Pihlajalinna Half Year Financial Report 1 January–30 June 2023: The good organic growth of revenue continued, efficiency measures improved profitability and financial position

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The good organic growth of revenue continued, efficiency measures improved profitability and financial position

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

A brief look at April–June:

- Revenue amounted to EUR 183.6 (173.7) million – an increase of EUR 9.9 million, or 5.7 per cent. The divestment of dental care services decreased consolidated revenue by EUR -4.7 million, or -2.7 per cent.
- COVID-19 services[1)] revenue amounted to EUR 0.2 (3.2) million – a decrease of EUR -3.0 million.
- Organic growth was EUR 11.7 million, or 6.7 per cent. Without COVID-19 services and the decrease in the cost liability of demanding specialised care, organic growth would have been EUR 20.3 million, or 11.7 per cent.
- The effect of M&A transactions[2)] on revenue growth was EUR 2.9 million, or 1.7 per cent.
- Adjusted EBITDA[3)] was EUR 18.0 (16.9) million – an increase of 6.6 per cent.
- Adjusted EBITA[3)] before the amortisation and impairment of intangible assets was EUR 7.3 (7.3) million – an increase of 0.2 per cent.
- Net cash flow from operating activities amounted to EUR 27.3 (20.3) million.
- Profitability during the quarter was affected negatively by one-off compensation related to the collective agreement for the healthcare sector (TPTES), the high costs of demanding specialised care, and the decline in the sales of COVID-19 services.
- Earnings per share (EPS) was EUR 0.07 (0.08).
- The customer volumes[4)] of private clinics grew by 9 per cent year-on-year, with remote services representing 40 (37) per cent of all appointments.

A brief look at January–June:

- Revenue amounted to EUR 371.4 (336.8) million – an increase of EUR 34.6 million, or 10.3 per cent. The sale of dental care services to Hammas Hohde was completed on 31 March 2023, and the divestment reduced consolidated revenue by EUR -4.7 million, or -1.4 per cent.
- COVID-19 services[1)] revenue amounted to EUR 0.5 (11.6) million – a decrease of EUR -11.1 million.
- Organic growth was EUR 25.1 million, or 7.5 per cent. Without COVID-19 services and the decrease in the cost liability of demanding specialised care, organic growth would have been EUR 47.6 million, or 14.1 per cent.
- The effect of M&A transactions[2)] on revenue growth was EUR 14.1 million, or 4.2 per cent.
- Adjusted EBITDA[3)] was EUR 39.4 (33.3) million – an increase of 18.2 per cent.

- Adjusted EBITA[3] before the amortisation and impairment of intangible assets was EUR 18.3 (15.1) million – an increase of 21.5 per cent.
- Net cash flow from operating activities amounted to EUR 46.3 (35.8) million.
- Earnings per share (EPS) was EUR 0.31 (0.31).
- 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.
- Tuomas Hyyryläinen will start as the CEO of Pihlajalinna on 1 September 2023.
- The customer volumes[4] of private clinics grew by 22 per cent year-on-year (grew by 15 per cent without M&A transactions). Remote services represented 39 (38) 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.

	4–6/2023 3 months	4–6/2022 3 months	change %	1–6/2023 6 months	1–6/2022 6 months	change %	2022
INCOME STATEMENT							
Revenue, EUR million	183.6	173.7	5.7	371.4	336.8	10.3	690.5
EBITDA, EUR million	17.7	15.6	13.6	40.8	24.9	63.9	54.4
EBITDA, %	9.7	9.0	7.5	11.0	7.4	48.6	7.9
Adjusted EBITDA, EUR million [1]	18.0	16.9	6.6	39.4	33.3	18.2	64.2
Adjusted EBITDA, % [1]	9.8	9.7	0.8	10.6	9.9	7.2	9.3
Adjusted operating profit before the amortisation andimpairment of intangible assets (EBITA), EUR million [1]	7.3	7.3	0.2	18.3	15.1	21.5	26.7
Adjusted operating profit before the amortisation andimpairment of intangible assets (EBITA), % [1]	4.0	4.2	-5.2	4.9	4.5	10.2	3.9
Operating profit (EBIT), EUR million	4.9	4.1	20.2	15.4	2.9	-430.9	8.9
Operating profit (EBIT), %	2.7	2.4	13.7	4.2	0.9	-381.5	1.3
Adjusted operating profit (EBIT), EUR million [1]	5.1	5.2	-2.8	14.0	11.2	25.7	18.6
Adjusted operating profit (EBIT), % [1]	2.8	3.0	-8.1	3.8	3.3	14.0	2.7
Profit before tax (EBT), EUR million	2.4	2.5	-1.2	9.9	-0.2	5711.4	1.5
SHARE-RELATED INFORMATION							
Earnings per share (EPS), EUR	0.07	0.08	-13.9	0.31	0.31	-0.4	0.42
Equity per share, EUR				6.69	5.28	26.7	5.50
OTHER KEY FIGURES							
Return on capital employed (ROCE), %				4.2	4.4	-4.0	2.3
Return on equity (ROE), %				7.8	12.3	-36.3	6.2
Equity ratio, %				22.1	18.7	18.1	18.6
Gearing, %				236.4	312.6	-24.4	313.8
Interest-bearing net debt, EUR million				354.1	374.4	-5.4	385.7
Net debt/adjusted EBITDA, 12 months [1]				5.0	5.5	-9.0	6.0
Gearing, excluding IFRS 16, % [1]				94.9	135.4	-29.9	139.95
Interest-bearing net debt excluding IFRS 16, EUR million [1]				147.9	167.3	-11.6	178.6
Net debt/adjusted EBITDA, excluding IFRS 16, 12 months [1]				3.4	3.5	-2.4	4.4
Gross investments, EUR million [2]	14.7	28.5		36.4	204.6	-82.2	234.5
Cash flow from operating activities, EUR million	27.3	20.3	34.9	46.3	35.8	29.3	64.9
Cash flow after investments, EUR million	22.3	-0.7		35.4	-28.9	222.3	-18.6
Average number of personnel (FTE)				4,978	4,990	-0.3	4,851
Personnel at the end of the period (NOE)				7,479	7,118	5.1	7,016
Practitioners at the end of the period				2,121	1,810	17.2	1,812
NPS, private clinics				78.9	77.4	1.94	77.1
NPS, municipal outsourcing activities				70.0	72.3	-3.18	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 0.2 (1.3) million and amounted to EUR -1.4 (8.5) million for the review period. Adjustments to operating profit in the quarter amounted to EUR 0.2 (1.2) million and EUR -1.4 (8.3) 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 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 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.

