

Press release, 19 July 2019

Attendo's report for the second quarter 2019: Challenges in Finland pressures profitability

Attendo reports continued healthy growth but also considerably lower profit during the second quarter of 2019. The lower result is mainly explained by structural cost increases and challenges related to the rapid growth in the Finnish operations. Meanwhile, Attendo Scandinavia is showing a steady development.

President and CEO Martin Tivéus comments on the report

"The first half of the year has been very challenging for Attendo's Finnish operations, which is not least visible in the second quarter. As we announced in June, we are taking forceful actions in order to restore occupancy and profitability, including strengthening management in Finland, reducing the number of openings going forward, renegotiating contracts and implementing the previously announced quality improvement programme.

Net sales increased by 9 percent during the quarter to SEK 2,990m. Organic growth from own homes remains positive, while we are seeing a decline in outsourcing.

Operating profit (EBITA) amounted to SEK 121m, in line with the forecast we issued in mid-June. Adjusted for seasonal fluctuations, second quarter results have been assessed as reflecting the underlying profit run-rate. Given the profitability development, we take actions to strengthen the cash flow and maintain a long-term financing solution, which includes renegotiation of the current bank loans in 2019.

We opened a total of more than 600 new beds in own operations during the quarter. The total number of beds at the end of the quarter was more than 16,200, an increase of 12 percent compared with the same period last year. We are reducing the establishment rate in Finland, but due to long lead-times, there is limited scope to reduce the number of openings this year and during the first half of 2020. We expect approximately 1,800 openings in 2019 and about 1,700 opening in 2020. There will also be a gradual shift towards more openings in Scandinavia and fewer in Finland. Average occupancy is currently 79 percent, while mature units are demonstrating occupancy of around 90 percent.

Stable underlying development in Attendo Scandinavia

Our Scandinavian operations are demonstrating underlying stable development and we have several exciting projects in the pipeline. The positive profit trend continued in home care and has stabilised in individual and family care. Sales, occupancy and profits in own homes were stable. However, revenues and profits fell sharply in outsourcing in relation to the second quarter of 2018, an effect of expired contracts with good margins and generally weak development in the area. Consequently, underlying profits for the quarter decreased compared to the corresponding quarter last year. We carried out some minor acquisitions in home care during the quarter and began construction of four new units with a total of 235 beds.

Strong profit squeeze in Attendo Finland

Profits fell compared to the previous year and in relation to the first quarter. The main reasons are higher costs due to stricter staffing requirements and the continued high rate of openings required under already signed contracts. In addition, we have also seen very low

sales of new beds during the quarter, mainly as a result of difficulties to recruit staff for new units.

We have also observed longer lead times for permits to open new units and, to a certain extent, lower than expected demand for nursing home beds in certain municipalities. With continued high opening pace, weak sales have strong negative impact on occupancy and thus profits.

Structurally, costs in Finland have increased sharply in the aftermath of stricter regulatory requirements, related to measures to comply with stricter staffing requirements and the action programme to strengthen the brand, quality and staff training. Costs for these actions and other direct measures related to manage the emerged situation amounted to almost SEK 70m in the second quarter. Difficulties in increasing occupancy and profitability in units derived from the Mikeva acquisition are additional causes of the weak profit development.

As we announced in June, we are taking several actions to improve profitability and strengthen the Finnish operations:

- We are reinforcing management with a new business area director, Virpi Holmqvist. Holmqvist has outstanding experience; of the sector, as a leader, and from Attendo as a previous employee. The current business area director, Pertti Karjalainen, will transition to a new role focused on sales and customer relationships.
- We will significantly reduce the number of new establishments going forward until we see clear signs of higher sales and occupancy. Considering already signed contracts, the reduction will have clear impact first in 2020 and onwards.
- Better access to qualified labor is a prerequisite for receiving new customers. We strengthen the central and regional support functions for recruitment, we have ongoing campaigns and we increase the recruitment of Philippine nurses to Finland.
- We are strengthening the sales organisation and shifting focus from new establishments to increasing occupancy in existing units. Attendo is working to terminate a few units where the potential to fill beds has been assessed as unsatisfactory.
- As our contracts expire in Finland, we seek compensation for stricter requirements in negotiations with the municipalities. The absolute majority of contracts will be renegotiated by the end of 2021. These contracts together sum up to a large part of Attendo Finland's revenues.
- As previously announced, Attendo has an ongoing action programme aimed at further improving quality, employee commitment and customer satisfaction in Finland.

