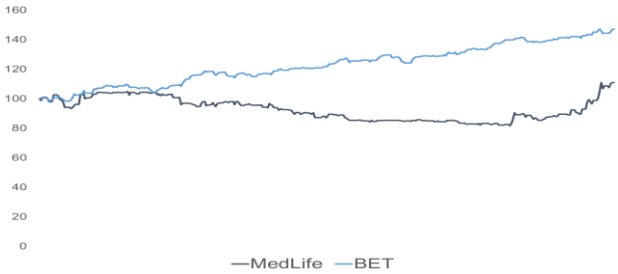
COMPANY REPORT

MedLife SA

from Hold to Accumulate

RON mn	2022	2023	2024e	2025e
Net sales	1,795.4	2,211.6	2,586.0	2,921.9
EBITDA	246.6	289.8	358.9	409.7
EBIT	94.2	91.4	122.6	166.6
Net result after min.	37.4	-4.2	19.7	70.6
EPS (RON)	0.07	-0.01	0.04	0.13
CEPS (RON)	0.35	0.35	0.40	0.72
BVPS (RON)	0.91	0.90	0.96	1.09
Div./share (RON)	0.00	0.00	0.00	0.00
EV/EBITDA (x)	39.7	10.9	10.5	8.5
P/E (x)	nm	nm	140.6	39.1
P/CE (x)	48.7	11.5	13.0	7.2
Dividend Yield	0.0%	0.0%	0.0%	0.0%



Price performance	1M	3M	6M	12M
in RON	23.8%	33.7%	25.9%	9.8%

Share price (RON) close as of 05/06/2024	5.20	Reuters	ROM.BX	Free float	59.0%
Number of shares (mn)	531.5	Bloomberg	M RO	Shareholders	Marcu Mihail (15.8%)
Market capitalization (RON mn / EUR mn)	2,764 / 555	Div. Ex-date			Cristescu Mihaela Gabriela (14.04%)
Enterprise value (RON mn / EUR mn)	3,780 / 760	**Target price**	**6.06**	Homepage:	www.medlife.ro

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TP upgrade on recent results, management validated drivers' assumptions: "Back on track!"

We are upgrading our target price for MedLife, to RON6.06/share, and our recommendation to ACCUMULATE, considering the better-than-expected results of the first quarter and our management-validated expectations for evolution of drivers of the existing business, in terms of unit and average fee growth and of expenses for the main cost items.

Moreover, a change to our DCF model is our revaluation of the CAPEX amount needed for the ongoing business. After conferring with management, we understood that – for the existing business – maintenance CAPEX is somewhere around RON25mn/yr. Nevertheless, in a conservative manner, we upped this amount to RON30mn/yr.

We reiterate our basic tenets behind the growth model of the company:

- Romania has promising growth ahead, both in GDP and spending power, with quality healthcare still far from ubiquitous
- despite the emergence of a few large players, there is still space for consolidation
- in this stage of market development, M&A is probably the most appropriate manner to increasing footprint, and
- strategically – in the long-term – the cost of financing may be a lower price to pay for expansion, than the strategic cost potential of losing the race for size vs current and future competition

As we entirely agree with the strategy, we are also heartened by the positive evolution of margins during the first quarter of 2024, and especially by the evolution of the average fee driver which has shown a positive development q-o-q. This shows that – despite competition – the company's superior quality services merit a premium, and that the market recognizes this reality. We continue to monitor a complete picture of the capacity of the group to integrate, streamline and make efficient the plethora of businesses it acquired.

Erste Group Research – Company Report finalized and released June 7, 2024, 07:30, CET, reviewed by Henning Eßkuchen (supervising analyst)
All prices are those current at the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via appropriate vendors.

Pricing power intact, and promising expansion prospects

1Q24 results – better y-o-y top line and profitability MedLife 1Q24 results show a significant boost in top line, with consolidated sales increasing by 22%. At the same time, operating expensed grew by only 20%, leading to an operating profit more than 50% higher than that of 1Q23, and to an EBITDA that was 31% higher while the net income showed a 56% jump vs the same period. The operating margin increased from 5.21% in 1Q23 to 6.46% in 1Q24 and EBITDA margin advanced from 14% to 15.1%.

INCOME ST. (RON, mn.)	1Q24	1Q23	chng (%)	4Q23	chng (%)	1Q22	chng (%)
Sales	646.6	529.5	22%	584.2	11%	418.9	54%
Other operating income	1.8	3.3	-46%	1.0	73%	2.0	-13%
Operating income	**648.4**	**532.8**	**22%**	**585.2**	**10.8%**	**420.9**	**54%**
Operating expenses	(606.6)	(505.2)	20%	(568.1)	6.8%	(380.1)	60%
Operating profit	**41.8**	**27.6**	**51%**	**17.1**	**144%**	**40.9**	**2%**
EBITDA	**98.1**	**74.7**	**31%**	**69.4**	**41%**	**72.2**	**36%**
Financial result	(22.7)	(15.1)	50%	(25.0)	-9%	(7.3)	210%
Profit before taxes	**19.1**	**12.5**	**53%**	**(7.9)**	**-342%**	**33.5**	**-43%**
Income tax	(6.0)	(4.1)	47%	(1.6)	271%	(4.0)	50%
Net profit	**13.1**	**8.4**	**56%**	**(9.5)**	**-238%**	**29.6**	**-56%**
EBITDA margin	*15.1%*	*14.0%*		*11.9%*		*17.2%*	
Net margin	*2.0%*	*1.6%*		*-1.6%*		*7.1%*	
Operating margin	**6.46%**	**5.21%**		**2.93%**		**4%**	

Source: Company data, Erste Group Research

Similar story on a quarterly basis q-o-q. On a q-o-q basis, the picture was similar, with 1Q24 top line increasing by 10.8%, while costs grew only 6.8%, resulting in an operating profit that was 144% higher than that of the previous quarter and a net income of RON13.1mn vs. the RON9.5mn of the same period. Profitability increased, with EBITDA margin up from 11.9% to 15.1% and, most importantly, on a quarterly basis, the profitability trend took an upside turn, after the negative results of the fourth quarter of 2024. This was marginally enhanced by the decrease in the financial result net negative values, by 9% q-o-q,

Proforma figures show better picture and future potential The company issues every quarter also a pro-forma abridged income statement, adjusted with the historical financial results of the companies acquired by during the period and other one-off items.

	Rev. (RON, mn)			Proforma		
Bussiness line	**1Q24**	**1Q23**	**chng (%)**	**Adjustm.**	**1Q24**	**chng (%)**
Clinics	247.3	199.3	**24%**	(12.6)	234.7	**18%**
Stomatology	32.3	32.3	**0%**	-	32.3	**0%**
Hospitals	150.9	108.3	**39%**	(19.3)	131.6	**21%**
Laboratories	68.3	57.2	**19%**	-	68.3	**19%**
Corporate	74.2	58.0	**28%**	-	74.2	**28%**
Pharmacies	16.7	18.5	**-10%**	-	16.7	**-10%**
Other	57.1	56.0	**2%**	-	57.1	**2%**
Total	**646.8**	**529.6**	**22%**	**(32.0)**	**614.9**	**16%**

Source: Company data, Erste Group Research

This statement transposes the acquisitions as if they happened at the beginning of the year by combining the financial results for the period of the acquired companies with those of the group and the elimination of certain expenses included in the consolidated I/S which the company considers to be non-operational and/or non-recurring by nature. The Consolidated Pro Forma PL provides a hypothetical illustration of the impact of the transactions on the Company’s earnings. The company is trying to illustrate the effect of the acquisitions completed in any given period and provide an estimate of recurring EBITDA. Furthermore, the consolidated figures (IFRS) include the full amount of debt incurred to finance the acquisitions completed as of the end of the period, but only a portion of the annual earnings of the acquisitions.

