

Interim report Q1/2020

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8 May 2020

Q1 2020: Adjusted EBIT improved, Pihlajalinna temporarily withdrew its outlook for 2020 due to the coronavirus epidemic

- Revenue amounted to EUR 133.0 (132.5) million – an increase of 0.4%
- Adjusted EBITDA was EUR 12.7 (12.6) million – an increase of 0.8%
- Adjusted EBIT was EUR 4.2 (3.9) million – an increase of 6.9%
- IFRS 3 costs and amortisation related to M&A had a negative effect of EUR 0.9 (1.2) million on operating profit
- Earnings per share (EPS) was EUR 0.06 (0.06)
- The voluntary tender offer by Mehiläinen Yhtiöt Oy is expected to be completed in Q3/2020 at the latest.

Q1 2020: Main points by region

EUR million	1–3/2020	%	1–3/2019	%	2019	%
Southern Finland	30.0	20	31.1	21	118.2	20
Mid-Finland	82.8	56	83.0	56	324.1	56
Ostrobothnia	29.7	20	27.9	19	115.7	20
Northern Finland	4.3	3	3.7	2	14.7	3
Other operations	2.3	2	1.7	1	7.7	1
Intra-Group sales	-16.0		-14.9		-61.8	
Total consolidated revenue	133.0	100	132.5	100	518.6	100

- Southern Finland: –3.5%. The coronavirus epidemic led to a significant decline in service demand and the temporary closure of fitness centres.
- Mid-Finland: –0.4%. Revenue was reduced by the lower demand for private clinic services and dental care services caused by the coronavirus epidemic as well as the expiration of agreements in reception centre operations. The demand for hospital services and staffing services increased. Complete outsourcing agreements kept the region's revenue stable in spite of the coronavirus epidemic.
- Ostrobothnia: +6.3%. A complete outsourcing agreement kept the region's revenue development positive in spite of the coronavirus epidemic. The sales of occupational healthcare services also developed favourably.
- Northern Finland: +15.5%. In January–February, the sales of occupational healthcare and private clinic services in the region developed favourably. In March, the coronavirus epidemic reduced the demand for private clinic services and dental care services in particular.

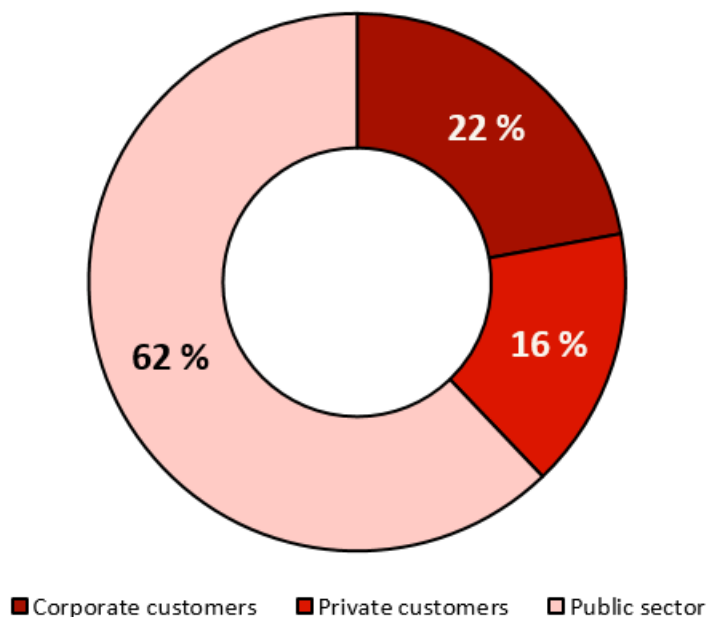
Q1 2020: Main points by customer group

EUR million	1–3/2020	%	1–3/2019	%	2019	%
Corporate customers	32.9	22	31.2	21	122.1	21
of which insurance company customers	8.3	6	7.1	5	27.6	5
Private customers	23.5	16	26.4	18	97.8	17
Public sector	92.6	62	89.8	61	360.6	62
Intra-Group sales	-16.0		-14.9		-61.8	
Total consolidated revenue	133.0	100	132.5	100	518.6	100

