COMPANY UPDATE

MedLife SA

Accumulate

Analyst: Caius Rapanu +4 0373 510 441 caiusroa.rapanu@bcr.ro

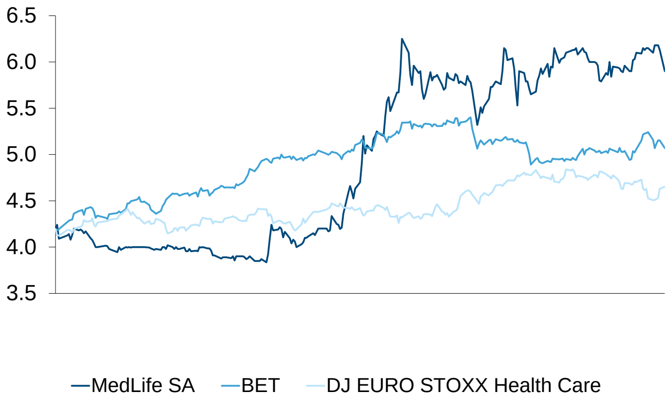
Share price (RON) close as of 25/11/2024	5.90	Reuters	ROM.BX	Free float	59.0%
Number of shares (mn)	531.5	Bloomberg	M RO	Shareholders	Marcu Mihail (15.8%)
Market capitalization (RON mn / EUR mn)	3,136 / 630	Div. Ex-date	11/04/24		Cristescu Mihaela Gabriela (14.04%)
Enterprise value (RON mn / EUR mn)	4,261 / 856	**Target price**	**6.65**	Homepage:	www.medlife.ro

Key figures Overview

RON mn	2023	2024e	2025e	2026e
Net sales	2,211.6	2,626.2	2,946.8	3,301.3
EBITDA	289.8	378.2	434.7	525.7
EBIT	91.4	130.7	176.7	261.4
EBT	4.2	28.5	105.3	223.1
Net profit	-4.2	23.9	88.5	187.4
EPS (RON)	-0.01	0.04	0.17	0.35
CEPS (RON)	0.35	0.90	0.84	0.88
BVPS (RON)	0.90	0.97	1.13	1.46
Dividend/Share (RON)				
EV/EBITDA (x)	10.93	11.27	8.94	6.49
P/E (x)	nm	131.12	35.44	16.74
P/CE (x)	11.53	6.53	7.01	6.73
Dividend yield (%)				
EBITDA margin (%)	13.11	14.40	14.75	15.93
Operating margin (%)	4.13	4.98	5.99	7.92
Net profit margin (%)	-0.19	0.91	3.00	5.68

Trading data & Statistics

Daily averages	5 days	30 days	last year
Volume	61,046	74,882	181,040
Trading value (RON mn)	0.4	0.5	0.9



Price performance:	**1M**	**3M**	**6M**	**12M**
in EUR	**-0.9%**	**-2.0%**	**27.4%**	**39.3%**

Financial Strength

	2023	2024e	2025e	2026e
ROE (%)	-0.88	4.81	15.84	27.22
ROCE (%)	-5.23	5.52	7.77	13.49
Equity ratio (%)	18.25	17.33	21.30	27.86
Net debt (RON mn)	1,052.44	1,124.86	751.32	273.94
Gearing (%)	220.13	217.69	125.19	35.27

A solid quarter on the way to a solid year

We are maintaining our accumulate recommendation for MedLife while marginally altering our target price, to RON6.65/share on the back of the latest figures issued by the company regarding the evolution of unit numbers and of average fees.

The basic tenets of our investment case remain unchanged and have to do mainly with expansion of footprint in a universe that is still fragmented, but in a process of consolidation, while upgrading services and maintaining the pricing power awarded by a high level of service excellence.

Personnel cost growth should be moderate going forward over the short-to-medium term as fiscal consolidation would probably entail a degree of freezing of wage increases in the public healthcare system.

We continue to forecast conservatively, compared to recent and long-term trends, both in terms of revenues and of costs. Gearing appears manageable and lower than in YE2022 and YE2023, and management stated commitment to consolidation and margin appreciation should pay off.

Erste Group Research – Company Update finalized and released November 27, 2024, 07:30, CET, reviewed by Henning Esskuchen (supervising analyst)

Robust results, strategy continues unabated

9M24 results – better y-o-y top line and profitability

MedLife 9M24 results show a significant boost in top line, with consolidated sales increasing by 21%. At the same time, operating expensed grew by only 20%, leading to an operating profit more than 47% higher than that of 9M23, and to an EBITDA that was 33% higher while the net income jumped more than five times vs the same period. The net margin increased from 0.2% in 9M23 to 1.1% in 9M24 and EBITDA margin advanced from 13.3% to 14.6%.

INCOME ST. (RON, mn.)	3Q24	3Q23	chng (%)	2Q24	chng (%)	3Q22	chng (%)	9M24	9M23	chng (%)	9M22	chng (%)
Sales	668.3	561.2	19%	663.8	1%	463.6	44%	1,978.7	1,627.4	22%	1,324.0	49%
Other operating income	2.1	4.1	-48%	1.9	11%	5.6	-62%	5.8	12.9	-55%	9.9	-41%
Operating income	**670.4**	**565.3**	**19%**	**665.7**	**0.7%**	**469.2**	**43%**	**1,984.5**	**1,640.3**	**21%**	**1,333.9**	**49%**
Operating expenses	(635.9)	(538.4)	18%	(629.0)	1.1%	(442.9)	44%	(1,871.5)	(1,563.5)	20%	(1,238.4)	51%
Operating profit	**34.5**	**26.9**	**28%**	**36.7**	**-6%**	**26.3**	**31%**	**112.9**	**76.8**	**47%**	**95.4**	**18%**
EBITDA	**96.7**	**75.8**	**28%**	**95.1**	**2%**	**62.4**	**55%**	**289.9**	**217.7**	**33%**	**198.1**	**46%**
Financial result	(25.6)	(24.0)	7%	(26.8)	-4%	(11.4)	124%	(75.0)	(61.6)	22%	(27.9)	169%
Profit before taxes	**8.9**	**2.9**	**207%**	**9.9**	**-10%**	**14.9**	**-40%**	**37.9**	**15.2**	**150%**	**67.6**	**-44%**
Income tax	(5.5)	(4.1)	35%	(5.6)	0%	(3.7)	51%	(17.1)	(11.4)	50%	(10.7)	59%
Net profit	**3.4**	**(1.2)**	**-381%**	**4.3**	**-22%**	**11.2**	**-70%**	**20.8**	**3.8**	**448%**	**56.8**	**-63%**
EBITDA margin	*14.4%*	*13.4%*		*14.3%*		*13.3%*		*14.6%*	*13.3%*		*14.9%*	
Net margin	*0.5%*	*-0.2%*		*0.7%*		*2.4%*		*1.1%*	*0.2%*		*4.3%*	
Operating margin	**5.16%**	**4.79%**		**5.53%**		**6%**		**5.71%**	**4.72%**		**7.21%**	

Source: Company data, Erste Group Research

Similar story on a quarterly basis

On a y-o-y basis, the picture was similar, with 3Q24 top line increasing by 19%, while costs grew only 18%, resulting in an operating profit that was 28% higher than that of the previous year's third quarter and a net income of RON3.4mn vs. the loss of RON1.2mn of the same period last year. Profitability increased, with EBITDA margin up from 13.4% to 14.4%. Vs the previous quarter the growth in top line, of 0.7% was exceeded by the growth in costs, of 1.1%, leading to a 6% decline in EBIT q-o-q, and a 22% decline in Net Income. Nevertheless, the margins remained decent, with EBITDA and net margins only slightly lower compared to the previous quarter.

Pro-forma profitability looks similar

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. 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.

	Rev. (RON, mn) IFRS			Adjustment		Proforma		
Bussiness line	**9M24**	**9M23**	**chng (%)**	**9M24**	**9M23**	**9M24**	**9M23**	**chng (%)**
Clinics	741.7	608.21	**21.9%**	-18.84	-24.15	722.86	584.06	**23.8%**
Stomatology	95.03	92.51	**2.7%**	0	0	95.03	92.51	**2.7%**
Hospitals	468.68	353.14	**32.7%**	-82.45	-44.94	386.23	308.2	**25.3%**
Laboratories	225.9	171.74	**31.5%**	7.74	3.85	233.64	175.59	**33.1%**
Corporate	224.53	189.37	**18.6%**	0	0.56	224.53	189.93	**18.2%**
Pharmacies	50.4	46.29	**8.9%**	0	0	50.4	46.29	**8.9%**
Other	172.44	166.15	**3.8%**	0	0.016	172.44	166.166	**3.8%**
Total	**1978.68**	**1627.41**	**21.6%**	**-93.55**	**-64.664**	**1885.13**	**1562.746**	**20.6%**

Source: Company data, Erste Group Research

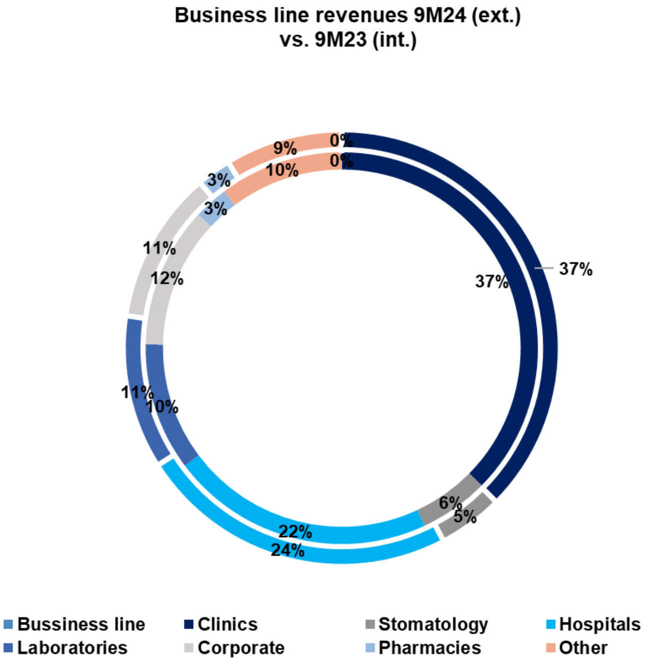
When deducting the RON102mn subsidies received at group level (clinics and hospitals) from the National Health Program for chemotherapy drugs and adding a positive RON7.7mn from laboratories, and make a similar adjustment for 9M23, (RON69mn and RON4mn respectively) the the net impact is a sales increase of RON322mn vs. 9M23. The proforma expenses are also diminished by the costs related to the National Health Program for oncology (RON97mn) and RON7.3mn one-offs and nonrecurrent costs, related to acquisitions. Under this representation, the profitability of the group was marginally better, with EBITDA reaching RON304mn and EBITDA margin at 16.1%, compared to 14.6% under IFRS while net margin increased marginally to 1.6%, compared to a 1.2% net margin under IFRS.

