Pihlajalinna

Interim report Q3/2020

Joni Aaltonen, CEO
4 November 2020

Q3 2020: The demand for healthcare services recovered, earnings per share grew

- Revenue amounted to EUR 123.9 (122.7) million – an increase of 1.0%
- Adjusted EBITDA was EUR 17.2 (17.4) million – a decrease of 0.7%
- Adjusted EBIT was EUR 8.7 (9.3) million – a decrease of 6.5%
- IFRS 3 costs and amortisation related to M&A had a negative effect of EUR 0.8 (1.1) million on operating profit
- Earnings per share (EPS) was EUR 0.20 (-0.06)
- Although the demand for healthcare services recovered, the customer volumes of Pihlajalinna's private clinic locations were still more than 10 per cent lower than in the comparison period.
- COVID-19 testing volumes began to grow significantly in August.

Q3 2020: Main points by region

EUR million	7-9/2020	%	7-9/2019	%	change	change %
Southern Finland	**27.4**	**20**	**26.0**	**19**	**1.4**	**5.4**
Mid-Finland	76.9	55	77.8	56	-0.9	-1.2
Ostrobothnia	29.0	21	28.6	21	0.4	1.4
Northern Finland	3.4	2	3.3	2	0.1	3.9
Other operations	2.4	2	2.4	2	0.0	0.7
Intra-Group sales	-15.3		-15.4		0.1	
Total consolidated revenue	**123.9**	**100**	**122.7**	**100**	**1.2**	**1.0**

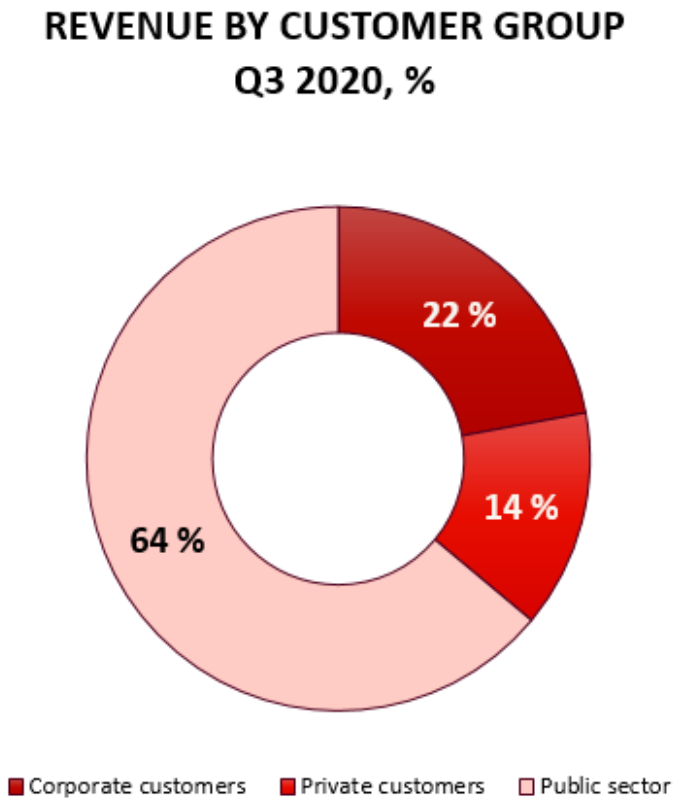
- **Southern Finland: +5,4%.** COVID-19 testing increased the revenue for the business area by EUR 1.8 million. Revenue from occupational healthcare services was also increased by the higher number of customer companies and individual customers. The lower customer volumes caused by the restrictions in place in the spring and the prevailing COVID-19 situation led to the revenue of fitness centres declining by EUR 0.8 million.
- **Mid-Finland: –1,2%.** COVID-19 testing increased the revenue for the business area by EUR 1.4 million, but this did not fully compensate for the lower other demand for private clinic services and occupational healthcare services. The healthcare service agreement with Hattula as well as agreements concerning reception centre operations expired.
- **Ostrobothnia: +1,4%.** The region's revenue remained stable thanks to the steady recognition of revenue from the complete outsourcing agreement and annual price adjustments.
- **Northern Finland: +3,9%.** COVID-19 testing increased the revenue for the business area by EUR 0.2 million.