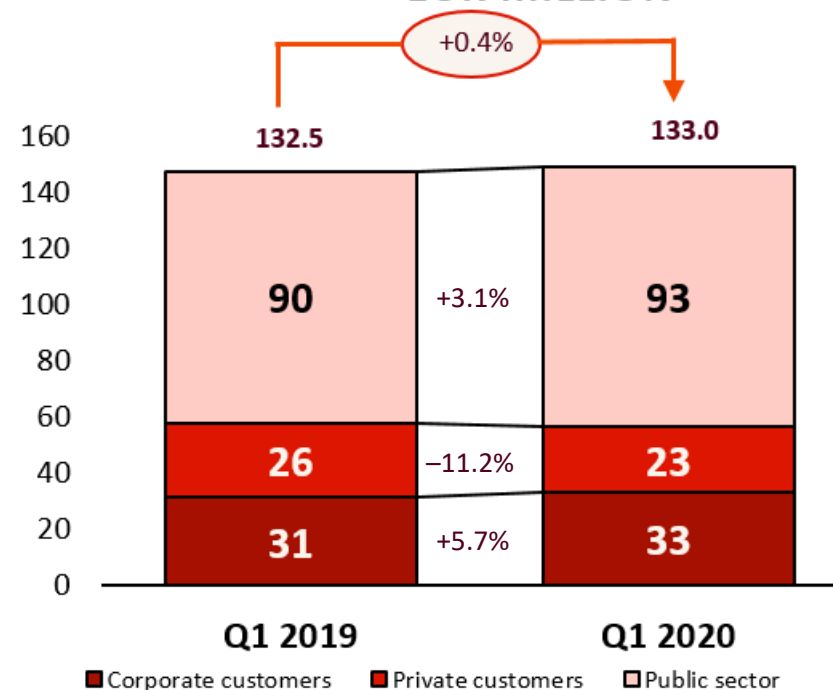
- Corporate customers +5.7%. Sales to insurance company customers increased by EUR 1.2 million, or 16.7%. In March, visits by occupational healthcare customers and insurance customers began to decline due to the coronavirus epidemic.
- Private customers: –11.2%. Visits to specialists by private customers and the demand for dental care services declined significantly in March due to the coronavirus epidemic. In accordance with the Finnish Government’s recommendation, Pihlajalinna temporarily closed its fitness centres to slow down the spread of the coronavirus epidemic.
- Public sector: +3.1%. Complete outsourcings of social and healthcare services represent the majority of the revenue. Revenue was increased by the steady recognition of revenue from complete outsourcing agreements and annual price adjustments in spite of the coronavirus epidemic. The demand for occupational health services and responsible doctor services increased.

