COMPANY UPDATE

MedLife SA

from Buy to Hold

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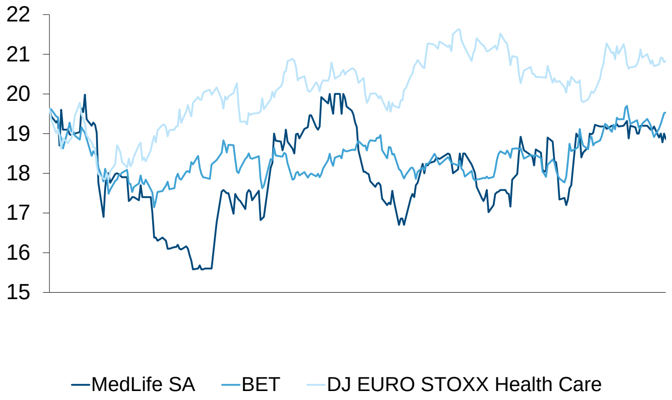
Share price (RON) close as of 25/08/2023	18.9	Reuters	ROM.BX	Free float	59.0%
Number of shares (mn)	132.9	Bloomberg	M RO	Shareholders	Marcu Mihail (15.8%)
Market capitalization (RON mn / EUR mn)	2,506 / 508	Div. Ex-date	11/04/23		Cristescu Mihaela Gabriela (14.04%)
Enterprise value (RON mn / EUR mn)	3,359 / 680	**Target price**	**20.1**	Homepage:	www.medlife.ro

Key figures Overview

RON mn	2022	2023e	2024e	2025e
Net sales	1,795.4	2,178.4	2,486.7	2,728.7
EBITDA	246.6	292.7	359.0	399.8
EBIT	94.2	136.2	183.1	203.0
EBT	49.5	52.7	125.5	148.9
Net profit	37.4	44.2	105.4	125.1
EPS (RON)	0.28	0.33	0.79	0.94
CEPS (RON)	1.39	2.18	1.57	2.14
BVPS (RON)	3.63	3.94	4.69	5.58
Dividend/Share (RON)				
EV/EBITDA (x)	12.34	11.47	9.36	8.16
P/E (x)	60.06	56.64	23.78	20.04
P/CE (x)	12.16	8.65	12.03	8.81
Dividend yield (%)				
EBITDA margin (%)	13.74	13.44	14.44	14.65
Operating margin (%)	5.25	6.25	7.36	7.44
Net profit margin (%)	2.08	2.03	4.24	4.58

Trading data & Statistics

Daily averages	5 days	30 days	last year
Volume	36,825	31,375	39,182
Trading value (RON mn)	0.7	0.6	0.7



Price performance:	1M	3M	6M	12M
in EUR	-1.9%	10.2%	1.1%	-5.2%

Financial Strength

	2022	2023e	2024e	2025e
ROE (%)	8.66	8.80	18.38	18.34
ROCE (%)	5.64	7.04	8.85	9.44
Equity ratio (%)	22.40	22.07	24.85	28.45
Net debt (RON mn)	797.70	852.88	853.40	754.71
Gearing (%)	165.46	162.82	136.95	101.84

2Q23 results – still waiting for the turnaround

We are downgrading our recommendation on Medlife shares to **Hold**, while marginally lowering our target price for the stock to **RON20.1/share**.

While recognizing another weak quarter, we have been only partially persuaded by management that 2Q23 was the inflection point in the profitability profile of the company, and we had to adjust downward our YE financial forecasts.

Top line expansion seems to have brought along a sticky increase in expenses, including financial, and a margin erosion that doesn't appear to have been stemmed yet by management commitment to streaming operations and cost controls. Even if on a pro-forma basis the picture is marginally better, the trend remains nevertheless similar.

The current policy of concentrating efforts on organic rather than acquisition growth should bear fruit, it is however too early to bet on immediate and long-lasting results.

For now, in our valuation exercise, the lower profitability seems to have been balanced by the reduction in the cost of risk, consequently we are keeping our target price largely intact. Nevertheless, should margin turnaround remain elusive during the current quarter, we may be compelled to revise the target price more substantially.

Fundamentals continue solid, and our investment rationale remains valid, with main drivers still present, capitalizing on a growing market, largely price insensitive, and enduring a dearth of alternatives at lower cost, while the drop in general inflation should help prop profitability going forward.

Erste Group Research – Company Update finalized and released August 29, 2023, 07:30, CET, reviewed by Henning Esskuchen (supervising analyst)

2Q2023 results: turnaround still elusive

1H23 results – better y-o-y top line, higher costs

MedLife 1H23 results show a significant boost in top line, with consolidated sales increasing by 24%. At the same time, operating expensed grew by 29%, leading to an operating profit that was 28% lower than that of 1H22 and an EBITDA that was 10% lower compared to the same period of last year. Net income also declined compared to the first half of 2022, by 93%. Margins weakened as well, with EBITDA margin dropping from 15.7% to 13.2%, and net margin from 5.3% to 0.5%.

