

# Aedifica Capital Markets Day

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Finnish health & social care and  
early education sector outlook

October 2023



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# Agenda

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| 1 | NHG in brief   | 3  |
| 2 | Finnish Health & Social care and early education sector trends | 7  |
| 3 | Deep-dives to Aedifica key sectors in Finland                  | 17 |

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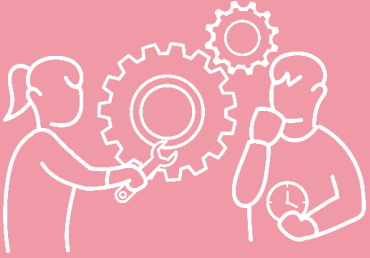


# Our customers

<b>Municipalities</b>	The majority of municipalities and joint municipalities in Finland, including the eight largest cities.
<b>Regions</b>	All hospital districts and wellbeing regions in Finland, various international hospitals, e.g NHS in the UK, university hospitals in Sweden.
<b>Public authorities</b>	Ministries in Finland related to social and healthcare: Ministry of Social Affairs and Health, Ministry of Finance, and Ministry of Economic Affairs and Employment of Finland.
<b>Public and private institutions</b>	the Finnish Innovation Fund Sitra, The Social Insurance Institution of Finland KELA, the National Institute for Health and Welfare (Finland), and Business Finland.
<b>Private service providers and investors</b>	All significant private service providers in Finland, international investors, as well as companies serving the social and healthcare sector.
<b>Pharmaceutical and MedTech companies</b>	The largest pharmaceutical and medtech companies in the Nordics.

## Advisory services

### Operations and transformations

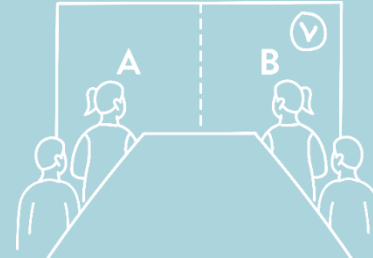


### Service design



## Analytical solutions

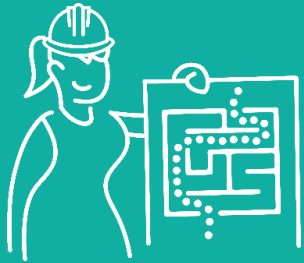
### Benchmarking – data-driven peer-to-peer operations development



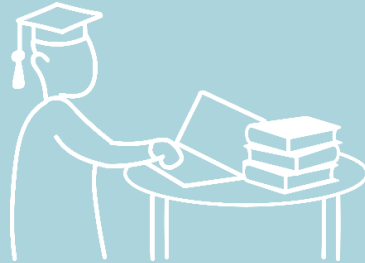
### Analysis and management of public sector finances and service operations



### Hospital planning and simulation



### Academic research



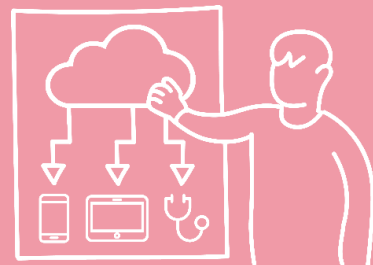
### Effectiveness and quality indicators



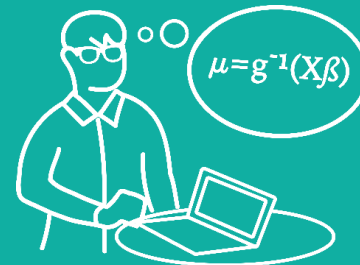
### Strategy consulting and transaction advisory