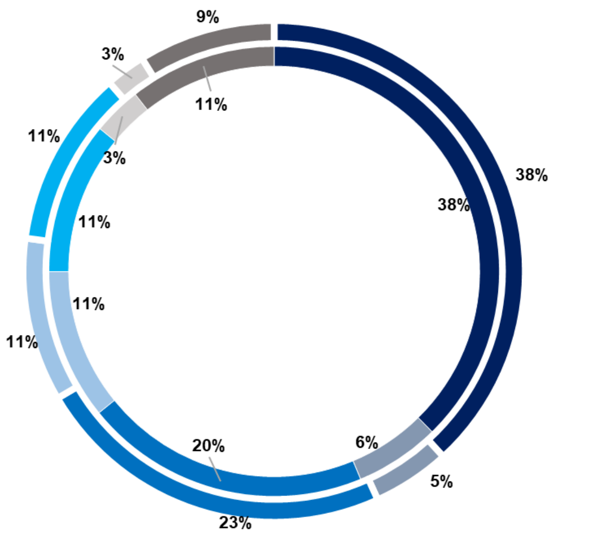
When deducting the RON 32mn subsidies received at group level (clinics and hospitals) from the National Health Program for chemotherapy drugs the net impact is a sales increase of RON85mn vs. 1Q23. The proforma expenses are also diminished by the costs related to the National Health Program for oncology (RON32.9mn) and RON0.9mn one-offs and non-recurrent costs, related to acquisitions. Under this representation, the profitability of the group was marginally better, with EBITDA reaching RON99.1mn and EBITDA margin at 16.1%, compared to 15.1% under IFRS while net margin increased marginally to 2.3%, compared to a 2% net margin under IFRS.

	IFRS			Proforma		
INCOME ST. (RON, mn.)	**1Q24**	**1Q23**	**chng (%)**	**Adjustm.**	**1Q24**	**chng (%)**
Sales	646.6	529.5	22%	(31.9)	614.7	16%
Other operating income	1.8	3.3	-46%	-	1.8	-46%
Operating income	**648.4**	**532.8**	**22%**	**(31.9)**	**616.5**	**16%**
Operating expenses	(606.6)	(505.2)	20%	32.9	(573.8)	14%
Operating profit	**41.8**	**27.6**	**51%**	**0.9**	**42.7**	**55%**
EBITDA	**98.1**	**74.7**	**31%**	**0.9**	**99.1**	**33%**
Financial result	(22.7)	(15.1)	50%	-	(22.7)	50%
Profit before taxes	**19.1**	**12.5**	**53%**	**0.9**	**20.0**	**60%**
Income tax	(6.0)	(4.1)	47%	(0.1)	(6.1)	50%
Net profit	**13.1**	**8.4**	**56%**	**0.8**	**13.9**	**65%**
EBITDA margin	*15.1%*	*14.0%*			*16.1%*	
Net margin	*2.0%*	*1.6%*			*2.3%*	
Operating margin	*6.4%*	*5.2%*			*6.9%*	

Source: Company data, Erste Group Research

Top line growth Under IFRS and pro-forma, all main business segments registered significant growth in revenues during the quarter on a y-o-y basis with the exception of stomatology which remained flat, and pharmacies which registered a decline in revenues. The largest expansion in absolute numbers was registered in clinics, on the back of increasing the number of clinics and sustained demand of outpatient medical services, followed by hospitals, corporate segment and laboratories. Thus, clinics‘ revenues grew around 18% compared to 1Q23, while hospitals‘ revenues increased by 21%, laboratories by 19% and corporates by 28% respectively. Pharmacies revenues declined by about 10%, while other revenues increased by 2%. Generally, the clinics remained the largest contributor of the group, with more than 37% share of total revenues, while hospitals remained at around 23%. Laboratories and corporate revenues accounted for more or less the same share of total revenues of about 11%.

Business line revenues 1Q24 (ext.) vs.1Q23 (int.)



Source: Company data, Erste Group Research

Higher unit hikes in largest contributor segments… Over the quarter the largest growth in number of client visits were recorded in the clinics segment, 23.2%, as a result of acquisitions and organic growth. In the hospitals segment, the increase was also significantly higher, by 18.3%, under the consolidation of acquisitions. Stomatology visits increased by 9.3%, while corporate subscriptions grew by about 5%. Laboratories saw an increase in client numbers by 10%, while pharmacy visits actually declined – by 3.6%.

	Rev. (RON, mn)			Units ('000)			Avg. fees (RON)		
Bussiness line	**1Q24**	**1Q23**	**chng (%)**	**1Q24**	**1Q23**	**chng (%)**	**1Q24**	**1Q23**	**chng (%)**
Clinics	247.3	199.3	**24.1%**	1,064.1	863.7	**23.2%**	232.4	230.8	**0.7%**
Stomatology	32.3	32.3	**0.0%**	51.1	46.7	**9.3%**	632.7	691.6	**-8.5%**
Hospitals	150.9	108.3	**39.3%**	39.4	33.3	**18.3%**	3,829.9	3,252.3	**17.8%**
Laboratories	68.3	57.2	**19.4%**	2,039.4	1,853.3	**10.0%**	33.5	30.9	**8.5%**
Corporate	74.2	58.0	**27.9%**	888.6	846.2	**5.0%**	84	68.5	**21.8%**
Pharmacies	16.7	18.5	**-9.7%**	119.8	124.3	**-3.6%**	139.4	148.8	**-6.3%**
Other	57.1	56.0	**2.0%**						
Total	**646.8**	**529.6**	**22.1%**						

Source: Company data, Erste Group Research

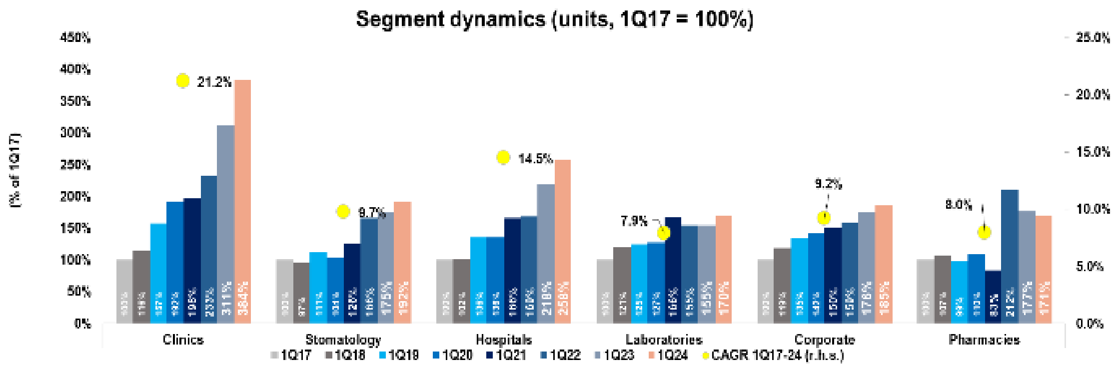
… while 1Q24 most average fees show growth, with a few exceptions On a yearly basis, the average fees showed an overall healthy picture across business segments. The lowest increase among main contributors, 0.7% was recorded in the clinics segment. In the hospitals segment, the average fees increased by 17.8%. In the corporate segment the average fee growth was about 21.8%, and in laboratories by 8.5%, while in other segments the average fees declined through the year: in the stomatology segment, the average fee dropped by 8.5% and in pharmacies by 6.3%. According to the company, the pharmacy segment underwent a adjustment of drug portfolio, in order to increase operational efficiency.

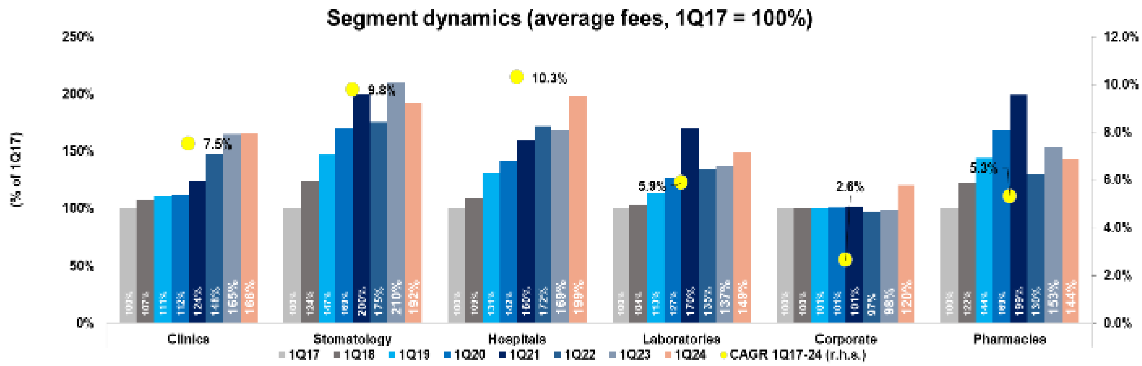
Quarterly dynamics: a more promising pricing trend, q-o-q On a quarterly basis, the 1Q results show and even better picture. Y-o-y, the two main revenue generators of the company have registered similar trends. In the clinic segment, the number of visits during 1Q24 increased by a very solid 6.8, while average prices have increased about 4% q-o-q. In hospitals, the number of visits has increased by 8.6% while average fees increased by 9.1%.