INCOME ST. (RON, mn.)	2Q23	2Q22	chng (%)	1Q23	chng (%)	2Q21	chng (%)	1H23	1H22	chng (%)	1H21	chng (%)
Sales	536.8	441.5	22%	529.5	1%	339.5	58%	1,066.2	860.4	24%	677.3	57%
Other operating income	5.4	2.2	146%	3.3	64%	1.3	313%	8.8	4.3	106%	2.4	271%
Operating income	**542.2**	**443.7**	**22%**	**532.8**	**2%**	**340.8**	**59%**	**1,075.0**	**864.7**	**24%**	**679.7**	**58%**
Operating expenses	(519.8)	(415.4)	25%	(505.2)	3%	(291.3)	78%	(1,025)	(795.5)	29%	(576.5)	78%
Operating profit	**22.3**	**28.3**	**-21%**	**27.6**	**-19%**	**49.5**	**-55%**	**49.9**	**69.2**	**-28%**	**103.1**	**-52%**
EBITDA	**67.2**	**63.5**	**6%**	**74.7**	**-10%**	**77.6**	**-13%**	**142.0**	**135.7**	**5%**	**157.3**	**-10%**
Financial result	(22.6)	(9.2)	147%	(15.1)	50%	(7.3)	211%	(37.7)	(16.5)	129%	(17.9)	111%
Profit before taxes	**(0.2)**	**19.2**	**-101%**	**12.5**	**-102%**	**42.2**	**-101%**	**12.3**	**52.7**	**-77%**	**85.3**	**-86%**
Income tax	(3.2)	(3.1)	4%	(4.1)	-21%	(6.8)	-53%	(7.3)	(7.1)	3%	(13.7)	-47%
Net profit	**(3.4)**	**16.1**	**-121%**	**8.4**	**-141%**	**35.4**	**-110%**	**5.0**	**45.6**	**-89%**	**71.6**	**-93%**
EBITDA margin	*12.4%*	*14.3%*		*14.0%*		*22.8%*		*13.2%*	*15.7%*		*23.1%*	
Net margin	*-0.6%*	*3.6%*		*1.6%*		*10.4%*		*0.5%*	*5.3%*		*10.6%*	
Operating margin	**4.16%**	**6.41%**		**5.21%**		**5%**		**4.68%**	**8.04%**		**15.23%**	

Source: Company data, Erste Group Research

Same story on a quarterly basis

On a quarterly basis, the picture was similar, with top line increasing y-o-y by 22%, while costs grew by 25%, resulting in a 21% decline in operating profit, and a negative net income. EBITDA though, grew marginally by 6%. Profitability dropped, with EBITDA margin shrinking from 14.3% to 12.4%. More worrisome, the negative trend continued on a quarterly basis. On a q-o-q top line growth of 2%, operating expenses increased by 3% leading to an operating income 19% lower, an EBITDA 10%. The increase in financial result net negative values, by 50% q-o-q, led to a loss of RON3.4mn, compared to a profit of RON8.4mn in 1Q23.

Proforma figures show better profitability

The company issued also a pro-forma abridged income statement that included the financial results of acquired companies, which registered total sales of RON29.7mn.

	Rev. (RON, mn)			Proforma		
Bussiness line	1H23	1H22	chng (%)	Adjustm.	1H23	chng (%)
Clinics	397.3	288.6	**38%**	9.3	406.6	**41%**
Stomatology	62.2	56.1	**11%**	-	62.2	**11%**
Hospitals	230.1	180.4	**28%**	16.0	246.1	**36%**
Laboratories	113.2	107.2	**6%**	3.9	117.1	**9%**
Corporate	121.0	107.8	**12%**	0.6	121.6	**13%**
Pharmacies	32.3	35.3	**-8%**	-	32.3	**-8%**
Other	110.0	85.0	**29%**	0.0	110.0	**29%**
Total	**1,066.1**	**860.4**	**24%**	**29.7**	**1,095.8**	**27%**

Source: Company data, Erste Group Research

However when deducting the RON 66.2mn subsidies received at group level (clinics and hospitals) from the National Health Program for chemotherapy drugs the net impact is a sales decline of RON35.5mn. Under this representation, the profitability of the group was better, with EBITDA reaching RON156mn and EBITDA margin at 15%, compared to 13.2% under IFRS while net margin increased marginally to 1.4%, compared to 0.5% under IFRS.

	IFRS			Proforma		
INCOME ST. (RON, mn.)	**1H23**	**1H22**	**chng (%)**	**Adjustm.**	**1H23**	**chng (%)**
Sales	1,066.2	860.4	24%	(36.4)	1,029.8	20%
Other operating income	8.8	4.3	106%	1.0	9.7	129%
Operating income	**1,075.0**	**864.7**	**24%**	**(35.5)**	**1,039.5**	**20%**
Operating expenses	(1,025.0)	(795.5)	29%	47.7	(977.4)	23%
Operating profit	**49.9**	**69.2**	**-28%**	**12.2**	**62.1**	**-10%**
EBITDA	**142.0**	**135.7**	**5%**	**14.1**	**156.0**	**15%**
Financial result	(37.7)	(16.5)	129%	(0.4)	(38.1)	131%
Profit before taxes	**12.3**	**52.7**	**-77%**	**11.8**	**24.1**	**-54%**
Income tax	(7.3)	(7.1)	3%	(1.8)	(9.1)	28%
Net profit	**5.0**	**45.6**	**-89%**	**10.0**	**15.0**	**-67%**
EBITDA margin	*13.2%*	*15.7%*			*15.0%*	
Net margin	*0.5%*	*5.3%*			*1.4%*	
Operating margin	*4.6%*	*8.0%*			*6.0%*	

