



“GHC – Acquisition of Sanatorio Triestino Conference Call”

Thursday, May 4th, 2023, 18:00 CET

MODERATORS: Mrs. Maria Laura Garofalo, CEO
Mr. Alessandro Maria Rinaldi, Chairman of the Board of Directors
Mr. Luigi Celentano, Chief Financial Officer
Mrs. Claudia Garofalo, Head of Finance
Mr. Mimmo Nesi, Investor Relator & Chief Sustainability Officer



OPERATOR: Good evening, this is the Chorus Call operator. Welcome to the Garofalo Health Care conference call to comment on the acquisition of Sanatorio Triestino. After the initial presentation, there will be an opportunity to ask questions. Now I would like to give the floor to Mr. Mimmo Nesi, Investor Relator & Chief Sustainability Officer of the GHC Group. Mr. Nesi, please.

MIMMO NESI: Good evening everyone and thank you for your time and availability. We are here to comment on the new M&A operation of the GHC Group, communicated this afternoon. I would like to point out that the transcript of the English-language call will be communicated as usual as soon as it is available, in the next few hours. I introduce who is here from Rome, obviously the Chief Executive Officer Mrs. Maria Laura Garofalo, the CFO, Mr. Celentano by telephone, and we also have the Head of Finance and member of the Board of Directors, Mr. Claudia Garofalo. At this point I would leave the floor to the Chief Executive Officer to explain the main aspects of the operation and, at the end, we will obviously be open to your questions. Please.

MARIA LAURA GAROFALO: Good evening everyone. It was an operation, like all of them, which was not easy to bring home, because here too we had competitors and, I must say, a particularly fierce one, but in the end we managed to close the operation. It is a reference structure in Trieste, certainly the most important and best known structure for acute patients, therefore a hospital structure, in the area. It is a facility that has 80 surgery beds in the various specialties, therefore medicine but also orthopedics, general surgery, urology, ophthalmology and also 40 dependency care beds. So 80 hospital beds and 40 dependency care beds. It is a shareholder base, it was until the closing, quite varied, we are talking about about fifty shareholders. We interfaced with the historic shareholders of the structure, including members of the Board of Directors, who together had achieved a controlling stake, to which they were then able to add the stakes of other shareholders over whom they had a certain influence. Sanatorio Triestino, as you have seen, has a turnover in 2022 of €15.7 million and a regional budget of €9.1 million. The €9.1 million are divided into €2.8 million for outpatient activities and the rest, therefore €6.3 million, for hospitalization activities. Sanatorio Triestino is also the owner of the building, of great prestige, 8,000sqm plus 6,000sqm of building land but not yet built. The existing structure is very beautiful. It is certainly very old because Sanatorio Triestino was born at the end of the 19th century, but the building was recently completely renovated, so we shouldn't have significant investments in Capex, because the technology too is all recently acquired, even with cutting-edge machinery and I am referring to resonances, CAT scans, ultrasound scans, a latest generation mammogram.