	Rev. (RON, mn)			Units ('000)			Avg. fees (RON)		
Bussiness line	**1Q24**	**4Q23**	**chng (%)**	**1Q24**	**4Q23**	**chng (%)**	**1Q24**	**4Q23**	**chng (%)**
Clinics	247.3	222.9	**10.9%**	1,064.1	996.8	**6.8%**	232.4	223.7	**3.9%**
Stomatology	32.3	29.3	**10.4%**	51.1	47.7	**7.1%**	632.7	613.9	**3.1%**
Hospitals	150.9	127.3	**18.5%**	39.4	36.3	**8.6%**	3,829.9	3,509.8	**9.1%**
Laboratories	68.3	58.9	**15.9%**	2,039.4	1,960.4	**4.0%**	33.5	30.1	**11.4%**
Corporate	74.2	70.1	**5.8%**	888.6	873.0	**1.8%**	83.5	80.3	**4.0%**
Pharmacies	16.7	14.4	**15.8%**	119.8	122.4	**-2.1%**	139.4	117.8	**18.3%**
Other	57.1	61.2	**-6.7%**						
Total	**646.8**	**584.2**	**10.7%**						

Source: Company data, Erste Group Research

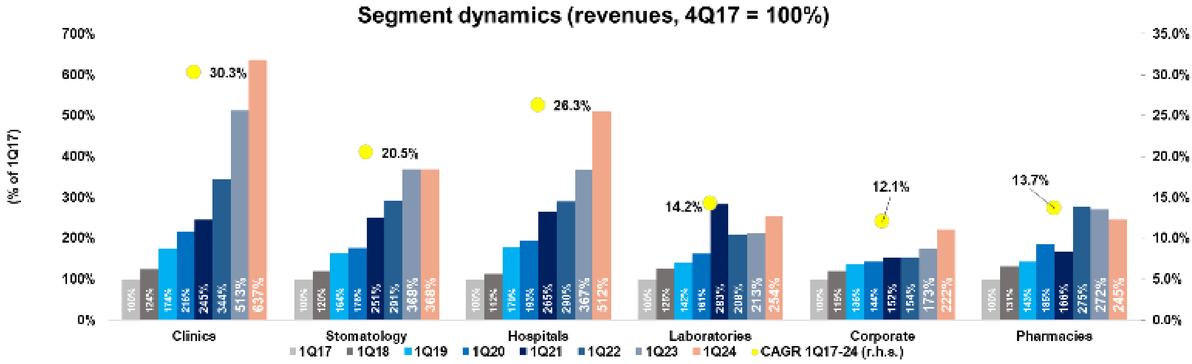
Overall, the increase in average fees is a positive and supports our positive view on the company and it's pricing power. Moreover, especially in view of the minimum pro-forma adjustments, we are heartened by the evolution of both units and average fees vs the previous quarter. Seasonally, the first quarter of the year is the largest earner, however the average fees, more than the units, paint a positive picture.





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 30.3% 7-year revenue CAGR, on the back of a 21.2% unit CAGR. At the same time, the hospitals segment also registered a 26.3% 7-yr revenue CAGR, fueled by a 14.5% unit growth. Stomatology, came in third with a 20.5% 7-year revenue CAGR, on the back of 9.7% unit growth.



Source: Company data, Erste Group Research

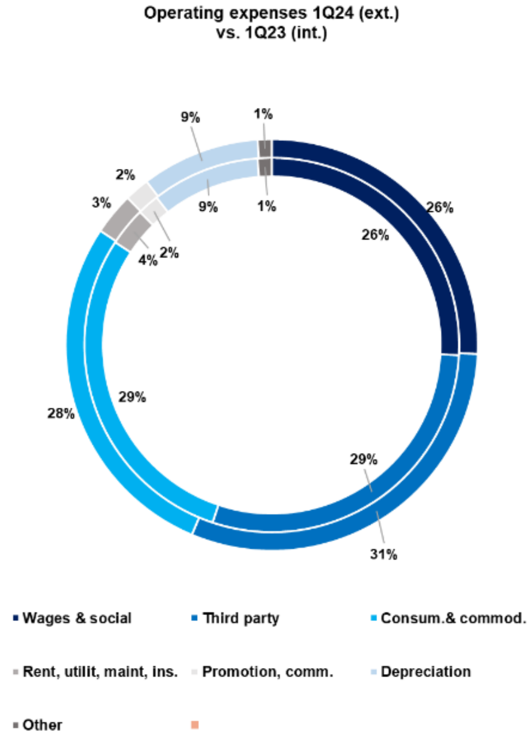
… while prices are showing mostly solid growth in main earning contributors Price-wise, the clinics segment has shown solid growth q-o-q, even if mostly flat y-o-y, with a 7.5% 7-year CAGR, while hospitals' average fees, fueled by higher complexity treatments grew by almost 10% over the same period. Stomatology CAGR was about 10%, while labs average fees increased by arount 6%, corporate fees by about 2.6% over the same period, while pharmacies' fees decline slightly vs the previous year, and vs pandemic years, but show a 5.3% CAGR over the last seven years.

Higher y-o-y operating costs… On a yearly basis, operating costs grew by 20.1%, on a 22% increase in total revenues. Large increases were recorded in personnel related expenses, with wages and social costs growing 19.3% and third party costs increasing by 25.8%, on the back of acquisitions and the inflationary upward pressure on wages and benefits. Consumables and commodities grew overall at 15.5%, a tapering of the trend observed during the second part of the year, with higher increases in chemotherapy drugs consumables, balanced by a slight 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 38% of the increase in total operating costs, with wages and social costs accounting for a quarter and consumables and commodities around 23% of the total increase in operating costs.

… but a tapering q-o-q While on a q-o-q basis, the 1Q24 expenses paint a largely similar picture compared to the y-o-y basis, the share of total revenues of total labor costs decreased from 53.8% to 52.7%, a result of increasing average fees per visit. Consumables, one of the main cost items also declined slightly as a percentage of revenues, q-o-q from 26.6% to 26.2%.This development is indicative of the efforts of management to streamline operations and create a solid operational base for margin consolidation going forward.