Stable occupancy in mature units

We are indeed facing a challenging period. There are no shortcuts in the work ahead. For a company like Attendo, the premise for long-term success is the ability to deliver high and stable quality with satisfied customers, which has been a hallmark of the company since it was founded. Although we have seen a drop in occupancy after the recent expansion in Finland recent years, we still see a stable occupancy in our mature units. The underlying demand for beds in elderly care is stable and growing over time. Given the actions we are now taking, I see that Attendo Finland, and thus also Attendo as a whole, should be able to return to high occupancy and profitability in a few years' time. This at the same time as we add value to the local authorities and safeguard our high customer satisfaction.“

Summary of the second quarter 2019

- Net sales increased by 9 percent to SEK 2,990m (2,743). Adjusted for currency effects, net sales increased by 8 percent.
- Operating profit (EBITA) amounted to SEK 121m (199), corresponding to an operating margin of 4.0 percent (7.3). Operating profit in the second quarter of 2018 was charged with non-recurring items of SEK 53m.
- Adjusted EBITA (EBITA per the earlier IAS 17 standard) was SEK 42m (128), corresponding to an adjusted operating margin of 1.4 percent (4.7).
- The loss for the period amounted to SEK -39m (21), corresponding to a profit/loss margin of -1.3 percent (0.8). Diluted earnings per share were SEK -0.24 (0.13).
- Free cash flow amounted to SEK 36m (245).
- The total number of beds in operation in Attendo's own homes was 16, 216 (14,536), an increase by 12 percent. Occupancy in own homes was 79 percent (79).
- Adjusted for seasonal patterns, second quarter results have been assessed as reflecting the underlying profit trend in 2019.
- Virpi Holmqvist was appointed as the new Business Area Director of Attendo Finland.

Summary of the period January–June 2019

- Net sales increased by 9 percent to SEK 5,868m (5,367). Adjusted for currency effects, net sales increased by 7 percent.
- Operating profit (EBITA) amounted to SEK 379m (457), corresponding to an operating margin of 6.5 percent (8.5). Operating profit in the comparison period was charged with non-recurring items of SEK 73m.
- Adjusted EBITA (EBITA per the earlier IAS 17 standard) was SEK 202m (316), corresponding to an adjusted operating margin of 3.4 percent (5.9).
- Profit for the period amounted to SEK 27m (99), corresponding to a profit margin of 0.5 percent (1.8). Diluted earnings per share were SEK 0.17 (0.62).
- Free cash flow amounted to SEK 4m (323).

Invitation to teleconference

Investors, analysts and journalists are hereby invited to participate in a teleconference at 10:00 am (CET), hosted by Attendo's CEO Martin Tivéus and CFO Fredrik Lagercrantz. The presentation will be held in English.

To participate in the conference, please dial in on any number below at least ten minutes before the start of the call:

SE: +46 8 505 58 352
FI: +358 981 710 521
UK: +44 333 300 9266

You can follow the presentation and the conference on the following page:

<https://tv.streamfabriken.com/attendo-q2-2019>

The quarterly report and other information material will be made public on:

<https://www.attendo.com/investor-relations>



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Attendo - the leading care company in the Nordics

Attendo is the leading private provider of publicly financed care services in the Nordic region. The company was founded in 1985 and was first to provide outsourced care for older people in Sweden. In addition to care for older people, Attendo provides care for people with disabilities and social care for individuals and families. Attendo has around 24,000 employees and is locally anchored with close to 700 operations in more than 200 municipalities in Sweden, Finland, Norway and Denmark. www.attendo.com