Revenue by customer group January–March 2020

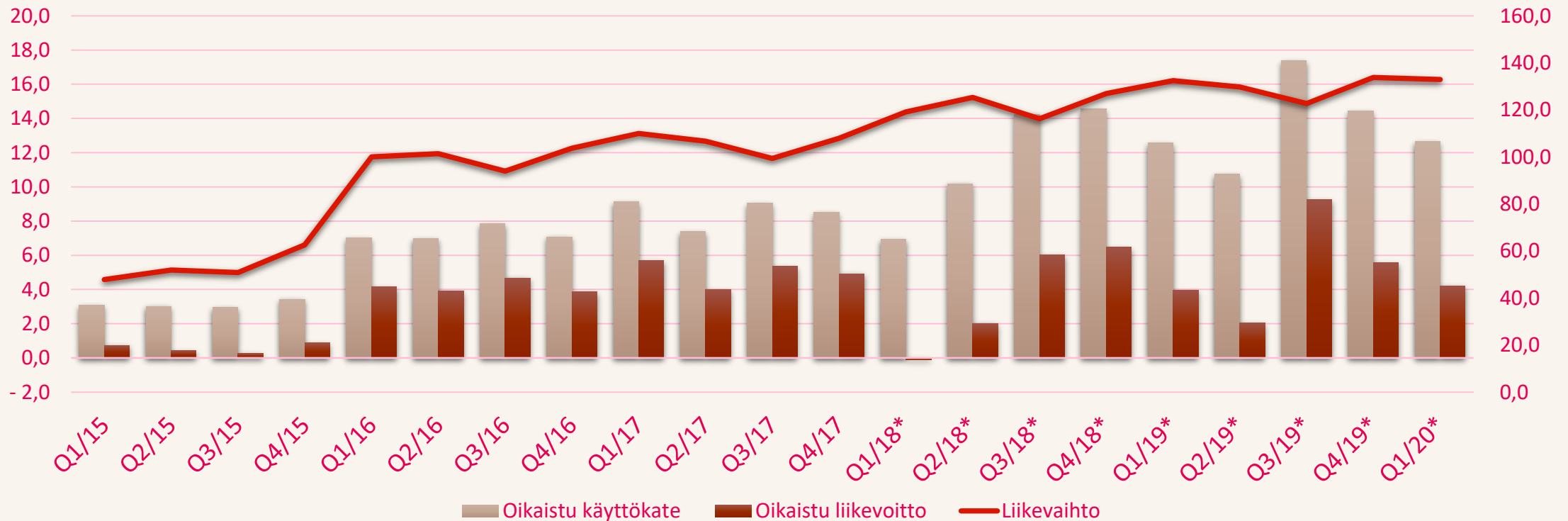
REVENUE BY CUSTOMER GROUP
Q1 2020, %



REVENUE BY CUSTOMER GROUP,
EUR MILLION



Development of profitability, EUR million



* Pihlajalinna adopted the new IFRS 16 Leases standard fully retrospectively on 1 January 2019. Restated comparable financial figures were published on 18 April 2019 for each reporting period in 2018.

Consolidated income statement excluding IFRS 16 effect

EUR million	Q1 2020 excluding IFRS 16 effect	IFRS 16 effect	Q1 2020 Published, i.e. according to IFRS 16
Revenue	133.0		133.0
Other operating income	0.4	-0.1	0.3
Materials and services	-52.7		-52.7
Employee benefit expenses	-56.4		-56.4
Other operating expenses	-16.0	4.0	-12.1
Share of profit in associated companies and joint ventures	0.0		0.0
EBITDA	8.2	3.9	12.1
Depreciation, amortisation and impairment	-5.0	-3.8	-8.8
Operating profit (EBIT)	3.2	0.1	3.3
Financial income	0.0	0.0	0.0
Interest expenses on right-of-use assets	-0.2	-0.4	-0.6
Financial expenses	-0.8		-0.8
Profit before taxes	2.2	-0.3	2.0
Income tax	-0.6	0.1	-0.6
Profit for the period	1.6	-0.2	1.4
Total comprehensive income for the period	1.6	-0.2	1.4
Total comprehensive income for the period attributable:			
To the owners of the parent company	1.5	-0.2	1.3
To non-controlling interests	0.2	0.0	0.1
Earnings per share (EPS)	0.06	-0.01	0.06

Outlook for 2020

Due to the coronavirus epidemic, Pihlajalinna has temporarily withdrawn its outlook for 2020.

Pihlajalinna estimates that it will issue an updated outlook for 2020 later this year.

The business impact of the coronavirus epidemic

- Pihlajalinna temporarily closed all of its fitness centres to slow down the spread of the coronavirus epidemic. The fitness centres were opened on 4 May, subject to restrictions.
- The epidemic has also reduced the demand for non-urgent healthcare and oral healthcare services in particular. In practice, most oral healthcare operations were suspended due to the recommendations issued by the authorities.
- Fixed-price invoicing (such as outsourcings for social and healthcare services) involves a steady recognition of revenue over time. The coronavirus epidemic is also not expected to have a significant effect on the demand for housing services for the elderly or recruitment services.
- The demand for remote services increased manifold compared to the start of the year.
- Adjustment measures concerning all personnel have been initiated.
- The Government's decision to gradually lift restrictions is expected to result in the normalisation of customer flows. In our view, the most significant drop in customer flows caused by the coronavirus epidemic is behind us for now.

Estimating the financial impact of the coronavirus epidemic is challenging

- It is hard to assess and predict the financial impact caused by the emergency laws issued by the Finnish Government and the duration of the coronavirus epidemic on Pihlajalinna's business operations.
- Comprehensively assessing the financial impact of the coronavirus epidemic is also difficult because the pent-up demand for social services and healthcare as well as non-urgent care in wellness services is expected to be released once the situation goes back to normal.
- Should the coronavirus epidemic be prolonged, the national health impact and financial effects of untreated illnesses will be substantial.
- Close cooperation between the public sector and private operators is crucial in managing the coronavirus epidemic.
- The potential second wave of the epidemic and its timing also diminishes the outlook for the rest of the year.

Long-term financial objectives remain the same

- The trends and megatrends that accelerate the growth of Pihlajalinna's business operations have not changed because of the coronavirus epidemic.
- The use of digital services and the structural changes in the production of social services and healthcare may even increase because of the coronavirus epidemic.
- Pihlajalinna's long-term objectives — net debt less than 3 times EBITDA and operating profit over seven per cent of revenue — remain the same.