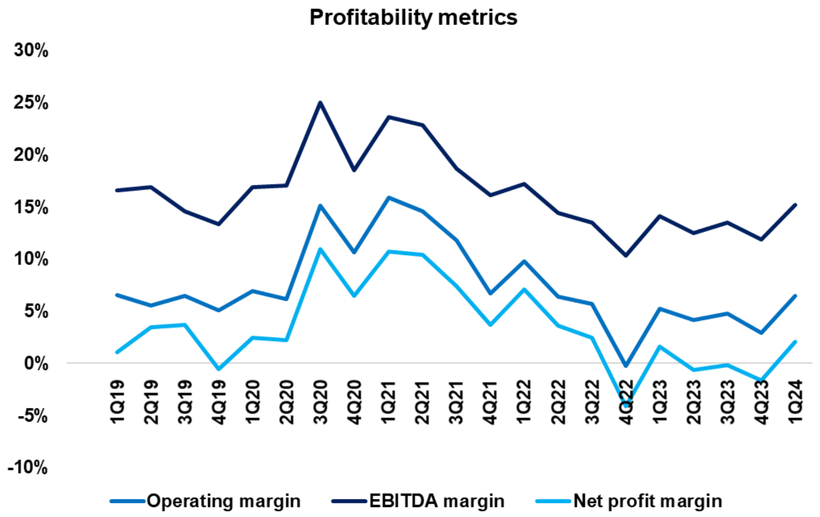
								% of total rev.				1Q24 % of y-o-y cost
Opex breakdown (RON,mn.)	1Q24	1Q23	chng (%)	4Q23	chng (%)	1Q22	chng (%)	1Q24	1Q23	4Q23	1Q22	incr
Wages & social	155.94	130.75	**19.3%**	145.62	**7.1%**	99.99	**56.0%**	**24.0%**	**24.5%**	**24.9%**	**23.8%**	**25%**
Third party	185.85	147.72	**25.8%**	169.24	**9.8%**	108.93	**70.6%**	**28.7%**	**27.7%**	**28.9%**	**25.9%**	**38%**
Consum.& commod.	169.98	147.13	**15.5%**	155.83	**9.1%**	114.77	**48.1%**	**26.2%**	**27.6%**	**26.6%**	**27.3%**	**23%**
Rent, utilit, maint, ins.	20.05	16.84	**19.1%**	20.91	**-4.1%**	14.63	**37.0%**	**3.1%**	**3.2%**	**3.6%**	**3.5%**	**3%**
Promotion, comm.	11.77	9.45	**24.6%**	11.36	**3.6%**	5.68	**107.2%**	**1.8%**	**1.8%**	**1.9%**	**1.3%**	**2%**
Depreciation	56.38	47.15	**19.6%**	52.3	**7.8%**	31.34	**79.9%**	**8.7%**	**8.8%**	**8.9%**	**7.4%**	**9%**
Other	6.67	6.13	**8.8%**	12.76	**-47.7%**	4.7	**41.9%**	**1.0%**	**1.2%**	**2.2%**	**1.1%**	**1%**
Total	**606.6**	**505.2**	**20.1%**	**568.0**	**6.8%**	**380.0**	**59.6%**	**93.6%**	**94.8%**	**97.1%**	**90.3%**	**100.0%**
Labor costs	341.8	278.5	**22.7%**	314.9	**8.6%**	208.9	**63.6%**	52.7%	52.3%	53.8%	49.6%	

Source: Company data, Erste Group Research



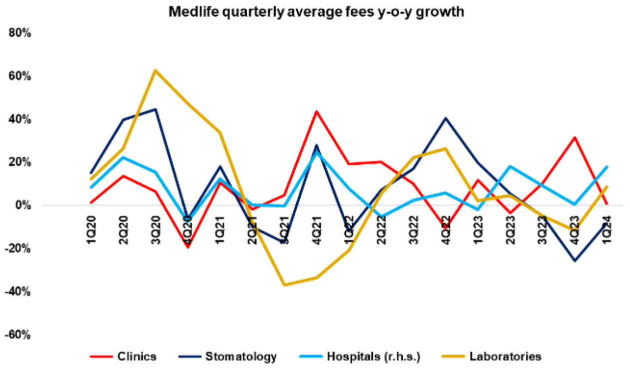
Source: Company data, Erste Group Research

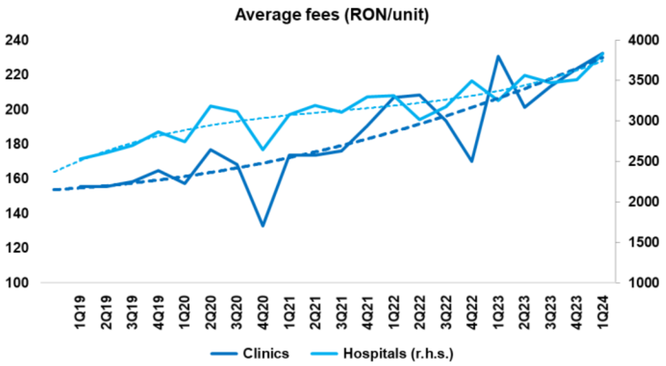
Margins reverse downward trend Our hopes for a turnaround seem to have been vindicated by a potential upward trend in margins, showing a degree of profit consolidation. We are most encouraged by the improved profitability vs the first quarter of last year, which, traditionally is the most profitable of last year.



Source: Company data, Erste Group Research

… but there is more hope ahead. The jump in profitability came on the back of 51% higher operating income, that balanced the growth in financing cots that increased by 50% y-o-y, but decreased 9% q-o-q. Nevertheless, the dynamics of average fees growth in absolute numbers shows what could be a positive trend in respect to quarterly y-o-y growth of average fees for clinics, the largest revenue generator for the company. The company doesn't release like-for-like data, and – as the acquisition targets are part of a diverse universe, it is difficult to assess if the variation in average fees are an intrinsic organic development, or the effect of acquisition of businesses with different characteristics and fee structure.





Source: Company data, Erste Group Research

Stable net debt Net debt stayed similar to that of the end of the year. When factoring in our EBITDA forecast for the year, the gearing seems better than in 2023, at a similar level with that of 2022. Of course, during the year, the company could raise more debt and the gearing could change, however, we consider a positive development that during the first quarter of 2024, the net debt of the company declined even if ever so slightly.. (Note: in our net debt calculations, we have included leasing obligations and overdraft.)

(RON, mn.) EOP	2016	2017	2018	2019	2020	2021	2022	2023	1Q24e***
Cash and equivalents	20.7	79.2	34.2	38.9	82.0	136.0	89.1	100.3	142.6
Current port. of debt*	27.4	41.8	63.0	103.2	114.7	136.6	160.6	211.7	222.6
LT debt*	213.1	252.9	313.5	478.6	561.8	590.5	1,028.5	1,349.8	1,366.2
Net debt	**219.9**	**215.5**	**342.4**	**542.9**	**594.6**	**591.1**	**1,100.0**	**1,461.2**	**1,446.2**
Net debt/EBITDA (x)**	**3.95**	**2.77**	**3.59**	**3.67**	**2.80**	**2.07**	**4.46**	**5.04**	**4.03**

** - includes leasing and overdraft **- yearly EBITDA *** 2024e EBITDA*
Source: Company data, Erste Group Research

Looking forward

Management validated drivers' outlook. The main changes to our valuation model have to do with our validation with management of the main drivers, related to existing business unit growth, together with our expectations of average fee evolution and the prospects for the main cost items. Overall, our previous forecasts have been validated, however we have a better understanding of the maintenance CAPEX for the existing business, which we have adjusted downward, resulting in a higher overall valuation for the business.

Expansion in underserviced segments. The company has announced recently that it has devised a plan to expand into a nation-wide mental health care network, from its existing base in the country's capital to the regions. Thus, it plans to start expanding the MindCare network, beginning with Constanta and Craiova in the south-east and center south of the country, in important population centers. This initiative is especially considering the low level of overall psychiatric care in the country. At the same time, the company strengthened its position in the field of genetics, by a partnership in this segment. It became a shareholder of Personal Genetics, a center with national coverage, offering diagnosis services in oncology, hematology, gynecology and rare disease.

Sanopass – a paradigm changing concept. The company has concentrated on the development of the well-being and wellness segments that offer one of the major growth opportunities, albeit from a smaller base. The wholistic approach to health, from well-being, to prevention, to cure, it is an important value driver for MedLife, as it offers a one-stop-shop for health regarding concerns for a large array of customers.

Assumed strategical targets – consolidation, measured expansion… Just as in previous years, the stated company strategy calls for leveraging economies of scales, and expertise, in order to increase synergies in terms of the medical act and the economic side of the business. Management assumes a careful approach to M&A but an extensive investment program in technology and digitization, and adoption of innovation as a business policy. Among the main strategic priorities, are singled out the development of the Medical Park project, the completion of the Medici Hospital in Timisoara and opening of new medical units across the country.

… and lower gearing The company's plans includes a gradual reduction of the gearing of the company, via capitalizing on the basis for strong, above the market growth, of investments concentrating especially in Bucharest where it aims to become the main provider of hospital services. At the same time, it will focus on specialties that cover chronic illnesses, oncology, surgery, where the demand and patient choice are price inelastic. Management hopes the easing of interest rates to contribute to a lowering of financial costs and margin consolidation.

