MEDICAL CENTER FOR ALL OF FINLAND

PIHLAJALINNA

Half Year Financial Report H1/2023

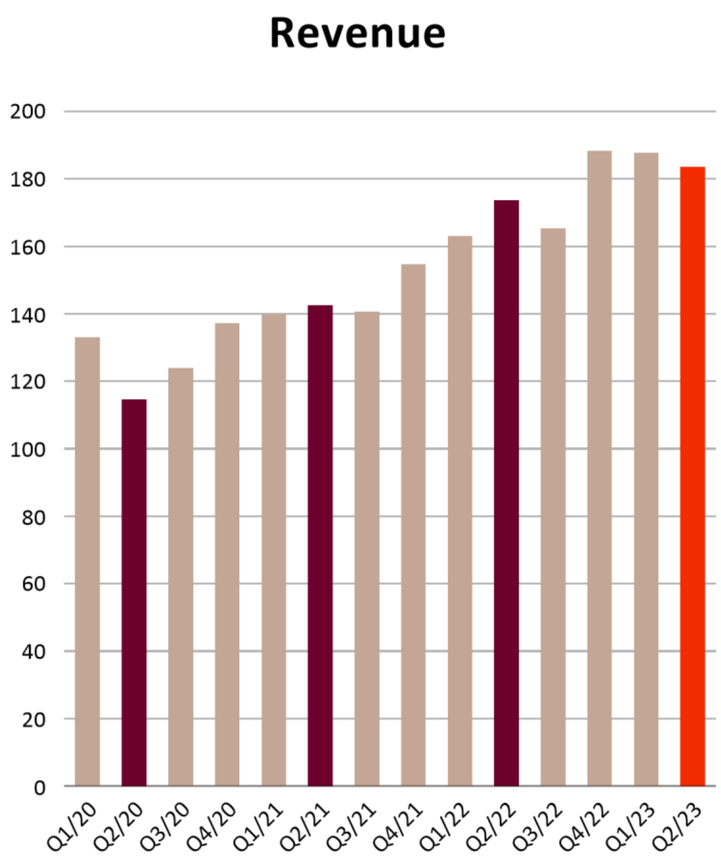
Interim CEO Mikko Wirén

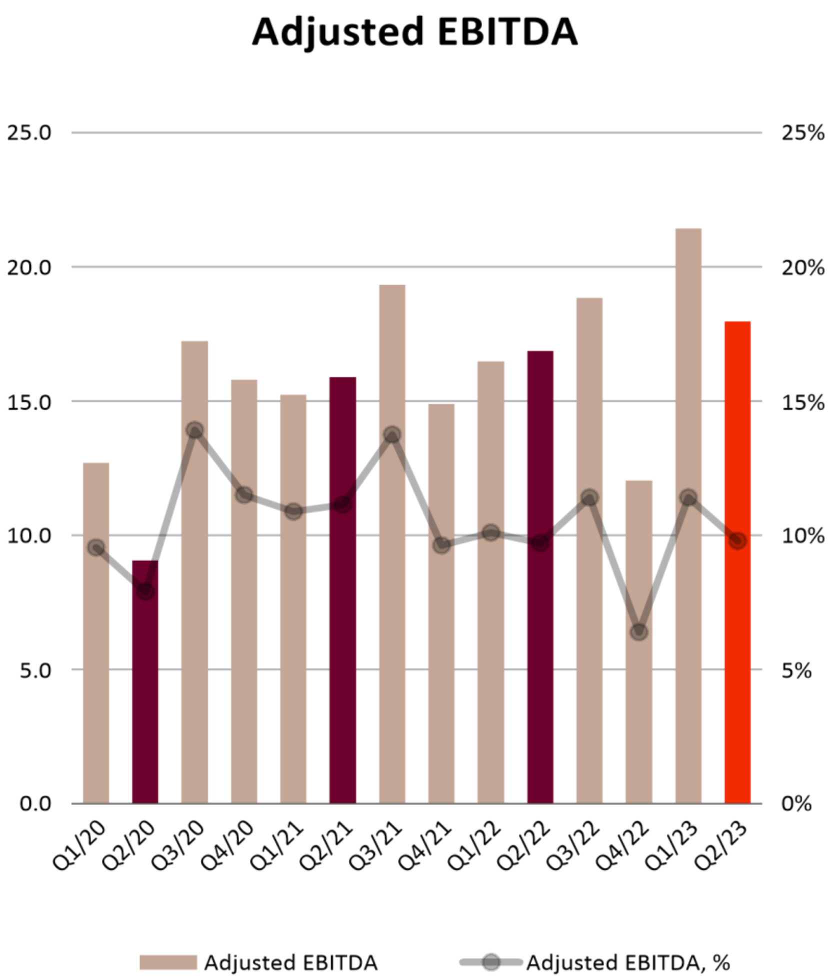
11 August 2023

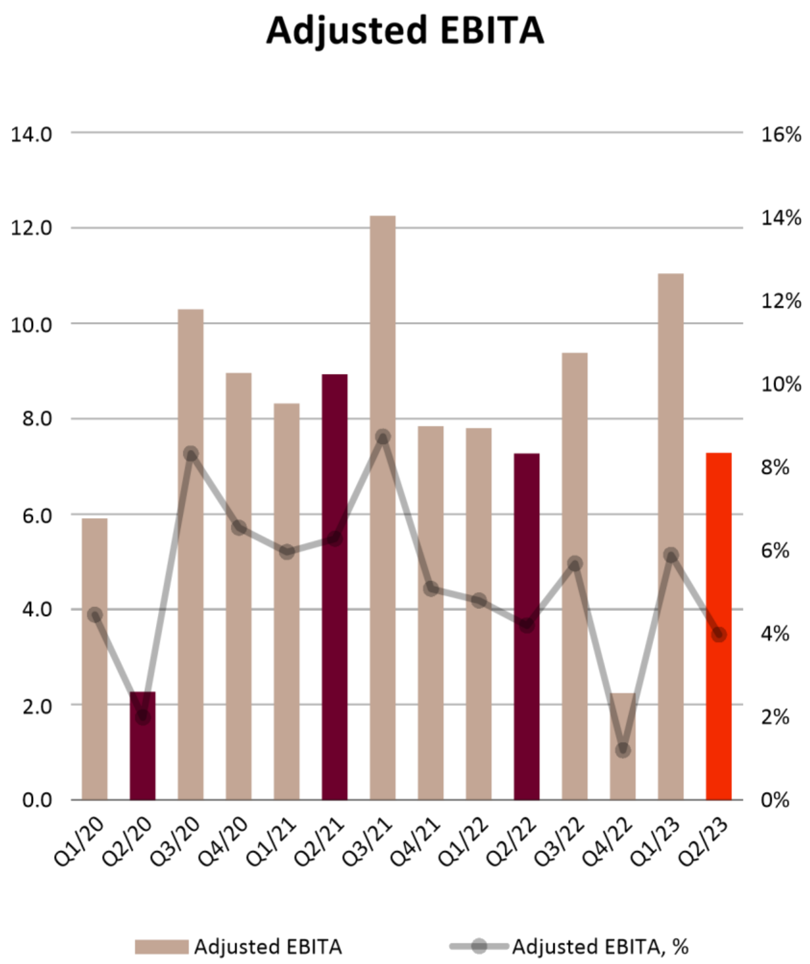
Q2/2023: The good organic growth of revenue continued, efficiency measures improved profitability and financial position