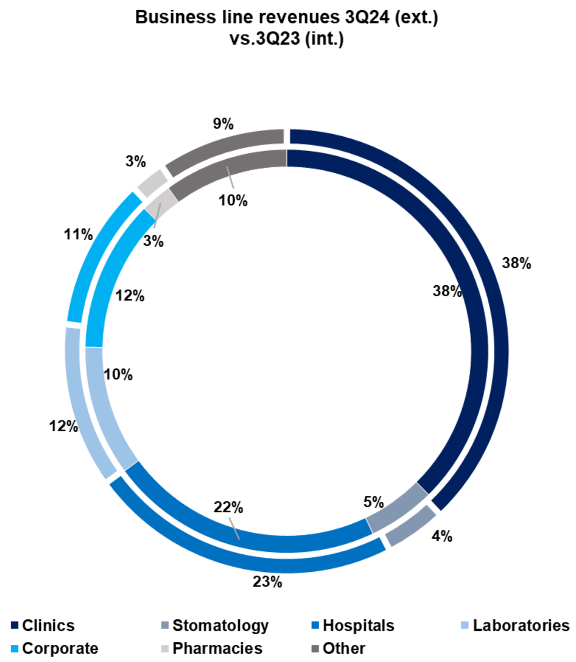
	IFRS			Adjustm.		Proforma		
INCOME ST. (RON, mn.)	**9M24**	**9M23**	**chng (%)**	**9M24**	**9M23**	**9M24**	**9M23**	**chng (%)**
Sales	1,978.7	1,627.4	22%	(93.6)	(64.6)	1,885.1	1,562.8	21%
Other operating income	5.8	12.9	-55%	1.2	0.9	7.0	13.8	-49%
Operating income	**1,984.5**	**1,640.3**	**21%**	**(92.4)**	**(63.7)**	**1,892.1**	**1,576.5**	**20%**
Operating expenses	(1,871.5)	(1,563.5)	20%	104.5	82.3	(1,767.0)	(1,481.2)	19%
Operating profit	**112.9**	**76.8**	**47%**	**12.1**	**18.6**	**125.0**	**95.4**	**31%**
EBITDA	**289.9**	**217.7**	**33%**	**14.2**	**21.4**	**304.1**	**239.1**	**27%**
Financial result	(75.0)	(61.6)	22%	(0.8)	(0.9)	(75.8)	(62.5)	21%
Profit before taxes	**37.9**	**15.2**	**150%**	**11.3**	**17.7**	**49.2**	**32.8**	**50%**
Income tax	(17.1)	(11.4)	50%	(1.6)	(2.7)	(18.7)	(14.1)	32%
Net profit	**20.8**	**3.8**	**448%**	**9.7**	**14.9**	**30.5**	**18.7**	**63%**
EBITDA margin	*14.6%*	*13.3%*				*16.1%*	*15.2%*	
Net margin	*1.0%*	*0.2%*				*1.6%*	*1.2%*	
Operating margin	*5.7%*	*4.7%*				*6.6%*	*6.0%*	

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 semester on a y-o-y basis. The largest expansion in relative numbers was registered in hospitals, on the back of openings, and tariffs, followed by laboratories, clinics and corporates. Thus, hospitals‘ revenues grew around 33% compared to 9M23, while clinics‘ revenues increased by 22%, laboratories by 32% and corporates by 19% respectively. Pharmacies revenues grew by about 9%, while stomatology revenues increased by 3%. Generally, the clinics remained the largest contributor of the group, with more than 37% share of total revenues, while hospitals remained at around 24%. Laboratories and corporate revenues accounted for more or less the same share of total revenues of about 11%.





Source: Company data, Erste Group Research

	Rev. (RON, mn)			Units ('000)			Avg. fees (RON)		
Bussiness line	**9M24**	**9M23**	**chng (%)**	**9M24**	**9M23**	**chng (%)**	**9M24**	**9M23**	**chng (%)**
Clinics	741.7	608.2	**21.9%**	3,181.1	2,837.3	**12.1%**	233.2	214.4	**8.8%**
Stomatology	95.0	92.5	**2.7%**	142.5	138.2	**3.1%**	667.0	669.6	**-0.4%**
Hospitals	468.7	353.1	**32.7%**	117.9	103.0	**14.5%**	3,976.0	3,429.9	**15.9%**
Laboratories	225.9	171.7	**31.5%**	6,613.5	5,463.9	**21.0%**	34.2	31.4	**8.7%**
Corporate	224.5	189.4	**18.6%**	885.4	867.3	**2.1%**	254	218.3	**16.1%**
Pharmacies	50.4	46.3	**8.9%**	344.1	346.5	**-0.7%**	146.5	133.6	**9.7%**
Other	172.4	166.2	**3.8%**						
Total	**1,978.7**	**1,627.4**	**21.6%**						

Source: Company data, Erste Group Research

High unit hikes in largest contributor segments…
Over the nine months, from the main revenue generators of the company, the largest growth in number of client visits were recorded in the hospitals segment, 15%, as a result of acquisitions and organic growth, but also the introduction and expansion of robotic surgery. In the clinics segment, the increase was also significant, by 12%, under the consolidation of acquisitions and higher demand for outpatient services. Stomatology visits increased by 3%, while corporate subscriptions grew by about 2%. Laboratories saw an increase in client numbers by 21%, while pharmacy visits decreased by 1%.

… while 9M24 most average fees show growth, with one exception
On a yearly basis, the average fees showed an overall healthy picture across business segments with the exception of dentistry. The increase among main contributors, was 8.8% recorded in the clinics segment. In the hospitals segment, the average fees increased by 15.9%. In the corporate segment the average fee growth was about 16.1%, and in laboratories by 8.7%, and in pharmacies it grew by about 9.7%. In the stomatology segment, the average fee dropped marginally by 0.4%. According to the

company, the pharmacy segment underwent a adjustment of drug portfolio, in order to increase operational efficiency.

	Rev. (RON, mn)			Units ('000)			Avg. fees (RON)		
Bussiness line	3Q24	3Q23	chng (%)	3Q24	3Q23	chng (%)	3Q24	3Q23	chng (%)
Clinics	254.0	210.9	**20.4%**	1,084.1	962.3	**12.7%**	234.3	219.2	**6.9%**
Stomatology	29.4	30.3	**-2.9%**	44.0	47.1	**-6.5%**	669.2	644.1	**3.9%**
Hospitals	151.0	123.0	**22.7%**	37.6	35.5	**6.0%**	4,017.8	3,469.8	**15.8%**
Laboratories	79.9	58.5	**36.5%**	2,281.5	1,898.6	**20.2%**	35.0	30.8	**13.6%**
Corporate	73.8	68.4	**8.0%**	885.4	867.3	**2.1%**	83	78.8	**5.8%**
Pharmacies	17.0	14.0	**21.5%**	105.7	114.2	**-7.5%**	160.9	122.5	**31.4%**
Other	63.2	56.2	**12.6%**						
Total	**668.4**	**561.3**	**19.1%**						

Source: Company data, Erste Group Research

Quarterly dynamics: a similar positive trend, y-o-y

On a quarterly basis, the 3Q results show a similar picture y-o-y. The revenue growth for clinics registered more than 20%, on the back of a 13% increase in visits and a 7% increase in average fees, while the hospital segment has registered a 6% jump in patients and a 16% jump in average fees, leading to a 23% growth in revenues. Major growth in revenues have been posted by the laboratories as well, on the back of a major increase in patients and hefty increase in average fees. The pharmacies‘ segment also grew in revenues by about 22% on a combination of higher units and lower average fees. The corporate segment revenues increased by 8%, on minor growth in number of subscriptions, but higher average fees. The lowest performance, y-o-y was posted during 3Q24 by the dentistry segment, which registered a 2.7% decline on 3.1% growth in patients and a marginal drop in average fees average fees.