Margin consolidation – the ultimate measure of validation of strategy... We are generally very appreciative of the business model of the company. The development via a combination of acquisitions and organic growth transformed Medlife in a premier force in the universe of Romanian health providers. Our main investment tenets remain largely unchanged, as detailed in previous reports:

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

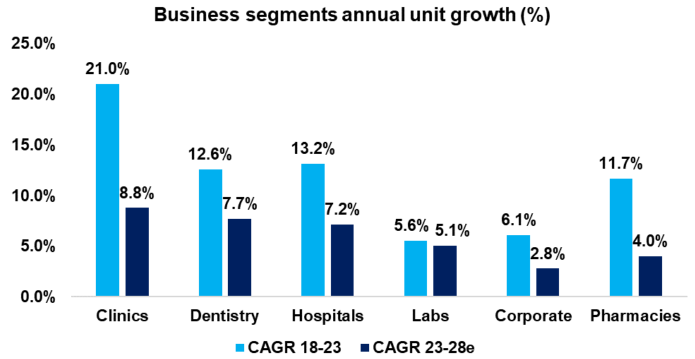
… shows a beginning of a positive trend. The drivers above remain valid, and the market may be encouraged by the increasing profitability and the seemingly manageable cost of financing. Increasing debt was indeed a prerequisite for fast expansion via M&A, and additional debt came with the acquired entities. However, as we showed in the chart above, the operating and EBITDA margins were declining on a similar trend with net margin, pointing to a situation that doesn't concern only financing, but also operating costs. The company has indeed undergone a period of high inflationary pressures on consumables and commodities, together with high personnel costs. The results of the first quarter of the current year show a possible turning around of the trend, in all margins, and may prompt us to be able to be fully confident in the long term validity of the expansion strategy.

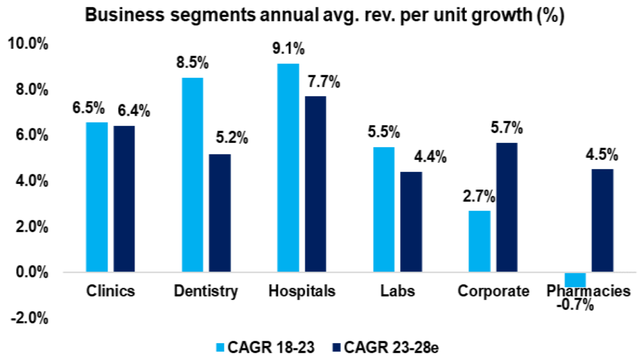
Management points to consolidation phase. According to company's management plans, MedLife will enter a period of selective M&A activity and a consolidation stage focused on margins and better integration of the company's various assets. This is a stage that the company undergone in the past after successful 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.

Adjustments to the model, and to target price We incorporated in our valuation model the new base for growth arising from the latest quarterly results. We had been expecting a potential margin rebound in the last quarter, and it has materialized.

Management validates our major drivers outlook. We have revised of our forecasts and view on the company on discussions with management that validated our outlook of major drivers in terms of unit growth, of average fees growth potential and the evolution of expense items. Our model incorporates these changes, albeit marginal, and also of **our new understanding of the company's maintenance capex**.

Note: in our model we only forecast existing businesses, we only account for very minimal M&A Capex going forward, and do not account for major acquisitions needing additional debt. These are performed on an opportunistic basis and are not part of our financial forecasts. Thus, along the company's M&A path, it may incur additional debt and financing costs, while immediate margin impact may be negative, during the initial stages of integrating acquisitions within the group.

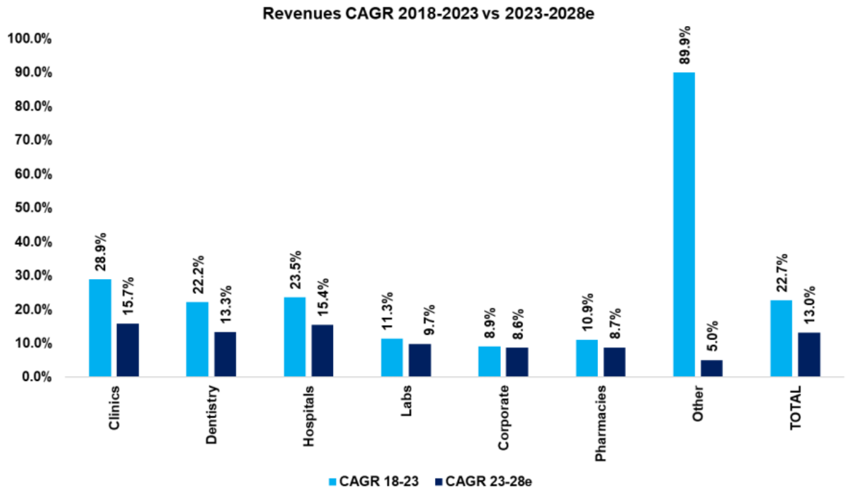




Source: Company data, Erste Group Research

Conservative outlook, both from units' growth and average fee growth, with management validation. Forecasting units i.e. number of patients, visits, prescriptions, etc… is always a difficult task especially long-term. The company doesn't release like-for-like units data, consequently it is difficult to ascertain what is the contribution of the newly acquired businesses. Furthermore, it is difficult to ascertain a capacity utilization rate, in the past, or going forward. However, on short and medium term, our forecasts have been very much in line with actual numbers, which allows us a degree of confidence. Thus, we are forecasting conservatively, especially in terms of growth for the main revenue generators:

- In the lines of business where the acquisition spree was more fruitful, such as clinics, hospitals and dentistry we are looking at 5yr CAGRs significantly lower than those of the previous period.
- In the lines of business of corporates, we also forecast a lower unit growth than in the past due to our perception of the market to be more limited than in other segments, with growth due more to substitution than to a high growing customer base
- In pharmacies, we are also looking at a lower unit growth rate, on the back of the company's lack of emphasis on this relatively lower margin business
- In terms of average revenues growth we are generally forecasting with inflation, with higher-than-inflation average revenues in areas where the degree of complexity of the treatment grows overall, such as hospitals (oncology, etc) clinics, and dentistry. Nevertheless, we are continuing to account for lower than historical growth, compared to previous periods, even in these business segments.



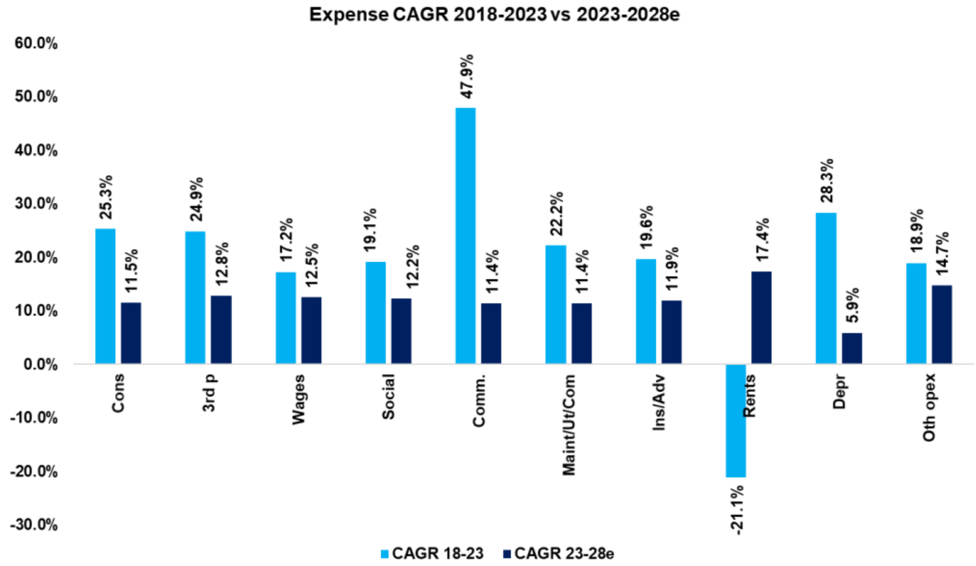
Source: Company data, Erste Group Research

Growing share of clinics' revenues in total revenues. We are looking at a higher share of total revenues being earned in clinics and hospitals, and marginally lower in labs, pharmacies and corporate (as we mention, due to our perception of the growth in this last segment being more substitution than customer pool appreciation).