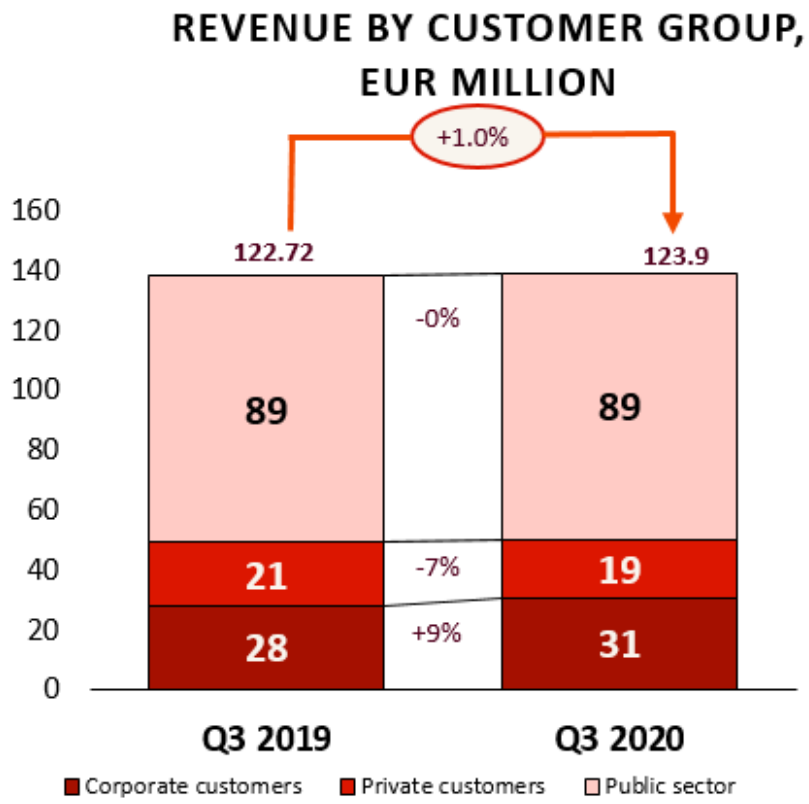
Q3 2020: Main points by customer group

EUR million	7-9/2020	%	7-9/2019	%	change	change-%
Corporate customers	**30.7**	**22**	**28.1**	**20**	**2.6**	**9.4**
of which insurance company customers	6.4	5	5.9	4	0.5	8.5
Private customers	19.5	14	21.0	15	-1.6	-7.5
Public sector	88.9	64	89.0	64	0.0	0.0
Intra-Group sales	-15.3		-15.4		0.1	
Total consolidated revenue	**123.9**	**100**	**122.7**	**100**	**1.2**	**1.0**

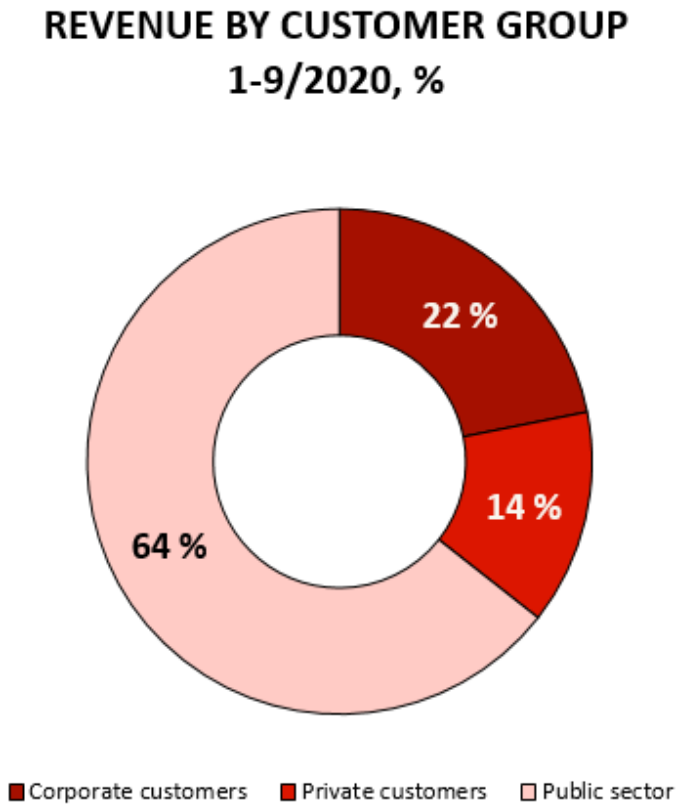
- **Corporate customers: +9,4%.** Sales to insurance company customers increased by EUR 0.5 million, or 8.5 per cent. In the corporate customer group, revenue from COVID-19 testing came to EUR 2.0 million.
- **Private sector: –7,5%.** The decline in customer volumes caused by the COVID-19 restrictions in the spring still reduced the revenue of fitness centres by EUR 0.7 million, or 19 per cent. Among private customers, the demand for private clinic services decreased by 6 per cent and the demand for dental care services decreased by 8 per cent. In the private customer group, revenue from COVID-19 testing came to EUR 0.5 million.
- **Public sector:** Complete outsourcings of social and healthcare services represent the majority of the revenue. The healthcare service agreement with Hattula as well as agreements concerning reception centre operations expired. The demand for public sector occupational healthcare services and responsible doctor services grew. In the public sector customer group, revenue from COVID-19 testing came to EUR 0.9 million. The epidemic-related costs of complete social and healthcare service outsourcing arrangements, such as COVID-19 testing, do not increase Pihlajalinna's revenue.