Source: Company data, Erste Group Research

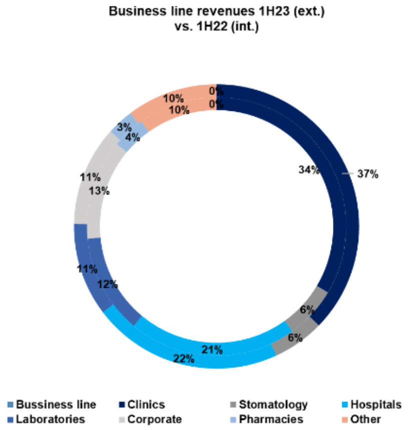
Top line growth across the board

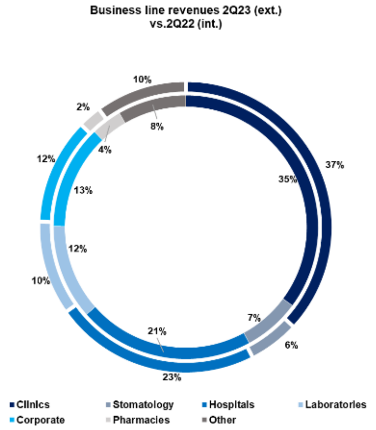
All business segments registered significant growth in revenues, with the exception of pharmacies. The largest expansion was registered in clinics, on the back of increasing the number of clinics and sustained demand of outpatient medical services. Thus, clinics‘ revenues grew by close to 38% compared to 1H22, while hospitals‘ revenues increased by 27.5%, stomatology by 11% and corporates by 12%. Pharmacies revenues declined by about 8.5%.

	Rev. (RON, mn)			Units ('000)			Avg. fees (RON)		
Bussiness line	**1H23**	**1H22**	**chng (%)**	**1H23**	**1H22**	**chng (%)**	**1H23**	**1H22**	**chng (%)**
Clinics	397.3	288.6	**37.7%**	1,848.0	1,389.5	**33.0%**	215.0	207.7	**3.5%**
Stomatology	62.2	56.1	**10.9%**	91.1	92.0	**-1.0%**	682.8	609.8	**12.0%**
Hospitals	230.1	180.4	**27.5%**	67.5	57.2	**18.0%**	3,408.9	3,153.8	**8.1%**
Laboratories	113.2	107.2	**5.6%**	3,565.3	3,486.7	**2.3%**	31.8	30.7	**3.3%**
Corporate	121.0	107.8	**12.2%**	850.3	772.2	**10.1%**	142	139.6	**1.9%**
Pharmacies	32.3	35.3	**-8.5%**	232.3	279.2	**-16.8%**	139.0	126.4	**10.0%**
Other	110.0	85.0	**29.4%**						
Total	**1,066.1**	**860.4**	**23.9%**						

Source: Company data, Erste Group Research

Generally, the clinics remained the largest contributor of the group, with more than 37% share of total revenues, while hospitals remained at around 22%. Laboratories and corporate revenues accounted for more or less the same share of total revenues of about 11%.





Source: Company data, Erste Group Research

Higher unit hikes in largest contributor segments…

Over the first half of the year the largest number of client visits were recorded in the clinics segment, 33%, as a result of acquisitions and organic growth. In the hospitals segment, the increase was 18%, under the consolidation of acquisitions. Stomatology visits remained flat while corporate subscriptions grew by about 10%. Laboratories saw a increase in client numbers by 2%, while pharmacy visits actually declined – unexpectedly – by 17%.

… while 1H23 prices show growth, but slower compared to previous years

On a half year basis, the average fees increased across the board, in all business segments. The lowest increase among main contributors, 1.9% was recorded in the corporate segment, where the market sees a harsher competition and it is shallower. In the clinics and laboratories segments, the average fee growth was about 3.5%, while in the stomatology segment the higher prices compensated for a decline in visits. The oncology acquisitions brought about both higher number of visits and higher prices.

