



“GHC Results 9M2022 Conference Call”

Monday, November 14th, 2022, 16:30 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. Riccardo Rossetti, Head of Administration and Reporting
Mr. Mimmo Nesi, Investor Relator & Chief Sustainability Officer



OPERATOR: Good evening. Here is the Chorus Call operator. Welcome to the presentation of the results for the first nine months of 2022 of GHC Garofalo Health Care. After the initial presentation, there will be an opportunity to ask questions. Now I would like to give the floor to Mimmo Nesi, Investor Relator and Chief Sustainability Officer of the GHC Group. Mr. Nesi, please.

MIMMO NESI: Good afternoon everybody. As you have seen, a few hours ago the company published the press release relating to the results of the first nine months of 2022, which will now be the subject of comment. I would like to briefly introduce who is here from Rome: the CEO, Mrs. Maria Laura Garofalo; the Chairman of the Board of Directors, Mr. Alessandro Maria Rinaldi; the Head of Finance, Mrs. Claudia Garofalo; the CFO, Mr. Luigi Celentano; and the Head of Administration and Budget, Mr. Riccardo Rossetti. I remind you that the call will be made in Italian and after the call the transcript will be published on the company's website in Italian and, as soon as possible, also in English. At this point I give the floor to the Chief Executive Officer for an introductory comment on the first nine months of the year.

MARIA LAURA GAROFALO: Good evening everyone and thanks for your attention. We are very satisfied with these results, which in any case show an important growth in our production. The decrease, albeit negligible but still significant, in EBITDA, is exclusively linked to a completely exogenous factor, albeit widespread at a macroscopic level, which is the increase in the cost of energy consumption. Indeed, especially in the second and third quarters, especially in the third, we had a peak relative to the trend of these consumption, recording a double increase in the same. Obviously, if we isolate the phenomenon, which has already been regressing since October, we know that energy prices are settling on the original values, those relating to the first quarter, with a decrease of about 50%. As for the end of the year, we expect a reduction in the phenomenon. In any case, I am still very satisfied, because the production and therefore the revenues went very well, above all expectations. As you can see from the press release, they increased on an organic basis by 8.2 million in the first nine months. However, this increase is the result of what I have repeatedly described as a physiological increase in the welfare needs of our country, which obviously grew exponentially in the post-Covid period. The most important thing is that this increase is particularly linked to the services rendered to private individuals and to those outside the region. Obviously, the activity provided in accreditation also increases, due to the increase in the budgets that we have repeatedly represented, however, while the increase in regional services, of the accreditation system, increases by 3.5%, relative to the Out of Region we have an increase of 8.4% and 5.5% in relation to private patients. This



shows us that our facilities have an unexpressed production capacity and, therefore, are able to increase their business in a very balanced way, among other things. We did not experience any particular stress in this increase in activity. Obviously the most important quarters from this point of view are the first and second and a physiological slowdown occurs, as always, in the third quarter, with the summer months, to then have a significant recovery in the last quarter of the year. We are also very satisfied as regards the performance of the two new acquisitions, which impacted only for part of the year 2021 and which will instead impact on all 12 months of 2022, where we have for the San Francisco Clinic in 2021 a marginality of 16.9%, in the nine months of last year, which rose in the nine months of this year to 22.9%, thus reaching a margin of almost 23%. For Domus Nova even the change is striking, because we pass from 2.6% of the nine months last year to 14.9%. I wanted to give you a general overview, but at this point I would leave some questions.

OPERATOR: This is the Chorus Call operator. We will now begin the question and answer session. The first question is from Emanuele Gallazzi, of Equita. You are welcome.

EMANUELE GALLAZZI: Good afternoon everybody. I would start with three questions. The first is on the subject of energy. I saw that in the press release you indicated a series of initiatives that you have undertaken, if you can give us more visibility on what you are doing on the energy issue, also here to understand the room for maneuver you have in terms of the ability to overturn the costs to patients, or arguments you are making with the National Health System about reimbursements. The second point is on NFP, if you can give us an indication of what could be a NFP target for the end of the year and also some visibility on the dynamics of circulating in the third quarter. The last point is on the margins of the M&A perimeter. In the third quarter, if I'm not mistaken, we are around 11.9%. If even here you can give us a little more visibility. I imagine that in addition to the energy effect there is also an operational leverage effect, I ask if you give us information.

