



“GHC Results 1Q2023 Conference Call”

Monday, May 15, 2023, 5:30PM CET

MODERATORS: Mrs. Maria Laura Garofalo, CEO
Mr. Alessandro Maria Rinaldi, Chairman of the BoD
Mr. Luigi Celentano, Chief Financial Officer
Mr. Riccardo Rossetti, Head of Administration and Reporting
Mr. Mimmo Nesi, Investor Relator & Chief Sustainability Officer



OPERATOR: Good evening, this is the Chorus Call operator. Welcome to the presentation of Garofalo Health Care first quarter 2023 results. Now I would like to give the floor to Mr. Mimmo Nesi, Investor Relator & Chief Sustainability Officer of the Garofalo Health Care Group. Mr. Nesi, please.

MIMMO NESI: Good afternoon and thank you for your time and availability. As you have read, today the company, following the approval of the Board of Directors, published the results for the first quarter of 2023. I introduce who is here in the room from Rome, therefore the Chief Executive Officer, Mrs. Maria Laura Garofalo, the Chairman of the Board of Directors, Mr. Alessandro Maria Rinaldi, the CFO, Mr. Celentano, and the Head of Administration and Reporting, Mr. Riccardo Rossetti. At this point I would leave the floor to the Chief Executive Officer for an initial comment on the quarter and obviously downstream we will have space for your questions. Please.

MARIA LAURA GAROFALO: Good evening everyone. You have read our quarterly figures, which are honestly and objectively extraordinary. These are numbers that give credit to our commitment. Basically we anticipated growth in our businesses and I have to say the businesses and numbers have even exceeded our expectations. This is because we have now reached a historic moment in which the demand for assistance is so much higher than the supply that the increase in waiting lists has necessarily led to an increase in activities and above all in private activity. In fact, private "out-of-pocket" revenues in the quarterly increase by 27% and we also had a 14% increase in Out-of-Region revenues. What has increased exponentially, however, is precisely the production relating to private services. On the other hand, health is obviously a basic necessity, you cannot live properly without health care, at this moment citizens have also understood that the system is unable to keep up with the rapidly growing welfare needs and, therefore, everyone rather renounces an extra dress but spends on a health insurance policy. I must also say that companies, including us, are moving towards forms of corporate welfare which provides for their employees, insurance coverage, both for employees and their families. This, moreover, is a non-passing trend, it is not a situation that will be highlighted exclusively in a short period of time or in a quarter - being linked to an endemic phenomenon, now physiological - this is a trend that will continue to grow. Yes, the virtuous Regions have recognized an increase in regional budgets, but that is certainly not the turning point in our organic growth, an organic growth that has had a notable surge. If we consider that we have always told ourselves that organic growth in healthcare, due to the famous budget limits, does not exceed 2%, we can say that in the quarterly our organic growth in terms of revenues was 10%.



Obviously these are the Revenues net of GVDR production that we acquired, as you will recall, in December 2022. Organic growth, again excluding GVDR, therefore on the facilities already present in the portfolio in relation to EBITDA, was 24.5%. In short, on the one hand we are very driven, as you have noticed, because in December we took over the GVDR, last week, on May 9, we completed the closing of the acquisition of Sanatorio Triestino and, at the same time, we significantly increased our organic growth. You will notice that there is a big increase in margins and this is linked to the fact that, as you will have well noticed, EBITDA has grown twice as much as turnover. Revenue grew approximately 15% and EBITDA grew approximately 31%. We have therefore touched at a margin of over 20%. These are things of fundamental importance to me.

I conclude by telling you that we are also very satisfied with our latest acquisition, Sanatorio Triestino. On the occasion of the closing, we carefully reviewed the structure, which is a property of great value, very large, very spacious, therefore with an as yet unexpressed production capacity, where we will be able to do a lot, but completely renovated. Surely in the Sanatorio you will see few Capex in the near future, because for example the radiological department has been completely renovated, the oldest machine is two years old, a new CT was installed two months ago, so we have a new MRI, a new CT, a new generation mammography, traditional radiology with remote controlled digital also recently acquired, many ultrasounds and also the part of the department, from a structural point of view, is very well maintained and has been renovated. I had already said, on the occasion of the market announcement of this operation, that Sanatorio underwent a complete and important renovation in 2015 and in fact it is a completely renovated, new property that looks very good and is very well maintained. It is an operation that has caused quite a stir in Friuli-Venezia Giulia and we are already ready for the development of this structure, because it has significant potential. We have an important growth project that concerns hospitalizations but also outpatient activities.

I leave room for questions.

OPERATOR: This is the Chorus Call operator. We will now begin the question and answer session. The first question is from Isacco Brambilla, from Mediobanca. Please.

ISACCO BRAMBILLA: Good afternoon everybody. I start with a couple of questions. The first is on the organic performance you've had this quarter. Can you give us a little more color on performance by facility? Not necessarily going one by one, but just to clarify whether the strong performance given by the "out-of-pocket" private sector and the Outside-Region depends on an outperformance of only some structures or if it is something that you have recorded across the entire perimeter. The



second question, on the other hand, is at the level of expectations on the side of marginality. Considering that there was still some difficulty in terms of energy costs, I would expect these to improve during the year and if you can give us an idea of what are the elements that could lead to a drop in margins in the next quarters, compared to what you recorded in 1Q.

