"GHC Results 1H2024 Conference Call"
Thursday, September 12, 2024, 4:00PM 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
Mrs. Claudia Garofalo, Head of Finance
Mr. Mimmo Nesi, Investor Relator & Chief Sustainability Officer

OPERATOR: Good morning, this is the Chorus Call operator. Welcome to the presentation of Garofalo Health Care's first half 2004 results. After the initial presentation, there will be an opportunity for questions. I would now like to turn the floor over to Mr. Mimmo Nesi, Investor Relator and Chief Sustainability Officer of Garofalo Health Care. Mr. Nesi, please.

MIMMO NESI: Good afternoon, everyone, and thank you very much, as usual, for your time and availability. As you have been able to read, in the morning the company issued the press release regarding the results for the first half of 2024, which were particularly satisfactory. I would like to remind you that the call will be in Italian, and the transcript will also be published in English shortly.

I briefly introduce who is in the room here from Rome: the Group's CEO, Mrs. Maria Laura Garofalo; the Chairman of the Board of Directors, Mr. Alessandro Maria Rinaldi; the CFO, Mr. Luigi Celentano; the Head of Administration and Financial Reporting and CEO of GHC Real Estate, Mr. Riccardo Rossetti; and the Head of Finance and member of the Board of Directors, Mrs. Claudia Garofalo.

I yield the floor to the CEO for an introductory greeting, then there will be room for your questions

MARIA LAURA GAROFALO: Good evening, everyone. I assume that you have had a chance to read our press release, then to analyze our data.

We are particularly pleased because we actually confirmed the trend of the first quarter and recorded growth in all areas of our activity: in an important and substantial way, there was a lot of growth in private activity and activity delivered to Out-of-Region patients, where we had an 8% increase in activity delivered to private patients, so out-of-pocket performance, a 9.1% increase in services delivered to out-of-region patients, and we also had a 3.7% increase in activity delivered to regional patients under accreditation, because we continue to have the allocation of extra-budget for the reduction of waiting lists. We are also confident that additional extra budgets for regional patients will continue to arrive in the second half of the year in the coming months.

All this has meant, first of all, very strong, very important organic growth: in terms of turnover, organic growth has increased by 5.3% consider that in general the industry grows organically by 2% and with a relative EBITDA growth of 9.3%, so EBITDA growing more than proportionally to turnover.

Great satisfaction has also been given to us by the Aurelia Group. You know very well that we took over the Roman Group on November 16, 2023, we made a major commitment both strategically and managerially on the structure of the

Group, and we recorded major improvements. As you can see, we recorded a turnover of about 49 million euros, with an EBITDA of 5 million euros.

The Aurelia Group has given us satisfaction in terms of results that are higher than expected not only because we have been able to enter into the management structure, so to address in a more efficient way also the organizational structure, and of course management, of the hospitals that are part of the group, but also because we had a dense conversation with the Lazio Region, which actually, despite not being ranked, as you know, among the virtuous Regions of Italy, despite no longer being a commissioner but still subject to a rehabilitation plan for health care, instead has been a Region, with the new staff, very receptive to the expectations of the accredited private sector.

So much so, you may recall, that already in December 2023 we, specifically as Aurelia, had obtained the accreditation of an additional 16 General Medicine beds with an additional budget of 1.6 million, while in August the new regulation came out regarding the funding of the Emergency Department and critical areas, by critical areas I mean resuscitation and coronary unit. Without boring you by going into the technical, suffice it to say that this new funding regulation brought in the entire Aurelia Group, so between Aurelia Hospital and European Hospital, an increase in funding of about 2.2 million.

Some events on the cost side did not allow the benefit of this increase in revenue to be carried over to the year entirely, but then we will find ourselves fully in the course of 2025, because you will remember that Aurelia had a supported RSA ward, that is, 20 beds of R1, so intensive RSA, which was to be decommissioned and moved to another facility in January 2024.

In fact, there has been a delay in the discharge of patients, who are complicated, bedridden, challenging. So there was a slow decrease in R1 turnover because we were no longer taking in patients, but in the meantime we incurred the costs of the entire department, which was then decommissioned in April. Obviously this negative impact we will no longer have in 2025.

Also, we had a somewhat slower start of the private activities, but it has now taken off. European Hospital has always done private activity consistently and has a continuously increasing trend, it had it in the first half of the year and, I saw the turnover figures for August, it continues to have it even in a month like August heavily impacted by seasonality.

