



## **Q1 2024 RESULTS CONFERENCE CALL TRANSCRIPT**

Friday, May, 10th, 2024, 4.00 p.m. EET

### **MedLife Representatives:**

***Mr. Mihai Marcu, Chairman of the Board & CEO***

***Ms. Alina Irinoiu, CFO***

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

***Ms. Ioana Birsu, Investor Relations Manager***

**Mihai Marcu:** Good day everybody and thank you for joining the conference today. I'm here with my colleagues, Mr. Dorin Preda, Board Member and Executive Director, Alina Irinoiu, our CFO, and the IR Manager, Ioana Birsu. So, thank you, the presentation will be made by Alina and afterwards, of course, we will go the Q&A session, together. Thank you. Please, Alina.

**Alina Irinoiu:** Hello everyone and thank you Mihai for the introduction. We thank you for your participation today to the 1<sup>st</sup> quarter 2024 financial results presentation.

As usual, I will start with the key messages for this 3-month period and a more detailed outlook for the remaining of this year.

MedLife Group finalized Q1 2024 with a pro-forma total turnover of RON 647 million, an increase of 22% compared to the same period last year, out of which 15% was organic growth. This strong growth shows that we have continued to experience sustained demand for medical services in our units, creating also good growth premises for the rest of the year.

In terms of profitability, we had a robust increase in the EBITDA margin YoY, as an effect of the integration of the acquired companies into the Group, and of the sustained organic development investments which started to contribute to the overall profitability of the Group.

As a consequence, during this period there was a 33% increase in pro-forma EBITDA, to RON 99 million and a 65% increase in the pro-forma net result, to RON 14 million.

However, please keep in mind that, even though the market is looking good and we have a strong demand for our services, there is an industry seasonality linked to the number of working days per quarter and usually Q1 is the one with the highest number of working days. After the robust improvement in margins during this quarter, we expect to have the same growth YoY, but not necessarily compared to the previous quarter.

In terms of projects and M&A, we have completed the acquisition of Personal Genetics (a genetics laboratory), thus becoming the provider with the greatest expertise in the area of genetics and molecular biology in Romania.

On the side of outlook for the period to come, we will continue to optimize the operational flows and procedures within the Group, in order to further leverage the economies of scale and cumulated expertise of each unit. We will also focus on consolidating profitability margins YoY after important investments, as well as gradual reduction of leverage levels in 2024 and onwards.

We are confident that we have 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.

As previously discussed, our strategic priorities include the continued development of MedLife Medical Park project and the finalization of the Medici's Hospital in Timisoara and MedLife Hospital in Craiova. 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 the long run.

Our CAPEX indication for this year is EUR 25 million, including maintenance CAPEX, but excluding potential M&A transactions.

In terms of acquisitions, we will maintain the acquisitive profile that brought this growth, as well as organic investments, keeping, however, as in the first quarter, a special attention on the improvement of margins compared to the previous year and reduction of net debt to EBITDA ratio.

In terms of **Consolidated statement of profit and loss**:

**3m 2024 Pro-forma vs. 3m 2023 IFRS:**

- Gross Sales (National Health Program for chemotherapy drugs included) increased by 22%, reaching RON 647 million;
- Net Sales (net of drugs) increased by 16%, reaching RON 615 million;
- OPEX increased by 13.6%, to RON 574 million;
- 55% increase in EBIT, to RON 43 million;
- 33% increase in pro-forma EBITDA, to RON 99 million and 16.1% pro-forma margin (15.2% IFRS and 14.1% in the same period last year);
- Net Result of RON 14 million and 2.3% pro-forma margin (2% IFRS margin versus 1.6% in the same period last year). The net result is still affected by the high yields environment which resulted in higher financing cost.

In terms of the bridge in **Revenues, from IFRS figures to Pro-forma**, no normalization adjustments were included from acquisitions during the 3-month period as Personal Genetics share purchase agreement was completed in April - less RON 32 million reclass of National Health Program for chemotherapy drugs. Personal Genetics is a company with RON 14 million Sales in 2023.

In terms of the bridge in **EBITDA, from IFRS figures to Pro-forma figures**, approximately RON 1 million one-off expenses were adjusted in pro-forma figures.

In terms of **Quarter-on-Quarter EBITDA evolution**, it is important to mention that the trend from 2022 was visibly reversed, with robust improvements in EBITDA levels during 2023 and continuing trend YoY in 2024, 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 quarter

on quarter constantly, in the past 3 years, both through acquisitions and organically.