	Rev. (RON, mn)			Units ('000)			Avg. fees (RON)		
Bussiness line	3Q24	2Q24	chng (%)	3Q24	2Q24	chng (%)	3Q24	2Q24	chng (%)
Clinics	254.0	240.4	**5.7%**	1,084.1	1,032.9	**5.0%**	234.3	232.7	**0.7%**
Stomatology	29.4	33.3	**-11.6%**	44.0	47.5	**-7.3%**	669.2	701.8	**-4.6%**
Hospitals	151.0	166.8	**-9.5%**	37.6	40.9	**-8.1%**	4,017.8	4,078.2	**-1.5%**
Laboratories	79.9	77.7	**2.8%**	2,281.5	2,292.6	**-0.5%**	35.0	33.9	**3.3%**
Corporate	73.8	76.5	**-3.5%**	885.4	898.9	**-1.5%**	83.4	85.1	**-2.0%**
Pharmacies	17.0	16.7	**1.8%**	105.7	118.6	**-10.9%**	160.9	140.8	**14.3%**
Other	63.2	52.1	**21.4%**						
Total	**668.4**	**663.5**	**0.7%**						

Source: Company data, Erste Group Research

Q-o-q figures are weaker

Comparing the 3Q24 q-o-q figures to the previous quarter, a different picture emerges. The average fees increased marginally for clinics, 3.3% for laboratories and 14% for pharmacies while the rest actually declined. Hospital average fees diminished by 1.5%, corporates by 2%, while in the stomatology segment the fees declined by 4.6%. In terms of number of patients, the clinics experienced an increase of 5%, while al the other segments declined, most notably hospitals declined by 8.1%, stomatology by 7.3%, and pharmacies by 11%. Altogether, revenues (IFRS) increased only 0.7%.

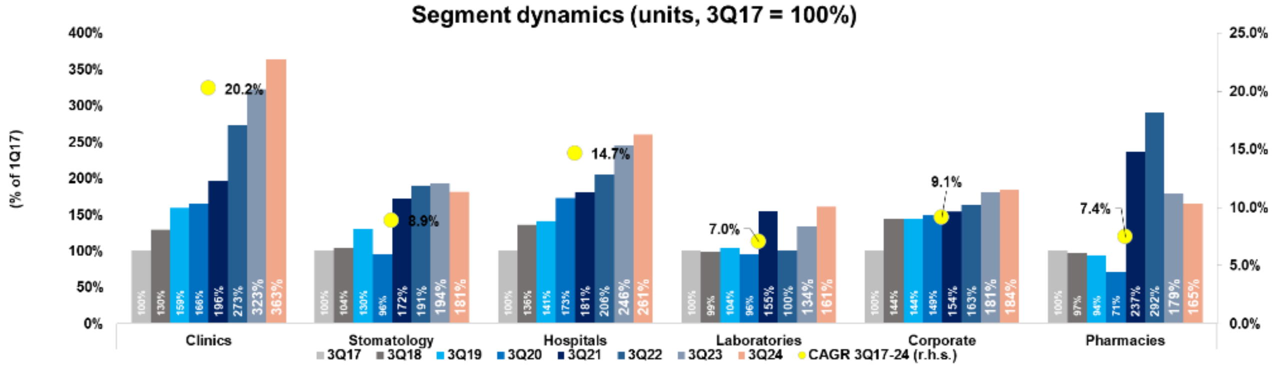
Higher average fees for more complex services.

Looking at the quarterly evolution of drivers averaging the last quarters, compared to the previous periods, we believe the company has lately refrained from increasing fees, unless coming on the back of more complex procedures. This may be the harbinger of a leaner period in terms of fees increases, especially considering the postelection more austere economic environment. Nevertheless, we believe the management of MedLife has made an appropriate choice, by opting for a permanent increase in the complexity of services and of maintaining and attracting valuable personnel.

CAGR of drivers remains solid

When plotting the multiannual evolution of main drivers, it is notable that the acquisition spree of the company has resulted in adding expansion growth to the organic growth in terms of units (visits/patients) especially in the main revenue contributors. Thus, the 3Q unit CAGR between 2017 and 2024 in terms of clinics is a staggering 20.2%, and that of hospitals is 14.7%. in fact all segments have seen a major increase in units with the corporate segment at a very solid 7%.

Segment dynamics (units, 3Q17 = 100%)

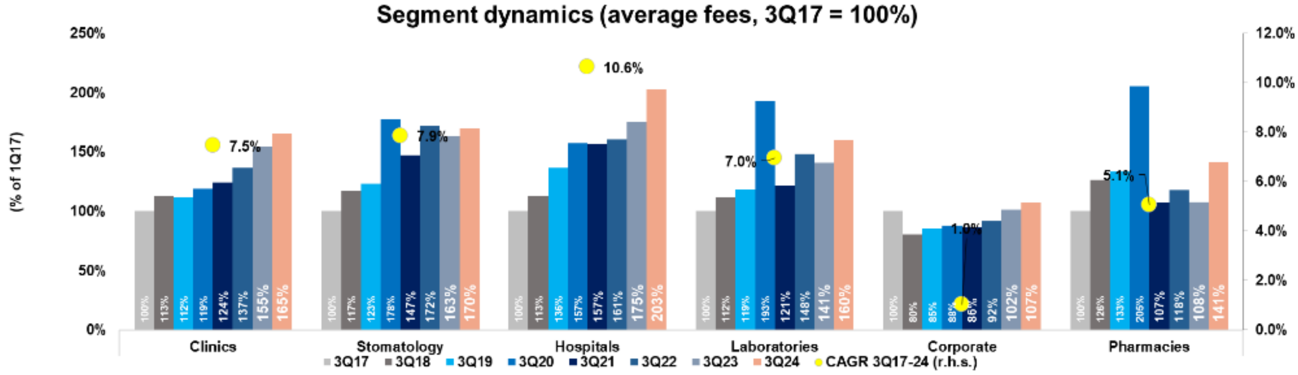


Source: Company data, Erste Group Research

While pricing power still a major earnings driver

The superior pricing power of the company remains an important driver, that has seen steady growth, with little variations over the last seven years, with certain larger volatility during the pandemic years. Nevertheless, the two main earning segments have experienced solid growth in average fees. Clinics' segment posted a 3Q average fee CAGR between 2017 and 2024 of 7.5%, which is mostly due to pricing power. The CAGR of the hospital segment, at 10.6% is partially due to the higher levels of complexity of services offered, which is also the case for the dentistry segment.

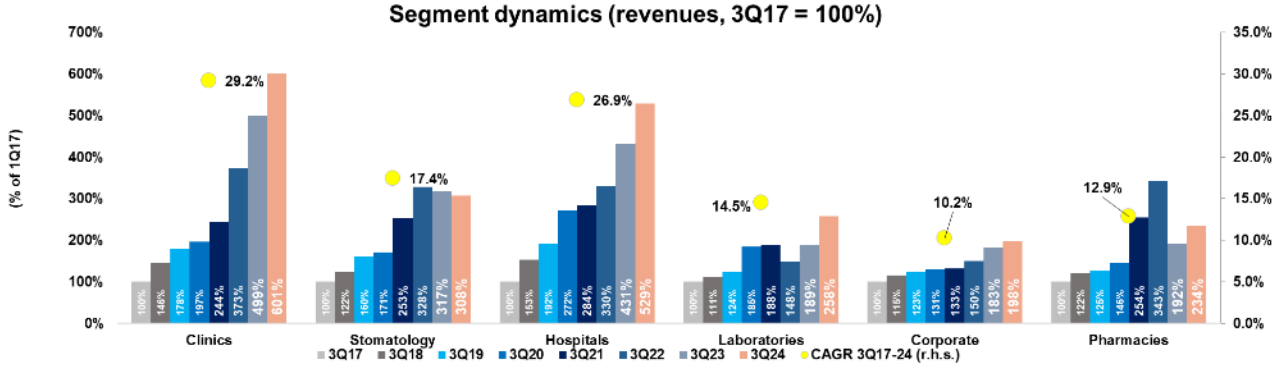
Segment dynamics (average fees, 3Q17 = 100%)



Source: Company data, Erste Group Research

Major revenue growth for main contributors

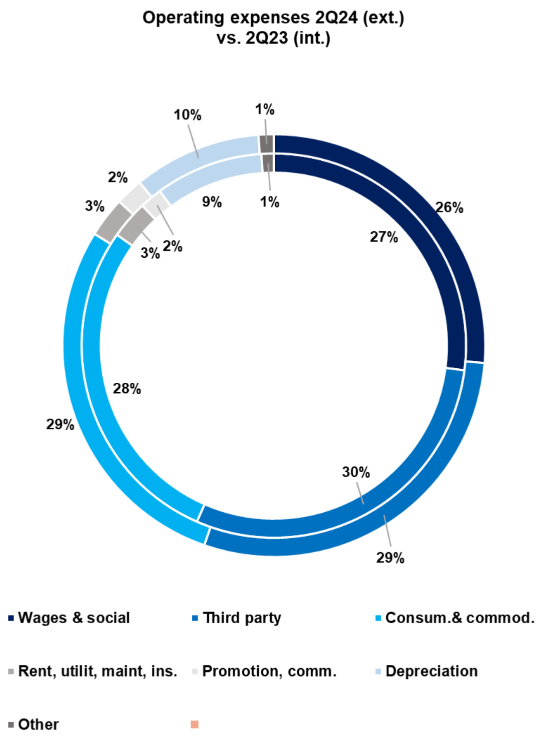
The combination of the factors described above led to a very high revenue CAGR when looking at third quarters of the last seven years. Clinics had a 29% CAGR revenue growht and hospitals had a similar CAGR of about 27%, which is entirely remarkable, while all revenue CAGRs for all segments are in the double digit range.