From this point of view, both the structure and the technology are in place, of the highest level. The company also owns significant stakes. One in Eutonia, a center for outpatient physiotherapy and rehabilitation, which is a major point of reference. Eutonia is owned by a holding company called Aurora Holding and Aurora Holding is 50% owned by Sanatorio Triestino and the other 50% is owned today by Miki Wiki. The initiative to take over Eutonia stems from an agreement originally made between Sanatorio Triestino and the local TV station, Televita. After that, Televita sold the television to one of the shareholders, which is Miki Wiki. Currently the shareholders of Aurora Holding are Sanatorio Triestino and Miki Wiki. Aurora Holding owns 62.1% of Eutonia and the remainder is owned by a polyclinic and by a lady - Dunja Barak - who owns 2.9%. Eutonia has a turnover, in 2022, of around €3 million, with a regional budget of €1.6 million, so it does a lot of private activity. In 2022 it had an EBITDA of approximately €300,000 and a Net Financial Position of €900,000. Eutonia is strategic for us, because the intention is to acquire it entirely, to acquire the shares of both Miki Wiki and the other two subjects, who are not particularly interested in keeping them, therefore buying 100% of them, in order to be able to move the budget of €1.6 million on Sanatorio Triestino and ask the Region for the possibility of transferring a large part of these €1.6 million, more than half, to surgical activities, leaving only a budget of around €700,000 for rehabilitation, which is less profitable. Furthermore, Eutonia currently works in three offices, partly with premises at Sanatorio Triestino, then has a property purchased in 2015 and is also in another small building, which is not owned but rented. In 2022 Eutonia bought another property, very prestigious, central and quite close to the Sanatorio Triestino, for €1.8 million. Eutonia now is finishing the renovation of this property and at the end of the renovation it will obtain a subsidized loan of €1.8 million, i.e. the entire price, at a rate of 1.3%, with a 20-year mortgage. At that point Eutonia will cancel the rental contract on the other property and will sell the third property owned, because there are already potential buyers who are very interested in building garages/parking spaces. The other stake that Sanatorio Triestino owns are the Terme del Friuli-Venezia Giulia, which currently have two establishments, one in Monfalcone and the other in Arta. The Region would also like to entrust the management of Sanatorio Triestino with the third establishment it is renovating and which is in Grado. This participation was more of a strategic investment, because among the members of the Spa - we have control over with 52% - there is also the Region and the Region has asked Sanatorio, which is the reference structure, to manage these establishments. Keep in mind that Sanatorio Triestino deals exclusively with management and all investments are paid by the Region. As far as the performance of these spas is concerned, I can tell you that certainly the 2020 and 2021 budgets, under Covid, are not reference budgets, because we all know that the spas have closed for a long time. In any case, 2022 reported a



small loss of around €100,000, but we took 2019 as a reference, i.e. the pre-Covid financial year, and the pre-Covid financial year brought revenues of €2 million, considering that they have a budget of around €700,000 and a profit of just over €100,000. I then inquired about the current performance of the establishments and they have fully resumed the rhythms of 2019. This is an overview of Sanatorio Triestino and its subsidiaries. I'll stop by if you have any questions.

MIMMO NESI: Before asking questions, perhaps I would make a last reference to the value of the operation, which does not include the contribution of the two shareholdings and which is carried out at a particularly interesting multiple.

MARIA LAURA GAROFALO: I imagine you have read the press release and you will have noticed that the acquisition multiple is 7.1 times the EBITDA which, once normalised, I will explain the normalisations later, conservatively reaches €2.4 million. I stress, as the Investor Relator has already said, that both the turnover of €15.7 million and the EBITDA of €2.4 million do not include the performance of the two subsidiaries.

OPERATOR: The first question is from Isacco Brambilla, of Mediobanca. Please.

ISACCO BRAMBILLA: Thank you and good evening everyone. First of all, thank you for your availability and for the description of the negotiations, which is always one of the most interesting parts of these conference calls. Two questions. The first is on the business mix of the acquired structures, of the Sanatorio. I would like to understand, given the €9 million budget, therefore of accredited activity, the remaining part of the turnover, that normalized €16 million, if you can give us an idea of how it is divided between private patients and those outside the region and, connected to this, always looking at the breakdown of turnover, if you can give us an idea of the incidence of acute care services on the outpatient side and on the residential side. There is no need for a precise number, even as an order of magnitude. The last question, linked to the holdings held, at an accounting level if at the time of closing these will be fully consolidated or if they will go to equity within the Garofalo group.