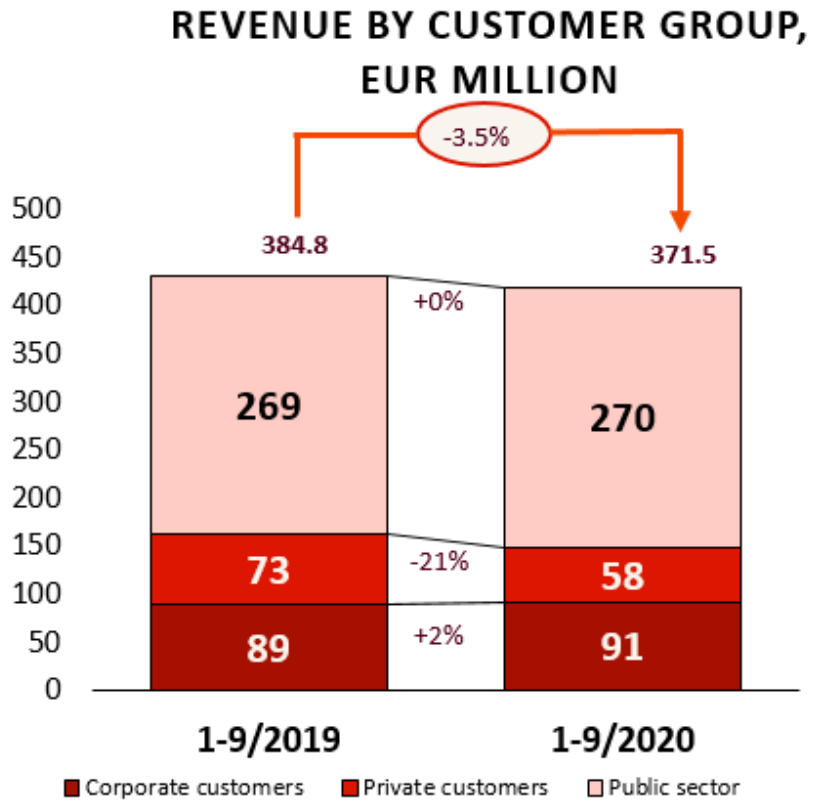
Revenue by customer group Q3 2020





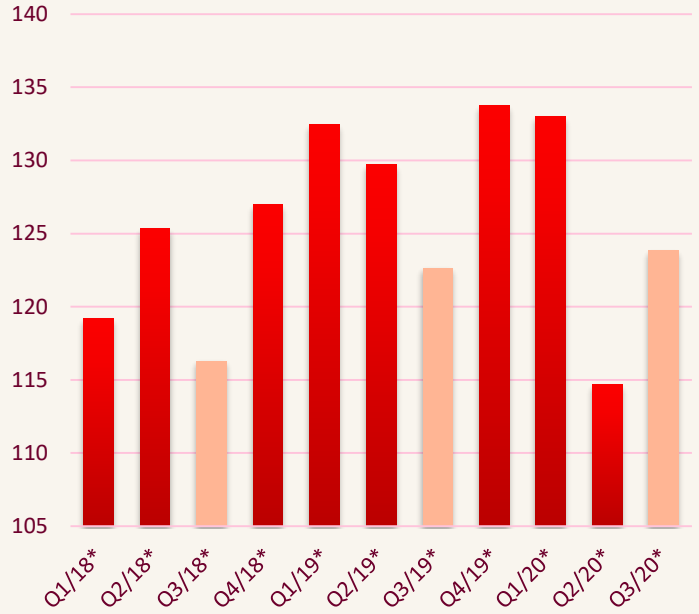
Revenue by customer group 1–9/2020



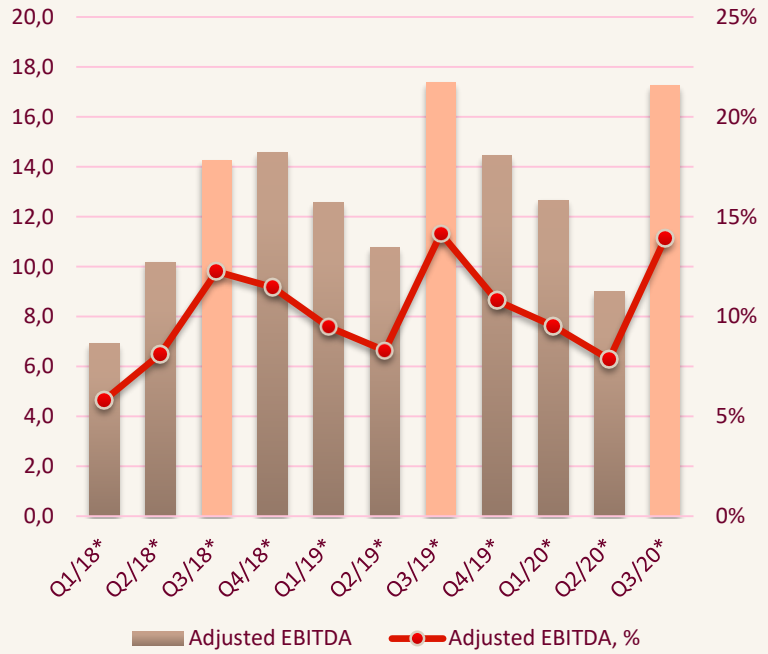