MARIA LAURA GAROFALO: Before passing the word to Mr. Nesi regarding the discourse of the initiatives we are adopting for the containment of energy costs, I start from the bottom of your question and I want to specify that in some structures at the moment with regard to the DRG, therefore the rates that are applied for services rendered in accreditation, are those and do not undergo any changes whatsoever. The trade associations, however, have already presented a specific request for coverage on the tables, both of the various departments and of the Ministry of Health. We are awaiting answers on this. As regards, however, the possible overturning of the same on the rates of private individuals, in some



cases it depends on the situation. These are quite delicate situations, which vary, both in relation to what others do, that is, in relation to the market, as regards private rates, and in relation to the relationship with professionals, which obviously we cannot risk losing. I can say, however, that in some structures we have started, for example, to decrease by a few points - in one structure we have reached up to 3% - the percentages of professionals. The rates of private services have also been increased by a little. We move very carefully, however, to avoid having a negative effect, because perhaps to recover costs that are only passing through, we risk losing permanently loyal patients or professionals who make the difference. It is a topic that must be evaluated with absolute balance. As regards, however, the initiatives that we are deciding with regard to the maneuvers aimed at improving efficiency and covering these costs, I pass the word for a moment to Dr. Nesi who has dealt with them.

MIMMO NESI:

Thank you. As we reported in the press release, the company is concretely working on two directions. A first direction concerns the theme of price, then the theme of supplies; a second line concerns the theme of consumption and therefore of investments. As for the first point, on the subject of the price, the intention of the company already in place is to reach the contractualization of the supply of electricity and gas through a single operator, therefore through a single group contract for both raw materials. To date, however, the situation is decentralized, each structure independently contracts the supply of electricity and gas. For us, this would mean rationalizing and standardizing the contractual conditions, obviously as well as being able to benefit from a volume effect. On the topic of consumption, the company, with the help of a primary consultant, has drawn up a proposal for investment plans relating to the issue of energy efficiency, on two main sites: that of electrification, disconnection from gas, and that of self-production, or rather the construction of photovoltaic systems. In this case, the initiatives will be in place starting from 2023. As for the issue of supply, I can say that the company has already initiated discussions with leading players, including those from the world of renewable energy, and the expectation of the company is that this game can close by December 31st. At this point, unless I have to go back to the point if necessary, I would leave the floor to the CFO for the point on the NFP.

LUIGI CELENTANO:

Before answering on NFP, I would like to comment on the other question concerning the dynamics of working capital in the quarter. I imagine the demand derives from the fact that in this quarter we benefited from a positive trend in working capital and that the cash generation of the group is favored. Well, this is a positive dynamic that we record in the sense that there is a dynamic of seasonality of production and receipts, which are deferred over



time, which means that the third quarter of the year is characterized by the fact that receivables of the previous quarter, where production levels, and therefore invoicing, are consistent and significant, while there is a lower production, referred to by the CEO, and this is essentially physiological. We expect this seasonality trend, which particularly favored the third quarter, to be partially reabsorbed in the last quarter of the year, because working capital benefited from these trends in the third quarter, particularly due to the effect of loans, the higher collection of receivables with respect to new receivables recorded in the financial statements. This is an important premise just to comment on our NFP expectation to end. What we can tell you is that at the end of the year we expect to respect more or less the view indicated by the consensus of the analysts, which if I remember correctly stood at around 120 million euros. It is a slight decline in NFP due to the dynamics of working capital just described. Obviously, the impact of the acquisition of the GVDR will be added to this NFP, represented by the Enterprise Value you know, of 24 million, with approximately 0.5 million euros for transaction costs. This is our indication on NFP. I come to the last point, which concerned the marginality of M&A, which in the third quarter was slightly below 12%, saying that basically this is a trend that we expected. Here too there is a theme of seasonality, which particularly concerns hospitals, which have more consistent fixed costs, and in the summer, when there is a physiological decline in performance, margins are also affected. It is clear that in the fourth quarter of the year the recovery in margins will be strong and will be absolutely in line with that of the first two quarters of the year. Just to give a reference, about 12% that was recorded on the two M&A of this year last year was just over 8%. This testifies to the fact that there is this physiological dynamic, but also that the growth, also in this quarter, for M&A has been achieved.

