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2023 PRELIMINARY RESULTS CONFERENCE CALL TRANSCRIPT

Thursday, February 29, 2024, 4 p.m. EET

MedLife Group Participants:

Mr. Mihai Marcu, Chairman of the Board & CEO

Mr. Nicolae Marcu, Member of the Board, Chief Healthcare Officer

Mr. Dorin Preda, Board Member & Director of Finance and Treasury

Ms. Alina Irinoiu, CFO

Ms. Ioana Birsu, Investor Relations Manager

Mihai Marcu:

Good day to everybody and thank you for joining the conference of MedLife S.A. regarding the results of the last quarter of 2023 and, of course, the aggregate full year of 2023. I'm joined today by Nicolae Marcu, Chief Healthcare Officer, Dorin Preda, Executive Manager and Member of the Board, Alina Irinoiu, CFO of the Group, and I will give her the floor to have the presentation and of, course, afterwards we will have the Q&A session. Thank you. Alina, please take over.

Alina Irinoiu:

Thank you, Mihai for the introduction and good afternoon, everyone. Thank you for your participation today to the 2023 Preliminary financial results presentation.

As usual, I`ll start with the key messages for this 12-months period, a more detailed outlook for the year, and for 2024. More details on 2024 to follow at the end of March, when we will submit the budget for approval to the General Meeting of Shareholders.

MedLife Group finalized 2023 with a pro-forma total turnover of EUR 453mn, an increase of 25% compared to the same period, out of which 12% was organic growth. This robust growth shows that we have continued to experience sustained demand for medical services in our units, despite a less favourable macroeconomic environment. This organic growth seems to be maintained in the first two months of this year also, creating strong growth premises for the rest of the year.

In terms of year-on-year increase, this growth trend of 25% on average was maintained since listing on the Bucharest Stock Exchange, in line with the management's commitment to increase market share, consolidate the private healthcare market and be the largest diagnostic and treatment network in Romania. Only this year, more than 1.4mn unique patients accessed the medical services within our network.

In terms of profitability, the early-stage investments put a pressure on the Group`s profitability, but at the same time lay the foundation for future growth. Nevertheless, with the loss impact coming from these units being included under IFRS, the profitability margins improved as compared to the prior year, the quarterly downward trend of the previous year being on a reverse track.

2023 was a year of consolidation and coagulation under MedLife umbrella of all the numerous acquisitions completed in 2022. We have also completed 3 company mergers, respectively within the Arad Group, the Sfanta Maria network and in the pharmacy segment. We will continue this action, of merging companies and reduce the number of subsidiaries in the group.

We have also performed investments in the medical oncology, top equipment, launched the transport of biological samples with drones, and equipped three hospitals with state-of-the-art surgical robots in order to boost the medical technological capabilities of our units.

More specifically, the investments undertaken by the Group during this period include:

- 3 main CAPEX intensive projects that come with loss results during the reporting period, namely:
  - 2 radiotherapy Neolife centers in Braila and Valcea that were opened for patients in July 2023;
  - Nord Pipera Hospital, a 20,000 square meters hospital, with 8 operating theatres and 110 beds, recently inaugurated (investment amounted to EUR 30mn, excluding IFRS 16 impact). With an impressive infrastructure, the new hospital covers top-notch cardiac surgery, interventional procedures, and cardiology, and has a particular focus on oncology;
  - further investments in the oncological platform, including the acquisition of the second radiotherapy equipment in Brasov and the modernization of existing equipment in Sibiu;
  - DaVinci robotic surgery in Polisano Hospital, reaching 3 DaVinci Robots at Group level;
  - investments in state-of-the-art equipment in numerous hospitals across the country, such as the Medical Park in Bucharest, Humanitas in Cluj, MedLife Hospital in Brasov, and Polisano in Sibiu, thereby enhancing medical capabilities in these units which are expected to yield good results in the future.

We have also completed several expansion projects:

- 2 Hyperclinics in Deva and Bacau;
- 2 new BetterMe Lifestyle Medicine Centers in Cluj-Napoca and Timisoara, and the Center of Excellence in Maternal-Fetal Medicine in Timisoara;
- 3 M&A transactions (Muntenia Hospital in Pitesti, Nord Group / Provita Medical Group with presence in Bucharest and Suceava, and Brol Medical Center in Timisoara);
- 2 small M&A transactions, completed by Sfanta Maria Group.

As a consequence, the net debt/EBITDA ratio has increased, with leverage level coming down by the end of 2024, once results from these investments will build up.