MARIA LAURA GAROFALO: I start with the last question. I'm referring to the 2022 turnover, but then I will explain that in 2023 there was a significant increase in RSA tariffs, so the RSA turnover in 2023 will change. In 2022 there are €2 million for the RSA part, around €5 million for the outpatient clinic, of which €2.8 million from accredited activities and €2.0 million from private activities, therefore an excellent performance from a private point of view – this is the outpatient activity of the Sanatorio, which should not be confused with the outpatient activity of Eutonia



– and the rest is obviously all hospital. As far as Out of Region is concerned, they do little, because legislation has been introduced in Friuli-Venezia Giulia which placed a budget on Out of Region, determining it within the limits of 2011 production. Let's say that Out of Region is less than half a million, however, from this point of view there is a window that could be opened because Friuli-Venezia Giulia, together with Veneto, should sign an agreement with Lombardy which brings the turnover of Out of Region to a budget which is determined on the basis of production of 2019, but which also allows you to go over that budget with an overrun recognition of up to 5%, and beyond that the turnover produced is recognized with a reduction that represents the percentage of the overrun with respect to the budget itself. I don't know if I explained myself, but if the budget is 10 and I get 15, those 5 convert into a percentage which becomes the percentage of abatement on the extra-budget. It is an agreement that is about to pass but which has not yet passed, has yet to be signed, and which recognizes a different budget from the current one, which refers to a very low 2011 production; goes up, because it will refer to a production of 2019, which, however, has not increased so much compared to 2011, but allows the possibility of exceeding, therefore increasing by 5%, and everything that goes above 5% is recognized with a reduction equal to the percentage of overrun.

MIMMO NESI: The other question was whether the subsidiaries' results will be consolidated.

MARIA LAURA GAROFALO: Yes, of course. They have not consolidated them and we have not even understood the reason well, because even on Eutonia, where they have a 50% stake compared to the controlling stake in Eutonia itself, however, they have management control because the CEO of Eutonia is the General Manager of Sanatorio Triestino, Mr. Salvatore Guarneri, who was one of the shareholders and who is very involved, listened to a lot in the area, by the Region and by the institutions, and who will obviously remain with us as Chief Executive Officer. Before continuing on the numbers, I wanted to say this: it was a very difficult operation, which however gives me satisfaction because it confirms that GHC is always the privileged interlocutor, regardless of the price. Here we had competitors who really offered not just more, but so much more. You should know that in Friuli-Venezia Giulia the accredited private sector represents only 4% of the entire regional healthcare system and there are three main interlocutors: in addition to the Sanatorio Triestino in Trieste, there is the Policlinico Triestino and the Casa di Cura Città di Udine. Obviously, since there is a fairly varied shareholding in Sanatorio Triestino, 50 shareholders, someone sent our offer, which was 33 euros per share, to the two competing operators. Immediately the Casa di Cura Città di Udine sent the Sanatorio a higher offer, leaving them standing until the expiry of our exclusive, which ended at the end of April. The Policlinico Triestino, on the other hand, offered even more. Faced



with these values, I'm not saying that I would have laid down my arms, but I wouldn't have offered them, I wouldn't have arrived at them, but I understood that the Policlinico Triestino could also offer much more, as it did. This is to reiterate GCH's policy on acquisitions. We are very determined but we still have M&A discipline, as you know, very strict. We stick to our values. We certainly don't miss an opportunity for small differences, but we understand that in the face of situations like this we become the privileged interlocutor. This made me very happy, because the difference between the offers was not small. This is also to say how strategic this operation is, because GHC is already in Friuli with the Diagnostic Center of Università Castrense, which however is not such an important reality, this instead is a reality of great reference and therefore unbalances all the structures a bit current. Then it is said that even the other operators, which are not owned by a single shareholder, but by many shareholders, having lost this game in the end may decide to give away to someone else. We will be there on the front lines trying to bring this operation home too.

OPERATOR: The next question is from Emanuele Gallazzi of Equita. Please.

EMANUELE GALLAZZI: Congratulations on the operation. Maybe I'll go question by question and start from the first. I read in the press release that you talk about important synergies, perhaps if you can give us an idea of where you see the main ones, if they are more revenue synergies with the other structure in the Region, or if you see space also in terms of margins. The structure is now at 16%, if you see room for improvement also in terms of costs.