% of total rev.	2016	2017	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e	2028e
Clinics	26%	27%	29%	31%	29%	28%	34%	38%	38%	40%	40%	41%	42%
Dentistry	4%	6%	6%	6%	5%	7%	7%	6%	5%	5%	5%	5%	6%
Hospitals	21%	19%	21%	23%	23%	22%	21%	22%	23%	23%	24%	24%	24%
Labs	19%	19%	17%	16%	19%	18%	11%	10%	10%	10%	10%	9%	9%
Corporate	25%	23%	21%	19%	18%	14%	12%	12%	11%	11%	10%	10%	10%
Pharmacies	5%	5%	5%	4%	4%	4%	4%	3%	3%	2%	2%	2%	2%
Other	1%	2%	1%	1%	1%	6%	11%	10%	9%	9%	8%	8%	7%
TOTAL	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: Company data, Erste Group Research

Conservative forecast of expenses, above inflation. We are maintaining our conservative forecasting stance, in terms of expenses. Indeed, it would appear that our aggregate forecasts fall below the expense growth of the last five years, however the past period has included the COVID crisis and a highly inflationary period in inputs and wages. Again, looking back, it is difficult to ascertain like-for-like cost increases, since the company doesn't provide such data. Nevertheless, we consider our approach to be conservative, especially considering that the difference between past and future rates of growth is – in our model – significantly higher in terms of unit growth than in that of cost growth, forecasting essentially a higher relative cost growth ahead than in the past period.



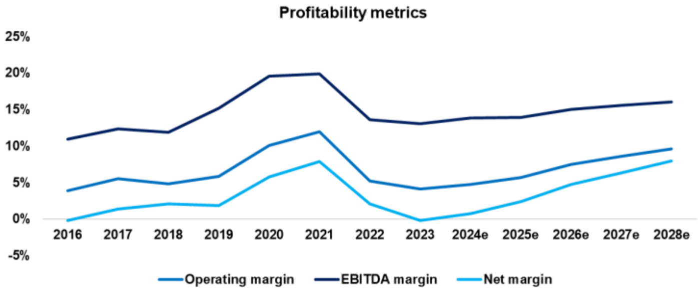
Source: Company data, Erste Group Research

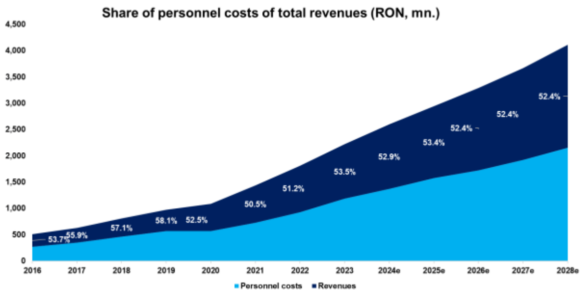
Personnel and consumables remain main cost items. Personnel related costs: third parties, wages, and social contribution made up about 55% of total costs in 2023, while consumables and commodities made up another 28% of the costs. These are costs that are largely outside of the scope of the management to control. State wage policies in the healthcare sector are influencing wages and benefits in the private healthcare sector, while qualified personnel is sought after in other EU, more affluent countries. Thus, as a business which is build on a reputation for excellence, Medlife has to spend in order to maintain personnel. Commodities and consumables costs are dictated by the market and economies of scale are limited in scope.

% of op. exp.	2016	2017	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e	2028e
Consumables	17%	16%	16%	17%	19%	19%	18%	18%	18%	18%	18%	18%	18%
Third parties	27%	28%	27%	29%	29%	30%	27%	29%	30%	30%	30%	30%	31%
Wages	23%	26%	32%	32%	28%	26%	26%	25%	24%	25%	26%	26%	26%
Social contributi	5%	6%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Commodities	4%	4%	4%	3%	4%	8%	12%	10%	9%	9%	9%	9%	10%
Maint/Utilities/Cc	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Ins/Advertising	3%	2%	2%	2%	2%	1%	2%	2%	2%	2%	2%	2%	2%
Rents	6%	6%	5%	1%	1%	1%	0%	1%	1%	1%	1%	1%	1%
Depreciation	7%	7%	7%	10%	11%	9%	9%	9%	10%	9%	8%	8%	7%
Other op exp.	5%	2%	2%	2%	3%	2%	2%	1%	2%	2%	2%	2%	2%

Source: Company data, Erste Group Research

Minimal and gradual margin appreciation underscores our conservative approach The combined result of our assumptions going forward make up for a modest profitability appreciation forecast. Our model shows a conservative EBITDA and operating margin appreciation, to levels congruent with the immediate pre-COVID period. Our net margin shows an improvement, since – as we mention above – we do not forecast acquisitions going forward, thus cash generation should contribute to decreasing debt and faster appreciation of net margin compared to operational indicators. Our lack of forecasting acquisitions is not necessarily a strategic option, but just the reflection of our modelling only the current business. As we mention above, the expansion strategy of MedLife is probably the best tool to remain a premier player in the field and it comes with costs on multiple levels.



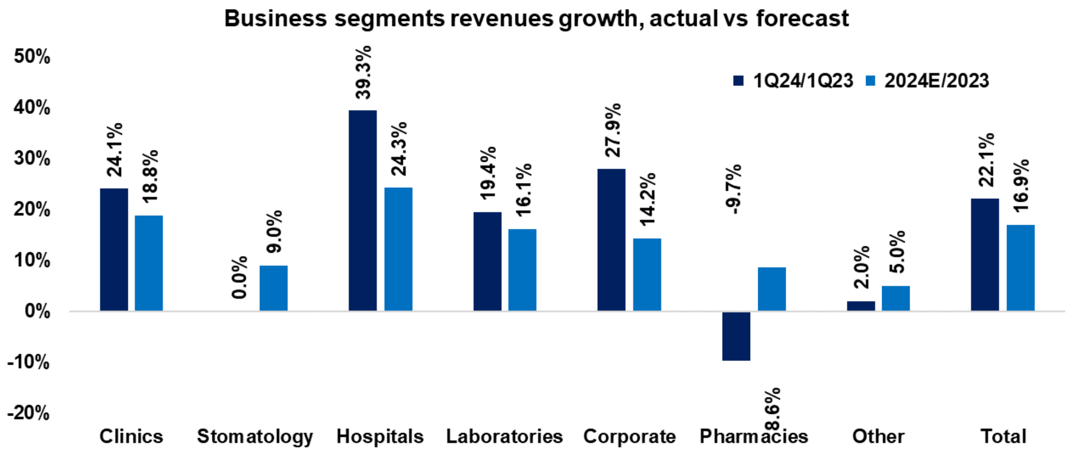


Source: Company data, Erste Group Research

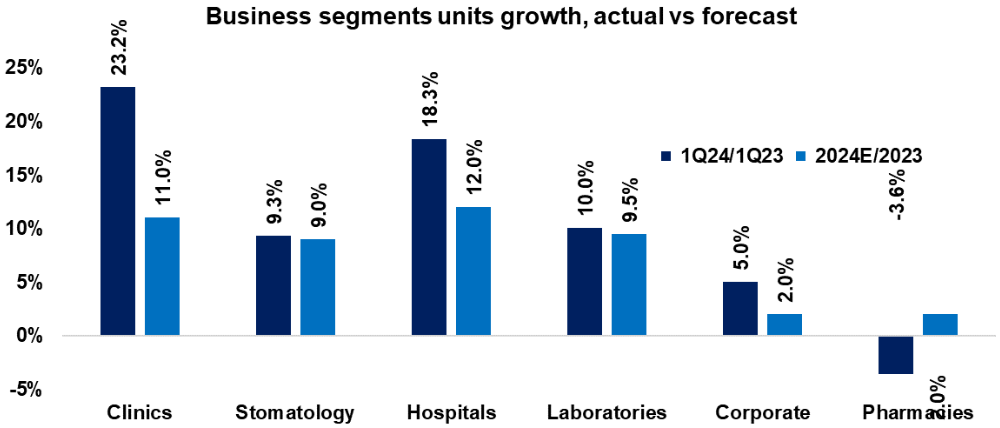
1Q vs. YE forecast validate our positive stance The first quarter results validate overall our conservative outlook for the company's 2024 financials and beyond. Indeed, our overall revenue growth for the year is quite significantly lower compared to the results of the first quarter, however it is known that the first quarter is the most profitable. Overall, in terms of unit growth we are also below the first quarter results, in a conservative stance, with the exception of the pharmacies segment where we believe that the reshaping of the portfolio has concluded, and normal growth will restart. In terms of average fees, we have made the assumption that unit prices would not erode significantly below those of the first quarter, and that price volatility q-o-q will be less than that of 2023. Our average fees are congruent with those of 1Q24 – in absolute numbers – and expect pricing power to remain a major driver for the company.