### Digitalization consulting



### Advanced analytics

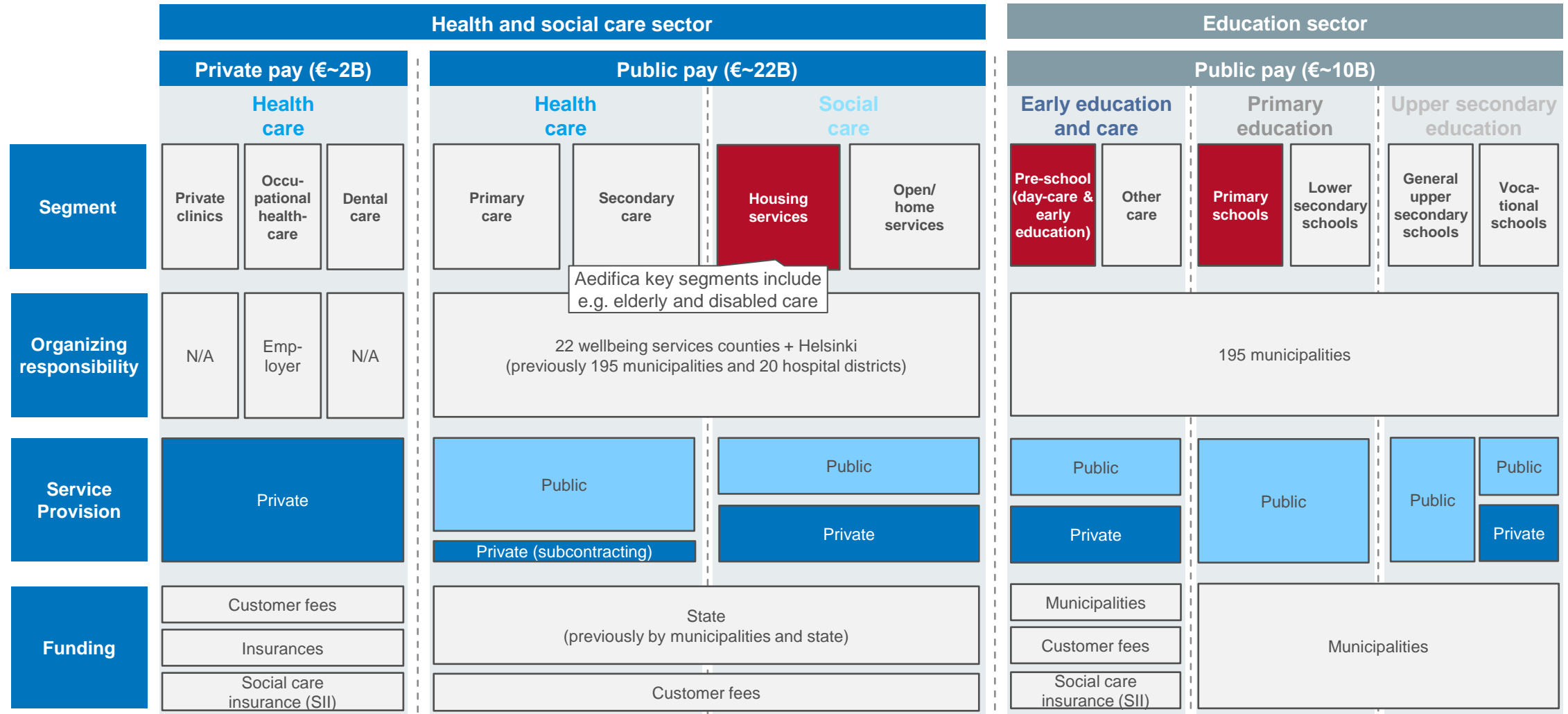


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# Finnish H&SS and education systems are characterized by large role of public pay and provision, which is complemented by the private pay and service provision









## Aedifica presence

Source: National Institute for Health and Welfare, Basic Education Act, Ministry of Education and Culture SII, Statistics Finland, NHG analysis



## Six trends shaping the health and social care and education sectors

Health and social care sector			Education sector		
Private pay (€~2B)		Public pay (€~22B)		Public pay (€~10B)	
Health care	Health care	Social care	Early education and care	Primary education	Upper secondary education
<b>1</b>  Public spending on care and education increasing and private sector gaining share on service provision					
<b>2</b>  Increasing pressure by government to slow down the accelerating growth of public spending on care					
<b>3</b>  Population outlook stable but polarized due to ageing population, low birthrate and urbanization					
<b>4</b>  Health and social care reform major legislative change driving consolidation of care provision and funding					
<b>5</b>  Municipalities divesting health and social care real estates in the aftermath of the health and social care reform					
<b>6</b>  Lack of professional care personnel is limiting service provision and increasing competition for personnel					