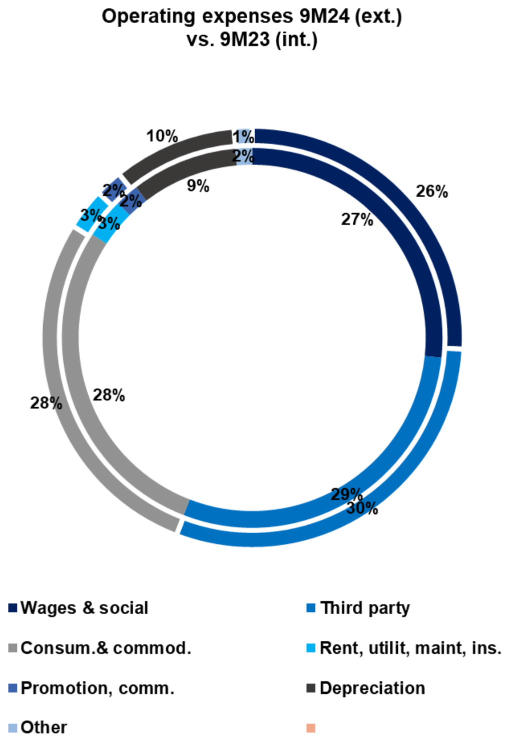


Source: Company data, Erste Group Research

Higher y-o-y operating costs…

On a yearly basis, IFRS 9M24 operating costs grew y-o-y by 20%, on a 21% increase in total revenues while on a pro-forma basis, the same increased by 20% on a 21% growth in revenue (see above). On IFRS, large increases were recorded in personnel related expenses, with wages and social costs growing 16.1% and third party costs increasing by 22.9%, on the back of acquisitions and the inflationary upward pressure on wages and benefits. Consumables and commodities grew overall at 18.8%, a tapering of the trend observed during the second part of last year, with higher increases in chemotherapy drugs consumables, balanced by a slight decrease in commodities. Marketing expenses also registered a 27% 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.





Source: Company data, Erste Group Research

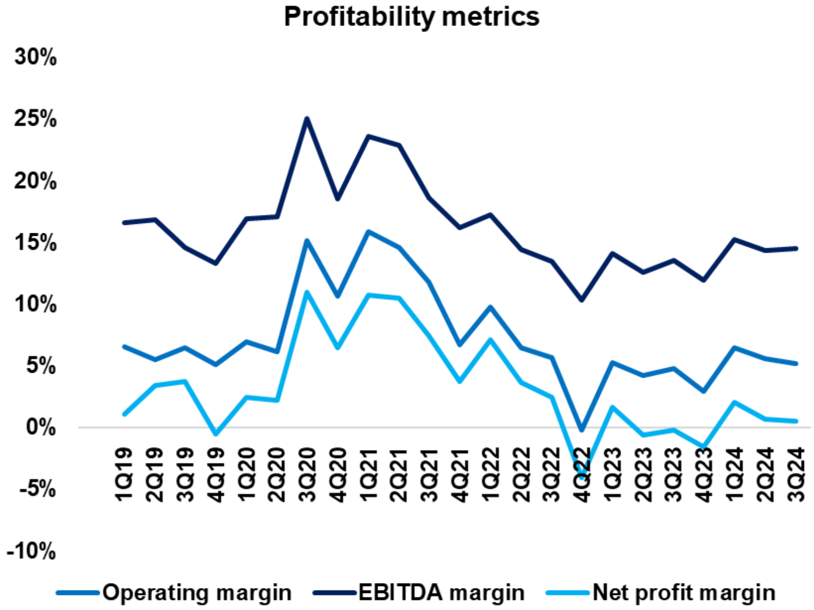
Out of the total y-o-y 9M24 vs 9M23 expense growth, third party expenses accounted for 34% of the increase in total operating costs, with wages and social costs accounting for 22%, and consumables and commodities around 27% of the total increase in operating costs, with depreciation about 14% and the rest of the items contributing minor amounts.

Opex breakdown (RON	3Q24	3Q23	chng (%)	2Q24	chng (%)	3Q22	chng (%)	% of total rev. 3Q24	3Q23	2Q24	3Q22	3Q24 % of y-o-y cost incr
Wages & social	167.32	145.68	**14.9%**	160.66	**4.1%**	121.13	**38.1%**	**25.0%**	**25.8%**	**24.1%**	**25.8%**	**22%**
Third party	184.6	158.86	**16.2%**	190.45	**-3.1%**	115.76	**59.5%**	**27.5%**	**28.1%**	**28.6%**	**24.7%**	**26%**
Consum.& commod.	181.40	152.03	**19.3%**	174.02	**4.2%**	139.51	**30.0%**	**27.1%**	**26.9%**	**26.1%**	**29.7%**	**30%**
Rent, utilit, maint, ins.	19.54	17.29	**13.0%**	19.55	**-0.1%**	15.74	**24.1%**	**2.9%**	**3.1%**	**2.9%**	**3.4%**	**2%**
Promotion, comm.	13.4	10.14	**32.1%**	14.13	**-5.2%**	9.4	**42.6%**	**2.0%**	**1.8%**	**2.1%**	**2.0%**	**3%**
Depreciation	62.2	48.9	**27.2%**	58.42	**6.5%**	36.15	**72.1%**	**9.3%**	**8.7%**	**8.8%**	**7.7%**	**14%**
Other	7.4	5.55	**33.3%**	11.83	**-37.4%**	5.24	**41.2%**	**1.1%**	**1.0%**	**1.8%**	**1.1%**	**2%**
Total	**635.9**	**538.5**	**18.1%**	**629.1**	**1.1%**	**442.9**	**43.6%**	**94.8%**	**95.2%**	**94.5%**	**94.4%**	**100.0%**
Labor costs	351.9	304.5	**15.6%**	351.1	**0.2%**	236.9	**48.6%**	52.5%	53.9%	52.7%	50.5%	

Opex breakdown (RON,	9M24	9M23	chng (%)	9M22	chng (%)	% of total rev. 9M24	9M23	9M22	9M24 % of y-o-y cost incr
Wages & social	483.92	416.98	**16.1%**	333.7	**45.0%**	**24.4%**	**25.4%**	**25.0%**	**22%**
Third party	560.9	456.5	**22.9%**	339.9	**65.0%**	**28.3%**	**27.8%**	**25.5%**	**34%**
Consum.& commod.	525.40	442.33	**18.8%**	378.21	**38.9%**	**26.5%**	**27.0%**	**28.4%**	**27%**
Rent, utilit, maint, ins.	59.14	52.89	**11.8%**	45.34	**30.4%**	**3.0%**	**3.2%**	**3.4%**	**2%**
Promotion, comm.	39.3	31.7	**23.8%**	23.3	**68.7%**	**2.0%**	**1.9%**	**1.7%**	**2%**
Depreciation	177.0	140.9	**25.6%**	102.7	**72.4%**	**8.9%**	**8.6%**	**7.7%**	**12%**
Other	25.9	22.3	**16.4%**	15.3	**68.8%**	**1.3%**	**1.4%**	**1.2%**	**1%**
Total	**1871.6**	**1563.6**	**19.7%**	**1238.4**	**51.1%**	**94.3%**	**95.3%**	**92.8%**	**100.0%**
Labor costs	1,044.8	873.4	**19.6%**	673.6	**55.1%**	52.6%	53.2%	50.5%	

Source: Company data, Erste Group Research

On a quarterly basis, the y-o-y dynamic remains largely similar with overall costs increasing 19.7% vs. the 21% growth in top line. Labor costs overall grew by 15.6%, and consumables and commodities by almost 19.3%. Y-o-y, the largest contribution to the cost increase remained third parties at 26% of total cost increase, with wages at 22% of total cost increases and consumables and commodities at 30% of cost increases. Vs. the previous quarter, the increase in costs (1.1%)was higher than the advance in revenues, (0.7%) however we do not discern any worrying trends, with all cost items relatively stable in terms of share of revenues. The exception is a small increase in the share of consumables and commodities, which is out of the management's scope of action and of depreciation as a result of new acquisitions.

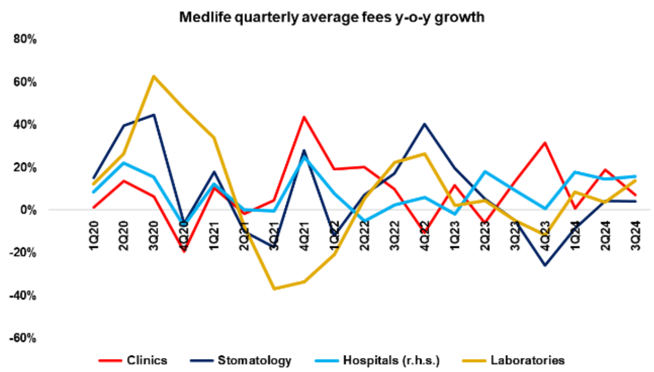


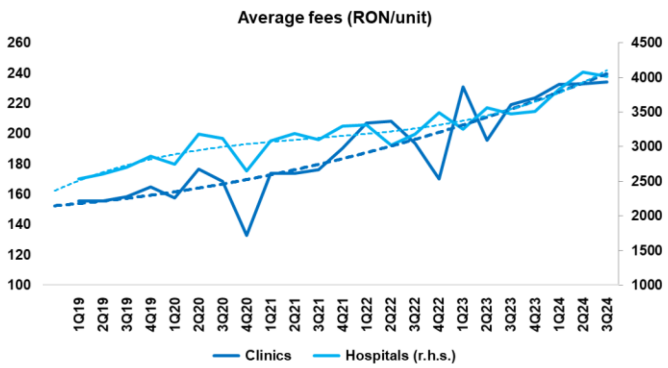
Source: Company data, Erste Group Research

Margins retreated slightly compared to the previous quarter of 2024, however the trend remains generally positive if calculated with a base in the worse quarter of 4Q22.

