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MedLife

**Q3 2023 RESULTS CONFERENCE CALL
TRANSCRIPT**

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Speakers:

Mr. Mihai Marcu, Chairman of the Board & CEO MedLife Group

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

Ms. Alina Irinoiu, CFO MedLife Group

Mihai Marcu:

Good day to everybody and thank you for joining the conference of MedLife S.A. regarding the results of the 3rd quarter 2023. I'm joined today by Dorin Preda, Executive Manager and Member of the Board, Alina Irinoiu, CFO of the Group, and we have for the first time, our new colleague, Ioana Birsu, IR Manager. As usual, I will let Alina present the results and I will join, together with my colleagues, the Q&A session and, of course, the closing. Alina, please take over.

Alina Irinoiu:

Hello everybody and thank you Mihai for the introduction. I will start the presentation with the key messages for this 9-months period, as well as the expectations for the end of this year and 2024. More details on 2024 will follow during the next quarter reporting and afterwards, as soon as we publish the budget for next year.

MedLife Group finalized this period with a pro-forma total turnover of RON 1.66 billion, an increase of 25% compared to the same period last year, out of which 10% was organic growth. This good demand shows that we have continued to experience robust growth, a sustained demand for medical services in our units, despite a less favourable macroeconomic environment. Also, on the local private healthcare market the growth rates are not as high as in previous years.

In terms of profitability, the early-stage investments put a pressure on the Group's profitability, but at the same time, lay down the foundation for future growth. Nevertheless, with loss impact coming from these units being included, the profitability margins improved in Q3 vs Q2 2023: EBITDA margin has increased from 12.5% to 13.5%, highlighting the stability and positive direction of the Group.

The investments undertaken by the Group during this period include:

- 3 main CAPEX intensive projects that come with negative 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 that will be inaugurated by the end of this month (investment amounted to 30 million EUR, excluding IFRS 16 impact). With an impressive infrastructure, the new hospital will cover top-notch cardiac surgery, interventional procedures, and cardiology, and 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 the existing equipment in Sibiu.
- further investments in state-of-the-art equipment in almost all the hospitals across the country, including 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 significant results in the future.

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

Regarding the outlook for the end of this year and the year to come, we are confident that we set the foundation for a solid platform for growth. We anticipate an increased contribution coming from these early-stage investments and projects and we will continue to focus on consolidating profitability margins.

In terms of acquisitions, we adopted this year as you already saw, a more cautious approach, and we will act based on current market circumstances and trends.

As aforementioned, our strategic priorities include the upcoming inauguration of the Nord Hospital, followed by the continued development of the MedLife 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, as we believe that the future of medicine lies in adopting the latest innovations, we will continue to improve the medical platform, and to expand the portfolio of doctors, to provide personalized treatments. We believe that the gradual shift in recent years from prevention services to hospital and oncology services will result in greater resilience for the Group.

We also aim to optimize operational flows and the structure of the Group, and we have ongoing 3 merger projects with effective date as at 31 December 2023. The projects are bringing together multiple legal entities from our subsidiaries. We have a merger to be performed in Arad i.e., Genesys Group, one under the Sfanta Maria brand, and the other under the Pharmacies business line. And we plan in the next years to continue this route of merging together the companies.

Moving on to the **Consolidated Statement of Profit and Loss**, when we look at the 9 months 2023 Pro-forma figures versus same period last year:

- Gross Sales, that include National Health Program for chemotherapy drugs, increased by 25%, reaching RON 1.66 billion for 9m 2023;
- Net Sales, net of drugs, increased by 18%, reaching RON 1.56 billion;
- OPEX increased by 19.6%, reaching RON 1.48 billion;
- EBIT was in line with the same period last year;
- there was a 21% increase in pro-forma EBITDA, reaching RON 239 million and 15.3% pro-forma margin, compared with 15% in the same period last year;
- the Net Result was of RON 18.8 million and 1.2% pro-forma margin, versus 4.3% in the same period last year;
- Pro-forma adjustments include the financial results of the acquired companies: we have Sales of RON 32 million less the subsidies received at Group level from NHIH in relation to the National Health Program for chemotherapy drugs that, compared to last year, increased in scale following the consolidation of Neolife and Oncocard acquisitions. For comparability purposes we have excluded these drugs, namely Sales of RON 97 million, and the last one is the exclusion of one-off expenses, related mainly to M&A costs and the impact of early-stage investments, the most significant being the Nord Hospital.