In terms of **business lines evolution**:

- Clinics remain the main sales unit of the Group, with 38% share in total Sales: the growth of 24% is explained by sustained demand of outpatient medical services and new acquisitions performed during 2023, with 23% increase in the number of visits and 1% increase in average fee YoY. Nevertheless, in terms of average fee, the fee stabilized at an average of RON 217 in 2023, showing an increase of 7% in Q1 2024 compared to 2023;
- Dentistry with 5% share in total Sales: sales remained flat during the observed period. The market started to be very competitive, with many players with lower prices to compete the market these days. However, we observe a stabilization of the tendency of patients to move to cheaper services, and see an upward trend on the number of patients compared to Q3-Q4 2023;
- Hospitals with 23% share in total Sales: the growth of 39% has been sustained by the increase in the number of patients by 18% compared to the same period of 2023, following the increase in medical teams and complexity of the medical act, and the consolidation of Nord hospital after Q1 2023. The average fee has also increased by 17.7%, as a result of a mix of price increases and complexity of interventions. We are expecting good growth from hospitals taking place in the rest of the year, but keep in mind that the strongest growth have been already been captured;
- Laboratories with 11% share in total Sales: 19% growth YoY, with 10% increase in the number of lab tests performed and 8.5% increase in average prices;
- Corporate with 12% share in total Sales: growth of 28% in revenues sustained by increased number of subscriptions and constant pricing adjustments that we presented also in the previous calls and that proved their effectiveness.

In terms of Operating expenses evolution, operating expenses decreased as a % of Sales from 95.4% in 2023 to 93.8% in 2024.

Top change observed is the decrease in Commodities with 1.7 p.p. of Sales followed by the decrease of Pharmachem & Pharmacies' share in total Group, trend seen throughout 2023.

In terms of **Consolidated statement of financial position**:

- Non-current assets remained stable during this period of 3 months, increasing by 1%.
- Both Current assets, excluding cash and cash equivalents, and Current liabilities excluding interest bearing debt, increased by 9% and 15% respectively, in line with the Group's increase in activity and evolution;
- Financial debt increased by 2%, leading to an overall decrease in net debt of 1%.

In terms of **net debt to pro-forma EBITDA** ratio, we are at 4.3x as at 31 March 2024, compared to 4.6x as at 31 December 2023. We are committed to continuing the solid business growth trend, entering a cycle of gradually increasing margins and lowering leverage levels.

Moving to **Consolidated Cash Flow**, for the 3-month period ended 31 March 2024, net cash from operating activities, after payment of interest, income tax and variances in working capital, amounted to RON 106 million, 60% higher compared to the same period last year. Net cash used in financing activities amounted to RON 17 million (mostly related to payment of loans and renting contracts, because they are presented as financing as per IFRS 16), while RON 46 million were used in investing activities and are related to CAPEX, partly related to 2023 projects, but also 2024 ones.

I think that I have covered everything that I wanted to present today, and we can move to the Q&A session. Thank you very much.

**Operator:** The first audio question comes from Rapanu Caius, BCR. Please go ahead.

**Caius Rapanu:** Hello. Thank you very much for the presentation and congratulations for the results. I had some questions on the platform also, but probably they didn't get through. I was going to ask, how do you see the growth in organic units in terms of visits, patients, lab visits going forward in 2024 and beyond? Again, not talking about new acquisitions, but the capacity of increasing the number of patients, visits, etc., going forward on the existing assets? And also, how do you see your pricing power going forward in terms of being able to pass along to the customer the inflationary pressures and increase in labor force in order to maintain the high quality of services that you provide? Thank you.

**Alina Irinoiu:** Hello, Caius. Thank you for your questions. We can see also the questions in the platform, indeed. We said that, first of all, we are going to take the phone questions and after that move to the platform, but thank you for your intervention.

Regarding your first question, the split between organic growth and acquisitions, as of today, so during the first quarter: the organic growth was 15%, and we expect to keep it throughout this year.

We usually, as you know, don't disclose the organic growth by business line, so I cannot make further comments of how the increase will be distributed towards our business line, but I think that you already know that our network is usually synergic and whenever a business line was dragging behind a bit, we focused on the other ones. But as a flavor, I can say that we can see great potential in clinics which is, obviously, the most relevant business line in our portfolio in terms of revenues' share, and we can still see a good demand of medical services and usually clinics are the ones that are making referrals to labs and hospitals.

Then, the focus of this year is definitely on hospitals. On one hand, due to the investments that we made in the network so far. On the other hand, the Nord Hospital, which has a great potential and a huge potential to fill capacity, and third, regarding the hospitals that we are working on right now, and here I mention Timisoara, that is planned to be opened by the end of this year, and Craiova - here the unit is smaller, it is not a hospital at the same level of the ones that we have in the network right now because it will be focused on day-care and oncology, which are more niched. But in Timisoara, we will focus on surgery. So, to answer your question or to give you a trend of our focus, hospitals will definitely be important this year.

In terms of outlook for labor-related costs going forward, we don't see a pressure in the market related to those. However, to a certain, normal level let's say, each and every day there are some pressures, but not a general pressure as we witnessed some time ago when the salaries for doctors were significantly increased.