- Revenue amounted to MEUR 183.6 (173.7), increase MEUR 9.9 (+5.7%)
- Organic growth was MEUR 11.7 (+6.7%)
  - Without COVID-19 services and the reduction in the cost liability of demanding specialised care, organic growth would have been MEUR 20.3 (+11.7%)
  - The customer volumes of private clinics grew by 9% – H1 customer volumes grew by 22%, without M&A transactions by 15%
- Remote services represented 40% (37%) of all appointments
- Adjusted EBITDA was MEUR 18.0 (16.9), +6.6%
  - H1 adjusted EBITDA was MEUR 39.4 (33.3), +18.2%
- Adjusted EBITA was MEUR 7.3 (7.3), +0.2% – delayed invoicing from wellbeing service counties and collective agreement one-off compensations burdened the profit
  - H1 adjusted EBITA was MEUR 18.3 (15.1), +21.5%
- The number of practitioners grew by 17% and the staff FTE remained at the same level as a year ago
- Sickness related absences continued to decline and stood at 5.9% (7.0%)

CONSOLIDATED REVENUE AND PROFITABILITY
MEUR







ORGANIC GROWTH STRONG AND PROFITABILITY AT PREVIOUS YEAR'S LEVEL DESPITE ADDITIONAL COSTS

	Q2 2023	Q2 2022	change-%	H1 2023	H1 2022	change-%	2022
REVENUE	**183.6**	**173.7**	**5.7**	**371.4**	**336.8**	**10.3**	**690.5**
Other operating income	2.1	1.8	18.4	6.9	3.5	94.5	4.9
Materials	-7.6	-7.8	-3.4	-15.8	-14.9	6.0	-30.3
Services	-58.9	-58.6	0.4	-117.6	-115.8	1.5	-236.9
Employee benefit expenses	-82.8	-74.6	11.0	-165.7	-147.7	12.1	-296.6
Premises expenses	-3.5	-3.5	-0.1	-7.0	-6.8	3.1	-14.3
ICT expenses	-6.7	-6.7	-0.1	-13.5	-13.0	3.5	-26.2
Sales and marketing expenses	-1.5	-1.4	7.9	-3.2	-2.8	14.5	-6.4
Other operating expenses	-7.1	-7.3	-2.6	-14.9	-14.5	2.6	-30.3
EBITDA	**17.7**	**15.6**	**13.6**	**40.8**	**24.9**	**63.9**	**54.4**
EBITDA adjustments	0.2	1.3	-80.9	-1.4	8.5	-116.0	9.8
Adjusted EBITDA	**18.0**	**16.9**	**6.6**	**39.4**	**33.3**	**18.2**	**64.2**
Property, plant and equipment depreciation and amortisation	-10.8	-9.6	12.2	-21.3	-18.3	16.7	-37.8
EBITA	**7.0**	**6.0**	**16.0**	**19.4**	**6.6**	**194.6**	**16.6**
Depreciation adjustments	0.1	0.0	0.0	0.2	0.0	0.0	0.3
Adjusted EBITA	**7.3**	**7.3**	**0.2**	**18.3**	**15.1**	**21.5**	**26.7**

Q2/2023 BY CUSTOMER GROUPS

Corporate customers

- **Revenue MEUR 67, +19%**
- The revenue of COVID-19 services decreased MEUR 1.7
- The customer volumes of private clinics increased 13%
- Sales to insurance company customers increased MEUR 5.7, +22%

Private customers

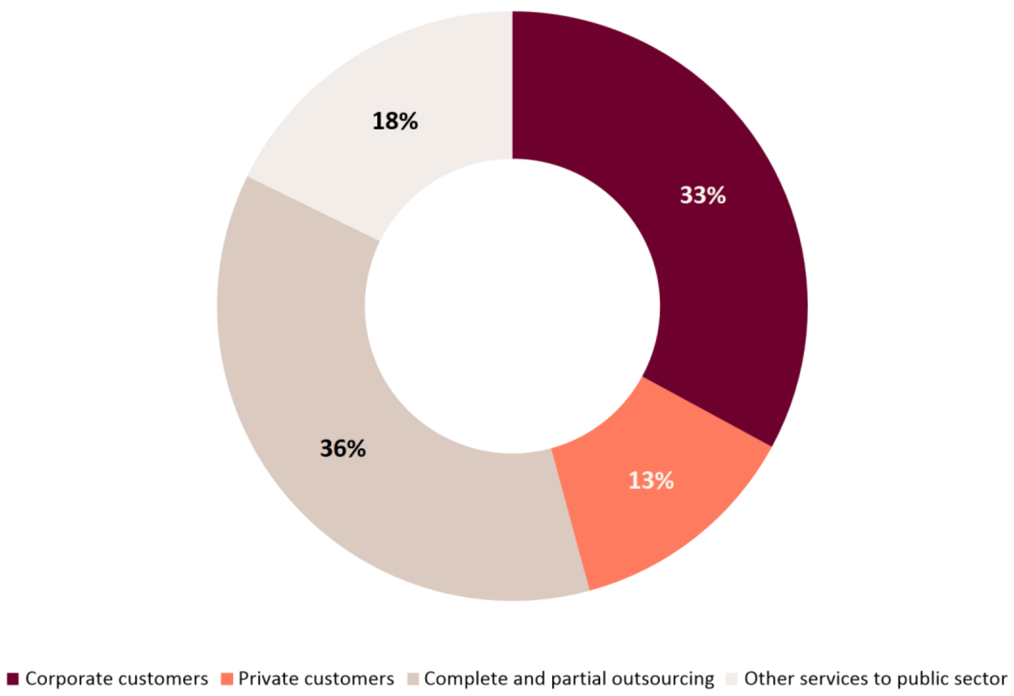
- **Revenue MEUR 26, -5%, without dental care divestment +12%**
- The divestment of dental care services at the end of March reduced turnover by MEUR -4.1
- M&A transactions increased turnover by MEUR 1.1
- The customer volumes of private clinics increased 4%