In terms of the bridge in EBITDA, on the next slide, from IFRS figures to Pro-forma figures, you will see that RON 4.8 million EBITDA is the contribution of companies consolidated during this year, as if their results would have been consolidated starting with 1st of January 2023, plus the normalization of the one-off costs of RON 16 million.

This time, unlike previous times, we have also presented a projected statement of

Revenues and EBITDA. I think it is important to understand these figures also, as they come as a consequence of the fact that in previous years we focused more on M&A projects that have the ability to contribute with positive margins and positive EBITDA to the earnings' capacity of the Group, while this year we have heavily invested in organic projects that will release positive results and margins in the future. So, these forecasted results of the early-stage investments include the 9 months results of new Nord Hospital in Bucharest, the Neolife radiotherapy centers in Braila and Valcea, the new radiotherapy equipment in Brasov and the Da Vinci Robot of MedPark. In deriving the forecast, we used the 9 months results for these units after 18 months from their opening. As such, RON 26 million positive EBITDA and RON 99 million Revenues are projected to be generated by these units. We are optimistic according to the moderate budgets and forecasts performed, that we will fully reap the rewards of our investments in the coming years.

Moving to the next slide, in terms of quarter-on-quarter EBITDA evolution, it is important to mention and to see the trend from the previous year which was reversed, with 1% increase in Q3 EBITDA as compared to Q2, while in terms of Revenues the trend shows very clearly that we managed to increase the platform quarter-on-quarter, both through acquisitions and organically.

Moving to the next slide, in terms of **business lines** evolution:

- **Clinics** remains the main sales unit of the group, with 37% share in total Sales. The growth of 36% is explained by the sustained demand of outpatient medical services and the new acquisitions performed during 2022 and 2023, which led to a 29% increase in the number of visits and 6% increase in average fee.
- **Stomatology**: Sales increased by 6%, mainly as a consequence of increased average fee, while the number of visits remained constant over the period, and this is due to a contraction in the number of expensive procedures that were replaced by more common services and interventions.
- **Hospitals**: 22% share in total Sales. The 28% growth has been sustained by the 18% increase in the number of patients, compared to the same period last year, following the increase of the medical teams and the complexity of the medical act, the investments performed as well as the consolidation of Oncocard, Muntenia and Nord hospitals throughout 2022 and 2023. Average fee has also increased by 8.5%.
- **Laboratories**: 11% share in total Sales and 12% growth year on year, with 11% explained by the increase in the lab tests performed.
- **Corporate**: 12% share in total Sales. Growth of 16% in revenues sustained by increased number of subscriptions and pricing adjustments.

In terms of **Revenues** split between Fee for Service (FFS), National Health and Insurance House (NHIH) and Contracts, 61% is Fee for Service, the portion of NHIH increased as a result of the investments in the oncology sector with 26%, and 13% is invoiced.

Moving to the **Operating expenses** evolution, the drivers for the increased costs were:

- increase in Consumable materials and Repair materials of 0.7% of Sales following the NeoLife & Oncocard consolidation of chemotherapy drugs consumables.
- decrease in Commodities with 2.1% of Sales, following the decrease of the Pharmachem and the Pharmacies share in total Group. This came following the consolidation of the companies acquired during 2023 and further organic development

of outpatient units and hospitals, combined with the adjustment of the Pharmacies' mix of products and economies of scale, on the back of the pharmaceutical distribution company within the Group.

- increased Marketing expenses, in line with the strategy of past quarters to consolidate the brand value and leading position in the private medical market.
- increase in Third party expenses, including doctor`s agreements and salaries expenses with 2.8% of Sales. On one hand, as discussed before, at the beginning of this year the high inflation came with upward pressure on salaries, secondly, medical and operational teams were constantly brought throughout the period and put in place for the early-stage investments.
- increase in Depreciation with 1% of Sales following the consolidation of the new companies, and increase of the assets base following organic development projects that will pay off medium and long term.

Moving to the next slide, in terms of **Consolidated Statement of Financial Position**

Non-current assets increased by 15%, on one hand due to the increase in property plant and equipment by 20%, and on the other hand, due to the increase in goodwill by 22%, following the consolidation of the newly acquired companies.

Current assets, excluding cash and cash equivalents, remained quite stable, with an increase of 8%, in line with the evolution of the group. Same trend could be noted in current liabilities, with an increase of 6%.