Pihlajalinna's interim CEO Mikko Wirén:

We have systematically continued to improve the business profitability and the company's financial position. During the past quarter we have further identified and initiated several new efficiency measures. We have continued to implement of our new organisational structure that came into effect in March to further strengthen economies of scale and organic growth.

Pihlajalinna's strong revenue growth continued in the second quarter, driven mainly by sales to corporate customers, with revenue increasing by 5.7 per cent to EUR 183.6 (173.7) million. The organic growth of private healthcare services was 15.2 million or 15.9 per cent, excluding the decline of EUR 3.0 million in COVID-19 services. We also continued to successfully improve the efficiency of public services. Adjusted EBITA remained at the previous year's level at EUR 7.3 (7.3) million. The result can be considered satisfactory, as the delay of invoicing and the substantial increase in the costs of demanding specialised care as well as the one-off compensation paid in June to employees covered by the collective agreement in the private healthcare sector had a combined negative effect of EUR 2.4 million on profit. Systematic review of the Group's operations to achieve a more simplified business structure has also incurred expenses. Pihlajalinna's revenue for the first half of the year increased to EUR 371.4 (336.8) million. Adjusted EBITDA was EUR 18.3 (15.1) million, representing growth of EUR 21.5 per cent.

Service referrals and the cost liability for demanding specialised care under complete outsourcing agreements are being transferred to the wellbeing services counties in accordance with the current legislation. This change is favourable to Pihlajalinna, as the costs of demanding specialised care are difficult to estimate, and they have increased significantly since 2022 due to the of health and social services reform. In the Pirkanmaa wellbeing services county, the Group's cost liability ended on 1 January 2023, but the costs of demanding specialised care in the wellbeing services counties of South Ostrobothnia and Central Finland still negatively impacted profit for the first half of the year. The wellbeing services county of Central Finland will, in a county board meeting scheduled for 15 August 2023, decide whether to approve a proposal on the transfer of the cost liability effective from 1 July 2023. The transfer of this cost liability for the demanding specialised care is estimated to reduce annual revenue by approximately 18 million euros. Negotiations on the matter are still ongoing with the wellbeing services county of South Ostrobothnia.

We have been advancing our efficiency improvement programme purposefully, and we have managed to control costs despite high inflation. During the past quarter, we focused particularly on the effectiveness of the business structure for private healthcare services, achieving synergies, the pricing of services, and balancing supply and demand. Additionally, we continued to decrease the Group's general expenses.

We enable comprehensive and effective services by having highly competent personnel, and we have been successful in our recruitment this year. During the review period, the Group had 7,479 employees and 2,121 practitioners. We focus on advancing the key project on work ability management together with Finland's leading pension insurance companies. The aim of the project is to improve overall job satisfaction and reduce sickness-related absences in Pihlajalinna. During the period under review, the sickness-related absence rate was 5.9 per cent, compared to 7.0 per cent a year earlier.

The government programme of Finland's new government is positive from Pihlajalinna's perspective. The government programme takes a strong stance on queues for treatment, which have risen to a critical level, with nearly 170,000 customers waiting for access to non-urgent specialised care. The wellbeing services counties must use all available means to address this problem. This specifically means increasing collaboration with private healthcare providers, for example, by making more comprehensive use of service vouchers and introducing a new Kela reimbursement model to improve the efficiency of the use of general practitioner services. Additional appropriations of EUR 335 million are allocated to reducing queues for treatment. The government programme also states that the finances of the wellbeing services counties will be balanced by 2025 by improving the efficiency of operations. Pihlajalinna has a strong track record of providing medical efficacy and cost-effectiveness for public healthcare. We will continue to offer innovative operating models to wellbeing services counties, such as remote services to address various needs. At Pihlajalinna, remote services already account for approximately 40 per cent of all appointments.

With the new government programme, Pihlajalinna's operating environment is more stable than before. We will continue measures to strengthen Pihlajalinna's profitability and financial position purposefully. I am assured that the organisation's shared goals will deliver both short-term and long-term results and be evident to our stakeholders. Warm thank you belongs to all of our personnel for delivering the first half of the year. The journey has been challenging at times, but we would not have been able to make such progress without you. I also want to welcome Pihlajalinna's new CEO, Tuomas Hyyryläinen, to the company. He will start as CEO on 1 September. I feel confident about handing over the leadership responsibility in a company that is in a stronger and more balanced position to respond to the opportunities presented by the market.

Webcast for analysts, media and investors

Pihlajalinna will organize a live webcast meeting for analysts, media and investors today, on 11 August 2023 at 10:00 a.m. at http://pihlajalinna.videosync.fi/q2-2023. 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 Half Year Financial Report for January–June 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 wellbeing services in Finland. The Group produces private clinic and hospital services, occupational healthcare services and residential and welfare 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. Approximately 7,500 employees and more than 2,100 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.