MARIA LAURA GAROFALO: The facility is very well managed, I have to tell the truth. Also on the cost side, for example, we immediately analyzed the main contracts and they are quite in line. It is clear that then our bargaining power will allow us to file something further. We see space for prostheses, even if they have obtained excellent conditions, because they have a single contract, and this is very positive, with Johnson, which is also one of our suppliers. It applies a slightly higher price than ours, when we go to apply our contract we will have a small saving, which we have calculated, of around €60,000, but if instead we bring the purchase of all the prostheses to Zimmer, which is the other company with which we have a framework contract, the savings become €150,000. Mr. Guarneri has recently taken over the management of the company and is a person of great experience and, as I said, also very listened to, however the company has been managed for years by a lady, who was the President of the Board of Directors, and will continue to be honorary president of the structure – it was one of the conditions they set us – but the company was managed according to dynamics that are not exactly managerial. For the first time, Mr.



Guarneri has begun to introduce managerial and corporate metrics within the structure, as far as possible. The current President, however, was the son of this lady, who also had relationships with some doctors with whom he had agreed on percentages that are not marketable, and had no desire to change what had been established, even on the basis of friendships and esteem with these professionals. Now the Chief Executive Officer, with us, will have the possibility of managing according to the market metrics and we have already identified a possibility of revising some tariffs but, above all, we have concretely seen the possibility of creating important synergies between Castrense University, which is a diagnostic, and Sanatorio Triestino, increasing the ophthalmology. We will change the case-mix of the structure, i.e. the great advantage in terms of EBITDA will come, rather than from a reduction in costs, which is already arriving with a decrease in personnel costs, but those are physiological facts, linked to the relevant situations to 2021 and 2022, especially from Revenues, not only from higher revenues but from a redefinition of the case-mix. We will move more towards orthopedics and above all towards ophthalmology. Castrense University, for example, has Trieste orthopedists who visit patients at the Castrense University, in our center, and at this point they will admit these patients to the Sanatorio. Above all, however, ophthalmology, which is a specialty that gives good results and good margins, will grow a lot, because currently it is a doctor who does little, 400 cataracts a year and takes a very high percentage of 20%. In Castrense we already have a very capable doctor, who could do not only cataracts but also other types of operations, for example on the retina, which currently takes 15% at Castrense and could bring the number of operations, not only cataracts but cataracts and interventions, to over 1,000-1,200 per year. We expect great results from this point of view, especially in the remodeling of the case mix and in the redefinition of some percentages.

EMANUELE GALLAZZI: Regarding the remaining 13%, on which you have made or will make a bid, is that also a fragmented shareholding structure?

MARIA LAURA GAROFALO: At that moment it was very difficult, because you know that there are also confidentiality reasons why the offer could not be extended beyond that core of shareholders who were controlled, who had signed the letter of confidentiality. Now, starting tomorrow, we have stipulated in the contract that the other shareholders will have over a month, a month and a half, to be able to agree to sell on the same terms as the main shareholders. We plan to take home most of that missing slice. There should be about thirty, what remains is very pulverized. In my opinion we will take most of them home. I believe that there are some situations that will require a little more time because there has been an inheritance, a succession, there is some situation that requires a little more time, but on the others I don't think there will be great difficulties in acquire



them. In any case, I must say that they are very appreciable shareholders, because they respect the traditions of this structure very much, they rightly imposed that the name of the structure should not be changed - but none of us had any intention of changing it - in short, they imposed things that are certainly in our style respect, or that the important, very important history of this structure was protected. I must say that they are respectable shareholders, they didn't look at the price but rather looked at the guarantee for the structure of the continuity of its history and the protection of the traditions that this structure represents in Trieste. Truly *chapeau*.