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# Public spending on care and education increasing and private sector gaining share on service provision

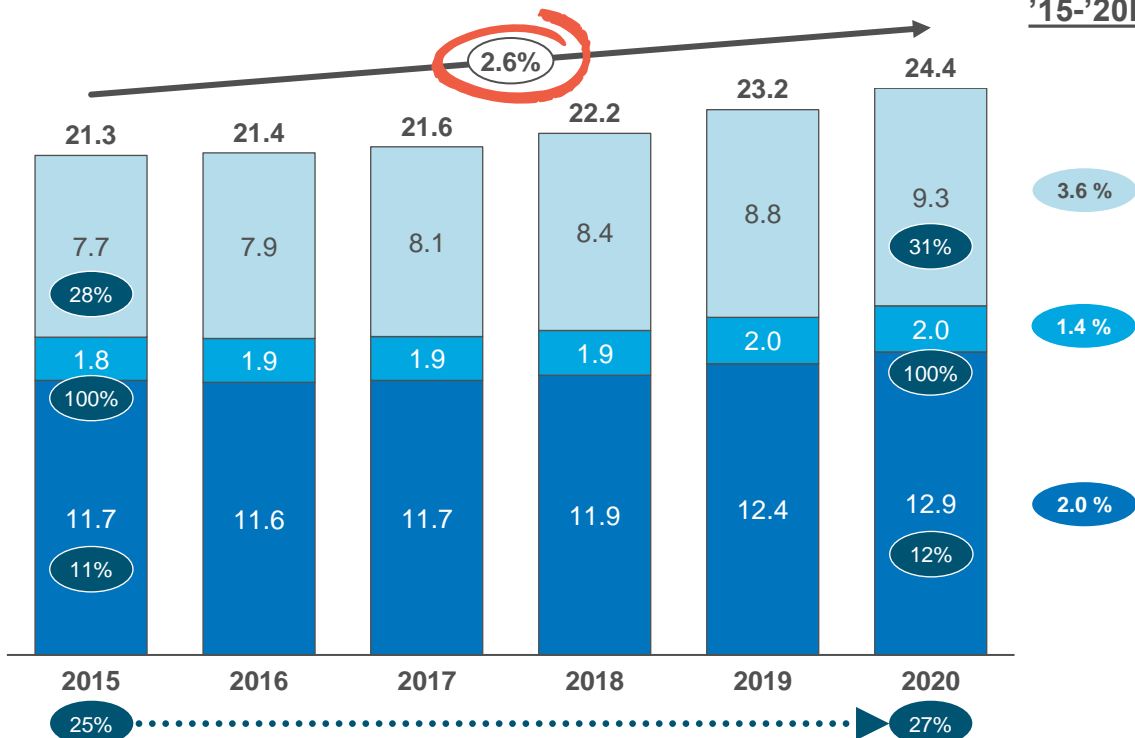
Care spending driven by elderly population using more of both social care and healthcare services

## Health and social care sector spending



Health & Social Care market 2015-2020<sup>1</sup>,  
€ bn

CAGR  
'15-'20F



Public funding Private funding Social care % Private provision

1) Competitiveness agreement (Kiky-sopimus in Finnish) slowed down the growth of costs between 2016-2018