Financial debt increased by 22%, explained by the M&A investments completed at the beginning of the year, but big amounts are coming from the organically developed projects presented earlier 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, from 10 to 20 years, which is outside the range of MedLife Group's contracts.

In terms on net debt to annualized pro-forma EBITDA ratio, we are at 4.3. The net debt to EBITDA is forecasted to be less than 4 by the end of next year. We have not captured yet a large part of the results that are to come from the organic development projects, which are expected to pay off next year. Using the 9 months forecasted results of the early-stage investments, the net debt to EBITDA would sit around 3.9.

There is also appetite from the banks to increase the exposure given that we haven't harvest the 2023 margins of the investments. However, we will act based on current market trends and context and we will carefully analyse if we can use them in connection with important opportunities that may arise. Nevertheless, these important opportunities are scenarios in which we would acquire profitable companies, we would acquire EBITDA without an impact in the net debt to EBITDA position.

This would be my presentation for today, I have one more slide regarding cash flow but I think I already touched this part where I have presented increased investments in property plant and equipment. You can see that almost doubled compared to last year, with RON 160 million further invested during this period, while the acquisition of subsidiaries amounted to RON 70 million.

I will close the presentation and we remain available for the Q&A session. Thank you very much.

Operator: The first question is from the line of Rapanu Caius with Banca Comerciala

Romana. Please, go ahead.

Caius Rapanu: Hi, thank you for the presentation and congratulations for the results, for the investment program and all your successes. My question would be regarding what happened in the third quarter with the average fees? According to my calculations, we see some actually declining compared to the previous quarter, in stomatology, hospitals, laboratories and pharmacies. Am I wrong or is it a reflection on increasing competition, more price consciousness on the part of the consumer or what is going on there? In terms of clinics, I see an increase in corporate, but for the rest, I see a decline in average fees in the third quarter compared to the second quarter? Thank you.

Alina Irinoiu: Hi, thank you for your question. I would say that there is not a particular reason for the decrease you are noticing because it's always dependent on the mix of services in the unit and the one-off events, let's say, happening. I will try to touch each and every one.

Also, it's important to mention that we didn't perform price adjustments for our fee-for-services during the third quarter. So, we have the same pricing policy with the exception of corporate where indeed we have conducted price adjustments for our portfolio throughout the period.

So, in terms of stomatology, I would say that the mix is quite different now and they have a contraction in the sophisticated and expensive interventions that they used to have. Now, they are covering also more areas throughout the country with their units and the procedures they are performing are less expensive than they used to be when they were only focused in Bucharest. Now they are covering the entire country and the purchasing power is different.

In terms of hospitals, we have also consolidated the business of Provita. We didn't have their operational figures last quarter because they were just entering the consolidation. Now, we managed to prepare their operational in line with how we are reporting the number of patients. So, I would say, this would be the reason. Other than that, we didn't perform any changes.

In terms of laboratories, the activity performed here by our second brand has increased indeed because the ceilings with the National Health Insurance House in terms of patients subsidized by the state has also increased. So, in terms of the decrease in average fee, this would be the reason.

And in terms of pharmacies, I would say, the decrease in ticket is moderate. It's in line also with the adjustments that they have made during the second quarter. In the second quarter, you notice the decrease from RON 18 million to RON 13 million. They have adjusted the mix of pharmaceutical products they are selling in order to remove those products that are bringing low profitability to the Group. This is their new mix of services rendered and the decrease might be due to summer months, let's say, but nothing particular there.

Caius Rapanu: Thank you very much.

Alina Irinoiu: I hope I answered your question.

Caius Rapanu: Yes, thank you.

Operator: The next question is from the line of Buring Bram with Wood and Co. Please go

ahead.

Bram Buring: Yes, hello. A question, please, on the tax rate for the third quarter. My calculations were correct? You, in fact, paid higher taxes than you had earnings before taxes and specifically in the third quarter. Could you comment on what's driving that, please.

Alina Irinoiu: Yes, Bram, indeed. When we are looking at the income tax, even though the result before taxes has decreased, due to the doubling of the net finance costs as compared to prior year, when we look at the income tax, we have, on one hand, companies that are leveraged because they perform significant investments and their profit is diminished, but we also have in the group very good companies in terms of profitability that are paying income tax.

The effective tax rate, when you look at the entire group, indeed increased. There is also - if I'm looking to the result before tax, there is also an impact coming from IFRS 16 that diminishes, basically, the result before tax, but it doesn't have any corresponding adjustment in the income tax. All-in-all, this would be the reason and, indeed, as compared to prior year, the effective tax rate increased.

