



# Pihlajalinna's Interim Report 1 Jan–31 Mar 2023: Organic growth and efficiency improvement measures improved profitability – financial position strengthened

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## Organic growth and efficiency improvement measures improved profitability – financial position strengthened

This interim report is unaudited. The comparison figures in brackets refer to the corresponding period in the previous year.

### A brief look at January-March:

- Revenue amounted to EUR 187.8 (163.1) million – an increase of EUR 24.7 million, or 15.1 per cent.
- COVID-19 services<sup>1)</sup> revenue amounted to EUR 0.3 (8.4) million – a decrease of EUR -8.0 million.
- Organic growth was EUR 13.5 million, or 8.3 per cent. Without COVID-19 services, organic growth would have been EUR 21.5 million, or 13.2 per cent.
- The effect of M&A transactions<sup>2)</sup> on revenue growth was EUR 11.2 million, or 6.9 per cent.
- Adjusted EBITDA was EUR 21.4 (16.5) million – an increase of 30.0 per cent.
- Adjusted operating profit before the amortisation and impairment of intangible assets (EBITA)<sup>3)</sup> was EUR 11.0 (7.8) million – an increase of 41.4 per cent.
- Earnings per share (EPS) was EUR 0.24 (0.23).
- The customer volumes<sup>4)</sup> of private clinics grew by 36 per cent year-on-year (23 per cent without M&A transactions), with remote services representing 38 per cent of all appointments.
- The sale of Pihlajalinna's dental care services to Hammas Hohde, which was announced at the end of the year 2022, was completed on 31 March 2023.
- Pihlajalinna issued EUR 20 million hybrid bond on 27 March 2023. The issue ensures that the Group has leeway in executing its strategy and stabilising its financial position.
- The Group's CEO changed: Pihlajalinna's founder and Chair of the Board of Directors Mikko Wirén started as interim CEO on 9 March 2023.

<sup>1)</sup> COVID-19 services include COVID-19 testing, sample collection, vaccination and other potential services that are directly related to managing the COVID-19 pandemic.

<sup>2)</sup> Pohjola Hospital Ltd 1 February 2022, Etelä-Savon Työterveys Oy 1 April 2022, Lääkärikeskus Ikioma Oy 1 April 2022, Punkkibussi® business 1 April 2022, MediEllen Oy 1 September 2022, Seppämagneetti Oy and Seppälääkärit Oy 1 October 2022.

<sup>3)</sup> Alternative performance measure. In addition to the IFRS figures, Pihlajalinna presents additional, alternative performance indicators which the company monitors internally, and which provide the company's management, investors, stock market analysts and other stakeholders with important additional information concerning the company's financial performance, financial position and cash flows. These performance indicators should not be reviewed separately from the IFRS figures, and they should not be considered to replace the IFRS figures.

<sup>4)</sup> Excluding municipal outsourcing, COVID-19 testing and dental care services.

	1-3/2023 3 months	1-3/2022 3 months	change %	2022
<b>INCOME STATEMENT</b>				
Revenue, EUR million	187.8	163.1	15.1	690.5
EBITDA, EUR million	23.0	9.3	148.5	54.4
EBITDA, %	12.3	5.7	115.8	7.9
Adjusted EBITDA, EUR million <sup>1)</sup>	21.4	16.5	30.0	64.2
Adjusted EBITDA, % <sup>1)</sup>	11.4	10.1	12.9	9.3
Adjusted EBITDA excluding IFRS 16, EUR million 12 months <sup>1)</sup>	43.7	49.1	-11.0	40.2
Operating profit (EBIT), EUR million	10.5	-1.2	983.7	8.9
Operating profit (EBIT), %	5.6	-0.7	867.5	1.3
Adjusted operating profit (EBIT), EUR million <sup>1)</sup>	8.9	5.9	51.0	18.6
Adjusted operating profit (EBIT), % <sup>1)</sup>	4.8	3.6	31.1	2.7
Adjusted operating profit before the amortisation and impairment of intangible assets (EBITA), EUR million <sup>1)</sup>	11.0	7.8	41.4	26.7
Adjusted operating profit before the amortisation and impairment of intangible assets (EBITA), % <sup>1)</sup>	5.9	4.8	22.8	3.9
Profit before tax (EBT), EUR million	7.5	-2.7	381.3	1.5
<b>SHARE-RELATED INFORMATION</b>				
Earnings per share (EPS), EUR	0.24	0.23	4.0	0.42
Equity per share, EUR	6.58	5.50	19.8	5.50
<b>OTHER KEY FIGURES</b>				
Return on capital employed (ROCE), %	4.1	5.1	-20.3	2.3
Return on equity (ROE), %	8.1	13.9	-41.9	6.2
Equity ratio, %	22.2	20.5	8.3	18.6
Gearing, %	247.2	288.4	-14.3	313.8
Interest-bearing net debt, EUR million	364.7	359.6	1.4	385.7
Net debt/adjusted EBITDA, 12 months <sup>1)</sup>	5.3	5.4	-2.3	6.0
Gearing, excluding IFRS 16, % <sup>1)</sup>	100.5	117.4	-14.4	139.95
Interest-bearing net debt excluding IFRS 16, EUR million <sup>1)</sup>	153.8	149.9	2.6	178.6
Net debt/adjusted EBITDA, excluding IFRS 16, 12 months <sup>1)</sup>	3.5	3.1	15.2	4.4
Gross investments, EUR million <sup>2)</sup>	21.7	176.1	-87.7	234.5
Cash flow from operating activities, EUR million	18.9	15.5	21.9	64.9
Cash flow after investments, EUR million	13.1	-28.2	146.5	-18.6
Average number of personnel (FTE)	5,216	4,819	8.3	5,167
Personnel at the end of the period (NOE)	7,094	6,623	7.1	7,016
Practitioners at the end of the period	2,072	1,691	22.5	1,812
NPS, private clinics	78.4	76.7	2.22	77.1
NPS, municipal outsourcing activities	70.4	72.8	-3.30	72.6

