



Pihlajalinna Interim Report 1 January–30 September 2023: Organic growth of revenue continued, profitability and financial position improved as planned

Pihlajalinna Plc

Interim Report

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Pihlajalinna Interim Report 1 January–30 September 2023

Organic growth of revenue continued, profitability and financial position improved as planned

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

A brief look at July–September:

- Revenue amounted to EUR 165.6 (165.2) million – an increase of EUR 0.3 million, or 0.2 per cent. The divestment of dental care services and reduction in COVID-19 services¹⁾ and in the cost liability of demanding specialised care decreased consolidated revenue by EUR -16.1 million, or -9.8 per cent
- Without COVID-19 services and the decrease in the cost liability of demanding specialised care, organic growth was EUR 14.4 million, or 8.7 per cent.
- The effect of M&A transactions²⁾ on revenue growth was EUR 2.1 million, or 1.3 per cent.
- Adjusted EBITA³⁾ before the amortisation and impairment of intangible assets was EUR 9.6 (9.4) million – an increase of 2.2 per cent. Profitability was negatively affected by retrospective costs of demanding specialised care and the decline in COVID-19 services.
- Net cash flow from operating activities amounted to EUR 6.6 (6.7) million.
- Earnings per share (EPS) was EUR 0.13 (0.14).
- The customer volumes⁴⁾ of private clinics grew by 5 per cent year-on-year, with remote services representing 41 (40) per cent of all appointments.
- Tuomas Hyyryläinen started as the CEO of Pihlajalinna on 1 September 2023.
- Pihlajalinna specifies guidance for 2023. The Group expects the adjusted EBITA to improve from the previous year's level to EUR 34-37 million (EUR 26.7 million in 2022). As a result of the establishment of wellbeing services counties, Pihlajalinna aims to finalise the negotiations related to open receivables with the previous contract parties Jämsä, Parkano and Mänttä-Vilppula cities. The outcome of the negotiations may affect 2023 earnings per share.

A brief look at January–September:

- Revenue amounted to EUR 537.0 (502.1) million – an increase of EUR 34.9 million, or 7.0 per cent. The divestment of dental care services and reduction in COVID-19 services¹⁾ and in the cost liability of demanding specialised care decreased consolidated revenue by EUR -43.3 million, or -8.6 per cent.
- Without COVID-19 services and the decrease in the cost liability of demanding specialised care, organic growth was EUR 62.0 million, or 12.4 per cent.
- The effect of M&A transactions²⁾ on revenue growth was EUR 16.2 million, or 3.2 per cent.
- Adjusted EBITDA³⁾ was EUR 59.9 (52.2) million – an increase of 14.8 per cent.
- Adjusted EBITA³⁾ before the amortisation and impairment of intangible assets was EUR 27.9 (24.4) million – an increase of 14.1 per cent.
- Net cash flow from operating activities amounted to EUR 52.9 (42.4) million.
- Earnings per share (EPS) was EUR 0.44 (0.45).
- Pihlajalinna issued a EUR 20 million hybrid bond on 27 March 2023. The issue ensures that the Group has leeway in executing its strategy and improving its financial position.

- The customer volumes⁴⁾ of private clinics grew by 17 per cent year-on-year (grew by 12 per cent without M&A transactions). Remote services represented 40 (39) per cent of all appointments.

¹⁾ COVID-19 services include COVID-19 testing, sample collection, vaccination and other potential services directly related to managing the COVID-19 pandemic.

²⁾ 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.

³⁾ 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.

⁴⁾ Excluding municipal outsourcing, COVID-19 testing and dental care.