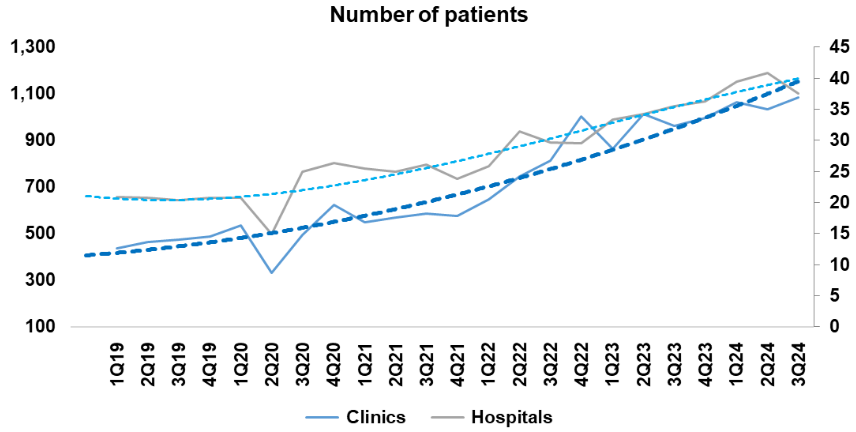
On a positive trend

The solid 9M24 y-o-y performance in profitability came on the back of 47% higher operating profit, that balanced the growth in net financing cots that increased by 37% y-o-y. Nevertheless, the dynamics of average fees and number of patients growth in absolute numbers shows what could continue be a positive trend in respect to quarterly y-o-y growth of number of patients and average fees for clinics and hospitals, the largest revenue generators 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



Source: Company data, Erste Group Research

Stable net debt

Net debt increased marginally to that of the last two quarter. When factoring in our EBITDA forecast for the year, the gearing seems much better than in 2023, and at a more favorable level with that of 2022. Of course, during the last quarter of the year, the company could raise more debt and the gearing could change, however, we consider a positive development that during the third quarter of 2024, the net debt of the company increased only marginally, considering the acquisitions performed during the period. (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***	2Q24e***	3Q24e***
Cash and equivalents	20.7	79.2	34.2	38.9	82.0	136.0	89.1	100.3	142.6	130.7	154.8
Current port. of debt*	27.4	41.8	63.0	103.2	114.7	136.6	160.6	211.7	222.6	230.9	262.6
LT debt*	213.1	252.9	313.5	478.6	561.8	590.5	1,028.5	1,349.8	1,366.2	1,359.5	1,470.8
Net debt	**219.9**	**215.5**	**342.4**	**542.9**	**594.6**	**591.1**	**1,100.0**	**1,461.2**	**1,446.2**	**1,459.7**	**1,578.6**
Net debt/EBITDA (x)**	**3.95**	**2.77**	**3.59**	**3.67**	**2.80**	**2.07**	**4.46**	**5.04**	**3.82**	**3.86**	**4.17**

** - includes leasing and overdraft **- yearly EBITDA *** 2024e EBITDA*

Source: Company data, Erste Group Research

Looking forward

Management strategy pays off, looking forward to profitability to follow

While we remain alert in monitoring profitability developments in every quarterly results, we would admit though, that the expansion strategy implemented by management has been successful in insuring an ever growing footprint. This seems even more valuable in view of the announcement that one of the main players in the country, „Regina Maria“ was put on the block for sale, most probably to an international entity. The new owner of one of the main local competitors of MedLife would be able to access funding and could increase significantly the national reach of the acquired entity.

Moreover, the combination of acquisition and organic growth has delivered superior financial performance on top line, and it appears that the current consolidation phase will bring improved profitability, building on the top line expansion. In addition to that, the company has not relayed solely on the superior pricing power it commands, but also has made significant advances in increasing the complexity of services offered and broadening the range of services in additional areas.

Latest results, building on management validated drivers' outlook
The main tenets of our valuation model have not changed since our last update and 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.

Expansion in underserviced segments
The company has announced during the first semester that it has devised a plan to expand into a nationwide 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 Medlife Hospital in Craiova, of other openings of new medical units across the country. The company has completed the acquisition of Personal Genetics, a human medical genetics center with national coverage and of Medvarix Clinic a center for vascular treatment. It also announced in July, the acquisition of the Antares Clinic group, an important rivate mediacal services in the Moldova region.

Medlife has recently acquired the Euromedica Baia Mare Group, located in the north of the country, operating a medium-sized hospital with multidiciplinary services, a clinic, laboratory and imaging department. It also announced the purchase, yet to be concluded, of Routine Med Group an integrated diagnostic and treatment regional provider, operating a hospital laboratory and imaging. In September, the company strenghtened its presence in Hungary by the acquisition of a clinic in Budapest offering vein surgery, laser and radiofrequency surgery.

… and lower gearing
The company's plans includes a gradual reduction of the gearing, 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 – continues to be a main 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:

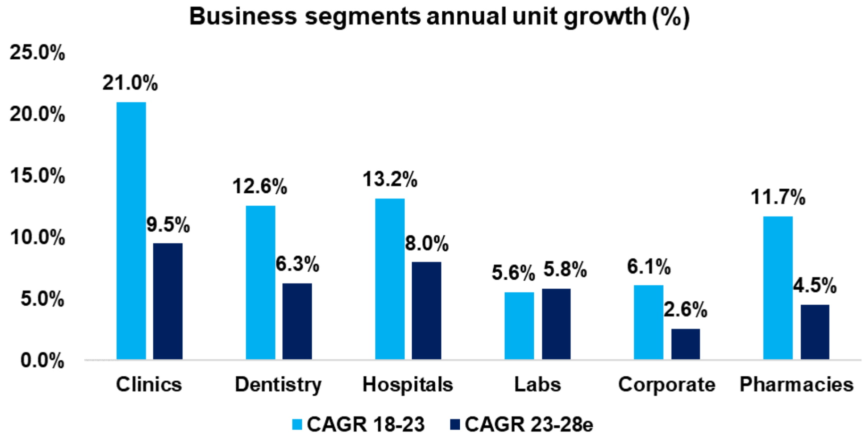
- Underserviced, growing market, with ample upside potential for Government and private spending, with ongoing consolidation activity.
- Solid demand, on the back of a general health state of the population and growing spending power
- Company superior pricing power, resulting from lack of adequate alternatives.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

The drivers above remain valid, and the market may be encouraged by the seemingly positive trend in 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. Nevertheless, we can appreciate the current margin appreciation trend on a virtuous circle of positive trend for fees and customers and a lessening of the wage related costs.

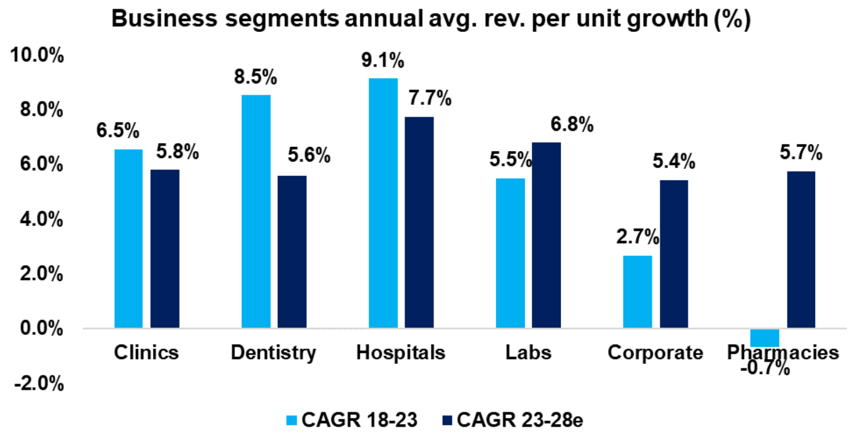
Management continues to state commitment to consolidation phase
The results of the first nine months of the current year show a possible turning around of the trend, in all margins, and may prompt us to be able to be fully confident in the long term validity of the management of the expansion strategy. According to company's management plans, MedLife will continue with 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 largely equal margins compared to the last quarter, and this has not entirely materialized. We would be monitoring the evolution of profitability, in order to ascertain if there is an upward trend in profitability.

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

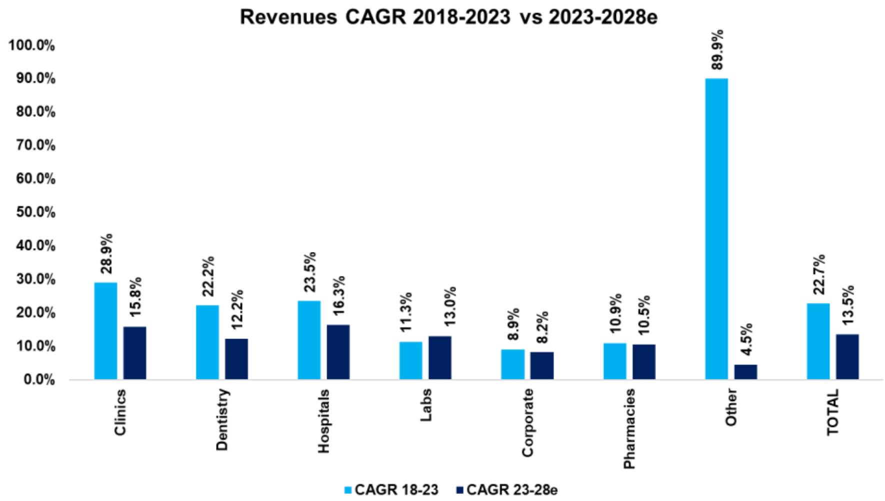


Source: Company data, Erste Group Research

Conservative outlook, both from units' growth and average fee growth
Forecasting units i.e. number of patients, visits, prescriptions, etc… is always a difficult task especially longterm. 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 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 taking into consideration forecasted inflation, and superior pricing power 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.