	Rev. (RON, mn)			Units ('000)			Avg. fees (RON)		
Bussiness line	**2Q23**	**2Q22**	**chng (%)**	**2Q23**	**2Q22**	**chng (%)**	**2Q23**	**2Q22**	**chng (%)**
Clinics	198.0	155.1	**27.7%**	984.3	744.2	**32.3%**	201.2	208.4	**-3.5%**
Stomatology	29.9	30.6	**-2.2%**	44.4	47.8	**-7.2%**	673.4	639.3	**5.3%**
Hospitals	121.8	94.8	**28.5%**	34.2	31.4	**9.0%**	3,561.4	3,019.4	**17.9%**
Laboratories	56.0	51.2	**9.3%**	1,712.0	1,635.2	**4.7%**	32.7	31.3	**4.4%**
Corporate	63.0	56.4	**11.7%**	850.3	772.2	**10.1%**	74	73.0	**1.5%**
Pharmacies	13.8	16.6	**-16.7%**	108.0	130.7	**-17.4%**	127.8	126.8	**0.8%**
Other	54.0	37.0	**46.1%**						
Total	**536.5**	**441.6**	**21.5%**						

Source: Company data, Erste Group Research

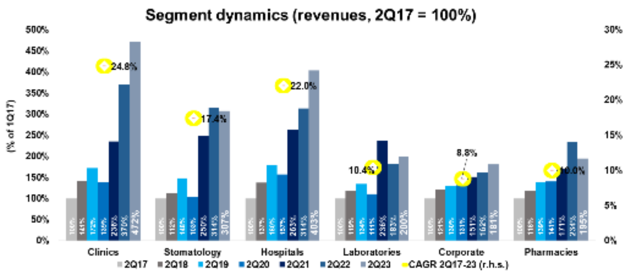
Quarterly dynamics: a less promising pricing trend, especially q-o-q

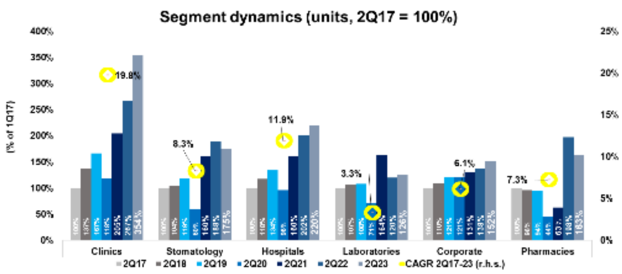
On a quarterly basis, the half year trend appears to have tapered regarding prices, especially. Y-o-y, the growth in average fees was lower on a quarterly basis, compared to a half-year basis, in all business segments, with the exception of the hospitals segment. The addition of the oncology hospitals led to higher average fees in this segment.

-	Rev. (RON, mn)			Units ('000)			Avg. fees (RON)		
Bussiness line	**2Q23**	**1Q23**	**chng (%)**	**2Q23**	**1Q23**	**chng (%)**	**2Q23**	**1Q23**	**chng (%)**
Clinics	198.0	199.3	**-0.7%**	984.3	863.7	**14.0%**	201.2	230.8	**-12.8%**
Stomatology	29.9	32.3	**-7.4%**	44.4	46.7	**-4.9%**	673.4	691.6	**-2.6%**
Hospitals	121.8	108.3	**12.5%**	34.2	33.3	**2.7%**	3,561.4	3,252.3	**9.5%**
Laboratories	56.0	57.2	**-2.1%**	1,712.0	1,853.3	**-7.6%**	32.7	30.9	**6.0%**
Corporate	63.0	58.0	**8.6%**	850.3	846.2	**0.5%**	74.1	68.5	**8.1%**
Pharmacies	13.8	18.5	**-25.4%**	108.0	124.3	**-13.1%**	127.8	148.8	**-14.1%**
Other	54.0	56.0	**-3.6%**						
Total	**536.5**	**529.6**	**1.3%**						

Source: Company data, Erste Group Research

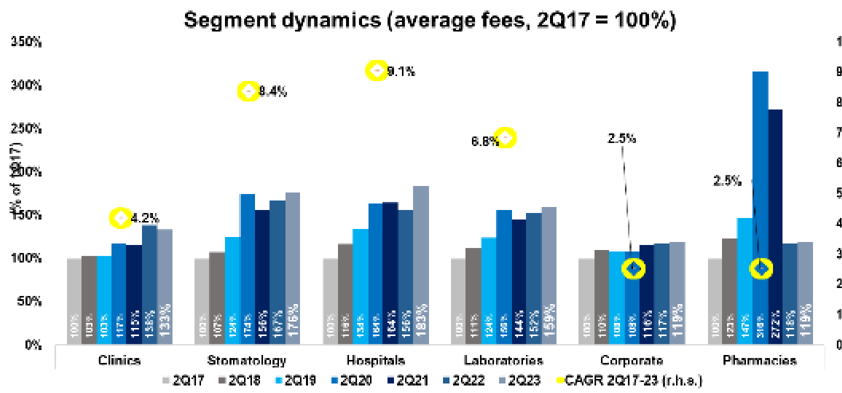
In the rest of the business, the q-o-q dynamic was significantly weaker than on a y-o-y basis. Total revenues only increased by about 1%, with hospitals and corporates showing growth while the other segments of the business coasted or declined. Most notably, the decline in average fees for the clinics wiped-off the impact of the growth in patients, a similar picture as that in the laboratories segment. Stomatology and pharmacies saw lower patients' numbers and lower fees.





Source: Company data, Erste Group Research

Revenues and units CAGRs remain solid…
On a quarterly basis, revenue wise, the largest contributors to top line remained top growth performers, mainly on the back of acquisitions, and somewhat on organic growth. Thus, the clinics segment is showing an impressive 24.8% 7-year revenue CAGR, on the back of a 19.8% unit CAGR. At the same time, the hospitals segment also registered a 22% 7-yr revenue CAGR, fuelled by a 12% unit growth. Stomatology, came in third with a 17.4% 7-year revenue CAGR, on the back of 8.3% unit growth.