Consolidated Revenue and profitability, EUR million

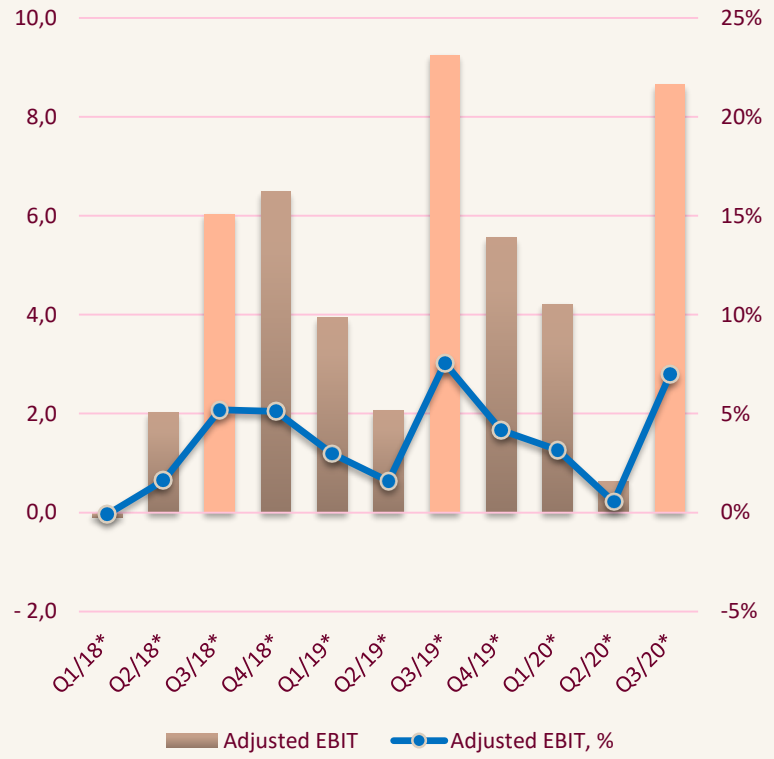
Revenue



Adjusted EBITDA



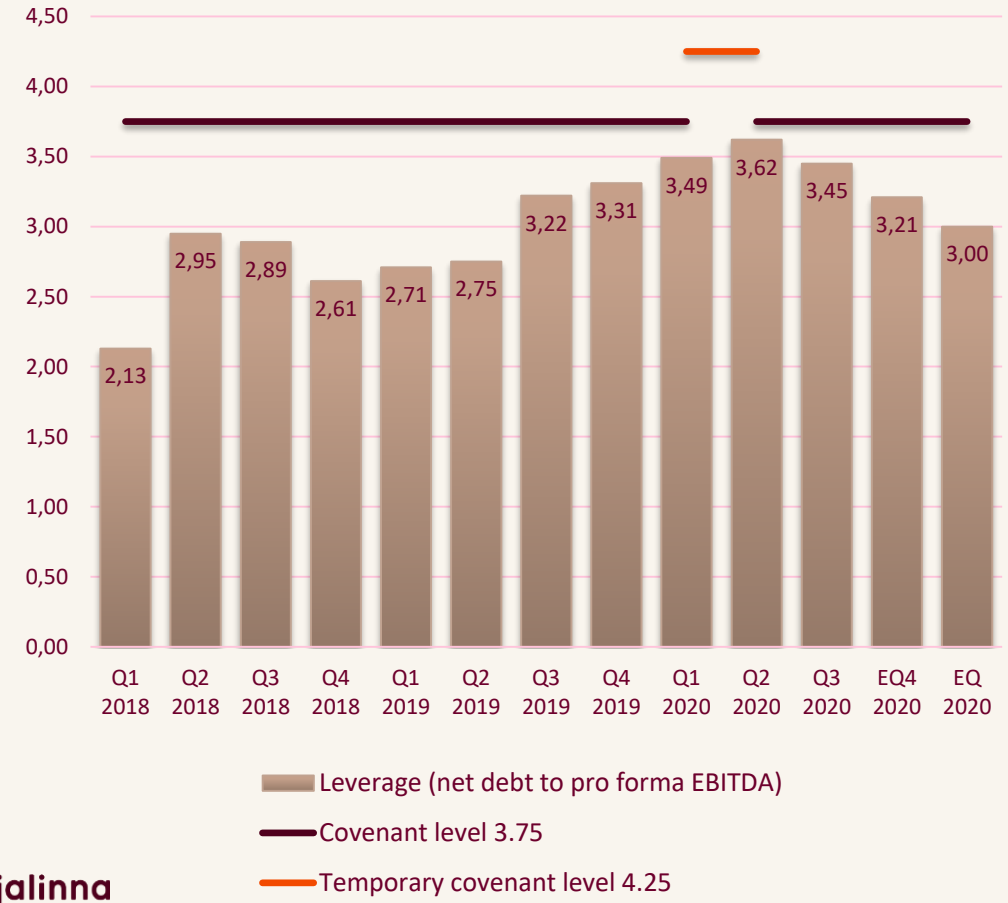
Adjusted EBIT, target > 7 %



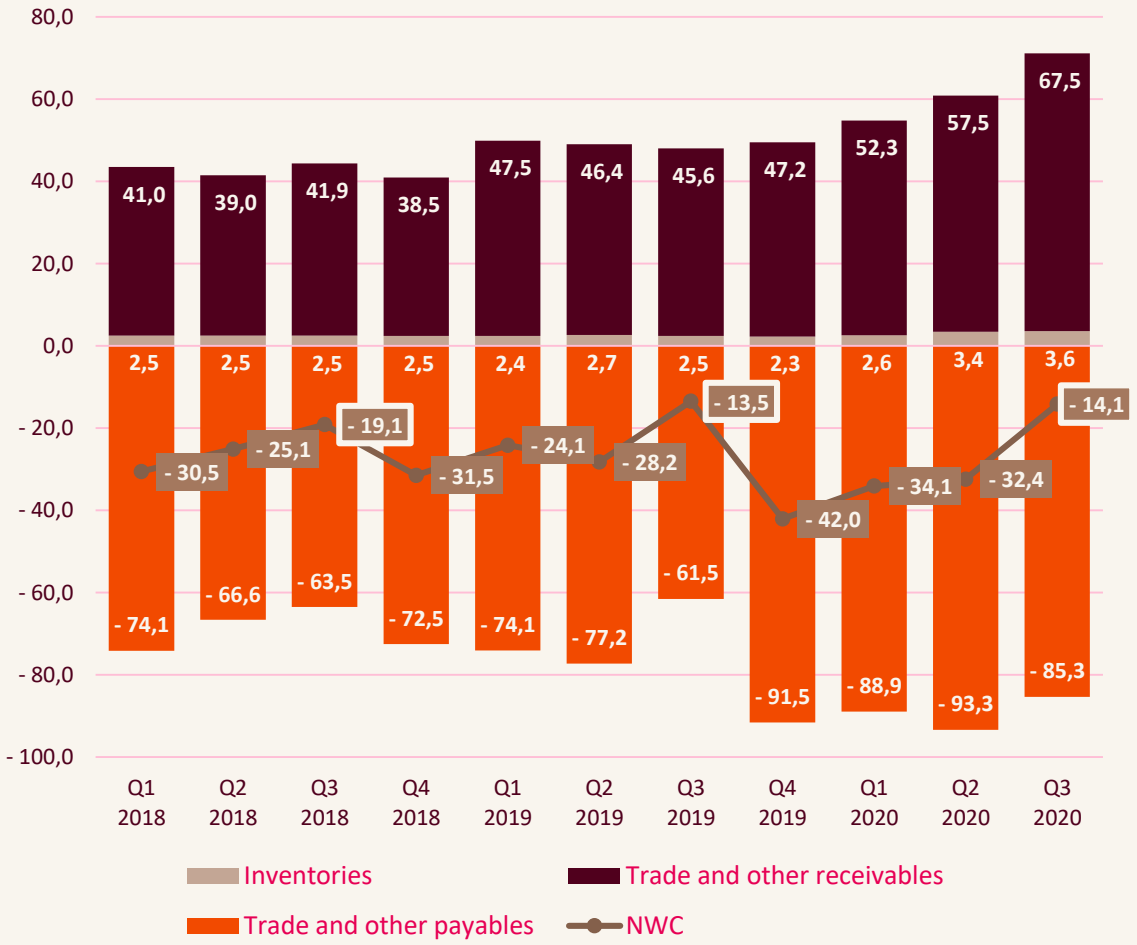
* Pihlajalinna adopted the new IFRS 16 Leases standard fully retrospectively on 1 January 2019. Restated comparable financial figures were published on 18 April 2019 for each reporting period in 2018.