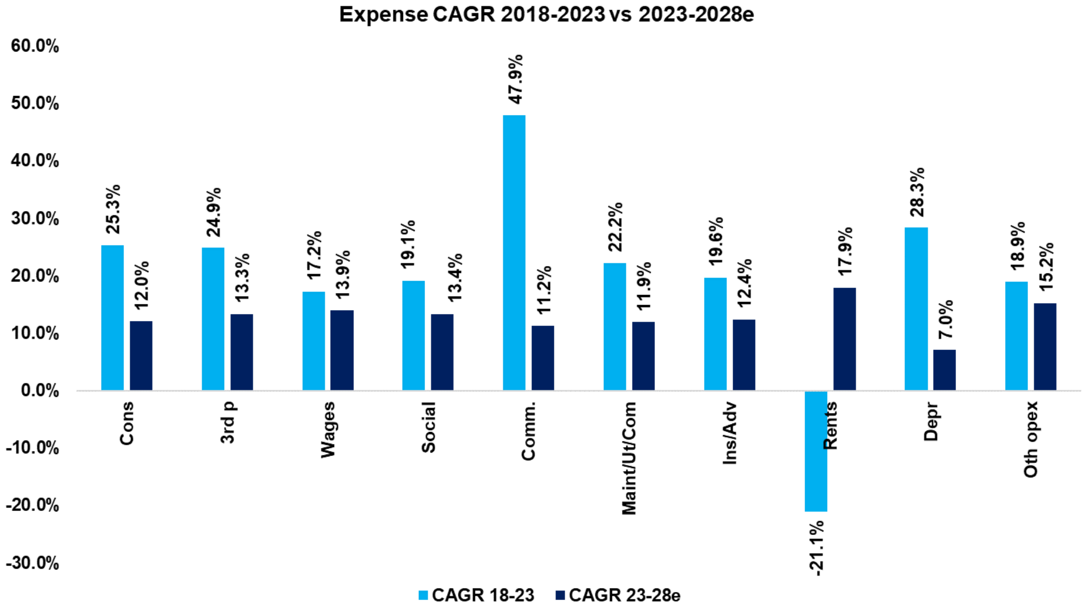
Source: Company data, Erste Group Research

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). If anything, we believe that our forecast for the hospital segment may be too conservative, as the introduction of robotics and other state-of-the-art procedures should enable an increasing share of revenues for this segment.

% 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%	39%	40%	41%	42%
Dentistry	4%	6%	6%	6%	5%	7%	7%	6%	5%	5%	5%	5%	5%
Hospitals	21%	19%	21%	23%	23%	22%	21%	22%	24%	24%	24%	24%	25%
Labs	19%	19%	17%	16%	19%	18%	11%	10%	11%	11%	11%	11%	10%
Corporate	25%	23%	21%	19%	18%	14%	12%	12%	11%	11%	10%	10%	9%
Pharmacies	5%	5%	5%	4%	4%	4%	4%	3%	3%	2%	2%	2%	2%
Other	1%	2%	1%	1%	1%	6%	11%	10%	9%	8%	7%	7%	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 lower in terms of unit/average fee 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. Nevertheless, the company anticipates a lower pressure in these items coming 2025 after the elections in Romania. Commodities and consumables costs are dictated by the market and economies of scale are limited in scope.

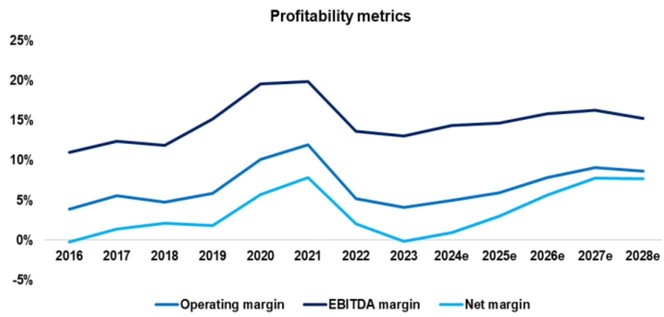
% of op. exp.	2016	2017	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e	2028e
Consumables	17%	16%	16%	17%	19%	19%	18%	18%	19%	18%	18%	18%	18%
Third parties	27%	28%	27%	29%	29%	30%	27%	29%	30%	31%	30%	31%	30%
Wages	23%	26%	32%	32%	28%	26%	26%	25%	25%	25%	26%	26%	27%
Social contributi	5%	6%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Commodities	4%	4%	4%	3%	4%	8%	12%	10%	9%	9%	9%	9%	9%
Maint/Utilities/Cc	3%	3%	3%	3%	3%	3%	3%	3%	2%	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%	9%	8%	7%
Other op exp.	5%	2%	2%	2%	3%	2%	2%	1%	1%	1%	1%	1%	2%
Total op. expenses	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

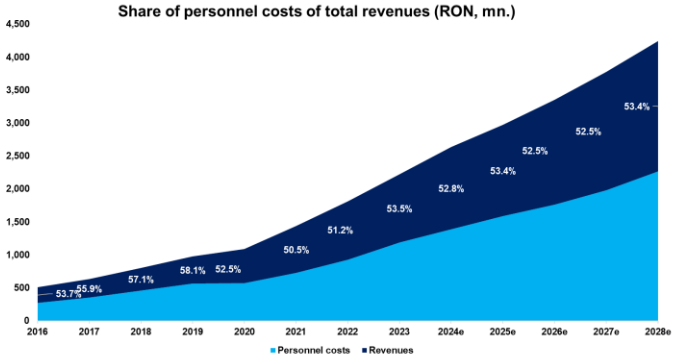
Source: Company data, Erste Group Research

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.





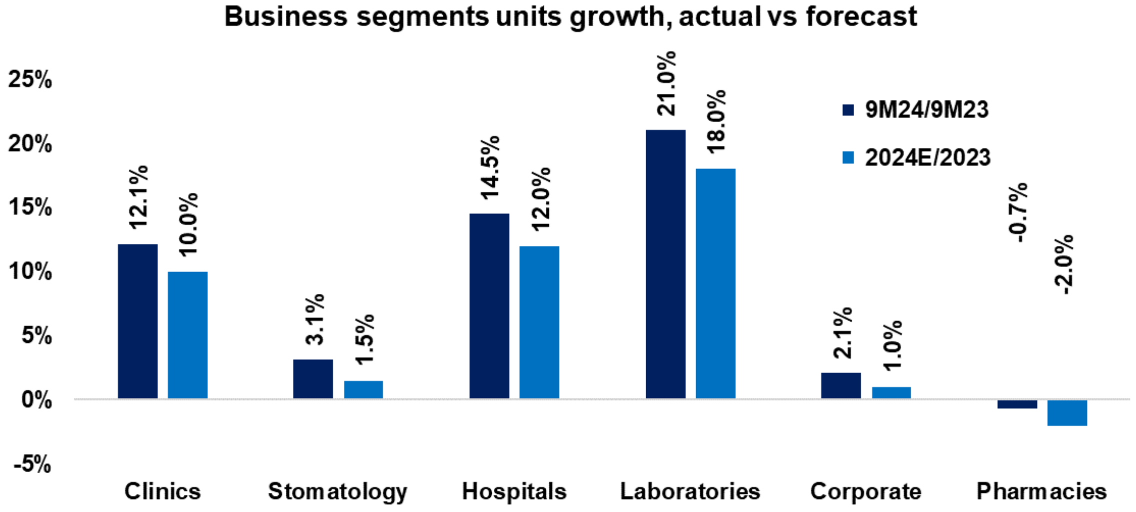
Source: Company data, Erste Group Research

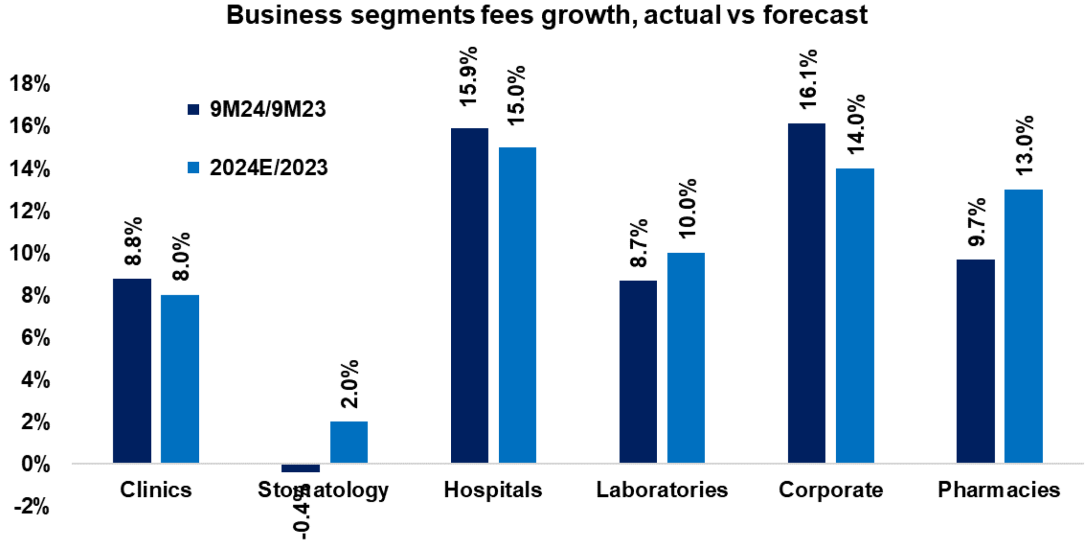
9M24 vs. YE forecast validate our positive stance