In terms of pricing, we have already performed some price adjustments. I'm not sure if we talked about them last conference call, but just to be sure, I will repeat that we have implemented increases in clinics of 6%. In terms of when we estimate to see the effects, I would say that starting February, March, because usually we do have appointments in January coming from December. We have increased prices in hospitals with an average of 10%, but here also the effects are starting to be seen beginning with March. We increased prices in laboratories with 3% in January, and had a further 3% increase in April. And the continuous price adjustments that we have performed in the corporate segment, I think you already know about them.

**Caius Rapanu:** Great. Thank you very much for your answer, and again, congrats for the results.

**Alina Irinoiu:** Thank you so much.

**Operator:** Ladies and gentlemen, I will now pass the floor over to management for any webcast questions. Thank you.

**Mihai Marcu:** So I will go over the questions that are remaining to be answered, which were actually already sent on the platform.

So, first, I will discuss about the contribution of Nord Pipera to the hospital segment, and I will say that we never published this type of data. I would like, still because it's new in our group, to say that Nord Pipera is, let's say, a low two-digit - a very low two-digit contribution to the total growth on the hospital segment of 39%, the rest being organic, which is quite a strong growth.

Secondly, about the budgeted figures comparing with Q1, the question being if we compare the budgeted figures for Q1 in terms of sales and net profit with the result, I can say that the results in the Q1 are better than the budgeted ones, and we hope to keep that trend along the year.

But, as Alina has emphasized during the presentation, I wouldn't compare the growth in terms of margins with the Q1 exactly, I would rather compare it with the previous years quarters'.

Also, I will discuss about the hospital strategy. I see here a questions if there are affordable fees. I can say that the growth, the increases in prices have worked. Actually, MedLife was not one of the most expensive hospitals chain in the market. So we don't have a concern in this respect. Working with an insurrer it can be developed and could be a driver, but I don't see, in a short run, such an important increase due to this activity.

About the pharma segment where I think you could see that it's not a growing segment in our company, but I have to underline that it's not also in our priorities because the margins are not necessarily in that segment. So, you shouldn't expect us to budget or to push for a big growth on the pharmaceutical segment.

Now, there is another question also about the subscription fees in corporate. We succeed to increase the fees in corporate a lot. Actually, we have a big room here because our main competitor on this segment is, I think it is not a secret because it's been published by some newspapers, it looks like they might be on sale. We don't know that for sure, it's just an information from the newspapers, but I can say that still, there is not necessary very difficult to sign contracts now with a higher price. Probably, some other competitors are doing that as well.

Also, this is actually normal after the salaries especially in the medical sector have been increased a lot in the last years. I think the market understands that, and they are willing to offer to their clients the subscriptions, even with the price increases. Yes, we can sign contracts with higher prices with our clients on the corporate segment.

These were the questions. If there are other questions, can we try again to see if there are? If not, I can go with the closing.

**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:** So, thank you very much again for participating today to our conference. As you could notice we have a robust growth and an increase in the same time in EBITDA margins and profitability. We hope, as you can notice from the structure of our balance sheet and P&L especially, that if the interest rate will be reduced, if decided by the European Central Bank, then it's obvious that this will be transferred from EBITDA to profit into our P&L because our structure is of that nature. I hope that this will happen, and if that happens it will simply just be translated from EBITDA to profit.

As you can see, part of the growth, a very important part of the growth, as Alina has emphasized 15% is organic growth. That's quite strong for a company of our size and we are very proud of that.

You could see that the hospitals have been the champions in this respect. We are fighting for years for this to happen because the margins in hospitals could have been better managed in our group and I hope that will be a part of our success.

In fact, all the economies of scale that we were discussing about in the last years are starting to have effects and you can see that the cycle of acquisition and growth is working and the growth is followed by profit in this period.

We shall continue growing. We'll have a close eye on the market because as I said earlier we are expecting very big changes in the market. We are very well prepared for that and actually now, as we have remained quite alone in the market of acquisitions, I hope that will give us a good advantage.

Of course, as we said in all the communication presented to you, we still want to prove you for a longer period that we can consolidate and make a stable growth of our margins. So, we will make acquisitions yes, but we'll keep an eye and we are very well aware of the fact that we have to prove for a longer period, probably yearly accounting period, that we can succeed to capture the margins after a long period of growth and acquisitions. We are becoming slowly one of the main specialists of the acquisitions and mergers market, and we are very proud of that as well.

I hope that we can succeed to do that at a lower level in the sense of making acquisitions of a lower scale. So, we have the capacity to acquire small companies and to slowly merge these companies into our group and use the economies of scale and all these companies together in such a way to become more efficient and profitable. So, this is for today.

I can see another question: do we expect further increase in the net finance loss in Q2 compared with Q1? I don't see that on short term, as a big figure anyway. So the answer is that I don't see a significant increase in net finance loss in the second quarter compared to the first quarter.

Thank you very much, have a good day, and thank you again for being with us today. Goodbye.