Bussiness line	Rev growth (%)		Units growth (%)		Avg fees growth (%)	
	1Q24/1Q23	2024E/2023	1Q24/1Q23	2024E/2023	1Q24/1Q23	2024E/2023
Clinics	24.1%	18.8%	23.2%	11.0%	0.7%	7.0%
Stomatology	0.0%	9.0%	9.3%	9.0%	-8.5%	0.0%
Hospitals	39.3%	24.3%	18.3%	12.0%	17.8%	11.0%
Laboratories	19.4%	16.1%	10.0%	9.5%	8.5%	6.0%
Corporate	27.9%	14.2%	5.0%	2.0%	21.8%	12.0%
Pharmacies	-9.7%	8.6%	-3.6%	2.0%	-6.3%	6.5%
Other	2.0%	5.0%				
Total	22.1%	16.9%				

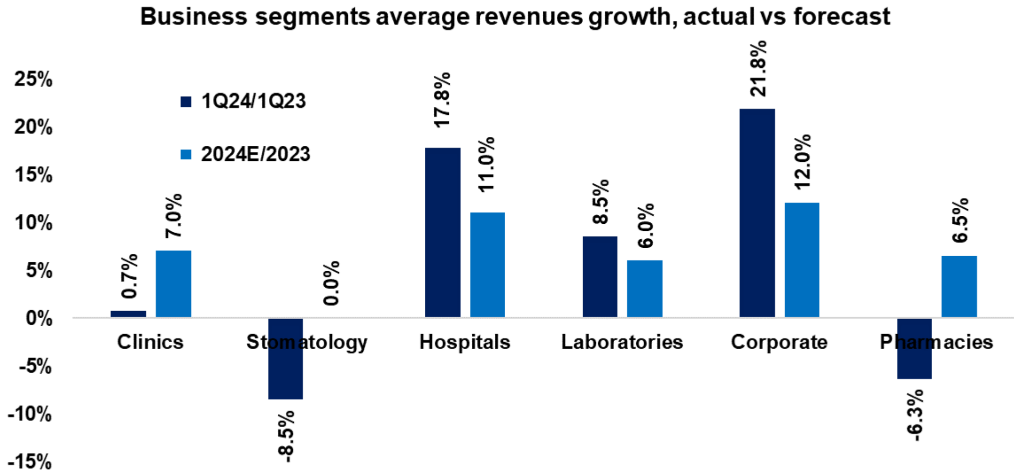
Source: Company data, Erste Group Research



Source: Company data, Erste Group Research

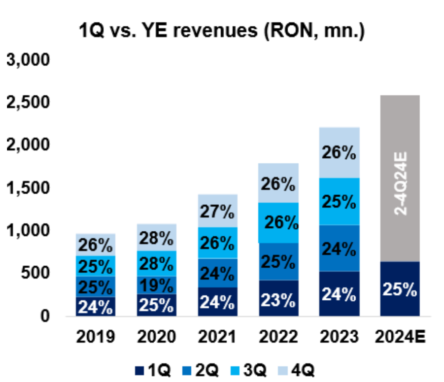


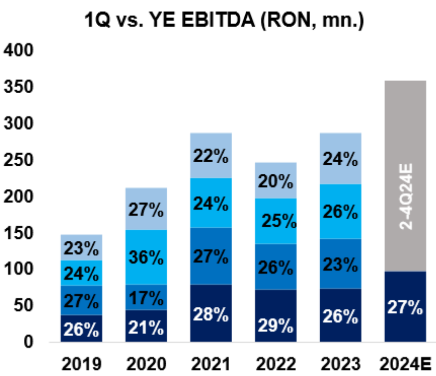
Source: Company data, Erste Group Research

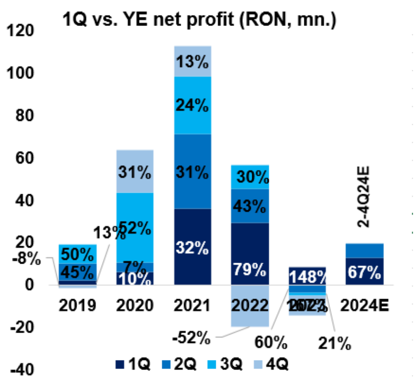


Source: Company data, Erste Group Research

Year-end results entirely achievable In comparison with the first quarter results, our year-end forecasts appear eminently achievable in terms of top line and profitability. In this context, a higher share of the first quarter in forecasted figures for the entire year, compared to historical data, entails a more conservative stance, validating our conservative approach to forecasting.



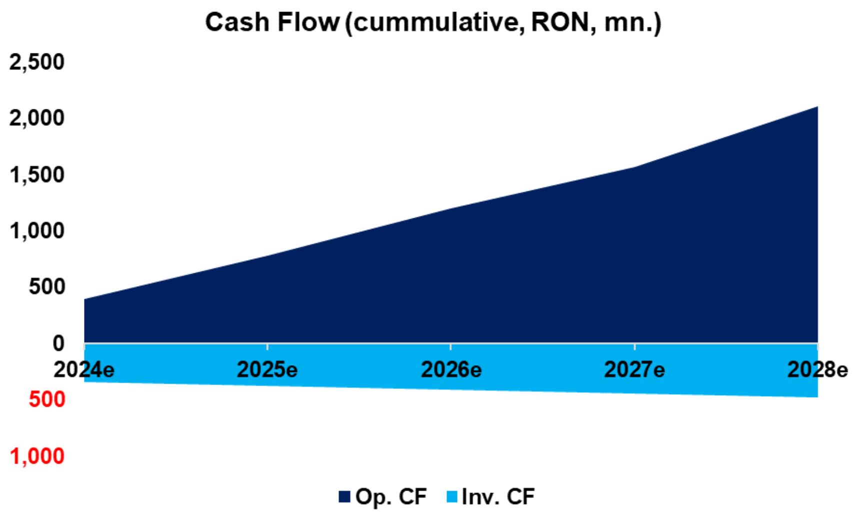




Source: Company data, Erste Group Research

Some changes to our DCF parameters. The valuation change, and the target price upgrade come on the back of the re-basing of our model to reflect recent results and our conservative approach to drivers' growth. Overall, general macro assumptions have changed little compared to the previous model and reflect current data:

- Our estimate risk free rate for the forecasting period has declined from remained 6.7%, while in perpetuity it has remained 5%.
- Cost of debt has remained 7.7% for the forecasting period and remained 6% in perpetuity.
- EBIT margin in perpetuity has increased to 8.75% on the back of the new pricing and cost outlook, more that 120 basis points compared to our last forecasted year
- The rest of the parameters have remained unchanged.
- *The **MAIN CHANGE** to our DCF model is our revaluation of the CAPEX amount needed for the ongoing business. After conferring with management, we understood that – for the existing business – maintenance CAPEX is somewhere around RON25mn/yr. Nevertheless, in a conservative manner, we upped this amount to RON30mn/yr.*



Source: Company data, Erste Group Research

MedLife DCF valuation

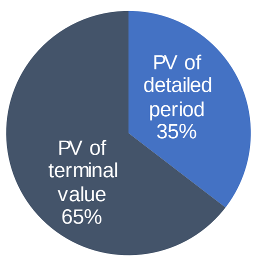
WACC calculation

	2024e	2025e	2026e	2027e	2028e	2029e TV
Risk free rate	6.7%	6.7%	6.7%	6.7%	6.7%	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	**14.2%**	**14.2%**	**14.2%**	**14.2%**	**14.2%**	**12.0%**
Cost of debt	7.7%	7.7%	7.7%	7.7%	7.7%	6.0%
Effective tax rate	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%
After-tax cost of debt	**6.5%**	**6.5%**	**6.5%**	**6.5%**	**6.5%**	**5.0%**
Equity w eight	70%	70%	70%	70%	70%	70%
WACC	**11.8%**	**11.8%**	**11.85%**	**11.85%**	**11.85%**	**9.91%**