Tender offer

- Mehiläinen Yhtiöt Oy launched a voluntary recommended cash tender offer for all shares in Pihlajalinna Plc
- The Board of Directors of Pihlajalinna has decided to recommend that the shareholders of Pihlajalinna accept the Tender Offer
- The offer price is EUR 16.00 in cash for each issued and outstanding share in Pihlajalinna
- Together the companies can better serve the client organisations of municipalities, hospital districts and future counties as well as export Finnish social and healthcare expertise to the international market. Together the companies have the opportunity to provide treatment and care of even higher quality for the needs of an ageing Finland.



Schedule of the tender offer

- The tender offer was announced on 5 November 2019.
- **The tender offer period will run until 10 July 2020.**
- The European Commission referred the handling of the combination between the companies to the Finnish Competition and Consumer Authority (FCCA) on 28 January 2020.
- Mehiläinen Yhtiöt Oy submitted a formal merger control notification regarding the public tender offer to the FCCA on 10 February 2020.
- The FCCA completed the first phase of its investigation on 12 March 2020. The FCCA has **initiated the second phase of the investigation, which will be completed on 24 June 2020 at the latest**, unless the Finnish Market Court grants, upon application, an extension (max. 2 months) to the FCCA for investigating the case.
- Based on currently available information, the tender offeror expects to complete the tender offer in the third quarter of 2020.

The Group's operational projects

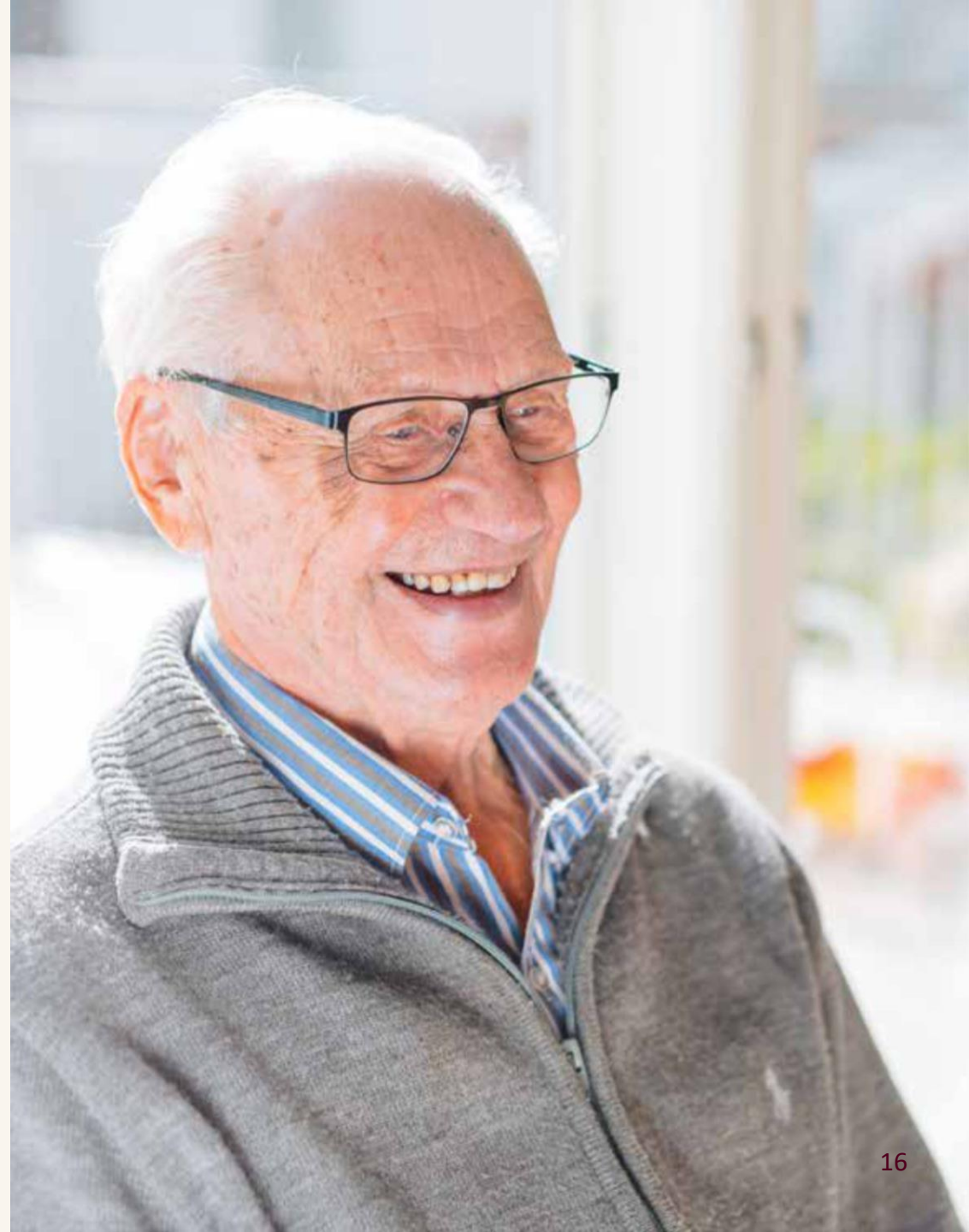
	WHAT WE PROMISED	WHAT WE DID	WHAT WE PROMISE
MAIN	- Heart-related symptom care pathway incorporated into the health application in cooperation with the Heart Hospital <i>Possibility to pay for visits using the health application*</i>	- Heart-related symptom care pathway in cooperation with the Heart Hospital - Care pathway for customers with coronavirus symptoms	Health application and the social and health nurse telephone service introduced in Kuusiolinna and Jämsän Terveys
MID	- Enhancing the customer experience in digital channels - New specialties in remote channels <i>Increasing the multi-channel nature of the health centre model*</i>	Incorporating remote consultations with general practitioners and specialists into the service offering and enabling online bookings.	- Consultation channel between professionals implemented in cooperation with the Heart Hospital - Care pathways for customers with long-term illnesses
LOW	- Expanding the ERP system of company nurses <i>Improving the processes for insurance company customers*</i>	- The expansion of the ERP system of company nurses has been launched - Fixed-price company nurse contract piloted in the health application	- Chat function for online booking - Adding an eKanta interface for customers in the health application