The companies that joined the Group through the M&A activity in the last year added to the Group's balance sheet a volume of debt that did not allow the relaxation of the associated indicators in the short term, adding, on a stand-alone basis, more than 0.7x net debt/EBITDA at the consolidated level.

On the side of outlook for the period to come, we are confident that we set the foundation for a solid platform for growth in the coming years, above the market, especially in Bucharest where, together with the new Nord hospital, we believe that we will be able to take over the position of main private provider of hospital services in the coming years.

We will continue to focus on consolidating profitability margins and gradual reduction of leverage levels in 2024 and onwards.

Regarding acquisitions, we adopted a more cautious approach, as already noted, but we will act based on current market circumstances and trends.

As previously discussed, our strategic priorities include the continued development of the MedLife Medical Park project and the opening of new medical units in the Oltenia region and the western part of the country. We will also continue to invest in technology and digitization, believing that the future of medicine lies in adopting the latest innovations, improving the medical platform, expanding the portfolio of doctors and providing personalized treatments. The gradual shift in recent years from prevention services to hospital and oncology services will result in greater resilience for the Group on a long-term basis.

In terms of **Consolidated Statement of Profit and Loss**:

12m 2023 Pro-forma vs. 12m 2022 IFRS:

- Gross Sales (National Health Program for chemotherapy drugs included) increased by 25%, reaching RON 2.24bn for 2023;
- Net Sales (net of drugs) increased by 18%, reaching RON 2.1bn;
- OPEX increased by 17%, to RON 2bn;
- 29% increase in EBIT, to RON 122m;
- 29% increase in pro-forma EBITDA, to RON 318m & 15.1% pro-forma margin (13.7% in the same period of the previous year);
- Net Result of RON 17.2m & 0.8% pro-forma margin (2.1% in the same period of the previous year).

In terms of IFRS net result, we registered a loss of RON 6mn on the back of early-stage investments dragging losses, that in pro-forma figures were adjusted for a like-to-like comparison for the rest of the Group`s performance, to which we add financing of these projects, high yields environment which resulted in higher financing costs than before, and increased amortization in line with expansion of assets base.

In terms of the bridge in EBITDA, from IFRS figures to Pro-forma figures, RON 4.8mn EBITDA is the contribution of companies consolidated during the year, as if their results would have been consolidated starting with 1st of January 2023, plus normalization adjustments of RON 26mn (top amounts linked to M&A costs, one off consultancy fees and impact of early-stage investments, the most significant being the Nord Hospital).

In terms of the bridge in Revenues, from IFRS figures to Pro-forma, Sales of RON 32mn coming from the companies consolidated during the year, less RON 135mn reclass of the National Health Program for chemotherapy drugs.

In terms of Quarter-on-Quarter EBITDA evolution, it is important to mention that the trend from the previous year was reversed, with gradual improvements in EBITDA levels QoQ, returning to the usual seasonality of the business, while in terms of revenues the trend shows very clear that we managed to increase the platform quarterly, through acquisitions as well as organically, constantly through the past 2 years.

In terms of **business lines evolution**:

- Clinics remain the main sales unit of the group, with 37% share in total Sales: growth of 35% explained by the sustained demand of outpatient medical services and new acquisitions performed during 2022 and 2023, with 20% increase in the number of visits and 13% increase in average fee;
- Stomatology with 6% share in total Sales: sales increased by only 2%, mainly as a consequence of a contraction in 2023 in the number of expensive procedures that were rather postponed by patients;
- Hospitals with 22% share in total Sales: the growth of 27% has been sustained by the increase in the number of patients of 20% compared to the same period of 2022, followed by the increase in medical teams and complexity of the medical act, and the consolidation of Oncocard, Muntenia and Nord hospitals throughout 2022 and 2023; average fee also increased by 6.3%;
- Laboratories with 11% share in total Sales: 15% growth YoY, with 16% increase in the number of lab tests performed;
- Corporate with 12% share in total Sales: growth of 17% in revenues sustained by increased number of subscriptions and constant pricing adjustments.

In terms of split of revenues between FSS, NHIH and contracts, 61% is FFS, 26% NHIH and 13% invoiced.

In terms of **Operating expenses evolution**, the drivers for the increased costs on IFRS were:

- the decrease in Commodities with 2.3 p.p. of Sales following the decrease of Pharmachem & Pharmacies share in total Group, trend seen throughout 2023;
- the increase in third party expenses (including doctor`s agreements) and salaries

expenses with 2.1 p.p. of Sales. At the beginning of the year the high inflation came with an upward pressure on wages and, in addition, medical teams and operational teams were constantly put in place, throughout the period, for the early-stage investments (part of these costs are the ones adjusted in pro-forma, together with administration, utilities, insurance and promotions at a lower scale).