And will further increase if we, just a small add-on, it will increase also next year due to the 1% income tax rate for companies that are exceeding EUR 50 million turnover and, in this case, would be MedLife SA. No other company within the MedLife Group exceeds this threshold.

Bram Buring: Hold on a second, then. Let me just be clear on that last point. So, in a nutshell, MedLife, on a Group basis, will not be paying the 1% tax. We'll just be paying corporate taxes. As this benefitting...

Alina Irinoiu: No, no.

Bram Buring: We'll be paying the 1%.

Alina Irinoiu: No, sir. I didn't make myself clear. I said that given this new fiscal rule that companies that are exceeding EUR 50 million turnover will have to pay the minimum between 16% corporate tax and 1% sales tax, MedLife is the only one that exceeds this threshold in terms of turnover. So, this will be applicable only for MedLife in the total consolidation of companies. All the other companies that are below the threshold, they will remain as they are in terms of income tax calculation.

Bram Buring: Okay. So, we're needing to look now at the unconsolidated results as well to calculate the tax there. To keep it simple, what would you expect for an effective tax rate for 2024?

Alina Irinoiu: That would be very difficult, Bram, at this stage to comment on. It depends also on the budget that we will publish. What I can say at this stage is that MedLife will have basically a minimum of EUR 1 million income tax paid because it's 1% to the sales figures. So, EUR 1 million will be the minimum.

Bram Buring: On an annual basis?

Alina Irinoiu: On an annual basis, yes. What MedLife on a stand-alone basis, will pay for income tax.

Bram Buring: So MedLife, the...

Alina Irinoiu: MedLife, the listed company.

Bram Buring: Unconsolidated.

Alina Irinoiu: Unconsolidated basis, yes. Separate.

Bram Buring: On an unconsolidated basis, MedLife, the mother company, will be paying a EUR 1 million, minimum of EUR1 million.

Alina Irinoiu: Yes.

Bram Buring: And then there is whatever happens along with all of those other companies?

Alina Irinoiu: Yes, the other companies remain just the same, the same principle of paying 16% on the fiscal net result.

Bram Buring: Okay. Okay, well, can work with that. Thank you very much.

Alina Irinoiu: Thank you, Bram.

Operator: Ladies and gentlemen, there are no further questions at this time. I will now turn the conference over to Management for any closing comments. Thank you.

Mihai Marcu: Thank you. Thank you, Alina, for the presentation. I will have a short statement just before finishing this conference. So, again, thank you for participating.

I want to remind you that we still have grown with 25%. That's quite a big figure year-to-year because we are getting bigger-and-bigger. I remember that seven years ago, when we got listed, we had EUR 85 million in Sales. And this year, we will finish around EUR 450 million. It's showing our DNA for growth and our capacity to take opportunities on board and growing faster than the market.

We do not intend to change that. You have to keep that in mind. We will keep growing. Of course, we will be much, much more careful and trying, during next year to regain the margin, if possible, to go over 15%, as we have always discussed with you, to regain the margin that we had two years, three years ago. And, at the same time, to grow. So, expect us to try to grow. And, in the same time, it's going to be an effort to align and to regain the margin that we are in, for the coming year.

Also, we are passing through a very, very difficult and challenging process with the authorities because it's difficult to merge the companies at the same time, to keep the licenses to all the hospitals, clinics, laboratories, and all dentistry and all. And this is a challenge for us, but we hope we'll finalize, as Alina has presented, some of the local companies in Arad, the dentistry and the Sf. Maria brand. Next year, we will also continue consolidating the market, consolidating our group in the sense to bring on board, especially, the subsidiaries that we own 100%, and, not to have this transfer of value to them because now MedLife, as Alina emphasized, is a company with a lot of overhead and managing all the other companies. And this structure, the new structure, as long as we succeed to get on board big companies like Polisano, Micromedica, like the other hospitals around it, and so many clinics around the country, we'll be able to, MedLife aside, to regain and to have a different shape.

So, that's the road that we are getting on. We are still looking at the opportunities on the

market, on small acquisitions for the time being, not with important changes. And, also, we keep an eye on the market if there is any opportunity on a bit larger business. But we will be sure to buy EBITDA and not companies in growing stage, as we did in the past year. So, then, that 15% or 14% to 15% margins on EBITDA will be one of our main goals.

Also, this being said, thank you very much for being today with us and have a good evening. Thank you. Good bye.