MARIA LAURA GAROFALO: This effect was highlighted above all in relation to the Domus, more than to San Francisco, which probably pushed more than expected in the first half, then there is the physiological slowdown and, as Mr. Celentano said, the recovery in the last quarter. In short, they are two Targets that have given us and are giving us great satisfaction and great merit. We are satisfied.

OPERATOR: The next question is from Isacco Brambilla, of Mediobanca. You are welcome.

ISACCO BRAMBILLA: Good evening everyone. Most of my questions have already been touched on, I just take this opportunity for a short follow-up on the investment part. Can you give us some more color on what kind of investments you are planning in terms of energy efficiency, if you have already made a budget and if they will be completed in the first half of 2023?



MIMMO NESI: A budget proposal was made or, better said, the initiatives were identified in a timely manner for all the structures. The overall investment package was quantified at just over 8 million, divided into a priority component, called Tier 1, which is worth about half, 4 million, which referred to the two components I mentioned earlier, and a second component, instead defined Tier 2, i.e. investments that can also be deferred. The quantification and timing of the investments will be defined in the coming months, in conjunction with the approval by each structure of the related multi-year budgets and business plans.

MARIA LAURA GAROFALO: I would like to add that these investments will fit into our physiological Capex trend. Moreover, apart from the increase in energy consumption costs, some structures had already budgeted and planned this type of investment. The 8 million will fall within the scope of what will be ordinary investments and, therefore, you will not see an additional 8 million euros on the total investments for next year.

OPERATOR: The next question is from Dario Michi, of Exane BNP Paribas. You are welcome.

DARIO MICHI: Good afternoon everybody. I have some questions. The first concerns the impact of energy costs, if you can kindly quantify what is the incidence in terms of revenues of these costs. If I read correctly, in the nine months it should be 2.2%, which I believe to be down compared to the 2.5% that you had indicated in the half-year, so in reality a bit contrary to the trend we saw earlier in the course of the year. In light of the initiatives you are undertaking, if you can give us a rough indication of what the expected impact may be for the coming year, clearly as an average, assuming that the benefits are more concentrated in the second half of the year. The second question is guidance. The press release gives an indication of a production level in line with the fourth quarter of last year. If I do not misinterpret the indications, this would lead to a full year turnover in excess of 320 million, if I have not miscalculated, which seems to me to be at a higher level than the current consensus level. If you can confirm it, kindly. Thank you.

LUIGI CELENTANO: On the issue of the impact of energy costs, in the nine months the costs affect the group's turnover by 3.2%. If I heard your question correctly, it was referring to 2.2%, but in reality it accounts for 3.2%, so a growth compared to the nine months of last year, when they accounted for 1.5%, but also compared to our expectations at the beginning of the year. Over the nine months, the impact was partially offset, but in any case to a very limited extent, by some tax credits that we have entered in the balance sheet in the amount of about 800 thousand euros which in fact, if we want, would reduce this incidence, if read together. to the benefit of tax credits, to approximately 2.9%. However, we are talking about



values that are almost double compared to last year. I also remember that the tax credits were recognized for the second and third quarters, so it is only six months of the nine in which we have suffered a higher cost of energy. The positive element that I add, which has a prospective value if we want, certainly with reference to the fourth quarter and, hopefully, also to the following year, is that these contributions have not been confirmed only for the months of October and November. they should also be for December, but they have also been increased. The contribution went from 15% of the cost of energy to 30% and, for methane, from 25% to 40%. There are measures that are reinforcing aid in support precisely to mitigate the economic and financial impact for the company. In terms of the outlook for 2023, we expect it to somehow stabilize or decline further on the one hand. At the moment we do not have great visibility, if not that of a downward trend in the price compared to what we recorded in the third quarter of this year, it is gradually realigning itself to values that are close to the end of 2021 or the beginning of 2022, and we also expect these benefits in terms of aid, tax credit contributions, to be renewed and remain in 2023.

MARIA LAURA GAROFALO: We will also begin to collect the first effects of the efficiency project mentioned by Mr. Nesi, which will have its effects in 2024, but already in 2023 we will begin to collect the first results.

LUIGI CELENTANO: As regards, instead, the view on volumes and values of the fourth quarter, we expect to achieve production volumes and values in line with last year. I remember that last year both Revenues and our Adjusted EBITDA benefited from an extraordinary contribution of about 2 million for the Covid function of the Eremo di Miazzina, so it is clear that our expectation does not concern these 2 million that were there last year. It is in line with last year, obviously excluding this contribution, both on the production side and on the Operating EBITDA side. I don't know if I was clear enough in answering your questions.