LUIGI CELENTANO: Regarding the first question, I can tell you with satisfaction that organic growth at a consolidated level is generalized growth. It is not concentrated in a few specific structures, but it is a growth that we have recorded in all the Group's structures. There are some where the private component has driven more than the accredited business, where it is more accentuated, but to answer your question it is not concentrated on some companies. I add a little color on the M&A and I am referring, in addition to GVDR, also to those carried out during 2021. These companies also recorded significant growth, compared to the quarter of the previous year, but recorded important performances in terms of margins also compared to the entire previous year, when all the efficiency initiatives and synergies we had planned were fully operational. We have Clinica San Francesco and Domus Nova which are around 20% in terms of margins and GVDR is just under 25%. This despite only three months, considering that last year, in 2022, it was 19%. These are certainly elements that can give an idea of the specific contribution that the recently acquired Targets have given. Coming to the subject of costs, especially the subject of energy, what we have positively observed in recent months is that the price of energy, having December as a reference, has progressively decreased. It has been at a significantly lower level than last year for a couple of months now and is almost in line with the values of 2021. In the quarterly accounts we certainly have an energy cost lower than the first quarter of last year and as an incidence on turnover we positioned ourselves almost at the level of 2021, thanks also to the benefit of the tax credits which worked on the first quarter of this year. This benefit was also renewed for the second quarter, albeit with lower rates, but the combination of the price, which is now low, with the benefit linked to the tax credit, makes us very reassured that this item will be able to and realign to 2021 for the entire year, recovering what it took away from us last year in terms of margin and also percentage margins.

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

EMANUELE GALLAZZI: Good evening everyone and congratulations on the results. I have three questions. With the first, I would start with the growth of the business with private patients. You have indicated the mix between private individuals and the growth of the welfare and health insurance, if you can give us more detail on what the split is reasonably, even if only a general indication. From this point of



view, you had previously spoken of negotiations or in any case of dialogues with insurance companies, I would like to understand if any agreements have been closed or if the drive was also linked to these new negotiations. The second point instead is on the part of the health budget. You have still indicated possible new budgets for the topic of waiting lists. We have seen the benefits on the private side and outside the Region, but I ask if you can give us an idea of any negotiations underway with the Regions for waiting lists. Finally, the last theme: the working capital. We saw a cash absorption from working capital in the first quarter. You indicated an increase in trade receivables that you expect to be absorbed in the second quarter, I wonder if you can give us more detail on what happened and what you expect as an evolution in the second quarter. Thank you.

MARIA LAURA GAROFALO: As far as the subject of insurance is concerned, we do not have a separation, at least in GHC, while the structures do have it, between subjects insured with an insurance policy or subjects who are covered by policies that fall within the scope of corporate welfare, therefore they are all classified as private patients. As far as insurance is concerned, we are already affiliated with all the insurance companies, but it's not that private revenues have grown, or are growing, as a result of new agreements, but rather as a function of the fact that policies increase. The answer is that we are already affiliated, so this increase did not depend on extraordinary factors on our part, particular stipulations with new funds or new insurance companies, but it is really a social phenomenon, that is, the number of policies. Citizens now prefer to take out a policy, which obviously is an absolute primary necessity, and perhaps give up other services. I repeat: in the context of our numbers we do not have this distinction between insured through policies or insured through welfare. I don't think it's particularly interesting, because in any case they all fall into the category of private hospitalizations, but if it's a topic we want to explore further, we can certainly have some more data sent by the individual structures. As for the new budgets, obviously they haven't been allocated yet, but you will remember that the new budgets have always been allocated in the second half of the year, or in any case in the middle of the year.

LUIGI CELENTANO: As far as the new budgets are concerned, you have been following us for some time and you know how the resources for any waiting lists are assigned during the year, once the individual Local Health Authorities have closed their budgets and therefore have allocated the resources according to the response policy to assistance needs. Compared to what we said to each other a couple of months ago, when we commented on the year's results, there is no particular news, except for one very interesting one, because you will recall that we told you about an agreement we had made with the Local Health Authority of Ravenna



for the opening of a community hospital, which was then also taken up by various newspapers, on that occasion speaking of a strategic partnership with the Local Health Authority. Strategic because, in making this part of the structure available to host a community hospital, which is then managed by the Local Health Authority, a relationship was established with the prospect of being recognized for the additional resources to manage the needs of the territory.