2) Day care: share of customers in private provision

3) Excl. vocational education

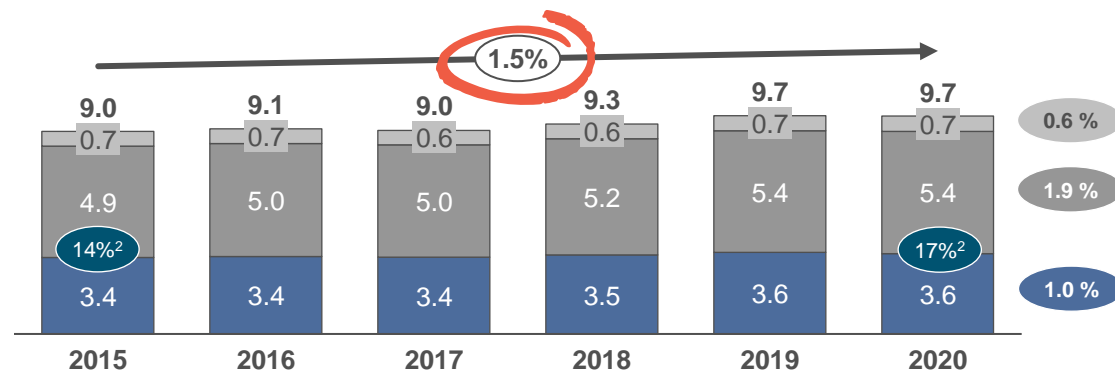
Source: National Institute for Health and Welfare, SII, Statistics Finland, Kuusikko, NHG analysis

## Education sector spending



Education market 2015-2020,  
€ bn

CAGR  
'15-'20F



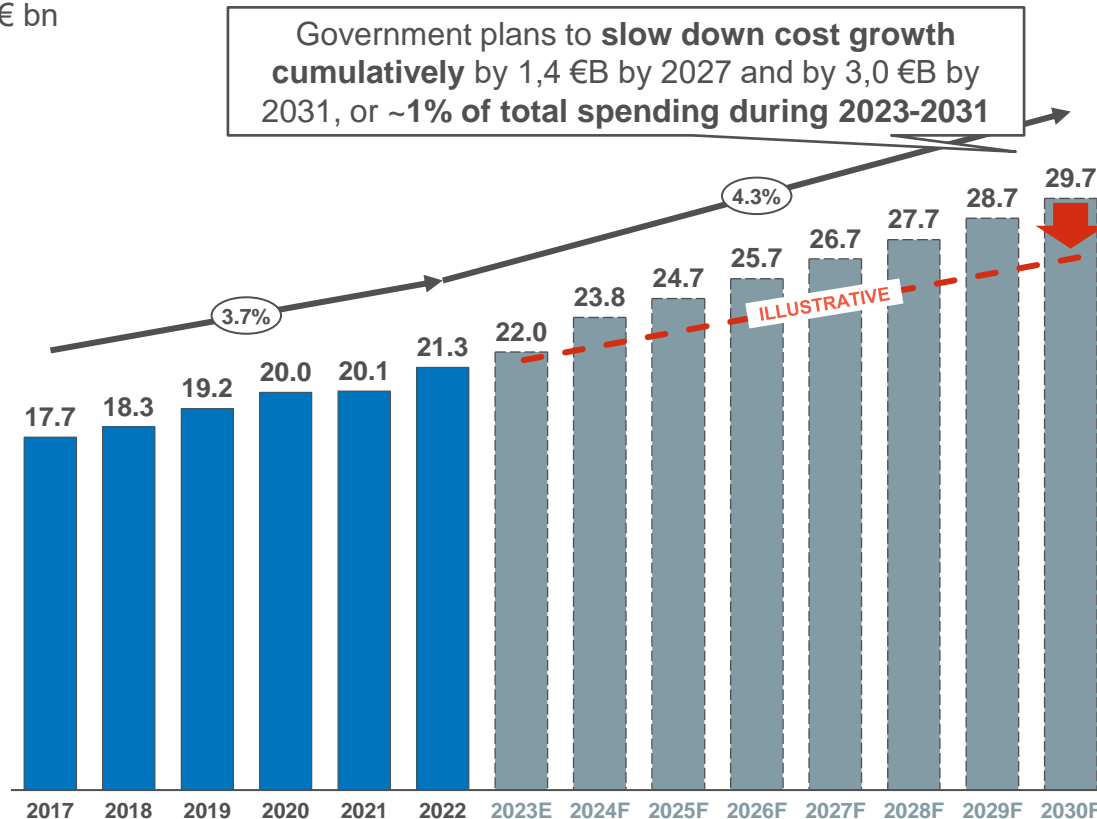
Upper secondary education<sup>3</sup> Primary education Early education & care