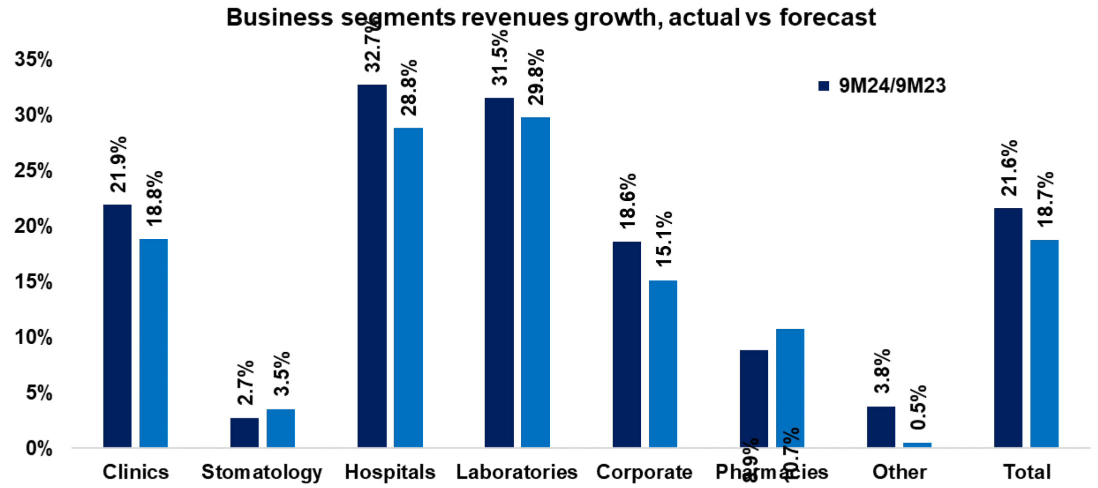
The first nine months results validate overall our conservative outlook for the company's 2024 financials and beyond. Indeed, our overall revenue growth for the year is quite significantly lower compared to the results of the first nine months, however it is known that the first part of the year is generally more profitable than the rest. Overall, in terms of unit growth we are also below the first nine months results, in a conservative stance, including the pharmacies segment where we believe that there is still some impact of the reshaping of the portfolio, and normal growth will soon restart. In terms of average fees, we have made the assumption that unit prices would not erode significantly below those of the first nine months, and that price volatility q-o-q will be less than that of 2023. Our average fees are largely congruent with those of 9M24 – in absolute numbers – and expect pricing power to remain a major driver for the company.

Bussiness line	**Rev growth (%)**		**Units growth (%)**		**Avg fees growth (%)**	
	9M24/9M23	**2024E/2023**	**9M24/9M23**	**2024E/2023**	**9M24/9M23**	**2024E/20**
Clinics	21.9%	18.8%	12.1%	10.0%	8.8%	8.0%
Stomatology	2.7%	3.5%	3.1%	1.5%	-0.4%	2.0%
Hospitals	32.7%	28.8%	14.5%	12.0%	15.9%	15.0%
Laboratories	31.5%	29.8%	21.0%	18.0%	8.7%	10.0%
Corporate	18.6%	15.1%	2.1%	1.0%	16.1%	14.0%
Pharmacies	8.9%	10.7%	-0.7%	-2.0%	9.7%	13.0%
Other	3.8%	0.5%				
Total	21.6%	18.7%				

Source: Company data, Erste Group Research



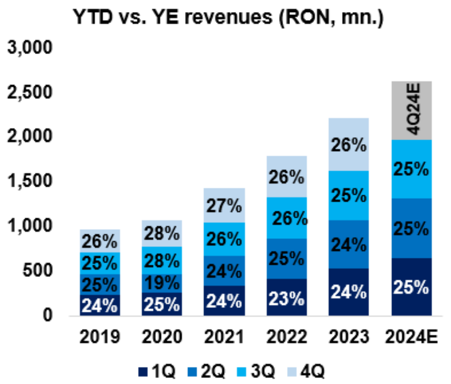


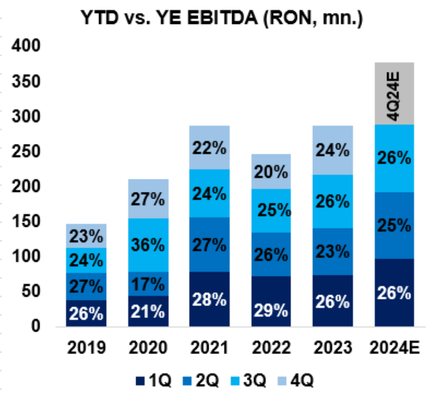


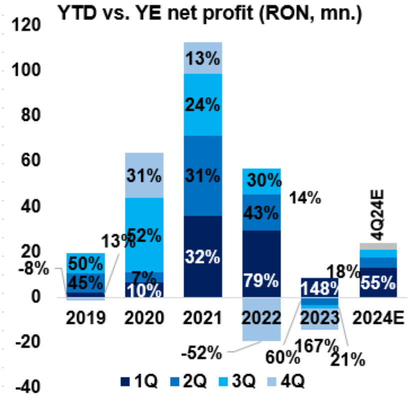
Source: Company data, Erste Group Research

Year-end estimated results entirely achievable

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





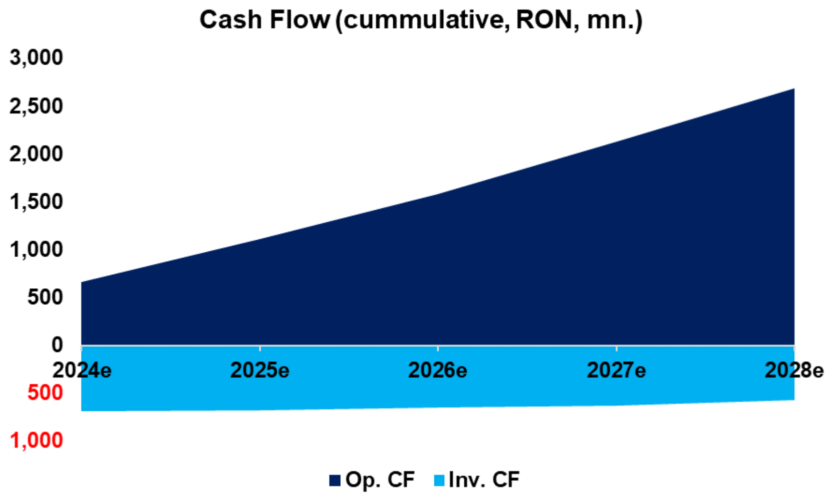


Source: Company data, Erste Group Research

No 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 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 remained 6%, while in perpetuity it has remained 5%.
- Cost of debt has remained 7% for the forecasting period and remained 6% in perpetuity.
- EBIT margin in perpetuity has been adjusted to 8.5% (from 9%) on the back of the new pricing and cost outlook, 25 basis points lower compared to our last forecast
- We have maintained our terminal value growth to 3%, reflecting a conservative approach and the outlook for inflation
- The rest of the parameters have remained unchanged.
- As per previous discussion 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, and set the total ongoing CAPEX value (excluding acquisitions) to RON50mn/yr.



Source: Company data, Erste Group Research

MedLife DCF valuation

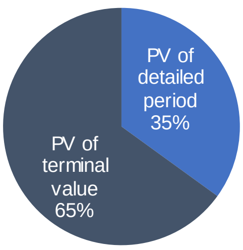
WACC calculation

	2025e	2026e	2027e	2028e	2029e	TV
Risk free rate	6.0%	6.0%	6.0%	6.0%	6.0%	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	**13.5%**	**13.5%**	**13.5%**	**13.5%**	**13.5%**	**12.0%**
Cost of debt	7.0%	7.0%	7.0%	7.0%	7.0%	6.0%
Effective tax rate	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%
After-tax cost of debt	**5.9%**	**5.9%**	**5.9%**	**5.9%**	**5.9%**	**5.0%**
Equity w eight	70%	70%	70%	70%	70%	70%
WACC	**11.2%**	**11.18%**	**11.18%**	**11.18%**	**11.18%**	**9.91%**

DCF valuation

(RON mn)	2025e	2026e	2027e	2028e	2029e	TV
Sales growth	*12.2%*	*12.0%*	*12.4%*	*12.3%*	*12.4%*	*3.0%*
EBIT	177	261	338	362	433	410
EBIT margin	*6.0%*	*7.9%*	*9.1%*	*8.7%*	*9.2%*	*8.5%*
Tax rate	*16.0%*	*16.0%*	*16.0%*	*16.0%*	*16.0%*	*16.0%*
Taxes on EBIT	-28.3	-41.8	-54.1	-57.9	-69.3	-65.6
NOPLAT	**148.4**	**219.6**	**284.0**	**304.1**	**364.0**	**344.5**
+ Depreciation	258	264	271	279	287	236
Capital expenditures / Depreciation	*19.4%*	*18.9%*	*18.4%*	*17.9%*	*17.4%*	*100.0%*
+/- Change in w orking capital	-43	8	-8	7	-69	20
Chg. working capital / chg. Sales	*-13.4%*	*2.3%*	*-1.8%*	*1.4%*	*-13.3%*	*3.0%*
- Capital expenditures	-50.0	-50.0	-50.0	-50.0	-50.0	-236.0
Free cash flow to the firm	**313.5**	**442.0**	**497.7**	**539.3**	**531.9**	**364.3**
Terminal value growth						*3.0%*
Terminal value						5,428.1
Disc. free cash flow - December 31 2024	282.0	357.6	362.2	353.0	313.1	3,102.4
Enterprise value - December 31 2024	**4,770**					
Minorities	75					
Non-operating assets	0					
Net debt (incl. lease liabilities)	1,539					
Other adjustments	0					
Equity value - (RON bn) December 31 20	**3,156.1**					
Cost of equity	13.5%					
Fair value, RON mn	**3,532.6**					
Number of shares outstanding (mn)	531.5					
Fair value per share, RON	**6.65**					
Share price	5.95					
Upside/downside Official NAV (%)	*11.7%*					