In terms of **Consolidated Statement of Financial Position:**

Non-current assets increased by 25%, on one hand due to the increase in property plant and equipment with EUR 50mn, and on the hand due to the increase in right of use assets with EUR 20mn, following the consolidation of the newly acquired companies and their leasing IFRS 16 contracts. Goodwill had an increase of EUR 15mn.

Financial debt increased by 30%, explained by the M&A investments completed during the period, but big amounts are coming from the organically developed projects presented before and their corresponding IFRS 16 contracts. The newly comers in the group have a limited number of buildings leased over an extended period of time > 10 to 20 years, outside the range of MedLife Group contracts.

In terms of net debt/pro-forma EBITDA ratio, we are at 4.58 as at 31 December 2023. Net debt/EBITDA ratio, if we exclude the Nord Group, is 3.92x. We are committed to continuing the solid business growth trend, entering a cycle of gradually increasing margins and lower debt levels over the next 12-18 months.

Moving to the **Consolidated Cash Flow**, for the 12 months 2023, net cash from operating activities, after payment of interest, income tax and the variances in the working capital, amounted to RON 168mn. Net cash from financing activities amounted to RON 124mn (mostly related to the financing of CAPEX and M&A), while RON 280mn were used in investing activities (CAPEX and M&A).

This is my presentation for today, we can move to the Q&A session. Thank you very much.

Q&A

Operator: The first question comes from the line of Bram Buring with Wood and Co. Please go ahead.

Bram Buring: Hello. A few questions, please. First one would be, what levers do you have to be able to reduce debt or reduce your interest costs in the next 12 months? Second question is regarding stomatology. So, is something right over RON 30 million a quarter a good run rate for the business now? Thank you.

Alina Irinoiu: Hello, Bram. Thank you for your questions. I'll start with your first question, and I'll comment that it's not necessarily about reducing debt, it's about increasing EBITDA and profitability in order to give a better comfort on net debt/EBITDA ratio and the capacity of the group to further generate increase. As you know, at the end of the year, we have also approved an additional credit facility of EUR 15 million on top of the one that existed and we still have funds available. That will be used only if good opportunities arise in the M&A sector. As discussed before, we are looking for companies that won't affect net debt/EBITDA of 4. So, we'll be below 4 on the computation. But that would be my answer in terms of interest costs. We are dependent on the market. We have already seen some tendencies to decrease a bit. We have seen also the forecast of banks, of Bloomberg, of analysts. We've noted a direction to get somewhere at 3.2, maybe 3.5 at the end of 2024.

Bram Buring: Thank you.

Alina Irinoiu: And in terms of stomatology, I would say that you can use the last quarter for your projections.

Bram Buring: Excellent. Thank you.

Operator: At this time, there are no further audio questions. I pass the floor back to management for any written questions.

Alina Irinoiu: Okay, we will take the questions that we have received on the platform. I will start with the first one. It's regarding the strategies to improve margins during this year and the direction that the company is pursuing in this respect and how we handle threats and opportunities in this regard.

I think that during the presentation, we have touched a bit the answer of your question. Nevertheless, I will shortly recap a bit the measures that we have in place. First of all, we started the early investment projects, and they lay the foundation to increase profitability. The two radiotherapy centers in Braila and Valcea started in July and they delivered very good results and already reached breakeven. In terms of Nord Hospital, the hospital was launched at the beginning of this year.

We also plan to finalize the integration process, which is a continuous work, and there are companies to be further integrated in the group and take advantage of all the synergies.

We are going to perform further mergers as the ones we have already completed. We have consolidated throughout the past two years the team of doctors. We have massively invested in equipment that will create important growth opportunities.

I think another aspect of threats and opportunities, if I may, is that we have exposure in specialties that are more resilient. In the past two years, we have switched to oncology, to radiotherapy and also to hospitals, that will give the group better stability in the future.

Moving to the next questions.

What are the key differences between audited results and pro forma results?

There are two main aspects that we consider in pro forma. On one hand, we include the companies that we have acquired throughout 2023, as if the acquisition had occurred on 1st of January. This is in order to have also the full P&L impact of these companies, because from a balance sheet point of view, we do have the full impact.

On the other hand, we have taken out or adjusted the operating expenses that have been delivered by the three main organic development projects, but only for the period before their opening.

And the third one would be the reclassification that we make for the chemotherapy drugs, which are basically offset both in sales and in operating expenses, because this is what they are, revenue with zero margin.