	7–9/2023 3 months	7–9/2022 3 months	change %	1–9/2023 9 months	1–9/2022 9 months	change %	2022
INCOME STATEMENT							
Revenue, EUR million	165.6	165.2	0.2	537.0	502.1	7.0	690.5
EBITDA, EUR million	20.1	18.1	11.2	60.8	42.9	41.7	54.4
EBITDA, %	12.1	10.9	11.0	11.3	8.6	32.5	7.9
Adjusted EBITDA, EUR million ¹⁾	20.5	18.9	8.7	59.9	52.2	14.8	64.2
Adjusted EBITDA, % ¹⁾	12.4	11.4	8.5	11.2	10.4	7.3	9.3
Adjusted operating profit before the amortisation and impairment of intangible assets (EBITA), EUR million ¹⁾	9.6	9.4	2.2	27.9	24.4	14.1	26.7
Adjusted operating profit before the amortisation and impairment of intangible assets (EBITA), % ¹⁾	5.8	5.7	2.0	5.2	4.9	6.7	3.9
Operating profit (EBIT), EUR million	7.1	6.6	8.1	22.5	9.5	-137.8	8.9
Operating profit (EBIT), %	4.3	4.0	7.9	4.2	1.9	-122.4	1.3
Adjusted operating profit (EBIT), EUR million ¹⁾	7.4	7.3	0.2	21.4	18.5	15.6	18.6
Adjusted operating profit (EBIT), % ¹⁾	4.4	4.4	0.0	4.0	3.7	8.1	2.7
Profit before tax (EBT), EUR million	4.4	4.5	-2.5	14.3	4.4	-228.1	1.5
SHARE-RELATED INFORMATION							
Earnings per share (EPS), EUR	0.13	0.14	-7.7	0.44	0.45	-2.7	0.42
Equity per share, EUR				6.84	5.51	24.0	5.50
OTHER KEY FIGURES							
Return on capital employed (ROCE), %				4.3	3.6	18.1	2.3
Return on equity (ROE), %				7.2	9.7	-25.9	6.2
Equity ratio, %				22.6	19.4	16.3	18.6
Gearing, %				243.6	308.9	-21.2	313.8
Interest-bearing net debt, EUR million				372.2	388.8	-4.3	385.7
Net debt/adjusted EBITDA, 12 months ¹⁾				5.2	5.8	-10.7	6.0
Gearing, excluding IFRS 16, %				97.4	140.0	-30.4	139.95
Interest-bearing net debt excluding IFRS 16, EUR million				155.3	182.2	-14.8	178.6
Net debt/adjusted EBITDA, excluding IFRS 16, 12 months ¹⁾				3.5	4.0	-12.2	4.4
Gross investments, EUR million ²⁾	25.4	12.0		61.8	216.5	-71.5	234.5
Cash flow from operating activities, EUR million	6.6	6.7	-0.8	52.9	42.4	24.6	64.9
Cash flow after investments, EUR million	2.7	-5.2		38.0	-34.1	211.6	-18.6
Average number of personnel (FTE)				4,976	4,793	3.8	4,851
Personnel at the end of the period (NOE)				7,044	7,004	0.6	7,016
Practitioners at the end of the period				2,202	1,891	16.4	1,812
NPS, private clinics				79.0	77.5	1.94	77.1
NPS, municipal outsourcing activities				72.8	72.2	0.83	72.6

¹⁾ Significant transactions that are not part of the normal course of business, are related to business acquisition or divestment 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, cost 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 presents costs concerning cloud computing arrangements, and reversals of amortisation, as adjustment items.

EBITDA adjustments in the quarter amounted to EUR 0.4 (0.8) million and amounted to EUR -1.0 (9.3) million for the review period. Adjustments to operating profit in the quarter amounted to EUR 0.3 (0.8) million and EUR -1.1 (9.0) million for the review period.

2) 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 specified

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).
- Pihlajalinna specifies guidance for 2023. The Group expects the adjusted EBITA to improve from the previous year's level to EUR 34-37 million (EUR 26.7 million in 2022).
- As a result of the establishment of wellbeing services counties, Pihlajalinna aims to finalise the negotiations related to open receivables with the previous contract parties Jämsä, Parkano and Mänttä-Vilppula cities. The outcome of the negotiations may affect 2023 earnings per share.
- The Group continues measures to strengthen its financial position. Change negotiations that were concluded in March 2023 and efficiency improvement program are expected to improve Pihlajalinna's profitability. Price increases are expected to compensate the effects of cost inflation.