EMANUELE GALLAZZI: Regarding the other two equity investments that you are going to consolidate, I simply wanted to check whether Eutonia's debt is 0.9 million, therefore 900,000 euros, at the end of 2022. I also ask for an indication on the Terme, if possible.

MARIA LAURA GAROFALO: There is practically nothing in the spa, not even 100,000 euros.

EMANUELE GALLAZZI: Are the 900,000 euros correct for the other structure?

MARIA LAURA GAROFALO: Yes, they are.

EMANUELE GALLAZZI: I ask you for one last element, if it gives us an idea of the adjustments you have made. In particular, in the press release I saw that you talked about tariff and organizational adjustments. Can you give us an idea?

MARIA LAURA GAROFALO: In enhancing this structure, we were unable to take either 2021 or 2022 into consideration, because both 2021 and 2022 had been heavily impacted by Covid. In 2021 in a positive way, in fact the structure in 2021 had a good EBITDA, because it was asked to open a Covid department but with very advantageous conditions, because it was recognized a DRG and at the end of the seventh day, therefore from eighth day onwards, he was recognized an extra percentage, I don't remember if 15 or 20%, of the DRG for each extra day of hospitalization. Without therefore increasing costs, because they did it within the RSA, therefore with the same staff, they managed to provide services with a greater margin. Then this ward was closed, like most of the Covid wards in Italy, however the Region asked Sanatorio, which it could not refuse, to open a post-Covid business, a sort of rehabilitation for patients who are no longer positive. This type of activity has a very low fee and could not be done inside the Sanatorio, so they had to rent another location, called Villa Sissy, hire a lot of extra staff and place them in Villa Sissy in order to provide these rehabilitation services to post-Covid patients. It has been asked, above all it seems to me by the Provinces of Gorizia and Udine, to open a vaccination center and this vaccination center also has non-existent margins but has required a significant



number of additional personnel. This has led, as can be clearly seen in the budgets from 2021 to 2022, to a surge in personnel costs. These activities end in 2022, so in 2023 we have a completely different year from both 2021 and 2022. What's new? In addition to having fully returned to its ordinary activities, therefore with retroactive effect from the beginning of the year, it had an increase in the rates of the RSA and, in addition, the signing of an agreement which provides for a remuneration of the empty for full RSA, therefore all beds are remunerated, even those not occupied. Furthermore, starting from the month of April, the manager, Mr. Guarneri, increased the rates of private activities, of all private businesses, I think by 10% if I remember correctly. I take a step back. Obviously the first thing he did was bring the workforce back up to speed, and this was easy because he rightly took on temporary staff to open the new businesses, so he did not renew the expired contracts, and the rest of the staff freelancer, therefore not hired. He has already brought the workforce back up to speed, plus we have an increase in rates and the remuneration of unoccupied posts in the RSA and we have an increase in private rates starting from April. He did something very intelligent, that is, instead of leaving part of the outpatient activity to percentage doctors, he shifted them by reorganizing the activity to dependent doctors. We will therefore have the same revenues with respect to these activities, but without the cost of the percentage of doctors. Obviously they were all situations that came from this management I told you about. On the other hand, he shifted these activities, again starting from April, to employed doctors, both in the context of outpatient activities and in the context of hospitalization activities. This was a very important thing. The EBITDA of €2.4 million also includes an overestimation by us of energy costs, in the sense that they did not have an increase in energy costs in 2022 because they had signed a fixed rate contract, therefore they did not suffer the increase that all the others, in the sector and not, have suffered, because the fixed rate was still very advantageous. In fact, the first thing that surprised us on the balance sheet is that there was no increase in energy costs. Obviously, however, that contract expired at the end of 2022, so the current variable tariff restarts. We have valued an increase in this energy consumption of €200,000, but in my opinion they will travel close to half, if we follow the market trend. We can't get visibility into this expense, so we prudently left some margin. The €2.4 million therefore includes an increase of €200,000 in energy expenditure which in my view will not be the case. The other element of cost reduction compared to 2022 is the policy premium. They had a policy for around €300,000 and the premium is reduced to €90,000 because they calculated what the claims could be and, based on the extent of the claims, they were able to increase the risk-free deductible, thus consequently decreasing the prize. These are the main assumptions. Obviously what I have told you does not take into account what will be the possible savings that we can make on prostheses, and maybe not



only on these, but above all it does not take into account the synergies with the patient and also a review together with the CEO of the revenue case-mix.