… while prices are showing more moderate growth
Price-wise, the clinics segment has grown moderately, with a 4.2% 7-year CAGR, while hospitals, fuelled by higher complexity treatments grew by more than 9% over the same period. Stomatology and laboratories CAGR over the same period was in the medium-high teens while corporate and pharma grew at a 7-yr CAGR of 2.5%. In the case of pharma, the high growth of the pandemic years is not computed under this analysis, as only beginning and end periods are considered.

Higher y-o-y operating costs…
On a half year basis, operating costs grew by 29%, on a 24% increase in total revenues. Large increases were recorded in personnel related expenses, with wages and social costs growing 28% and third party costs increasing by 33%, on the back of the inflationary upward pressure on wages and benefits. Consumables and commodities grew overall at 22%, with higher increases in chemotherapy drugs consumables, balanced by a decrease in commodities. Marketing expenses also registered a hike, in line with the strategy of consolidate and increase brand value. Depreciation also grew, as a result of the consolidation of the new companies and the increase in own developed projects. Out of the total y-o-y growth, third party expenses accounted for a third of total operating costs, with wages and social costs accounting for a quarter and consumables and commodities above 20% of the increase.

						% of total rev.			% of y-o-y
Opex breakdown (RON,mn.)	**1H23**	**1H22**	**chng (%)**	**1H21**	**chng (%)**	**1H23**	**1H22**	**1H21**	**cost incr**
Wages & social	271.30	212.60	**27.6%**	164.9	**64.5%**	**25.2%**	**24.6%**	**24.3%**	**26%**
Third party	297.6	224.1	**32.8%**	183.8	**61.9%**	**27.7%**	**25.9%**	**27.0%**	**32%**
Consum.& commod.	290.30	238.70	**21.6%**	140.37	**106.8%**	**27.0%**	**27.6%**	**20.7%**	**22%**
Rent, utilit, maint, ins.	35.60	29.60	**20.3%**	19.85	**79.3%**	**3.3%**	**3.4%**	**2.9%**	**3%**
Promotion, comm.	21.6	13.9	**55.4%**	7.2	**200.0%**	**2.0%**	**1.6%**	**1.1%**	**3%**
Depreciation	92.0	66.5	**38.3%**	52.8	**74.4%**	**8.6%**	**7.7%**	**7.8%**	**11%**
Other	16.7	10.1	**65.3%**	7.6	**119.7%**	**1.6%**	**1.2%**	**1.1%**	**3%**
Total	**1025.1**	**795.5**	**28.9%**	**576.5**	**77.8%**	**95.4%**	**92.0%**	**84.8%**	**100.0%**

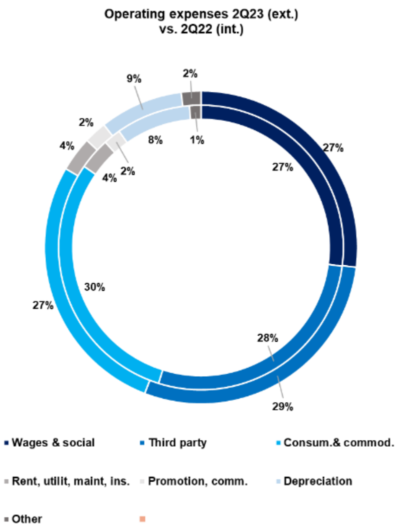
Source: Company data, Erste Group Research

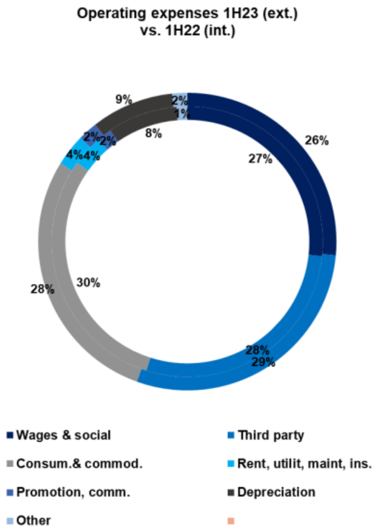
… but a tapering q-o-q

While on a y-o-y basis, the 2Q23 expenses paint a similar picture compared to 1H23, on a q-o-q basis, the company has registered a tapering of the rate of cost growth. Thus, the main cost items appreciated less than in previous quarter, with personnel related costs growing 7.5%, third party costs by only 1.5% and consumables and commodities costs actually declining by about 3%. This development is indicative of the efforts of management to streamline operations and create a solid operational base for margin consolidation going forward.