Aurelia Hospital was, until we at GHC took it over, considered the same as a public hospital, there was no commitment to start the private activity. We did get it started, however, to do that you also need a certain kind of internal organizational and IT structure, you have to enter into agreements with all the insurances, enter them into the system, and so on. All these activities took longer than what we had planned. Now we have gone full steam ahead; in fact, even Aurelia's private has gotten off to a very good start. We have done far

better numbers than the almost zero last year, I have seen the August figures and they are very good for Aurelia as well, as far as the private is concerned, because it has done much more than budgeted for that month.
I don't want to elaborate further, I would like to leave room for questions.
I dwelt a little bit more on the Aurelia Group to tell you that it did very well in 2024 and will close very well in 2024, but 2025 will be even better because, in addition to what I have told you, we have already in a sense negotiated, again with the Region, budget increases, but they will start in 2025, they will make the resolutions I think at the end of the year, regarding Outpatient Specialty. Until now Aurelia Hospital has had a budget of only 400,000 euros for Outpatient Specialty Care, which for such an important hospital is almost unattainable.
So we have already dealt with a major increase in this budget, just as we have dealt with a further increase in the accreditation of beds, on which we are already moving at the organizational level, authorization and whatnot, of General Medicine, which will allow us to obtain an additional budget on General Medicine. These are two matches on which we are far ahead in discussions with the region. Then I now intend to bring forward, if we succeed, also the possibility of obtaining a budget increase on the surgical area, where we have very important waiting lists in specialties and on surgeries such as various cancers, which cannot remain on the waiting list for too long a period.
I will be silent and leave you the space for questions.

OPERATOR: We will now begin the question and answer session. The first question is from Emanuele Gallazzi, of Equita.

EMANUELE GALLAZZI: Good afternoon, everybody. I would start with three questions.
The first one is actually to clarify an element related to Aurelia Hospital. If I understand correctly, the new regulation actually brings in 2.2 million that we have to consider as recurring, to which we add these potential budget increases that will be allocated at the end of this year 2024, so we will only see the full contribution in 2025. Is that correct?

MARIA LAURA GAROFALO: It is correct.

EMANUELE GALLAZZI: The second point I wanted to check with you is the following. Seeing the results of the second quarter and the first half of the year, with organic growth that was objectively very good, I'm wondering, looking at the guidance that you provided in the previous conference call, so of Revenue of about 460 million, 80 million EBITDA, whether you confirm that or you see room to do better.
The third question, on the other hand, is on the Net Financial Position. I saw that you indicated that there are these 8 million receivables that you have not

assigned on a non-recourse basis. If you can give us more visibility on these, whether you expect them to be collected by the end of the year. Again you had given an indication of leverage around 2.2 times, so an NFP of around 175 million at the end of the year, if we are still in that range.

LUIGI CELENTANO: Good afternoon, this is Luigi Celentano. I am responding on these last two points.

Regarding the Revenue and EBITDA guidance that you mentioned, obviously the expectation is to do better, but at the moment we see guidance that can be confirmed. Certainly the first half of the year was really very positive, there is then to take into account that the second half of the year in terms of performance discounts a little bit the seasonality period especially represented by August. Based on these very simple considerations we would then say that the guidance given on Revenues, EBITDA and margin for 2024 can be confirmed.

As far as NFP is concerned, what we have indicated is aimed at making clear what was an opportunity choice that we made, with reference to credits that concern the extra production of the facilities that we have in Emilia-Romagna on the Out-of-Region activities. This extra production was then confirmed by the Region, the credits were also certified by the Region itself as collectible. This also happened last year and has happened this year.

This year, in particular, we felt that we did not anticipate the collection of these receivables, so we did not proceed with an assignment, because we would have incurred financial burdens that we basically wanted to avoid, in view of the financing operation that we closed in July and allowed us to recover cash availability, so we do not have the need nor the urgency to proceed with an early collection.

Usually, the mechanism for this extra production involves a confirmation immediately after the close of the fiscal year, but a deferred payment by the region and the LHA about a year and a half after the close of the fiscal year, on average the time between the close of a fiscal year and the State-Regions Conference where the regions define the balances of active and passive mobility between each of them. The ordinary collection time is about 18 months from the close of the fiscal year, with the understanding that of course, since they are certified credits, therefore assignable, at any time the company could anticipate their collection basically.