OPERATOR: The next question is a follow-up from Isacco Brambilla of Mediobanca. Please.

ISACCO BRAMBILLA: Two quick questions. Given the considerations on 2021 and 2022, which are not years to be taken as a reference, and I imagine 2020 either, I ask if you can give us an idea of how the normalized turnover and EBITDA numbers compare with 2019, if it is at your disposal. The second question is about potential expansion plans. I read from the press release that there are about 6,000 square meters, if I'm not mistaken, of building land, and a few years ago there was already talk in the local press of a new building being planned. It would be nice to understand from you what kind of contribution there can be from this expansion plan, what the associated Capex would be and, in terms of timing, if you have already made a plan on this.

MARIA LAURA GAROFALO: We have not made a plan on this, because the structure has currently been completely renovated. It's very beautiful, it's new, it's roomy, so we could think about expanding it if we manage to increase production a lot, but we have to evaluate first, it's an evaluation we haven't done yet. What I can tell you, but I don't think we will exploit this area, is that there is little parking. The only drawback, but like all the structures, both local and ours, is that when they are very central, parking is scarce. They have a garage which, however, is not very large, they have a small area around them, the garage is mainly available to doctors. What we thought, because it would greatly enhance the structure, is to make a large parking lot, but underground. Surely the only thing for now - because then we have a lot of imagination, we always think of one - is that we know we have that value, which we can use for any new initiatives, even if the Region asks us. As was done recently in Ravenna, if we were asked to build a community hospital we would be willing to do so, like any other initiative. For now what I think and which could give great value to the structure is the construction of a large parking lot. However, it is still all in the head, they are reflections, because today the structure is perfect as it is. I repeat, it also has all the technology, you will not see particular Capex next year because it is perfect as it is, the oldest technology is two years old, it is new and cutting-edge technology. It's very well maintained, really, you can tell they put a lot of effort into it, it's a very clean facility. On 2019, which however is a fairly distant year, then as I was saying you compare it with two years, 2021 and 2022, which are not taken into consideration, however it had around €13.3 million in revenues and around €2 million in EBITDA. I expect great satisfaction from this structure, also because it has excellent management, it has excellent opportunities to grow by being able to express the potential it has not yet expressed today, for



the reasons we have told each other. By joining a group like ours, the opportunities are certainly even greater. I therefore expect great satisfaction, as I expected from GVDR. You will then see in the quarterly report that GVDR, the latest acquisition we made, exceeded all our wildest expectations.

ALESSANDRO MARIA RINALDI: I wanted to underline another aspect, beyond the numbers of the performances that were represented. Sanatorio Triestino dates back to 1897, so it is over one hundred years old, and represents a great point of reference for the city. Trieste, as you know, is a very closed city, it is a state in its own right, and Sanatorio Triestino oversees it very well. There are few private individuals in the Friuli Region, in this we are happy to have entered and also to have been welcomed. It is very important for GHC to have overseen an area where you know that Assicurazioni Generali is the biggest player in the area, but above all for us who are an important and listed group, seen by them, I think it is a second rebirth for the Sanatorio Triestino, which had many shareholders, including heirs who perhaps have been carrying it around for three or four generations. It is therefore a strategic and extraordinary operation in my opinion, from a social and development point of view.

MIMMO NESI: If there are no other questions, we thank you and as IR office we remain available to anyone who needs further information or clarification. You will soon find the transcript in Italian and English on the website. Thank you very much and good evening everyone.