								% of total rev.				% of y-o-y
Opex breakdown (RON,mn.)	**2Q23**	**2Q22**	**chng (%)**	**1Q23**	**chng (%)**	**2Q21**	**chng (%)**	**2Q23**	**2Q22**	**1Q23**	**2Q21**	**cost incr**
Wages & social	140.55	112.61	**24.8%**	130.75	**7.5%**	85.93	**63.6%**	**25.9%**	**25.4%**	**24.5%**	**25.2%**	**27%**
Third party	149.88	115.17	**30.1%**	147.72	**1.5%**	94.7	**58.3%**	**27.6%**	**26.0%**	**27.7%**	**27.8%**	**33%**
Consum.& commod.	143.17	123.93	**15.5%**	147.13	**-2.7%**	67.187	**113.1%**	**26.4%**	**27.9%**	**27.6%**	**19.7%**	**18%**
Rent, utilit, maint, ins.	18.76	14.97	**25.3%**	16.84	**11.4%**	9.915	**89.2%**	**3.5%**	**3.4%**	**3.2%**	**2.9%**	**4%**
Promotion, comm.	12.15	8.22	**47.8%**	9.45	**28.6%**	3.78	**221.4%**	**2.2%**	**1.9%**	**1.8%**	**1.1%**	**4%**
Depreciation	44.85	35.16	**27.6%**	47.15	**-4.9%**	26.67	**68.2%**	**8.3%**	**7.9%**	**8.8%**	**7.8%**	**9%**
Other	10.57	5.4	**95.7%**	6.13	**72.4%**	3.14	**236.6%**	**1.9%**	**1.2%**	**1.2%**	**0.9%**	**5%**
Total	**519.9**	**415.5**	**25.1%**	**505.2**	**2.9%**	**291.3**	**78.5%**	**95.9%**	**93.6%**	**94.8%**	**85.5%**	**100.0%**

Source: Company data, Erste Group Research

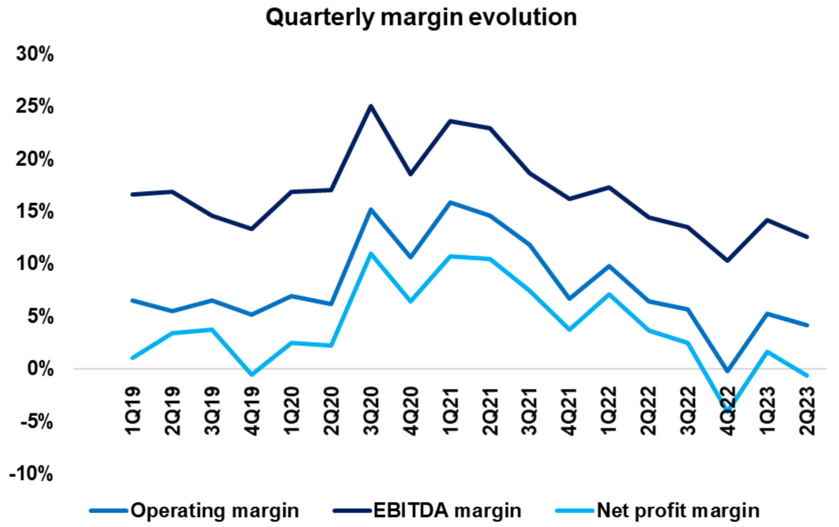




Source: Company data, Erste Group Research

Margins dive, again

Despite our hopes that the fourth quarter of 2022 represented the turnaround point for company profitability, the net margin sunk again in red during 2Q23. Most probably, on a pro-forma basis, the picture looks somewhat better, however the IFRS figures show a loss for the quarter, together with a profitability erosion compared to 1Q23.



Source: Company data, Erste Group Research

The dip in profitability came not solely on the back of lower operating income, but also due to the growth in financing cots that increased by 147% y-o-y and 50% q-o-q.

Growing net debt, but gearing remains manageable
Net debt increased quite substantially, with gearing in line with that of 2016, and 2018, on the back of the acquisitions of last year. The increase compared to last year is significant, generating financial costs that contributed to the decline in profitability, however it is still manageable for a company with the cash generating power of MedLife and its growth prospects. *(Note: in our net debt calculations, we have included leasing obligations and overdraft.)*

(RON, mn.) EOP	2016	2017	2018	2019	2020	2021	2022	1Q23e**	2Q23e**
Cash and equivalents	20.7	79.2	34.2	38.9	82.0	136.0	89.1	118.3	109.6
Current port. of debt*	27.4	41.8	63.0	103.2	114.7	136.6	160.6	154.2	166.7
LT debt*	213.1	252.9	313.5	478.6	561.8	590.5	1,028.5	1,141.3	1,219.0
Net debt	**219.9**	**215.5**	**342.4**	**542.9**	**594.6**	**591.1**	**1,100.0**	**1,177.2**	**1,276.1**
Net debt/EBITDA* (x)	**3.95**	**2.77**	**3.59**	**3.67**	**2.80**	**2.07**	**4.46**	**4.02**	**4.36**

** - includes leasing and overdraft **- yearly EBITDA, 2023e EB ITDA*
Source: Company data, Erste Group Research

Finalizations of transactions and a new opening During 1H23, the company managed the completion of acquisition of 99.76% of Muntenia Hospital shares, the largest hospital in Arges county, located north of Bucharest in a relatively prosperous area. Also, it has completed the acquisition of a 51% stake in Nord Group (Provita), a group present in the country's capital, with a hospital, five clinics and the only pain treatment therapy training center in CEE. Nord Group has also expanded in the north-east of Romania and is set to open another hospital in Bucharest. MedLife also opened in January a new hyperclinic in Deva, in the west of the country. The company opened 2 new oncology centers in Braila and Valcea counties and completed to small M&A transactions in the lower-end Sfanta Maria Group.