Public sector

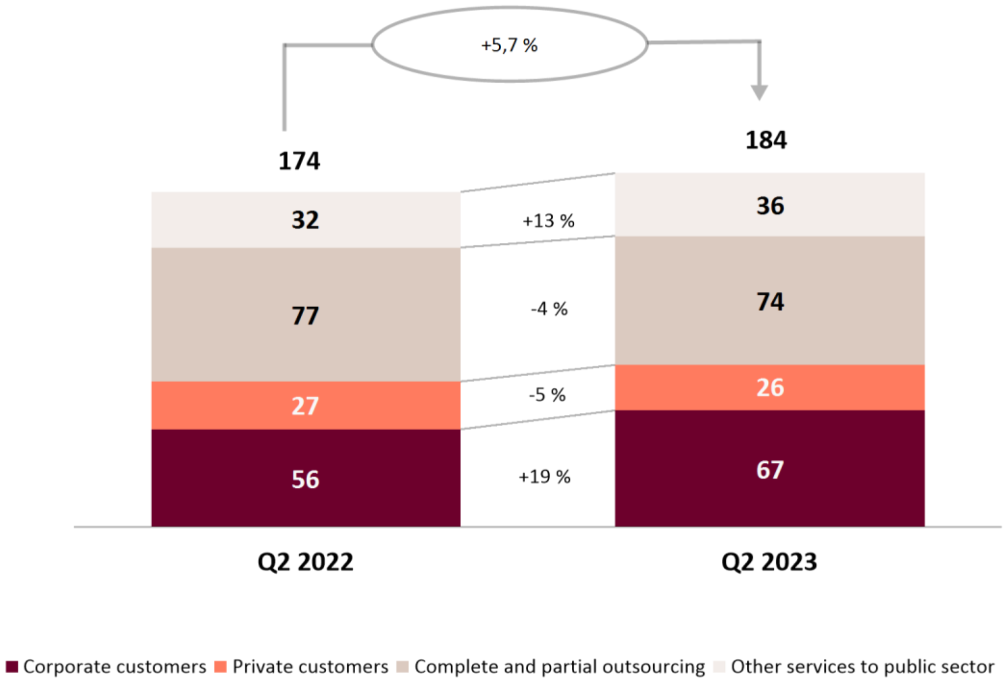
- **Revenue MEUR 110, +1%**
- The revenue of COVID-19 services decreased MEUR 1.0
- The elimination of the cost liability for demanding specialised care in the wellbeing services county of Pirkanmaa reduced revenue by MEUR -5.7
- The customer volumes of private clinics increased 9%

