical Group: Leverage and Capital Structure in 2018-2024, ₺ b

Reporting period	2018	2019	2020	2021	2022	2023	2024
Debt / EBITDA	1,3(x)	1,4(x)	1,1(x)	0,6(x)	0,0(x)	0,0(x)	0,0(x)
Debt (IAS 17)	5,7	6,4	6,3	4,8	0,0	0,0	0,0
EBITDA (IAS 17)	4,2	4,5	5,9	8,2	7,8	9,1	10,3
Debt / Equity (Book Value) ^[1]	0,4(x)	0,4(x)	0,3(x)	0,2(x)	0,0(x)	0,0(x)	0,0(x)
Equity	16,0	17,9	20,0	23,1	27,0	34,6	30,8
Debt	5,7	6,4	6,3	4,8	0,0	0,0	0,0
Debt / Equity (Market Value) ^[2]	0,2(x)	0,3(x)	0,2(x)	0,1(x)	0,0(x)	0,0(x)	0,0(x)
Market Capitalization	24,2	20,8	39,8	49,4	40,4	76,6	77,0
Debt	5,7	6,4	6,3	4,8	0,0	0,0	0,0

[1] Debt book value / Equity Book Value.

[2] Debt book value / Market capitalization (stock price as of the financial statements' publication date)

Sources: www.mcclinics.com, consolidated IFRS financial statements, ink Advisory calculations

MD MEDICAL GROUP: VALUATION AND SHAREHOLDER RETURNS

The commitment to active growth strategy allowed the company to achieve impressive results for its shareholders: from Q1 2019 to Q1 2025, the average shareholder return (including market capitalization growth and dividends) amounted to 28.1% per annum.

This result became possible thanks to the share price increasing more than threefold – from ₺ 322 at the beginning of 2019 to ₺ 1 025 in 2025 – as well as the company's stable dividend policy.

This confirms that the company has been creating value for shareholders, and its investment appeal remains high in the long run.

MDMG Quotes
31.12.2020-31.03.2025, ₺/share



Source: MOEX

MD Medical Group: Market Capitalization and Shareholders' Returns, ₺ b

Reporting period	2018	2019	2020	2021	2022	2023	2024
Financial statements publication date	25.03.2019	23.03.2020	22.03.2021	31.03.2022	03.04.2023	01.04.2024	31.03.2025
Stock price ^[1] , ₺	322	276	530	657	538	1 019	1 025
Shares outstanding, M shares	75,1	75,1	75,1	75,1	75,1	75,1	75,1
Market Capitalization^[2]	24,2	20,8	39,8	49,4	40,4	76,6	77,0
– Cash	(2,7)	(3,1)	(3,1)	(3,6)	(4,5)	(9,9)	(6,1)
+ Debt (IAS 17)	5,7	6,4	6,3	4,8	0,0	0,0	0,0
+ NCI	0,3	0,3	0,3	0,3	0,2	0,2	0,2
Enterprise Value^[3]	27,4	24,0	42,6	50,9	36,1	66,8	71,2
EBITDA (IAS 17)	4,2	4,5	5,9	8,2	7,8	9,1	10,3
EV/EBITDA	6,5(x)	5,3(x)	7,3(x)	6,2(x)	4,6(x)	7,4(x)	6,9(x)

Reporting period	2018	2019	2020	2021	2022	2023	2024
Financial statements publication date	25.03.2019	23.03.2020	22.03.2021	31.03.2022	03.04.2023	01.04.2024	31.03.2025
Market Capitalization	24,2	-	-	-	-	-	77,0
Dividends Paid	0,5	0,8	2,2	2,7	0,6	0,0	13,3
IRR of shareholders 1Q2019-1Q 2025 ^[4]	28,3%						

[1] Closing share price on the date of publication of financial results for the reporting period.

[2] Market Capitalization – the company's market capitalization on the date of publication of financial results for the reporting period.

[3] EV or Enterprise Value – the value of the company on the date of publication of financial results for the reporting period.

[4] IRR – the internal rate of return for the company's shareholders from Q1 2019 to Q1 2025, in the case of buying and selling shares during this period. The IRR shows the average annual return on investment in the company. It is calculated based on: (1) the initial value of shares, (2) dividends received, and (3) the final value upon sale. This calculation is needed to compare investments with other options, for example, with deposit or bonds.

Sources: www.mcclinics.com, consolidated IFRS financial statements, ink Advisory calculations

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Prior to establishing ink Advisory, the team had been known in the investment banking market as Lead Advisory division of Crowe CRS (Russaudit).

ink Advisory advises clients in M&A deals, establishing joint ventures and raising equity, and builds corporate strategies and capital growth strategies.

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