Looking ahead: evolving in the consolidation phase

Underlying investment rationale unchanged since our previous update The attractiveness of MedLife as an investment vehicle encompasses the combined exposure to desirable geography, sector and product.

Our main investment tenets remain unchanged, as detailed in previous reports:

- Underserviced market with ample upside potential for Government and private spending, with ongoing consolidation activity.
- Pent-up demand, on the back of a general health state of the population
- Company superior pricing power, resulting from lack of adequate alternatives.
- Superior management of expansion via acquisitions.

Previously, we were counting effective cost management among the main investment drivers. Nevertheless, the recent period of high inflation has shown that even a company with cost effectiveness at the center of its financial management policy cannot escape the brunt of the inflation impact.

Case in point, the majority of costs that have eroded profitability during the last two years were costs over which management has little or no control. Wage inflation is manageable only to a certain extent, by offering employees career benefits that do not necessarily impact the bottom line. Finally, with the strong competition of employment abroad, MedLife, just as any Romanian company, has to offer a competitive package in order to lure and retain talent.

Another segment of the costs that has grown significantly relates to inputs that are consumables and commodities. The price growth of these commodities is difficult to completely hedge against by the management. Nevertheless, we see as positive the developments of 1Q23 and will monitor if they become a trend or remain just a seasonal accident.

At the same time, we recognize the impact of the financing of acquisitions on the profitability of the company. With growing debt and gearing, the financing costs have taken a toll on profitability and are an item that will remain significant for the medium term.

A breather for M&A activity
According to company's management plans, MedLife will enter a period of less M&A activity and a consolidation stage focused on margins and better integration of the company's various assets. This is a stage that the company undergone in the past after successful sprees of acquisitions. The expansion overall strategic goals of MedLife remain intact and it should act in an opportunistic manner in the future, however immediate concentration of efforts lays in the direction of increased profitability for the existing assets and organic growth.

Moreover, the plans of the company include merging some of the current assets in order to promote more efficient management and cost structures.

Adjustments to the model, and to target price

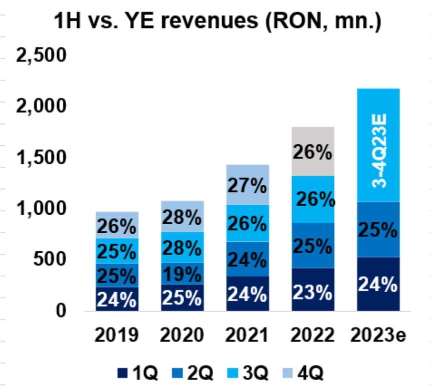
We had to incorporate in our valuation model the lower base for growth arising from the weak results of the first half of the year. Currently we do not see any impairment to the company's growth potential, and we are only concerned about the possibility of effective cost controls. Management can only exert a certain degree of control over external influences that fuel cost growth. Moreover, with inflation tapering, customer perception on future attempts to price increases may determine migration to competitors – albeit the quality/price balance is consistent across the main private service providers in the country.

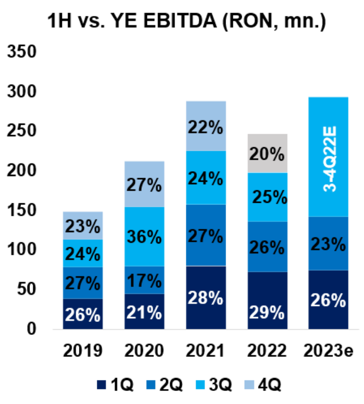
Thus, we adjust marginally downwards our target price and assign a recommendation consistent with the upside of the stock. We are expecting a more thorough revision of our forecasts and view on the company after the third quarter results and the confirmation of the management's indication of a pending profitability turnaround.

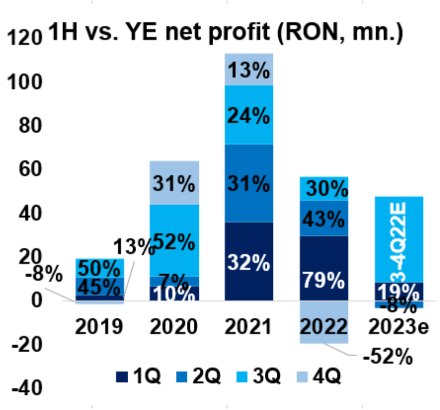
1H23 results validate our ST forecast - mostly

We have compared our revised YE2023e forecasts with what was achieved by the company during the first half. In all business segments our forecast is more conservative than what the company registered YTD.

Overall, we believe that in terms of revenues and EBITDA, our year end 2023e figures are in line with the achievements of previous in line with the achievements of previous years, while we consider the net income less achievable. Even if we would be too optimistic in terms of net income, our valuation is DCF based and as the company promises no dividends in the foreseeable future we are not unduly concerned about this item.