REVENUE BY CUSTOMER GROUP, Q2/2023

REVENUE BY CUSTOMER GROUP Q2 2023, %

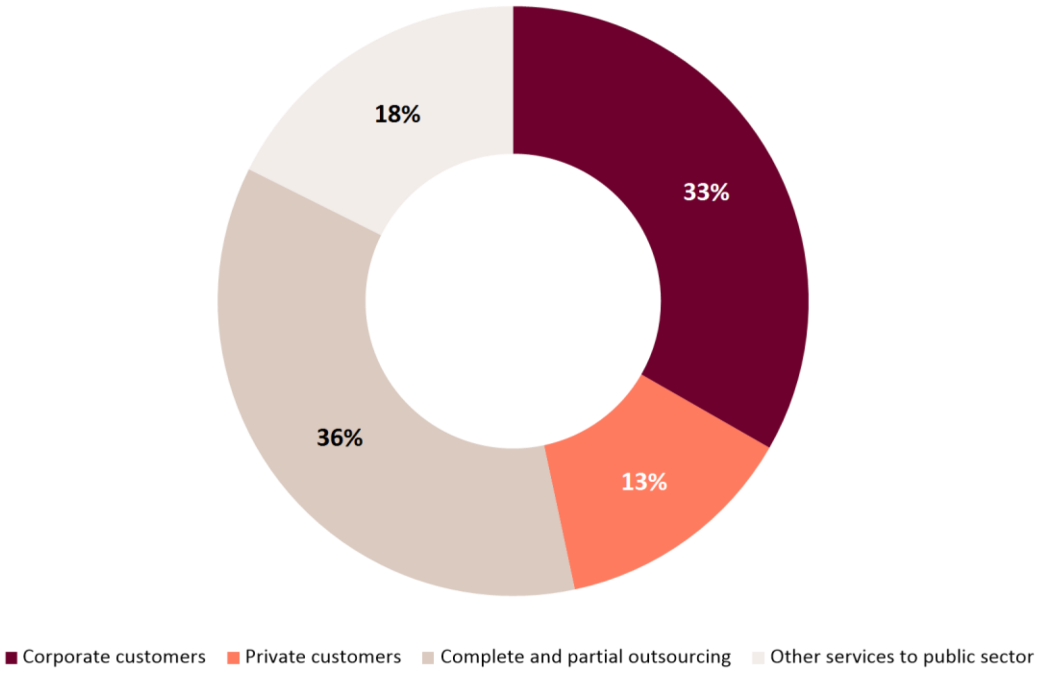


REVENUE BY CUSTOMER GROUP, EUR MILLION

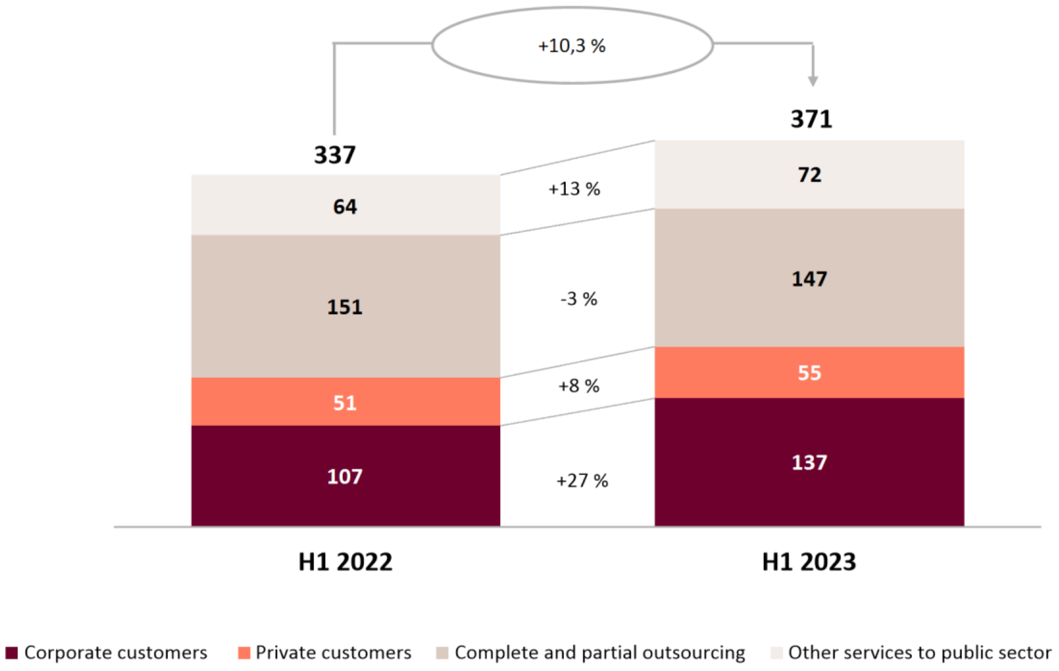


REVENUE BY CUSTOMER GROUP, H1/2023

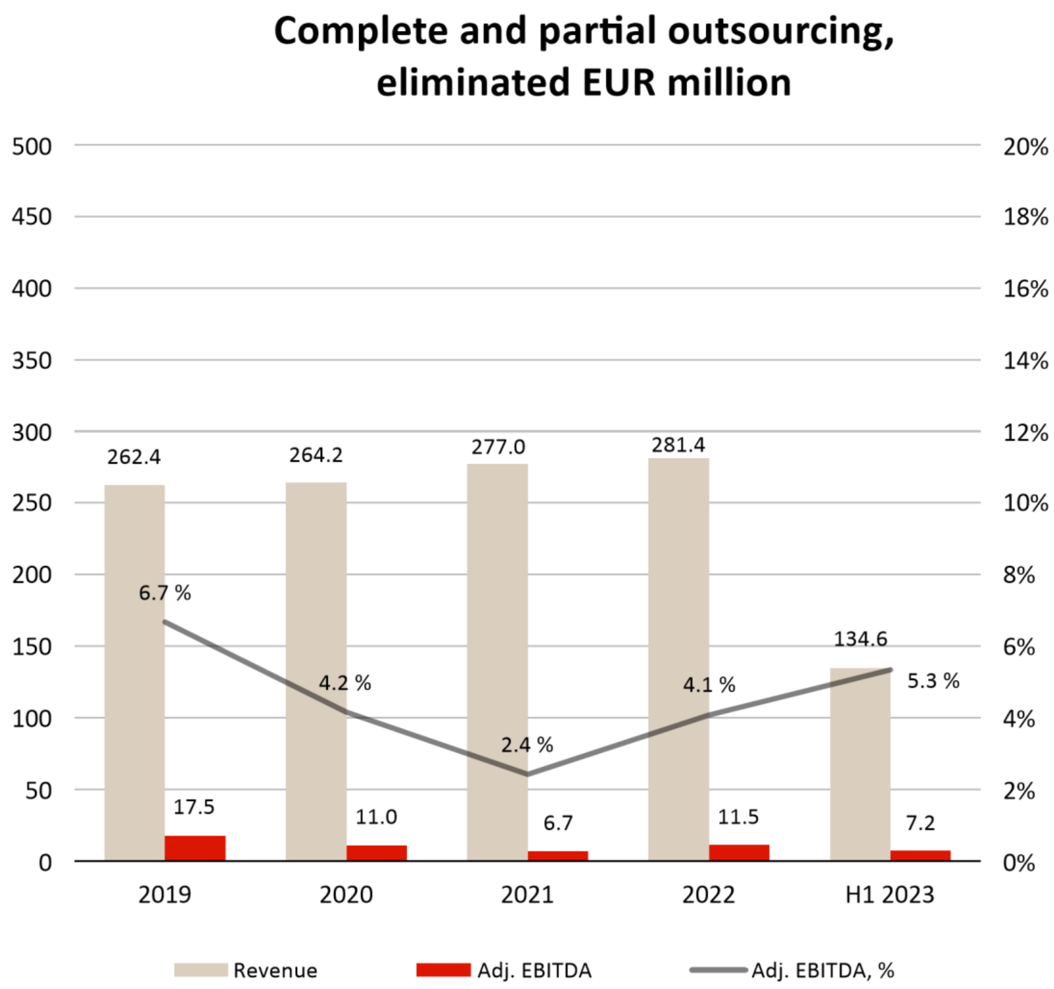
REVENUE BY CUSTOMER GROUP H1 2023, %

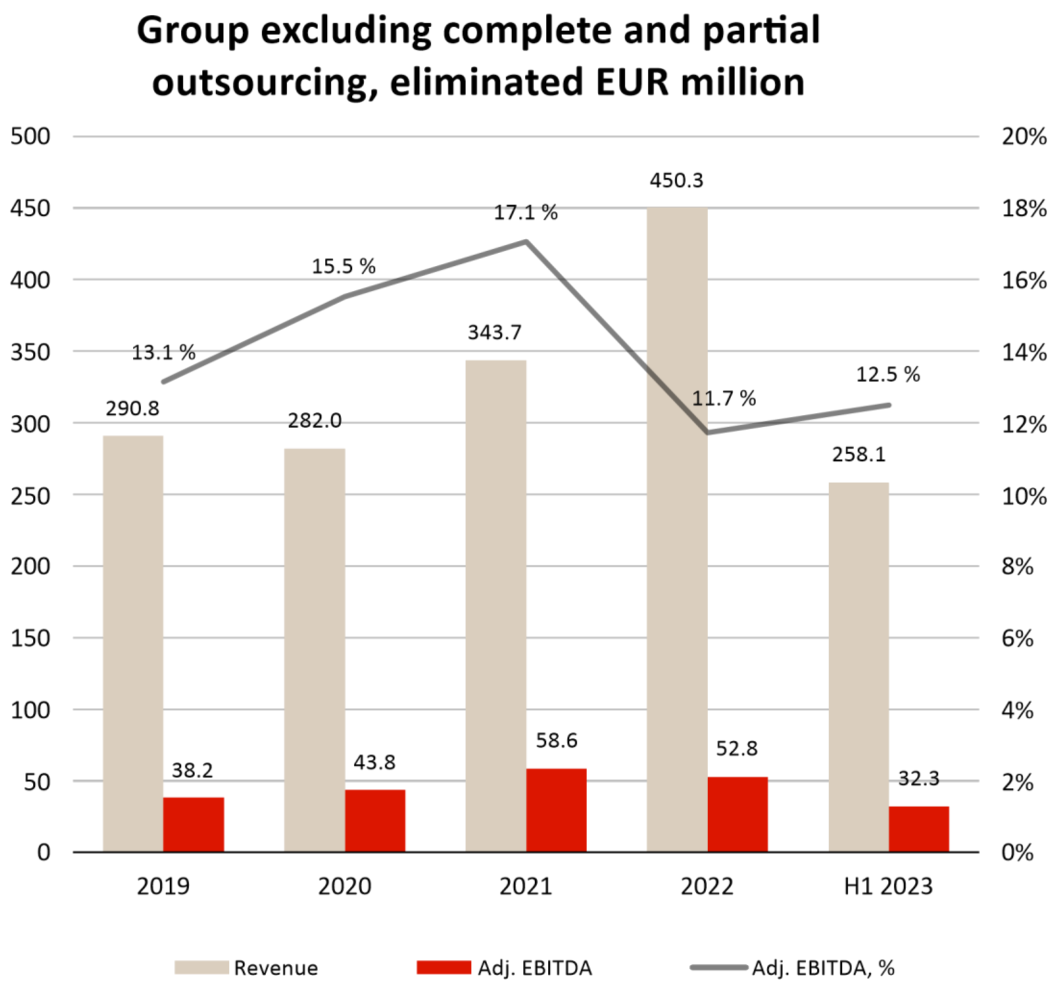


REVENUE BY CUSTOMER GROUP, EUR MILLION

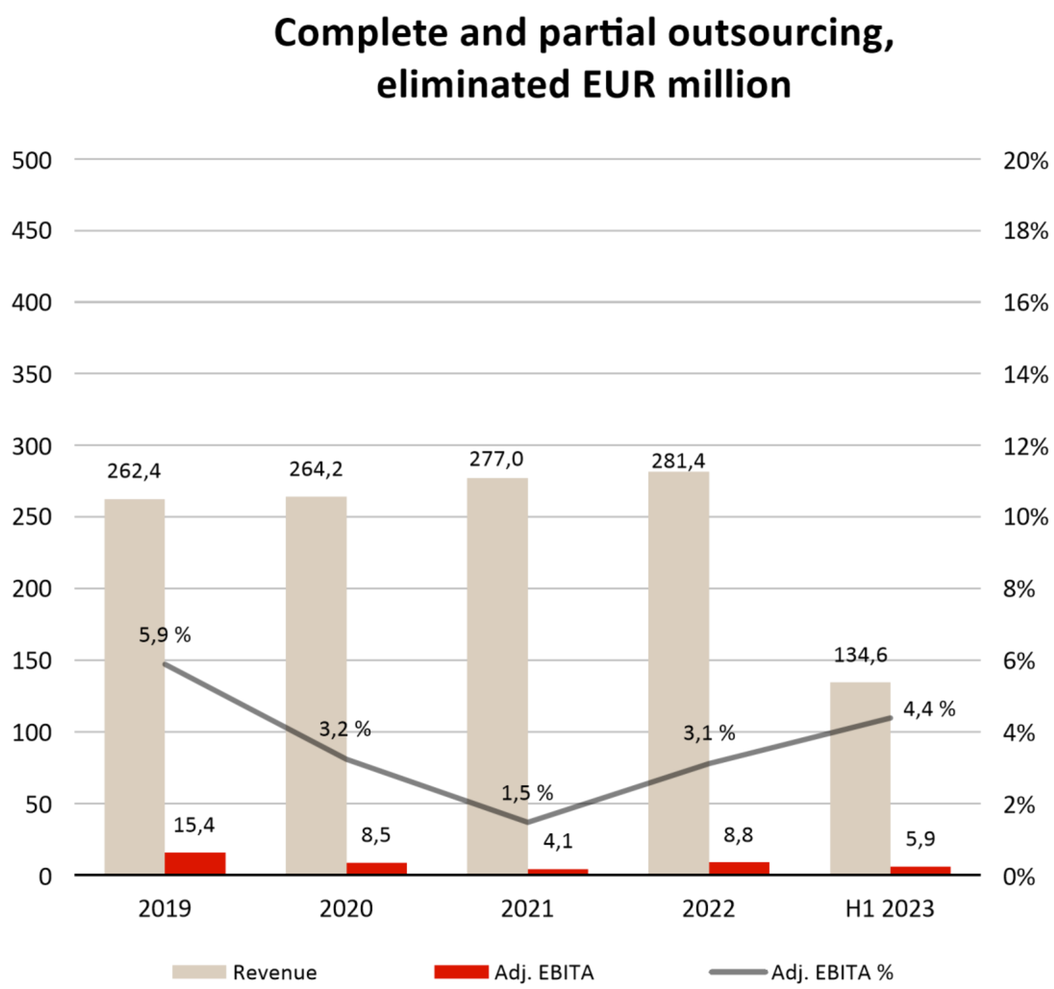


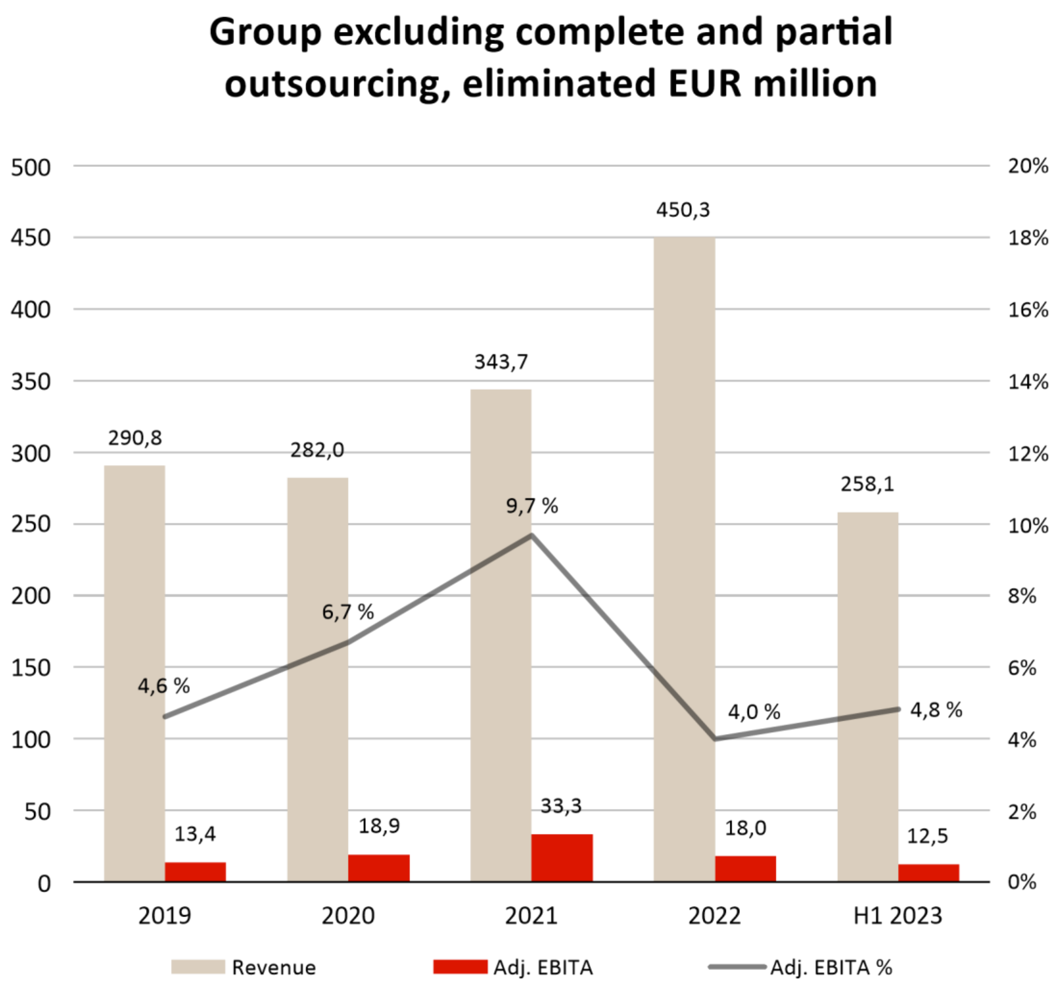
BUSINESS STRUCTURE AND PROFITABILITY, ADJUSTED EBITDA





BUSINESS STRUCTURE AND PROFITABILITY, ADJUSTED EBITA





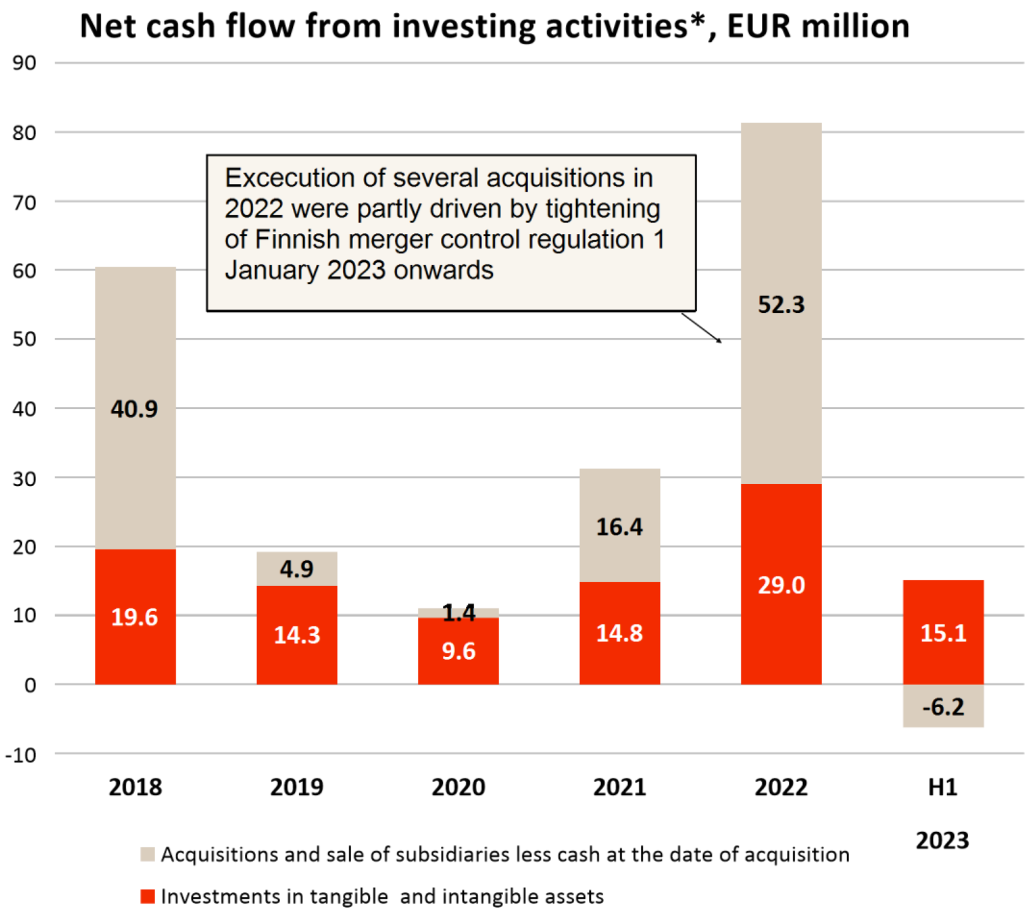
BUSINESS STRUCTURE AND PROFITABILITY

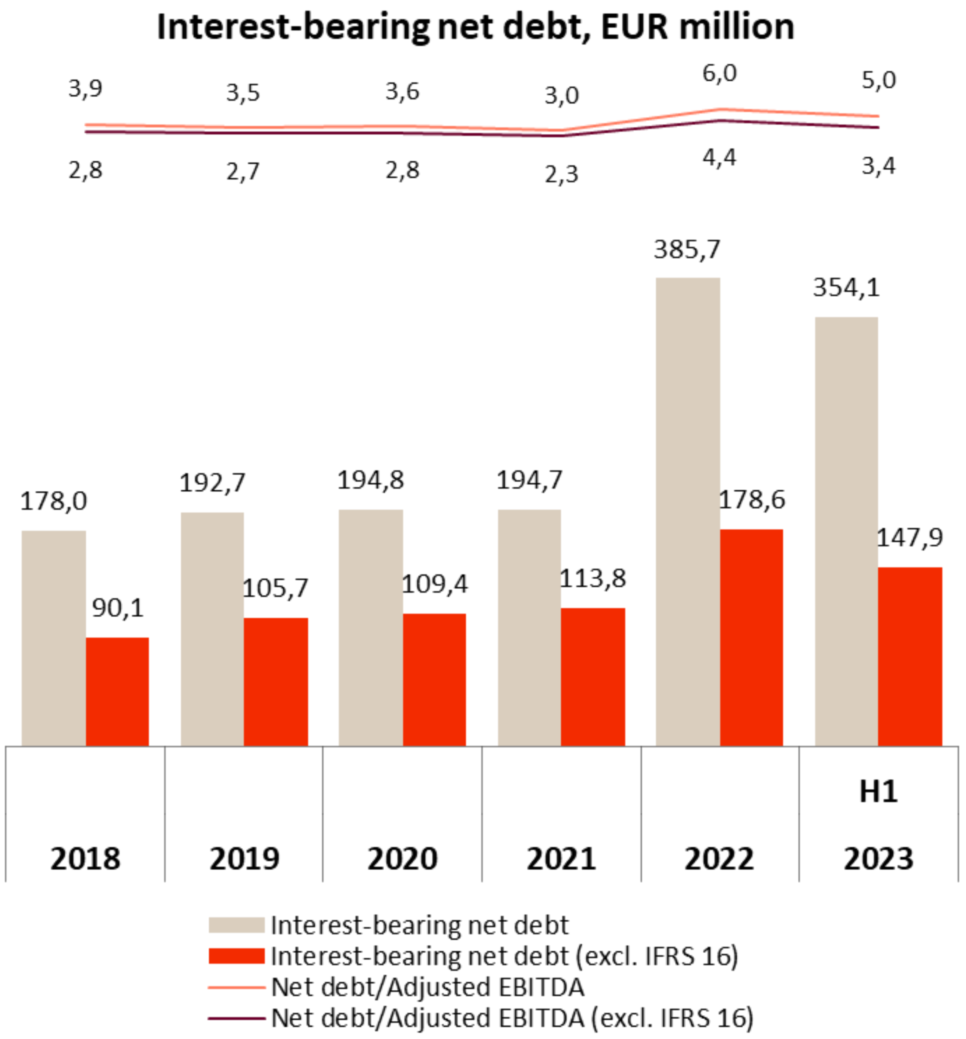
Complete and partial outsourcing, eliminated	Q2 2023	Q2 2022	change-%	H1 2023	H1 2022	change-%	2022	2021
Revenue, EUR million	67.9	71.1	-4.5	134.6	139.4	-3.5	281.4	277.0