Indebtedness and Net Working Capital, EUR million

Leverage according to the financing arrangement (frozen GAAP)



Net Working Capital, FAS



Outlook for 2020

It is still hard to assess and predict the financial impacts of the duration of the COVID-19 situation.

National or regional restrictions connected to the second wave of COVID-19 will have a negative effect on consumer demand.

At the same time, COVID-19 testing, working through the queues in the public sector and the release of other pent-up demand help compensate for the decline in consumer demand.

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.

Trends and megatrends that boost business growth

The situation in the public sector

Finland's economic situation has been weak for years and the public sector has become indebted. Especially municipalities have run into difficulties as the costs of care have increased and, at the same time, tax revenue has decreased. Economic difficulties have led to the public sector's willingness to outsource services and seek more efficient ways to produce effective services.

Ageing

In Finland, the population is ageing faster than in any other European country. According to the forecast of Statistics Finland, the number of citizens over 65 will total almost 1.3 million by 2020 and reach 1.5 million by 2030. As those over 65 use the majority of social and healthcare services, the demand for and the costs of the services are expected to increase.

Lifestyle diseases and the distribution of wellbeing

Previously, people fell ill with viral and infectious diseases, for instance, while nowadays the most common diseases among Finns are lifestyle-related. For the working-age population, the most common factors leading to death are tumours, diseases of the circulatory system and use of alcohol. In Finland, health inequalities are relatively large and depend on the level of education, among other factors. In order to curb costs, there needs to be emphasis on prevention and rapid access to care.

Interest in health and wellbeing

On average, Finns smoke less, eat more healthily and exercise more in leisure time. Wellness trends also drive consumer habits, such as nutrition-related choices and the use of health and sports services. The development of lifestyle choices has been fastest among those with higher education.

The increase in the number of voluntary insurance policies

The number of voluntary medical expenses insurance policies has clearly increased in recent years. The reasons behind this include concern about the availability of public services and the need to ensure rapid access to care. At the beginning of 2018, nearly 1.2 million Finns had a voluntary medical expenses insurance policy. We assume that the demand for voluntary insurance policies will continue to grow at least until 2020.

Individuality, freedom of choice and expression of will

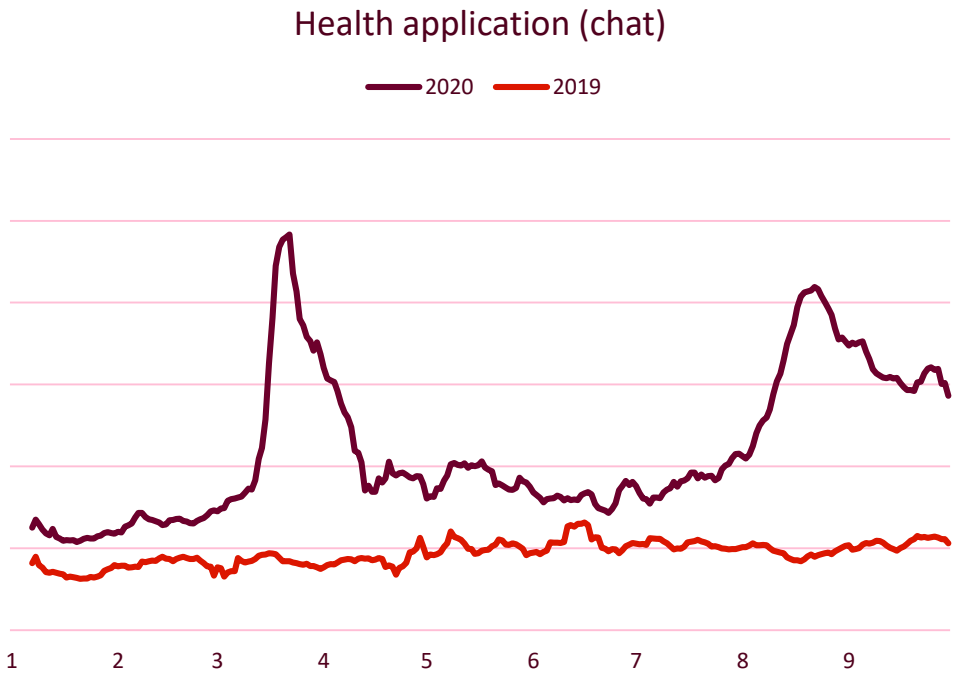
People expect healthcare services to be more effective and of higher quality. The need for individual solutions has increased and technology has strengthened this trend. The majority of Finns want to increase freedom of choice in social and healthcare services. An increasing number of people have sought to ensure their freedom of choice with a medical expenses insurance policy, for instance.