Source: Company data, Erste Group Research

MedLife DCF valuation

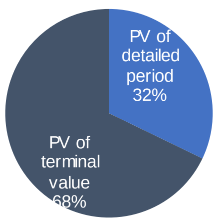
WACC calculation

	2023e	2024e	2025e	2026e	2027e	2028e TV
Risk free rate	7.0%	7.0%	7.0%	7.0%	7.0%	5.0%
Equity risk premium	7.5%	7.5%	7.5%	7.5%	7.5%	7.0%
Beta	1.0	1.0	1.0	1.0	1.0	1.0
Cost of equity	**14.5%**	**14.5%**	**14.5%**	**14.5%**	**14.5%**	**12.0%**
Cost of debt	8.0%	8.0%	8.0%	8.0%	8.0%	6.0%
Effective tax rate	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%
After-tax cost of debt	**6.7%**	**6.7%**	**6.7%**	**6.7%**	**6.7%**	**5.0%**
Equity w eight	70%	70%	70%	70%	70%	68%
WACC	**12.1%**	**12.1%**	**12.1%**	**12.13%**	**12.13%**	**9.77%**

DCF valuation

(RON mn)	2023e	2024e	2025e	2026e	2027e	2028e TV
Sales growth	*21.3%*	*14.2%*	*9.7%*	*10.6%*	*10.9%*	*3.0%*
EBIT	136	183	203	231	381	259
EBIT margin	*6.3%*	*7.4%*	*7.4%*	*7.6%*	*11.4%*	*7.5%*
Tax rate	*16.0%*	*16.0%*	*16.0%*	*16.0%*	*16.0%*	*16.0%*
Taxes on EBIT	-21.8	-29.3	-32.5	-36.9	-60.9	-41.4
NOPLAT	**114.4**	**153.8**	**170.5**	**193.6**	**319.7**	**217.3**
+ Depreciation	157	176	197	219	244	268
Capital expenditures / Depreciation	*63.9%*	*56.8%*	*50.8%*	*45.6%*	*41.0%*	*100.0%*
+/- Change in w orking capital	-103	43	-16	-6	96	-5
Chg. working capital / chg. Sales	*-26.9%*	*14.0%*	*-6.6%*	*-2.2%*	*29.3%*	*-5.0%*
- Capital expenditures	-100.0	-100.0	-100.0	-100.0	-100.0	-268.2
Free cash flow to the firm	**68.1**	**273.0**	**251.3**	**306.5**	**560.0**	**212.2**
Terminal value growth						*4.0%*
Terminal value						3,823.6
Discounted free cash flow - December 31	60.8	217.1	178.2	193.9	315.9	2,074.0
Enterprise value - December 31 2022	**3,040**					
Minorities	58					
Non-operating assets	0					
Net debt (incl. lease liabilities)	595					
Other adjustments	0					
Equity value - (RON bn) December 31 2	**2,386.9**					
Cost of equity	12.0%					
Fair value, RON mn	**2,673.3**					
Number of shares outstanding (mn)	132.9					
Fair value per share, RON	**20.1**					
Share price	18.86					
Upside/downside Official NAV (%)	*6.68%*					

Enterprise value breakdown



Sensitivity (Equity value - RON mn)

Terminal value EBIT margin

WACC	6.5%	7.0%	7.5%	8.0%	8.5%
8.8%	20.90	22.34	23.78	25.23	26.67
9.3%	19.17	20.47	21.78	23.08	24.39
9.8%	17.73	18.93	**20.1**	21.31	22.51
10.3%	16.53	17.63	18.73	19.82	20.92
10.8%	15.50	16.52	17.54	18.56	19.57

Terminal value growth

WACC	3.0%	3.5%	4.0%	4.5%	5.0%
8.8%	20.12	21.78	23.78	26.26	29.39
9.3%	18.73	20.12	21.78	23.78	26.26
9.8%	17.54	18.73	**20.1**	21.78	23.78
10.3%	16.51	17.54	18.73	20.12	21.78
10.8%	15.62	16.51	17.54	18.73	20.12

Source: Erste Group Research

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Company description

Medlife is the leading private healthcare provider in Romania, operating the widest network of clinics, medical laboratories, mono and multidisciplinary hospitals and largest HPP client database in the country. The company operates 22 hyperclinics, 53 clinics, 10 hospitals, 13 stomatology centers, 5 maternities, a stem cell bank, 33 laboratories and more than 180 sampling points. It owns 20 pharmacies and services more than 705k HPP corporate clients.

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Accumulate	+10% < target price < +20%
Hold	0% < target price < +10%
Reduce	-10% < target price < 0%
Sell	< -10% from target price

Our target prices are established by determining the fair value of stocks, taking into account additional fundamental factors and news of relevance for the stock price (such as M&A activities, major forthcoming share deals, positive/negative share/sector sentiment, news) and refer to 12 months from now. All recommendations are to be understood relative to our current fundamental valuation of the stock. The recommendation does not indicate any relative performance of the stock vs. a regional or sector benchmark.

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