Adjusted EBITDA, EUR million	2.3	3.3	-31.2	7.2	5.6	27.5	11.5	6.7
Adjusted EBITDA, %	3.4	4.7	-27.9	5.3	4.0	32.1	4.1	2.4
Adjusted EBITA, EUR million	1.7	2.7	-37.3	5.9	4.3	37.8	8.8	4.1
Adjusted EBITA, %	2.5	3.7	-34.3	4.4	3.1	42.8	3.1	1.5

Group excluding complete and partial outsourcing, eliminated	Q2 2023	Q2 2022	change-%	H1 2023	H1 2022	change-%	2022	2021
Revenue, EUR million	126.3	113.1	11.7	258.1	218.3	18.2	450.3	343.7
Adjusted EBITDA, EUR million	15.7	13.5	16.1	32.3	27.7	16.4	52.8	58.6
Adjusted EBITDA, %	12.4	12.0	4.0	12.5	12.7	-1.5	11.7	17.1
Adjusted EBITA, EUR million	5.6	4.6	22.5	12.5	10.8	15.4	18.0	33.3
Adjusted EBITA, %	4.5	4.1	9.7	4.8	4.9	-2.4	4.0	9.7

INVESTMENTS AND FINANCING

INCREASED INDEBTEDNESS DUE TO 2022 ACQUISITIONS AND INVESTMENTS IN NETWORK OF OPERATING LOCATIONS





Pihlajalinna

*Certain lines extracted of the Net cash flow from investing activities in Consolidated statement of cash flows

KEY FIGURES