In terms of higher operating expenses results, particularly regarding the increase seen in third party expenses, plus 34 y.o.y., and salary expenses with an increase of 23% y.o.y., I think I partially responded during the presentation. Third party expenses, which include mostly doctor agreements and salary expenses, have increased more than revenues in terms of IFRS figures. This is explained by the teams that were hired when we started the projects, especially for Nord Hospital, where we have signed the contracts with the doctors, and all the administrative staff, in order to start this unit in July.

This is why when we have such an important organic development project, for a short period of time, some increases in OPEX are not linked to the increase in revenues. The third question, third party expenses is mostly salaries of collaborating doctors, those not employed directly by MedLife. Yes, a big part of these operating expenses, I would say that 80%, is related to doctors.

Can you shed some light on the doubling of finance costs in 2023 versus prior year?

Of course, it's, on one hand, linked to increasing financing. You have seen additional funds used in order to sustain the M&A process and the organic development project. On the other hand, it's linked to increasing interest rates. We are linked to EURIBOR six months. And the level now it's around 4% versus back in prior years when was obviously much lower.

And the last question, what's the overall plan to control the expenses? Do you expect significant pressure on any cost item for 2024?

I would say that we do not expect significant pressure on the cost items. On the other hand, I would expect, as mentioned, the units to produce revenues and so the percentage of several categories of costs, as compared to sales, to gradually decrease.

Mihai Marcu: Okay, thank you, Alina. I will take it over and I will have a final statement.

I would like to remind you that we have grown with 25% again. That's a very important figure and it's part of our mission to grow and our promise to the market.

Secondly, if you look at the margins, you will see that the margins that started decreasing in 2022, strongly decreased after we have finalized working especially on the COVID laboratory test. We succeeded slowly to stabilize and, we have again the same seasonality as we used to have before 2020. This is again a sign of the health of the company succeeding to stabilize not only the decrease but starting slowly to increase the margins. And this is despite the fact we had a big hospital newly coming to the group which was not opened until the last quarter of last year. And, despite that, we succeeded to increase the margins. This hospital will slowly, I think, set in and will have also not only expenses but incomes.

And this is one of the main drivers for the increase because it was one of the questions raised by you today. If you look at this separate hospital, you can understand that MedLife was going to be less than four multiple debt/EBITDA. And, as we have also stated in our press release, more than 0.7% of this ratio was part of this investment which will pay back.

I can tell you that we are prepared to be a very important player on the hospital market even taking the lead in the coming two years, in Bucharest especially.

And this is one of the fields where we have not been very performant in the past and we are pretty sure that we will surpass that and we'll continue to grow and gain margins on this field as well. You can also see last year we haven't pushed too much on some services, with lower margins, as the pharmaceutical field. And this is because the margins are lower than the rest of the group and we will not insist on this field.

Our intention is to consolidate especially the medical specialties more resilient and those that link with chronic, with oncology, with surgery, which cannot be postponed for the next economic cycle. We have an important year for our consolidation process and most probably, driven by organic growth which started well in the first two months of the year.

We will continue to push for this margin to go up slowly, and in the same time, to reduce the debt/EBITDA ratio. There are few acquisitions in our plan. They are not big enough to change this ratio which is the main priority of the group.

The decrease in interest rates announced by most of the financial institutions and commercial banks, we are expecting to lead to a slow decrease in the interest we are paying, and that's going to go directly to the profit of the company. Because that's the main difference in our case from the net result to the EBITDA.

We like the fact we succeed to increase operational margins and also the brand contributed a lot. We had a very good campaign last year which now is paying back and the image of the brand and the trust into the brand increased a lot from our measurement. And that's maybe a part of the success for the strong organic growth at the end of last year and the beginning of this year. And we hope this will lead also to a better financial performance throughout the year. So that's our statement. Thank you very much for being with us today, and of course, we are here to answer your questions. Thank you very much and have a good day.

Operator: Ladies and gentlemen, the conference is now concluded, and you may disconnect your telephone. Thank you for calling. Have a good afternoon.

Post call answers to questions submitted through the webcast platform.

Question: Can you also detail on the increase in consumables?

MedLife answer: The increase from 17.3% Sales in 2022 to 17.6% Sales in 2023 started in Q2 2022, with the entry in the group and, respectively, the consolidation of Neolife (starting with March 2022). Neolife has an important component of total PNS revenues (chemotherapy drugs) - 35% of total revenues, which in return affects the line of consumables.

Question: Could you discuss price hikes taken in 2024 (or plans to raise prices)?

MedLife answer: In January 2024 we increased prices with 6% on average in Clinics, 3% on average in Labs and 5% to 10% in Hospitals.