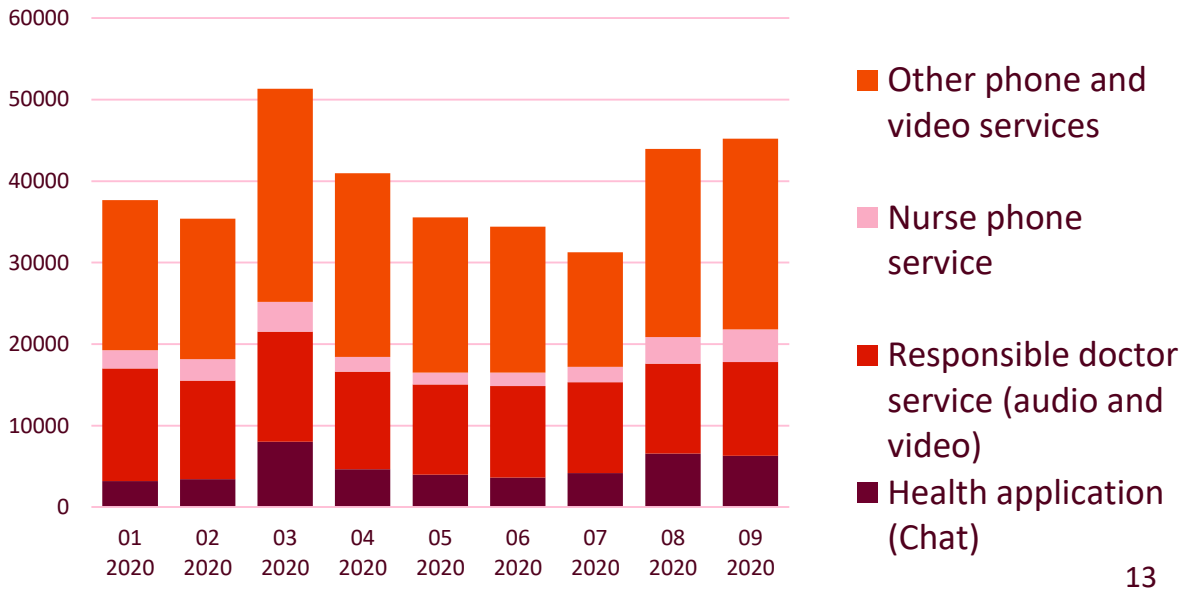
COVID-19 testing

- The volume of COVID-19 testing began to grow significantly in August, and the testing operations increased the quarterly revenue by EUR 3.4 million.
- In September, the number of COVID-19 tests performed by Pihlajalinna was even higher than in August.
- Testing operations are expected to continue and potentially grow further, as Pihlajalinna has been chosen to provide COVID-19 sampling services for HUS in the Helsinki Metropolitan Area, Central Uusimaa and Southeast Finland.
- New COVID-19 testing locations will be opened as necessary.
- Pihlajalinna is also starting antigen testing using the Aidian rapid test method, which produces a result in as little as 15 minutes.

Pihlajalinna's remote services

- Revenue from remote services grew in the third quarter, particularly in chat and video appointments.
- Remote services have been expanded to complement private clinic and occupational healthcare services as well as the public services of the joint ventures between Pihlajalinna and municipalities.
- The user volumes of remote services grew significantly in the spring and early autumn.





Pursuing strong growth in occupational healthcare services

- Pihlajalinna was selected as the best service provider in a public bidding competition organised for the sale of Työterveys Virta Oy's share capital and occupational healthcare services.
- The aim is to finalise the transaction and the acquisition of occupational healthcare services based on acquisition agreements by the end of January 2021.
- This transaction represents a strategically important success, as it provides growth potential in the Oulu region and the surrounding municipalities and substantially strengthens Pihlajalinna's business in the entire region of North Ostrobothnia.
- The acquisition will give Pihlajalinna a nearly 30 per cent share of the occupational healthcare market in the Oulu region, creating the opportunity to also significantly increase the provision of private clinic, diagnostics and hospital services compared to the current level.