STRONG CASH FLOW FROM OPERATING ACTIVITIES, THE DEBT RATIO DECREASED AS PLANNED

	4–6/2023 3 months	4–6/2022 3 months	change %	1–6/2023 6 months	1–6/2022 6 months	change %	2022
Revenue, EUR million	183.6	173.7	5.7	371.4	336.8	10.3	690.5
Adjusted EBITDA, EUR million	18.0	16.9	6.6	39.4	33.3	18.2	64.2
Adjusted operating profit before the amortisation and impairment of intangible assets (EBITA), EUR million	7.3	7.3	0.2	18.3	15.1	21.5	26.7
Earnings per share (EPS), EUR	0.07	0.08	-13.9	0.31	0.31	-0.4	0.42
Gearing, %	236.4	312.6	-24.4	236.4	312.6	-24.4	313.8
Interest-bearing net debt, EUR million	354.1	374.4	-5.4	354.1	374.4	-5.4	385.7
Net debt/adjusted EBITDA, 12 months	5.0	5.5	-9.0	5.0	5.5	-9.0	6.0
Cash flow from operating activities, EUR million	27.3	20.3	34.9	46.3	35.8	29.3	64.9
Gearing, excluding IFRS 16, %	94.9	135.4	-29.9	94.9	135.4	-29.9	140.0
Interest-bearing net debt excluding IFRS 16, EUR million	147.9	167.3	-11.6	147.9	167.3	-11.6	178.6
Net debt/adjusted EBITDA, excluding IFRS 16, 12 months	3.4	3.5	-2.4	3.4	3.5	-2.4	4.4

WE CONTINUE OUR STRATEGY PURPOSEFULLY TOWARDS THE SET GOALS

PIHLAJALINNA'S FINANCIAL TARGETS AND STRATEGY 2021–2025

Strategic priorities

Enhancing digitalisation

Employee experience

Customer experience

Renewal of services for private customers

Multichannel services

New service concepts of consumer business

Digital innovation

Cooperation in social and healthcare services

Close cooperation with the future wellbeing services counties

Strong market position in public healthcare

Business operations

Practitioners

Data orientation

Financial targets

+250 mEUR
sales by 2025 using 2021 as the baseline
(Represents a 9.4% CAGR)

>9.0%
Adjusted EBITA margin by 2025

<3.0x
Long-term target for Net debt / Adjusted EBITDA*

1/3 of net income
Distributed to shareholders p.a.