DCF valuation

(RON mn)	2024e	2025e	2026e	2027e	2028e	2029e TV
Sales growth	*16.9%*	*13.0%*	*11.6%*	*11.5%*	*12.1%*	*4.0%*
EBIT	123	167	245	313	395	331
EBIT margin	*4.7%*	*5.7%*	*7.5%*	*8.6%*	*9.7%*	*8.8%*
Tax rate	*16.0%*	*16.0%*	*16.0%*	*16.0%*	*16.0%*	*16.0%*
Taxes on EBIT	-19.6	-26.6	-39.2	-50.1	-63.2	-53.0
NOPLAT	**103.0**	**139.9**	**205.6**	**262.9**	**331.6**	**278.1**
+ Depreciation	236	243	249	256	264	300
Capital expenditures / Depreciation	*12.7%*	*12.3%*	*12.0%*	*11.7%*	*11.4%*	*100.0%*
+/- Change in w orking capital	30	-13	11	125	22	-6
Chg. working capital / chg. Sales	*7.9%*	*-3.9%*	*3.3%*	*33.2%*	*4.9%*	*-4.0%*
- Capital expenditures	-30.0	-30.0	-30.0	-30.0	-30.0	-300.0
Free cash flow to the firm	**339.0**	**339.8**	**436.1**	**614.0**	**587.2**	**272.2**
Terminal value growth						*4.0%*
Terminal value						4,789.1
Discounted free cash flow - December 31	303.1	271.7	311.7	392.3	335.5	2,942.7
Enterprise value - December 31 2023	**4,557**					
Minorities	79					
Non-operating assets	0					
Net debt (incl. lease liabilities)	1,461					
Other adjustments	0					
Equity value - (RON bn) December 31 2	**3,016.8**					
Cost of equity	12.0%					
Fair value, RON mn	**3,223.0**					
Number of shares outstanding (mn)	531.5					
Fair value per share, RON	**6.06**					
Share price	5.2					
Upside/downside Official NAV (%)	*16.62%*					

Enterprise value breakdown



Sensitivity (Equity value - RON mn)

WACC	Terminal value EBIT margin				
	7.8%	**8.3%**	**8.8%**	**9.3%**	**9.8%**
8.9%	6.44	6.85	7.27	7.68	8.10
9.4%	5.86	6.23	6.61	6.99	7.36
9.9%	5.37	5.72	**6.06**	6.41	6.75
10.4%	4.97	5.28	5.60	5.92	6.24
10.9%	4.62	4.91	5.21	5.50	5.80

WACC	Terminal value growth				
	3.0%	**3.5%**	**4.0%**	**4.5%**	**5.0%**
8.9%	6.06	6.61	7.27	8.08	9.09
9.4%	5.60	6.06	6.61	7.27	8.08
9.9%	5.21	5.60	**6.06**	6.61	7.27
10.4%	4.87	5.21	5.60	6.06	6.61
10.9%	4.57	4.87	5.21	5.60	6.06

Source: Erste Group Research

Income Statement	**2020**	**2021**	**2022**	**2023**	**2024e**	**2025e**
(IFRS, RON mn, 31/12)	31/12/2020	31/12/2021	31/12/2022	31/12/2023	31/12/2024	31/12/2025
Net sales	**1,078.27**	**1,427.22**	**1,795.43**	**2,211.58**	**2,586.01**	**2,921.89**
Invent. changes + capitalized costs	0.00	0.00	0.00	0.00	0.00	0.00
Total revenues	**1,078.27**	**1,427.22**	**1,795.43**	**2,211.58**	**2,586.01**	**2,921.89**
Other operating revenues	9.28	10.36	14.12	10.10	11.81	23.38
Material costs	-254.05	-375.71	-565.73	-657.45	-751.24	-832.74
Personnel costs	-570.48	-726.45	-926.90	-1,187.81	-1,373.17	-1,573.44
Other operating expenses	-50.45	-49.86	-70.30	-86.58	-114.56	-129.43
EBITDA	**212.57**	**285.56**	**246.62**	**289.84**	**358.86**	**409.65**
Depreciation/amortization	-103.06	-113.76	-152.41	-198.40	-236.26	-243.10
EBIT	**109.51**	**171.80**	**94.21**	**91.44**	**122.60**	**166.56**
Financial result	-30.70	-36.43	-44.70	-87.22	-99.19	-82.47
Extraordinary result	0.00	0.00	0.00	0.00	0.00	0.00
EBT	**78.81**	**135.37**	**49.51**	**4.22**	**23.40**	**84.09**
Income taxes	-16.63	-22.50	-12.12	-8.46	-3.74	-13.45
Result from discontinued operations	0.00	0.00	0.00	0.00	0.00	0.00
Minorities and cost of hybrid capital	0.00	0.00	0.00	0.00	0.00	0.00
Net result after minorities	**62.18**	**112.87**	**37.39**	**-4.24**	**19.66**	**70.64**

Balance Sheet	**2020**	**2021**	**2022**	**2023**	**2024e**	**2025e**
(IFRS, RON mn, 31/12)						
Intangible assets	340.83	450.94	775.30	960.90	933.38	889.97
Tangible assets	535.67	552.20	828.50	1,101.00	1,067.53	912.95
Financial assets	27.94	31.60	82.80	40.90	40.90	40.90
Total fixed assets	**904.45**	**1,034.74**	**1,686.60**	**2,102.80**	**2,041.81**	**1,843.81**
Inventories	53.06	74.20	98.80	109.70	128.27	144.93
Receivables and other current assets	144.02	172.70	277.60	323.60	378.39	427.53
Other assets	0.00	0.00	0.00	0.00	0.00	0.00
Cash and cash equivalents	81.97	136.00	89.10	100.30	129.30	146.09
Total current assets	**279.05**	**382.90**	**465.50**	**533.60**	**635.96**	**718.56**
TOTAL ASSETS	**1,183.50**	**1,417.64**	**2,152.10**	**2,636.40**	**2,677.77**	**2,562.37**
Shareholders'equity	**268.91**	**381.81**	**482.10**	**478.11**	**512.72**	**579.31**
Minorities	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Hybrid capital and other reserves	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Pension and other LT personnel accruals	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
LT provisions	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Interest-bearing LT debts	414.70	440.84	803.30	1,040.60	1,004.05	729.02
Other LT liabilities	185.57	180.81	291.15	401.90	417.59	431.67
Total long-term liabilities	**600.27**	**621.65**	**1,094.45**	**1,442.50**	**1,421.64**	**1,160.70**
Interest-bearing ST debts	73.57	83.96	83.50	112.14	141.50	142.28
Other ST liabilities	240.77	330.67	492.15	587.62	601.91	680.08
Total short-term liabilities	**314.33**	**414.63**	**575.65**	**699.75**	**743.41**	**822.37**
TOTAL LIAB. , EQUITY	**1,183.51**	**1,417.64**	**2,152.10**	**2,636.40**	**2,677.77**	**2,562.37**

Cash Flow Statement	**2020**	**2021**	**2022**	**2023**	**2024e**	**2025e**
(IFRS,RON mn, 31/12)						
Cash flow from operating activities	125.78	227.40	184.62	183.49	212.65	381.48
Cash flow from investing activities	-111.13	-149.41	-485.92	-286.49	-55.73	-34.48
Cash flow from financing activities	28.44	-24.09	254.49	114.19	-127.92	-330.20
CHANGE IN CASH , CASH EQU.	**43.08**	**54.03**	**-46.90**	**11.20**	**29.00**	**16.79**

Margins & Ratios	**2020**	**2021**	**2022**	**2023**	**2024e**	**2025e**
Sales growth	11.5%	32.4%	25.8%	23.2%	16.9%	13.0%
EBITDA margin	19.7%	20.0%	13.7%	13.1%	13.9%	14.0%
EBIT margin	10.2%	12.0%	5.2%	4.1%	4.7%	5.7%
Net profit margin	5.8%	7.9%	2.1%	-0.2%	0.8%	2.4%
ROE	26.1%	34.7%	8.7%	-0.9%	4.0%	12.9%
ROCE	10.9%	15.8%	5.6%	-5.2%	5.3%	7.6%
Equity ratio	22.7%	26.9%	22.4%	18.1%	19.1%	22.6%
Net debt	406.3	388.8	797.7	1,052.4	1,016.2	725.2
Working capital	-35.3	-31.7	-110.2	-166.2	-107.4	-103.8
Capital employed	860.8	951.4	1,571.0	1,932.4	1,946.6	1,736.2
Inventory turnover	3.9	3.7	3.6	3.7	3.8	3.6

Source: Company data, Erste Group estimates

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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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