DARIO MICHI: Yes thanks. That level that I mentioned of 320 million, therefore, is a level that you consider achievable, even by incorporating these 2 million.

LUIGI CELENTANO: Basically we believe it is achievable, but we will not exceed that threshold, precisely because of that speech I was saying to you, which concerns the financing of last year's Eremo di Miazzina.

DARIO MICHI: Can I add a third question about rate dynamics? If you are expecting an impact in terms of financial charges on 2023, if you can give us an indication of what your estimate is, in light of the fact that the debt currently, as you said in the last call on the recent acquisition, is at a variable rate, with a spread if I



remember correctly of 190 basis points in addition to the six-month Euribor.

LUIGI CELENTANO: Our loan actually has a spread of 158 basis points, the one we have outstanding. The 190 you referred to relate exclusively to the line for M&A, so they will concern a portion of the loan that we will use for the GVDR operation. Having stated this, our view on 2023 can only be linked, today, to the trend of the Euribor rate and to the forward forecasts, which currently hover in the area of 2-2.20%. At the moment we can only give you this as an indication.

OPERATOR: The next question is a follow-up by Emanuele Gallazzi, of Equita. You are welcome.

EMANUELE GALLAZZI: I actually have two very quick questions. The first is on this year's Capex. In fact, we are at 12.7 million, if it is confirmed that you are still expecting that of around 19 million. The second question is a flash, just because the delta is quite large in terms of tax rate, in the sense that I see that even in the third quarter it is particularly low compared to the target you gave us of about 27%. I was wondering if anything had changed.

LUIGI CELENTANO: As for the Capex, I confirm that our view on the year is substantially in line with the amount you mentioned, therefore 19 million. There may be slightly lower values, but I can tell you that this is the order of magnitude we expect over the year. As regards the tax rate system, I pass the floor to Mr. Rossetti.

RICCARDO ROSSETTI: Good afternoon. The Group has a slightly lower tax rate than the ordinary one for one main reason: having had various share capital increases in recent years, it benefits from the so-called ACE, i.e. the tax deduction that is due for increases in economic capital which, in the over the years, the percentage has changed. For those not familiar with the matter, it is a deduction that relates to increases in equity capital made in comparison to equity in 2010. Each year that equity increases, either for profits generated and not distributed, or for increases in capital social, there is a percentage of tax deduction. I also remember that this benefit has increased a lot under Covid, because the State, as part of the aid decrees made to encourage the capitalization of companies, has provided for the so-called super-ACE. Precisely in the year in which the share capital increases or undistributed profits were made, the reduction percentage is 15%. This is a nice advantage for the group, which lasts over the years, it is not one-off. The other thing it has benefited from over the years has been a reduced rate for two companies that have hospitals, which are Rugani Hospital and Hesperia Hospital, which on that share of profits deriving from the hospital, instead of paying a IRES of 24% paid 12%. I am speaking in the past because in



reality this year's rule has abolished this benefit for hospitals and therefore, to tend, for next year we should see a slight increase in the tax rate.

EMANUELE GALLAZZI: If I understand correctly, then, we are reasonably below that 27% you gave, if I look at 2023 and 2024.

RICCARDO ROSSETTI: Yes, net of the fact that it is always a bit difficult to make predictions, because the declarations are made year by year, we expect a tax rate that increases but that can be between 24 and 25%.

OPERATOR: Just an additional question. Can you tell us a bit about how discussions with the Regions are evolving, if you are focusing solely on recovering additional energy costs or if, looking to 2023, there are also discussions on budget increases for certain structures?

MARIA LAURA GAROFALO: Obviously, the dialogue with the institutions is continuous, but considering that they defined the latest budget increases in September and the formalization of some of the budgets that have been assigned to us in any case, but with respect to which the formal document is still missing, remains. I expect all budget increases to be confirmed next year. Consider that this year, compared to the previous year, some regions have also increased them, even with more deliberative steps, because the increase in waiting lists continues to be an increasingly explosive phenomenon; therefore, this is the topic of the moment. This is the situation.

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

MIMMO NESI: If there are no other questions, if we do not want to add anything else from the room at this point we can thank you for your availability and, as an IR office, we are obviously always available for any further information or clarification needs. Thanks again.