<sup>1)</sup> Significant transactions that are not part of the normal course of business, are related to business acquisition costs (IFRS 3), are infrequently occurring events or valuation items that do not affect cash flow are treated as adjustment items affecting comparability between review periods. According to Pihlajalinna's definition, such items include, for example, restructuring measures, impairment of assets and the remeasurement of previous assets held by subsidiaries, the costs of closing businesses and business locations, gains and losses on the sale of businesses, costs arising from operational restructuring and the integration of acquired businesses, costs related to the termination of employment relationships as well as fines and corresponding compensation payments. Pihlajalinna also presents costs according to the IFRS Interpretations Committee's new Agenda Decision concerning cloud computing arrangements, and reversals of amortisation, as adjustment items.

EBITDA adjustments amounted to EUR -1.6 (7.2) million for the review period. Adjustments to operating profit amounted to EUR -1.6 (7.1) million for the review period.

<sup>2)</sup> Assets acquired via leases are regarded as equal to assets acquired by the Group itself, meaning that right-of-use assets pursuant to IFRS 16 are included in gross investments.

## 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 amortization and impairment of intangible assets (EBITA) to improve from the previous year's level (EUR 26.7 million in 2022).
- The Group has initiated measures to strengthen its financial position. Change negotiations that were concluded in March 2023 and efficiency improvement programs in complete outsourcing agreements are expected to improve Pihlajalinna's profitability. Price increases are expected to compensate the effects of inflation.

The outlook for 2023 involves uncertainty related to the high inflation in the euro area, development of costs in general and the development of wages in particular. The impacts of the commencing wellbeing services counties and COVID-19 on the social and healthcare sector also remain uncertain. Slowed economic growth, weakened consumer confidence and rising market interest rates may affect Pihlajalinna's service demand and financial result more than expected.

### Pihlajalinna's interim CEO Mikko Wirén:

During the review period, Pihlajalinna changed its focus from M&A transactions and the growth of the network of operating locations to improving the profitability of the Group's existing business operations. Pihlajalinna has continued to concentrate on organic growth while at the same time changing its focus to systematic management, the efficacy of services produced for customers, and the occupational wellbeing of the company's personnel.

During the review period, Pihlajalinna's revenue increased by 15.1 per cent to EUR 187.8 million (163.1). The strong organic growth of private healthcare services continued at a rate of nearly 24 per cent. This corresponds to organic growth of EUR 21.1 million, excluding the decline of EUR 8 million in COVID-19 services. The organic growth was driven particularly by the successful growth of supply and the capacity of operating locations, as well as the positive development of customer sales. Compared to the beginning of 2022, the number of practitioners has increased approximately by 1 000 or by 94 per cent. Adjusted EBITA increased by 41.4 per cent to EUR 11.0 million (7.8). Profitability was improved particularly by continued strong organic growth, the improved capacity utilisation rate of operating locations, price increases, and the realisation of the efficiency improvement measures initiated in 2022 in public services.

For Pihlajalinna, 2023 began with several changes. The company has simplified its operating model and, consequently, the structure of the Management Team. In addition, we moved from eight geographical areas to five in private healthcare services. As a result of the change negotiations, we improved the efficiency of our operations by adjusting the share of administrative duties for healthcare professionals and by reducing 67 other position. As a result of these actions, we estimate to achieve annual cost savings of approximately EUR 4.5 million.