Expansion on public services

- Service production will begin on 1 January 2021 on the partial outsourcing of social and healthcare services in Kristiinankaupunki. The outsourcing arrangement includes, for example, primary care outpatient appointments, rehabilitation, dental care services and inpatient services.
- In Jyväskylä, the outsourcing agreement for the Huhtasuo health centre won by Pihlajalinna will take effect in December 2020.

Tender offer

- Mehiläinen Yhtiöt Oy’s voluntary cash tender offer for all shares in Pihlajalinna Plc was published on 5 November 2019.
- **The tender offer period will run until 20 November 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 initiated the second phase of the investigation. The Finnish Market Court granted, upon application, an extension of 46 working days (the maximum statutory extension) to the FCCA for investigating the case.
- **The FCCA announced on 29 September that the FCCA has closed its investigation of the merger between Mehiläinen and Pihlajalinna and proposed the Finnish Market Court to prohibit the merger.**

Continued development of Pihlajalinna's digital services

Health application:

- Multi-language support
- eDiabetes service
- Occupational health nurse chat for all occupational health customers
- Appointment reservation chat for municipal customers

Pihlajalinna.fi website

- COVID-19-related development
- Service search tool
- Strong authentication

Occupational healthcare portal:

- Development of reporting
- Expanding corporate sign-on

We place a very high priority on data protection and information security

- The protection of patient and customer data is of utmost importance to Pihlajalinna.
- Pihlajalinna complies with the EU General Data Protection Regulation (GDPR) and the guidelines issued by the authorities regarding the processing of personal data.
- As their primary patient data system, Pihlajalinna's private clinics use the DynamicHealth system supplied by Tieto Finland Oy, which fulfils the security requirements for a Class A information system for social and healthcare services.
- Pihlajalinna also uses other systems for purposes such as customer data management and online reservations. The information security of these systems is continuously monitored and developed.
- In addition to using technical information security hardware and software, we also ensure information security by working together with an independent third party, the SOC (Security Operations Center).

The operating environment – healthcare and social welfare reform

- The most significant proposals for changes received during the consultation round concerned the financing, steering and self-government of social and healthcare services, the responsibility for service provision, outsourced services and the nullification of agreements, the transfer of responsibilities between municipalities and the wellbeing services counties, the cooperation agreement between the wellbeing services counties and the schedule of implementation of the reforms.
- The draft submitted to the Finnish Council of Regulatory Impact Analysis includes the following proposals:
    - The new self-governing areas foreseen in the health and social services reform would be renamed wellbeing services counties.
    - The requirements concerning private service providers would be clarified with due regard to the content and scope of the totality of services procured by the wellbeing services counties.
    - There is strong evidence that service provision based on outsourcing has helped municipalities and joint municipal authorities improve the quality and availability of services and keep the growth of costs under control.
- The plan is to have the draft submitted to the Parliament in December 2020. Under the current plan, the responsibility for organising social and healthcare services would be transferred to the wellbeing services counties starting from 1 January 2023.
- On 5 October 2020, Pihlajalinna Plc petitioned the Chancellor of Justice to investigate the drafting of the legislation on social and healthcare services.
- According to a report released by the National Audit Office of Finland on 27 October 2020, the proposed funding model for social and health services offers little incentives for service providers to control the growth of costs.

The operating environment

- The need for occupational healthcare services has not decreased during the epidemic. Companies have also purchased testing services from occupational healthcare providers to prevent unnecessary extended absences, for example, and keep the wheels of society turning.
- At the same time, however, massive lay-offs and the decline in private consumption caused by the epidemic have driven companies to cut the contents of their occupational healthcare agreements.
- Non-urgent care has been temporarily reduced due to the epidemic, which is reflected in longer queues for treatment.
- According to the Finnish Institute for Health and Welfare, the number of people who have waited for treatment for more than six months grew in the hospital districts during the summer. At the end of August 2020, nearly 137,000 patients were waiting for access to treatment at the hospital districts' hospitals. Of those waiting for treatment, 13 per cent had waited for access to non-urgent care for more than the maximum period of 180 days stipulated by the legislation on the treatment time guarantee.

Pihlajalinna’s financial reporting in 2021

- Financial statements bulletin 2020: Friday, 19 February 2021
- Financial statements and Board of Directors’ report: no later than in week 13
- Interim report January–March: Friday, 7 May 2021
- Half-year financial report January–June: Friday, 13 August 2021
- Interim Report January–September: Thursday, 4 November 2021


Thank you!