Slower economic growth, weakened consumer confidence and rising market interest rates may affect Pihlajalinna's service demand and financial performance more than expected.

The earlier guidance published on 17 February 2023 and repeated latest on 11 August 2023:

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 continues measures to strengthen its financial position. Change negotiations that were concluded in March 2023 and efficiency improvement program are expected to improve Pihlajalinna's profitability. Price 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 result more than expected.

Tuomas Hyyryläinen, CEO:

In the third quarter Pihlajalinna's revenue totalled EUR 165.6 million (165.2), despite a EUR 16.1 million decrease in revenue due to the removal of the cost liability for demanding specialised care in the wellbeing services counties of Pirkanmaa and Central Finland, the decrease in COVID-19 services and the divestment of dental care services. Considering the above-mentioned factors, organic growth was 8.7 per cent. Revenue from private services increased, particularly in insurance company customers and occupational healthcare services. We strengthened our insurance company partnerships by signing a new three-year cooperation agreement with Fennia. The value of the agreement is approximately EUR 25–30 million per year.

Pihlajalinna's adjusted EBITA developed as planned. The efficiency measures we initiated to strengthen our profitability and financial position are paying off. Profitability was increased by the efficiency actions commenced in 2022 in public services, as well as by favorable utilisation rate development in private clinics. Adjusted EBITA for the third quarter of the year increased to EUR 9.6 million (9.4), 2.2 per cent, despite the retrospective costs related to demanding specialised care in the wellbeing services county of Central Finland.

Queues for non-urgent specialised care continue to grow in the public sector. According to the National Institute for Health and Welfare, nearly 178,000 patients were waiting for access to non-urgent specialised care in August 2023 (169,000 in April 2023). The measures taken by the Finnish government to reduce healthcare waiting times are progressing. Due to this, the demand for private healthcare services will increase, including the growth of service voucher and other outsourced service usage. Kela reimbursements for private medical appointments have been decided to significantly increase at the beginning of 2024.

Pihlajalinna has a comprehensive network of hospitals and private clinics along with extensive diagnostic services. We have all capability to help fast in reducing the critical backlog of healthcare queues in Finland. Over the years, we have shown that the multi-provider model enables most cost-effective and impactful healthcare services for customers. For example, the results of the IMPRO research project by the Academy of Finland (1/2023) reveal that the complete outsourcing model of Pihlajalinna has had a significant effect on the total costs of healthcare services.

During the review period, Pihlajalinna has identified and initiated several new efficiency measures to improve its profitability and financial position. With the efficiency improvement program, we are able to alleviate the effects of the increasing competition and wage inflation.

I have had the pleasure of working in Pihlajalinna for about two months now. I am impressed with the strong expertise of Pihlajalinna professionals. The work initiated towards improving the well-being and leadership development of our personnel is extremely important. To take care of our customers means we have well-being personnel and practitioners who enjoy working in Pihlajalinna. This is crucial for us. I would like to thank all Pihlajalinna professionals for the warm and open welcome I have received. The entire organisation is committed to moving forward with an open mind, respecting our values.

Webcast for analysts, media and investors

Pihlajalinna will organize a live webcast meeting for analysts, media and investors today, on 3 November 2023 at 10:00 a.m. at <http://pihlajalinna.videosync.fi/q3-2023>. 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–September 2023 is attached to this release and available at [company's website](#).

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Pihlajalinna in brief

Pihlajalinna is one of the leading providers of private healthcare and social services in Finland. The Group provides comprehensive and quality private clinic and hospital services as well as occupational healthcare and insurance cooperation services. To the wellbeing services counties Pihlajalinna offers social and healthcare service production models, in which the cooperation between the public and private sectors guarantees effective services for citizens. More than 7,000 employees and 2,200 practitioners work at Pihlajalinna. In 2022, Pihlajalinna's revenue was 690.5 million euros. Pihlajalinna's shares are listed on Nasdaq Helsinki Oy. Read more www.pihlajalinna.fi.