We also completed the sale of our dental care services at the end of March 2023. The divestment simplifies our business structure. However, we will use a strong partnership model to continue to provide dental care services for our occupational healthcare customers, for example. During the review period, we decided that four operating locations will be closed or combined with other operating locations in the same area. This will result in cost savings of approximately EUR 0.5 million. The effects of the divestment of dental care services, the simplification of the network of operating locations and the change negotiations on Pihlajalinna's profit performance will become evident gradually from the second quarter of 2023 onwards.

We will continue to assess our network of operating locations and the integration of acquired companies. We were successful in integrating Pohjola Hospital into Pihlajalinna in 2022. We have significantly increased the supply of high value-added services at the units compared to the companies' previous service provision. While the synergies from the other acquisitions carried out in 2022 have been delayed, they will be realised during this year.

In March 2023 we issued a EUR 20 million hybrid bond in a challenging operating environment. The hybrid bond ensures that the Group has leeway in executing its strategy. The net proceeds from the transaction were used for the repayment of drawings under Pihlajalinna's existing revolving credit facility. Due to improved profitability, the sale of the dental care services and the issue of the hybrid bond, the company's financial position improved significantly during the review period, and the waiver terms of the creditor banks ceased to be in effect, which reduces the cost of the company's debt.

The newly established wellbeing services counties started their operations in challenging circumstances at the beginning of 2023. The queues for non-urgent specialised care continued to grow, with over 160,000 customers waiting. The tightened care guarantee and staffing requirements further increases difficulties when at the same time the availability and retention of personnel are challenging, and labor costs are rising along with the general cost inflation. The number of patients waiting treatment for longer than stipulated by the legislation governing the care guarantee is rising significantly. The supervising authorities did not act in response to the situation during the COVID-19 pandemic. It is clear that current situation cannot continue for long. As a company, we have reacted to the situation by increasing the efficiency of our own operations in order to adapt to the upcoming changes in wages. We also offer innovative cooperation models to the wellbeing services counties to relieve the challenging situation.

We have continued our negotiations with the Pirkanmaa, Central Finland and South Ostrobothnia wellbeing services counties regarding service referrals and cost sharing under our complete outsourcing agreements. The agreements remain in effect, but the discussions on the division of responsibilities are still ongoing.

The strong growth of remote services continued. In review period remote appointments represented 38 per cent of all appointments. The significance of remote services is emphasised particularly in our occupational healthcare segment, where we now serve over 280,000 end customers. We will continue to strengthen our multi-channel services this year in all of our customer groups and ensure the role of remote services as part of a comprehensive chain of care.

Our highly competent professionals are Pihlajalinna's most important asset. At the end of the review period, the Group had 7,094 employees and 2,072 practitioners. This year, we are focusing heavily on promoting the occupational wellbeing of our personnel. We launched a key project on work ability management in collaboration with Finland's leading pension insurance companies. The project aims to improve job satisfaction for all Pihlajalinna's personnel and address the exceptionally high rate of sickness-related absences. As a part of the project, we have specified sickness-related absence rate calculation to be in line with the generally used model defined by Confederation of Finnish Industries. The sickness-related absence rate in 2022 was 6.7 per cent. In the review period the sickness-related absence rate was 6.3 per cent when year earlier it was 8.0 per cent.

We will continue with our initiated determined measures to strengthen Pihlajalinna's profitability and financial position. The assessment of the network of operating locations and the integration of the acquired business to achieve synergies will continue. Following the change in our operating model and several acquisitions, we will ensure that the company has the best day-to-day management practices in place at all levels of the organisation. I am confident that the joint action taken by all our personnel will produce both short-term and long-term results in our operations.

## **Webcast for analysts and media**

Pihlajalinna will organize a live webcast meeting for analysts, investors and media today, on 28 April 2023 at 9:30 a.m. at <http://pihlajalinna.videosync.fi/q1-2023/register>. The event will be conducted in Finnish. The recording of the event will be available later on the same website as the live webcast.

Pihlajalinna Plc's full Interim Report for January–March 2023 is attached to this release and available at company's [website](#).

## **Further information:**

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## **Pihlajalinna in brief**

Pihlajalinna is one of the leading providers of private healthcare and wellbeing services in Finland. The Group produces doctor's appointment services and specialised care, occupational healthcare and oral healthcare services, and residential and welfare services. To public entities Pihlajalinna offers social and healthcare service production models, in which the cooperation between the public and private sectors guarantees high-quality services for citizens. In 2022, Pihlajalinna's revenue was 690.5 million euros. More than 7,000 employees and more than 2,000 practitioners work at Pihlajalinna. Pihlajalinna's shares are listed on Nasdaq Helsinki Oy. Read more [www.pihlajalinna.fi](http://www.pihlajalinna.fi).