This is to say, to give a view on the full year, that the landing area in terms of NFP and leverage ratio that we see is about 180 million NFP and 2.3 leverage ratio, compared to a consensus that talks about 176 million and 2.2 leverage ratio.

EMANUELE GALLAZZI: Thank you very much. If I may, one last line. Since you have closed the financing line, among which is this Capex line for 70 million, both for Capex and

M&A, you have also indicated it in the Management Evolution part, I would like to ask you for a comment on M&A, what are you seeing in the market, what opportunities are there, whether multiples have come down or whether there is more willingness on the part of potential sellers to negotiate, to sit at the table with you.

MARIA LAURA GAROFALO: Regarding M&A, I must say that we have some very interesting transactions on the table, some of them very important, at absolutely market multiples. In particular, we are on a transaction involving a single facility, so more or less in line with the ones we have done so far, we are, however, also evaluating a more important transaction of a very interesting reality, with more important dimensions, but with performance absolutely in line with ours.

In fact, we were also evaluating in function of these, but also of other opportunities that are coming on the table, again of very interesting realities, to give concreteness, in the first months 2025 at the latest, to our project of completing the M&A operation with perhaps the entry into Real Estate of a third party.

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

ISACCO BRAMBILLA: Thank you and good afternoon to everybody. Three questions on my side.

The first one is on Capex. In the July call you mentioned to us a good number of projects that you intend to work on, I was wondering if you could give us some guidance at the Capex level for this year and next year, to see how much your cash generation can absorb, either in absolute terms or on revenue, depending on how it comes most comfortable to you.

The second question is about the dividend. Also in July you were telling us that internal discussions had started within the company and the Board of Directors about a possible dividend. I would like to understand if there is any update on that.

The last question is more about the immediate. As something has been mentioned at the level of business trends in July and August for Aurelia, if you can give us a comment on the rest of the Group as well, including qualitative, with respect to the trends in the six-month period. Thank you.

LUIGI CELENTANO: Regarding the first question, regarding the level of Capex, we actually confirm the indication that we have given in the past, so Capex will basically be in the area between 4% and 5% of our Revenues, both for 2024 and 2025. In our Capex you know there are a number of major projects, as well as a baseline of Capex that we call maintenance Capex, which basically year-to-year is pretty stable in its impact on Revenues.

Regarding the Dividend Policy, certainly that is something that is on the table of the Board of Directors and we confirm it. I remember as an important element that we also got with the financing operation in July, in addition to absolutely freeing up the guarantees and having freedom of action on Real Estate, having again maximum freedom in grounding a Dividend Policy for the future for our shareholders. This operation allows us to think fully on this front.

Finally, this trend affects, beyond Aurelia, other facilities, in fact was commented on a bit at the beginning of the call by our CEO. We note results that are the result of a number of initiatives that then go to work on the attractiveness of facilities, so the ability of facilities to deliver more volume of activity, so more value of activity, to pricate patients and Out-of-Region patients. This is what we observe, so trends that are now absolutely structural of growth on these two fronts.

On the extra budget front, it is an issue that we have been repeating for years, they are not adequate and we continue to believe that they are not adequate, although the resources at the moment even in GHC are important in absolute value, but we believe there is still, especially in some regions, a suffering and a need for care that is not adequately answered.

MARIA LAURA GAROFALO: If I understood correctly the question about the August trend in particular, I think it was focused on this month, I can say that the Group turnover is absolutely in line with the trend and our planning, although there were some effects on the month that had a negative impact, namely, the great heat put a strain on the AHUs (air handling units), thus on the cooling system of the operating rooms at Hesperia Hospital in Modena, which is why we had to close for fifteen days, if not twenty, between the end of July and especially the first fifteen to twenty days of August.

Incidentally, another negative aspect we had on GVDR, also in August, where we had scheduled the start of the outpatient operating room, so with a number of surgeries already scheduled in ophthalmology, outpatient surgery, and so on. The health department delayed the authorization paperwork, so the activity could not start at the end of July, it is starting now in September.

Despite the negative impact on the month of August of these two elements, however, we had a turnover that was absolutely maintained, because there were other facilities that did more. Then, also to our great satisfaction, the one that contributed the most was the European Hospital in Rome, which saw an important increase in private business. So we absolutely believe that the trend gives us hope, that is, this reasoning only on the month of August gives us hope on the next months, on which we will certainly not have this kind of problem.