**In the beginning of strategy period due to Pohjola Hospital acquisition the Net debt / Adjusted EBITDA stands close to 5x.*

GOVERNMENT PROGRAMME INCLUDES PRIVATE HEALTHCARE PROVIDERS IN CLEARING THE TREATMENT QUEUES

- Private service providers to solve the challenges of public healthcare
  - Wider use of service vouchers in terms of quantity and service categories, also the customer's additional investment is enabled
  - The new Kela reimbursement model for appointments with general practitioners in the private sectors
  - Cooperation in specialised healthcare services will be increased and the possibility of organising day surgery activities, incl. anesthesia, also in hospitals that do not have a 24-hour emergency services
  - MEUR 335 state funding to reduce queues for treatment
- The care guarantee will be tightened to 14 days on 1 September 2023, the monitoring of the implementation of the guarantee will be improved
- The implementation of the increase in staffing ratio for 24-hour elderly care will be postponed, in addition to which the division of nursing work will be clarified and eligibility conditions reviewed.
- Guidance in social and healthcare services to be effectiveness-based
- The new Government programme aims to slow down the growth of funding social and healthcare services, e.g. by tightening the guidance of wellbeing services counties and increasing the utilization of the multi-producer model

WELLBEING SERVICES COUNTIES PREPARING SERVICE STRATEGY – THE COST LIABILITIES FOR DEMANDING SPECIALISED CARE TRANSFERS TO PUBLIC RESPONSIBILITY

- Pihlajalinna has extensive outsourcing in three wellbeing services counties – in all, demanding specialised care has been transferred or is about to be transferred to the wellbeing services counties in accordance with the legislation.
  - In Pirkanmaa, the cost liability was transferred on 1 January 2023, decision 22 May 2023
  - In Central Finland, the transfer takes place retrospectively 1 July 2023, decision 15 August 2023
  - In South Ostrobothnia negotiations continue
- Revenue decreases, but predictability of the business improves
- Wellbeing services counties are finalising their service strategy. Alignment to the service production and models for the coming years.

THE MEASURES TO STRENGTHEN PROFITABILITY AND FINANCIAL POSITION
-- SEVERAL NEW EFFICIENCY MEASURES IDENTIFIED AND INITIATED IN Q2

ALLOCATION OF WORK AND KEY COMPETENCIES	About MEUR 4.5 yearly cost savings through change negotiations Management development and systematic monitoring
REDUCING SICKNESS-RELATED ABSENCES	Strategic project of work ability management Sickness-related absences H1/2023 5.9% (7%)
THE NETWORK OF PRIVATE CLINICS	Further optimise the use of facilities Continuing the evaluation of the branch network Approx. MEUR 0.5 annual cost savings from the discontinued facilities
THE PRICES INCREASE OF SERVICES	Responding to cost inflation by adjusting prices, wages will rise as a result of collective bargaining
BUSINESS AND ORGANISATIONAL STRUCTURE	Simplifying business operations, e.g. the sale of dental care services Simplifying the operating model Continuing integrations of the acquired companies
EFFICIENCY IMPROVEMENTS IN PUBLIC SERVICES	Efficiency improvement programs of complete outsourcing services Adaptation of services to equal service offering Transferring the cost liabilities for specialised care to wellbeing service counties

STRENGTHENING PROFITABILITY AND FINANCIAL POSITION

The effects will be seen gradually from the first quarter of 2023

PIHLAJALINNA'S OUTLOOK FOR 2023 UNCHANGED

In 2023, Pihlajalinna will focus on improving its profitability and financial position.

- The Group expects the consolidated revenue to increase from the previous year's level (EUR 690.5 million in 2022).
- The Group expects the adjusted operating profit before the amortisation and impairment of in-tangible assets (EBITA) to improve from the previous year's level (EUR 26.7 million in 2022).
- The Group continues measures to strengthen its financial position. Change negotiations that were concluded in March 2023 and efficiency improvement programmes in complete outsourcing agreements are expected to improve Pihlajalinna's profitability. Prices increases are expected to compensate the effects of cost inflation.

The outlook for 2023 involves uncertainty related to the high inflation in the euro area, the development of costs in general and the development of wages in particular. The impacts of the commencing wellbeing services counties on the social and healthcare sector also remain uncertain. According to the negotiations, the management of the wellbeing services county of Central Finland has decided to propose to the board of the wellbeing services county that the costs for the demanding specialised care will be separated from the annual price of Jämsän Terveys Oy's service agreement retrospectively from 1 July 2023. Slowed economic growth, weakened consumer confidence and rising market interest rates may affect Pihlajalinna's service demand and financial results more than expected.

SUMMARY Q2/2023

1. Revenue continued its growth by 5.7%, total MEUR 183.6
   Organic growth of private clinics continued; total MEUR 15.2 (+15.9%) when considering COVID-19 services, which decreased by MEUR 3

2. Profitability improved despite significant additional costs
   EBITDA increased 6.6% amounting to MEUR 18.4
   EBITA increased 0.2% amounting to MEUR 7.3

3. The constantly increased and difficult to estimate cost liabilities for demanding specialised care will be transferred to the wellbeing services counties – Pirkanmaa 1 January 2023, Central Finland 1 July 2023 and in South Ostrobothnia the negotiations continue

4. Government programme includes private healthcare providers in clearing the treatment queues – the state funding of MEUR 335

5. The measures to strengthen profitability and financial position will continue in accordance with the efficiency improvement programme – several new measures identified and initiated in Q2

MEDICAL CENTER FOR ALL OF FINLAND


Q&A

Thank You!

Upcoming events

- Interim Report January–September:
  Friday, 3 November 2023

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