The operating environment

- The pandemic and the measures taken to slow down its spread have weakened economic forecasts across the world. In April, the Ministry of Finance forecast that the Finnish economy will contract by 5.5% this year. At the beginning of May, the European Commission forecast that the Finnish economy will contract by 6.3% this year.
- There is still a need for healthcare and social welfare reform. The current Government aims to submit a proposal to the parliament by the end of 2020, but the assumption is that the prolongation of the epidemic would delay this plan.
- In many municipalities, the prolonged state of uncertainty has put a stop to development and essential investments. Activity has increased among municipalities during the first months of 2020, as they do not want to just wait for a potential reform but to ensure social and healthcare services and jobs.

Review of the operating environment – Pihlajalinna's situation

- Pihlajalinna's view is that partnerships between the public sector and private corporations are a good solution for satisfying the growing demand, and this also holds true during the current epidemic.
- The public sector can make use of private sector resources in solving the coronavirus crisis; for example, by purchasing coronavirus testing and basic specialised care from private operators.
- The coronavirus epidemic has increased the demand for remote services.
- The need for occupational health services has not decreased during the pandemic. Companies have shown a willingness to also purchase testing services from occupational healthcare providers. At the same time, however, massive lay-offs and the decline in private consumption caused by the pandemic have driven companies to cut the contents of their occupational healthcare agreements.
- The Ministry of Social Affairs and Health has already recommended that oral healthcare services, for example, be resumed normally.





Confirmation of partial outsourcing in Kristiinankaupunki

- Kristiinankaupunki selected Pihlajalinna as its partner in social and healthcare services.
- The service agreement on the partial outsourcing and shareholder agreement of the joint venture were signed in December 2019. The term of the contract is at least 15 years but not more than 20 years.
- The realisation of the outsourcing agreement was confirmed at the end of April and service production will begin on 1 January 2021.
- The tendered acquisition concerns some of the city's social and healthcare services (28%).
- The population base is approximately 6,600 people.
- The annual value of the contract is approximately EUR 6 million, which corresponds to approximately EUR 90 million for 15 years without index increases. With the option period taken into account, the total value is approximately EUR 120 million without index increases.

Pihlajalinna's financial reporting in 2020

- Half-year financial report January–June: Friday, 14 August 2020
- Interim report January–September: Wednesday, 4 November 2020

Thank you!