MARIA LAURA GAROFALO: Above all on the side of outpatient specialist activity we had asked for an increase in the number of MRIs. Let's say that he surprised us, because the CEO of the structure called me and told me that, compared to what we had requested, we were given more than double the number of resonances and, at this point, we need to anticipate the installation of a new resonance. We had planned to replace the magnetic resonance in Domus Nova, i.e. in San Francesco of Ravenna, next year, but we decided, precisely in view of this order, to bring forward not the replacement but the installation of the new machine, leaving the old one. In the meantime, obviously we will also operate on Saturdays and Sundays, on holidays, with longer hours, but in the long term it is not convenient for us, otherwise the costs will erode our margin. We decided, given that the replacement of the old resonance with the installation of a new one had already been budgeted for, to anticipate this installation, leaving the old one in operation as well. This is also a sign of the importance of this agreement, which was strategic for so many reasons, but the fact that then not only did they keep their commitment, but they gave us a much higher number of resonant services than that required, is once again the confirmation of how rampant waiting lists. This is definitely something to report.

EMANUELE GALLAZZI: Just a clarification on this, to understand with respect to the Capex plan, if I'm not mistaken the last indication you gave us was 16 million, if anything changes.

MARIA LAURA GAROFALO: Between the works to be able to accommodate the new machine and the purchase of the machine, we will be just under one million, however we will probably move forward other investments in other, less urgent structures, which can be postponed to the next year, so nothing will change compared to what we predicted. We therefore remain on the approximately 16 million of indication for the year, perhaps we will bring this forward and perhaps we will postpone some other investments to next year.

LUIGI CELENTANO: If I remember correctly, then there was the theme of the greater color on working capital. The slowdown we have experienced in working capital is a temporary slowdown, because it concerns the receivables of some companies, I will specify which ones, relating to the activity carried out in 2022 with respect to non-regional activities. These are receivables from Centro Medico San Biagio,



in the Veneto region, and three companies in Emilia-Romagna, but these receivables will essentially be collected between now and the end of the current quarter. It is simply linked to a topic of final balance and closing of accounts in the management of relations with the Local Health Authorities. Usually they are faster, on this occasion these counts required a little longer times from the Local Health Authorities and therefore they simply gave the billing authorization with a slight delay compared to the past. However, there are no particular issues to report in this regard.

EMANUELE GALLAZZI: If I may, a follow-up on the topic of Real Estate. I saw in the press release that you reaffirmed your intention to move the assets to the dedicated vehicle, I ask if you can also give us an update here. I believe that in the last conference call the indication was to already see properties moved between May and June, if you could provide us with an update from this point of view it would be useful.

LUIGI CELENTANO: With great pleasure. Among other things, today's GHC Board of Directors approved the operation, in particular it gave the green light for the realization of the transfers of the properties through proportional demerger operations. I therefore confirm that we are in the executive phase, which means that we will go to approve the demerger projects in the subsidiaries in the coming weeks and these projects will then take effect once the legal deadlines have elapsed. Gradually, between the third and fourth quarters of the year, GHC Real Estate will populate properties and, correspondingly, also the flows relating to the lease relationships that will be established between GHC Real Estate and the subsidiaries to which we will transfer the properties. I can confirm what was anticipated and the confirmation is precisely today's resolution of the GHC Board.

OPERATOR: The next question is from Isacco Brambilla, from Mediobanca.

ISACCO BRAMBILLA: Thanks again. Two questions. The first is on the continuation of the business in the second quarter, if you can give us some color on how it's evolving these first few weeks, if it's in line with what you've seen in the first three months of the year. The second question is at the level of internal growth plans, if there is an update on the so-called fire power, which you estimate you can spend during this year, and if you can confirm that the line dedicated to UniCredit's M&A is due at the end of 2023. Thank you.

MARIA LAURA GAROFALO: As regards the continuation of the business, it is continuing according to the trend of the first quarter. April wasn't a particularly significant month, because it was a month with many long weekends and holidays, there was Easter, but we had already taken that into account. May restarted at full speed,



according to the trend of the first quarter. I have continuous feedback, even by telephone, with the various CEOs, and they tell me that the private sector is further increasing. From this point of view there is no change. As far as external growth is concerned, I confirm that we are very focused, as always, on this aspect. We have several interesting deals that we're focusing on.

LUIGI CELENTANO: As regards the expiry of the loan, I confirm that the line expires at the end of the year, but we are already in contact with the banks to work on an extension. It is not a topic that worries us from an operational point of view, absolutely. Indeed, the banks are almost more interested than us. If I remember correctly there was also the point on fire power, but that was related to the theme of the line. The line we had was 81 million, then we used it in part for around 24 million between the GVDR operation and this one at the Sanatorio. If I don't miscalculate, there are still 57 available. These 57 can serve as short-term fire power of around 80-90 million. I am referring to the next 12 months, net of any other type of initiative that the company may possibly undertake.

MARIA LAURA GAROFALO: Obviously the leverage, despite that small slowdown on receipts, has decreased, it has gone from 2.4x to 2.3x, but obviously our firepower always remains the same, if not even increased, because obviously then we put in Revenues, we put in EBITDA, we put in cash, and it increases our firepower. Again considering that we set ourselves the limit of not exceeding 3.5 times EBITDA, as Net Financial Position.

OPERATOR: Mr. Nesi, there are no other questions booked at the moment.

MIMMO NESI: So thank you all for participating. I remind you that the transcript in Italian and English will soon be available on the website, in the Investor Relations – Presentations section. As IR office we are always available to have further opportunities for discussion. Again a good evening from all the GHC team. See you soon.