Regarding the second question, which I thought was very important, as our CFO anticipated, we confirm on the annuity 2024, so in approval next year, our intention to start distributing dividends to our shareholders.

ISACCO BRAMBILLA: Thank you very much. I take this opportunity for a follow-up related to the recent refinancing. Is it correct to make based on the current interest rate environment an annual estimate with finance charges in the range of 14-15 million, considering all 275 million of the various lines that you have negotiated? Connected to that, to complete the picture on this year's guidance, if you also confirm the consensus at the profit level around 26-26.5 million euros as something within reach.

LUIGI CELENTANO: The two questions are closely related to each other, in the sense that on the financial expense estimate we are in the area of 14 million, even something less. On our view in terms of net income we are in the area of 24 to 25 million, consistent with the values in terms of Revenues and EBITDA that we referred to earlier.

There is to say that in this estimate of financial charges and, consequently, view that I am giving you in terms of profit, there is a component that needs to be mentioned, which I remember when we made the call on the occasion of the new financial transaction we pointed out, which is a purely accounting component, that is, non-financial, related to the impact on the Income Statement of transaction costs for the unamortized portion of the previous loan, which was closed. So there is an important component that affects this estimate, which so we will obviously have this year, but not for the future.

The other component that in that area between 13 and 14 million of financial charges we allocate on the year concerns the financing operation, which has allowed, as you know, to free up financial resources, so we have more cash available right away thanks to this operation to serve a whole series of initiatives, including investments and in the future also the Dividend Policy that we referred to earlier. These are the elements I provide you with to support these directions.

OPERATOR: The next question is a follow-up by Emanuele Gallazzi, from Equita. Please.

EMANUELE GALLAZZI: It is a very quick follow-up on the Real Estate part. I was wondering if you could give us an update clearly on that kind of process and, if by virtue also of what you mentioned earlier, it remains the idea that you have in your mind on Real Estate, which is to sell a minority stake.

Coming back on the M&A topic, obviously I don't want to know specific information, but I would like to understand, since you mentioned a second opportunity related to a larger transaction, just the size. That is, are we talking about something that is larger than Aurelia Hospital, so something more than the 70 million euros, which I think to date has been the Group's largest transaction? Just to get an idea of potential operation.

MARIA LAURA GAROFALO: Yes, and especially with a very important EBITDA. Yes, however bigger.

ALESSANDRO MARIA RINALDI: I wanted to point out that one of the goals we had set last year was precisely to segregate the part of the real estate assets in order to enhance the value of these assets, but more importantly to put them at the service of the company's M&A strategy. So for now the company has been realized, it has almost 80% of the assets. By early next year we should complete all the transfers of the main properties so by January next year the company called GHC Real Estate will be at full capacity. As I said, this one had the goal of grouping the Real Estate assets but also to make them available to the Group's strategies for new acquisitions.

The second objective then is to get pension funds to participate, or at least to include, within our shareholders as well, as we have repeatedly let you know, in fact recently two large pension funds have entered, which as you know are Enasarco and ENPAM, which also hold an important share of the capital. The involvement of these entities is not only from a financial point of view, but these entities also have an interest in our company, namely being able to offer their members preventive care services as well.

It is obvious that these funds, together with other institutional investors as well, have an interest in real estate, which in fact we will try to probe in the coming months, because they could also be the ideal partners for minority stakes in case we need to release more significant resources for operations that the CEO was talking about earlier, so new operations of larger amounts.

I would like to emphasize to you that in our last financial transaction resolved in July we have over 70 million Capex available, plus our internal availability from our cash flow, so we have over 100 million of fire-power for acquisitions but, if that is not enough, we also have the possibility, through extraordinary transactions of the Real Estate company, to inject financial means to support growth.

In all the operations we do, as you have seen, we not only acquire the business of the health care business, but also the real estate business, so from now on we can have these businesses taken over directly by the Real Estate company, which will be in charge of making the most of the real estate assets. At present, 100% of Real Estate is owned by GHC S.p.A., a listed company, so there is the possibility of making capital increases in the subsidiary company to leave room for long-term investors who would have an interest in investing in real estate.

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

MIMMO NESI: If there are no further questions, then we thank you again for the time and opportunity. As an IR function of course we are fully available for any further clarification and information requests. See you soon.