Enterprise value breakdown



Sensitivity (Equity value - RON mn)

Terminal value EBIT margin

WACC	7.5%	8.0%	8.5%	9.0%	9.5%
8.9%	6.90	7.33	7.75	8.18	8.60
9.4%	6.37	6.76	7.16	7.55	7.94
9.9%	5.92	6.28	**6.65**	7.01	7.37
10.4%	5.53	5.87	6.21	6.54	6.88
10.9%	5.19	5.50	5.82	6.14	6.46

Terminal value growth

WACC	2.0%	2.5%	3.0%	3.5%	4.0%
8.9%	6.65	7.16	7.75	8.46	9.31
9.4%	6.21	6.65	7.16	7.75	8.46
9.9%	5.82	6.21	**6.65**	7.16	7.75
10.4%	5.48	5.82	6.21	6.65	7.16
10.9%	5.18	5.48	5.82	6.21	6.65

Source: Erste Group Research

Group Research

Head of Group Research
Friedrich Mostböck, CEFA®, CESGA® +43 (0)5 0100 11902

CEE Macro/Fixed Income Research
Head: Juraj Kotian (Macro/FI) +43 (0)5 0100 17357
Katarzyna Rzentarzewska (Fixed income) +43 (0)5 0100 17356
Jakub Cery (Fixed income) +43 (0)5 0100 17384

Croatia/Serbia
Alen Kovac (Head) +385 72 37 1383
Mate Jelić +385 72 37 1443
Ivana Rogic +385 72 37 2419

Czech Republic
David Navratil (Head) +420 956 765 439
Jiri Polansky +420 956 765 192
Michal Skorepa +420 956 765 172

Hungary
Orsolya Nyeste +361 268 4428
János Nagy +361 272 5115

Romania
Ciprian Dascalu (Head) +40 3735 10108
Eugen Sinca +40 3735 10435
Vlad Nicolae Ionita +40 7867 15618

Slovakia
Maria Valachyova (Head) +421 2 4862 4185
Matej Hornak +421 902 213 591
Marian Kocis +421 904 677 274

Major Markets & Credit Research
Head: Rainer Singer +43 (0)5 0100 17331
Ralf Burchert, CEFA®, CESGA® (Sub-Sovereigns & Agencies) +43 (0)5 0100 16314
Hans Engel (Global Equities) +43 (0)5 0100 19835
Maurice Jiszda, CEFA®, CFDS® (USA, CHF) +43 (0)5 0100 19630
Peter Kaufmann, CFA® (Corporate Bonds) +43 (0)5 0100 11183
Heiko Langer (Financials & Covered Bonds) +43 (0)5 0100 85509
Stephan Lingnau (Global Equities) +43 (0)5 0100 16574
Maximilian Möstl (Credit Analyst Austria) +43 (0)5 0100 17211
Carmen Riefler-Kowarsch (Financials & Covered Bonds) +43 (0)5 0100 19632
Bernadett Povazsai-Römhild, CEFA®, CESGA® (Corporate Bonds) +43 (0)5 0100 17203
Elena Statelov, CIIA® (Corporate Bonds) +43 (0)5 0100 19641
Gerald Walek, CFA® (Eurozone) +43 (0)5 0100 16360

CEE Equity Research
Head: Henning Eßkuchen, CESGA® +43 (0)5 0100 19634
Daniel Lion, CIIA® (Technology, Ind. Goods&Services) +43 (0)5 0100 17420
Michael Marschallinger, CFA® +43 (0)5 0100 17906
Nora Nagy (Telecom) +43 (0)5 0100 17416
Christoph Schultes, MBA, CIIA® (Real Estate) +43 (0)5 0100 11523
Thomas Unger, CFA® (Banks, Insurance) +43 (0)5 0100 17344
Vladimira Urbankova, MBA (Pharma) +43 (0)5 0100 17343
Martina Valenta, MBA +43 (0)5 0100 11913

Croatia/Serbia
Mladen Dodig (Head) +381 11 22 09178
Boris Pevalek, CFA® +385 99 237 2201
Marko Plastic +385 99 237 5191
Bruno Barbic, CFA® +385 99 237 1041
Davor Spoljar, CFA® +385 72 37 2825
Magdalena Basic +385 99 237 1407

Czech Republic
Petr Bartek (Head, Utilities) +420 956 765 227
Jan Bystřický +420 956 765 218

Hungary
József Miró (Head) +361 235 5131
András Nagy +361 235 5132
Tamás Pletser, CFA® (Oil & Gas) +361 235 5135

Poland
Cezary Bernatek (Head) +48 22 257 5751
Piotr Bogusz +48 22 257 5755
Łukasz Jańczak +48 22 257 5754
Krzysztof Kawa, CIIA® +48 22 257 5752
Jakub Szkopek +48 22 257 5753

Romania
Caius Rapanu +40 3735 10441

Group Institutional & Retail Sales

Group Institutional Equity Sales
Head: Michal Rizek +420 224 995 537

Cash Equity Sales
Werner Fuerst +43 (0)5 0100 83121
Viktoria Kubalcova +43 (0)5 0100 83124
Thomas Schneidhofer +43 (0)5 0100 83120
Oliver Schuster +43 (0)5 0100 83119

Institutional Equity Sales Croatia
Matija Tkalicanac +385 72 37 21 14

Institutional Equity Sales Czech Republic
Head: Michal Rizek +420 224 995 537
Pavel Krabicka +420 224 995 411
Martin Havlan +420 224 995 551
Jiri Feres +420 224 995 554

Institutional Equity Sales Hungary
Levente Nándori +361 235 5141
Balázs Zánkay +361 235 5156
Krisztián Kandik +361 235 5140

Institutional Equity Sales Poland
Jacek Jakub Langer (Head) +48 22 257 5711
Tomasz Galanciak +48 22 257 5715
Wojciech Wysocki +48 22 257 5714
Przemyslaw Nowosad +48 22 257 5712
Maciej Senderek +48 22 257 5713

Institutional Equity Sales Romania
Valerian Ionescu +40 3735 16541

Group Markets Retail and Agency Business
Head: Christian Reiss +43 (0)5 0100 84012

Markets Retail Sales AT
Head: Markus Kaller +43 (0)5 0100 84239

Group Markets Execution
Head: Kurt Gerhold +43 (0)5 0100 84232

Retail & Sparkassen Sales
Head: Uwe Kolar +43 (0)5 0100 83214

Corporate Treasury Prod. Distribution
Head: Martina Kranzl-Carvell +43 (0)5 0100 84147

Group Securities Markets
Head: Thomas Einramhof +43 (0)50100 84432

Institutional Distribution Core
Head: Jürgen Niemeier +49 (0)30 8105800 5503

Institutional Distribution DACH+
Head: Marc Friebertshäuser +49 (0)711 810400 5540
Bernd Bollhof +49 (0)30 8105800 5525
Andreas Goll +49 (0)711 810400 5561
Mathias Gindele +49 (0)711 810400 5562
Ulrich Inhofner +43 (0)5 0100 85544
Sven Kienzle +49 (0)711 810400 5541
Rene Klasen +49 (0)30 8105800 5521
Christopher Lampe-Traupe +49 (0)30 8105800 5523
Michael Schmotz +43 (0)5 0100 85542
Christoph Ungerböck +43 (0)5 0100 85558
Klaus Vosseler +49 (0)711 810400 5560

Slovakia
Šarlota Šipulová +421 2 4862 5619
Monika Směliková +421 2 4862 5629

Institutional Distribution CEE & Insti AM CZ
Head: Antun Burić +385 (0)7237 2439
Jaromir Malak +43 (0)5 0100 84254

Czech Republic
Head: Ondrej Čech +420 2 2499 5577
Milan Bartoš +420 2 2499 5562
Jan Porvich +420 2 2499 5566
Pavel Zdichynec +420 2 2499 5590

Croatia
Head: Antun Burić +385 (0)7237 2439
Zvonimir Tukač +385 (0)7237 1787
Ana Tunjić +385 (0)7237 2225
Natalija Zujic +385 (0)7237 1638

Hungary
Head: Peter Csizmadia +36 1 237 8211
Gábor Bálint +36 1 237 8205
Balazs Papay +36 1 237 8213
Gergő Szabo +36 1 237 8209

Romania
Head: Cristian Vasile Pascu +40 373 511 695

Institutional Asset Management Czech Republic
Head: Petr Holeček +420 956 765 453
Petra Maděrová +420 956 765 178
Martin Peřina +420 956 765 106
David Petráček +420 956 765 809
Blanca Weinerová +420 956 765 317
Petr Valenta +420 956 765 140

Group Fixed Income Securities Markets
Head: Goran Hoblaj +43 (0)50100 84403

FISM Flow
Head: Gorjan Hoblaj +43 (0)5 0100 84403
Margit Hraschek +43 (0)5 0100 84117
Bernd Thaler +43 (0)5 0100 84119
Ciprian Mitu +43 (0)5 0100 85612
Christian Kienesberger +43 (0)5 0100 84323
Zsuzsanna Toth +36-1-237 8209

Poland
Pawel Kielek +48 22 538 6223
Michal Jarmakowicz +43 50100 85611

Company description

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Group Research
1100 Vienna, Austria, Am Belvedere 1
Head Office: Vienna
Commercial Register No: FN 33209m
Commercial Court of Vienna
Erste Group Homepage: www.erstegroup.com