# Increasing pressure by the government to slow down the accelerating growth of public spending on care

Target to reduce cumulative care costs in the coming decade by 1%, while annual spending projected to increase by 30%

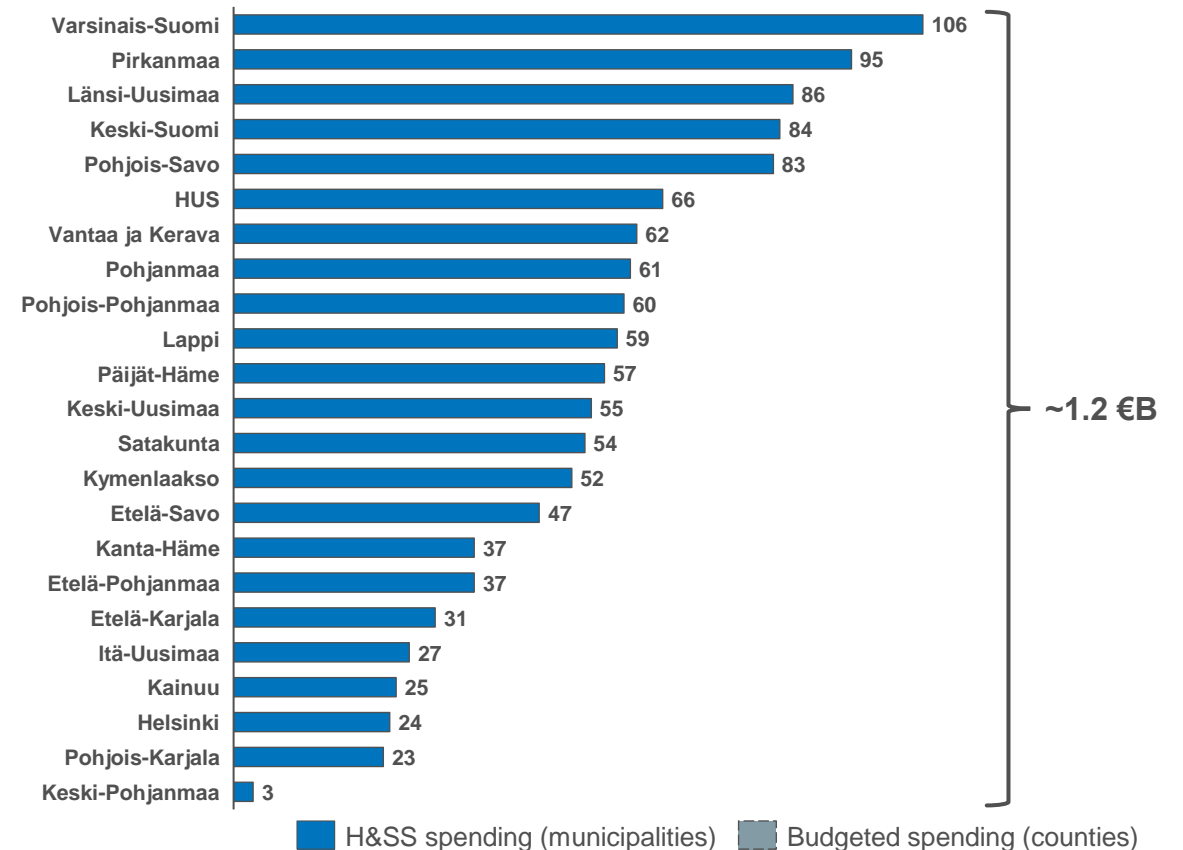
## Government aims to slow down care spending growth

Wellbeing service counties net spend (after customer fees), realized, budgeted 2017-2030F  
€ bn



## Counties started with budget deficit

Wellbeing service counties expected budget deficit by county 2023E  
€ mil



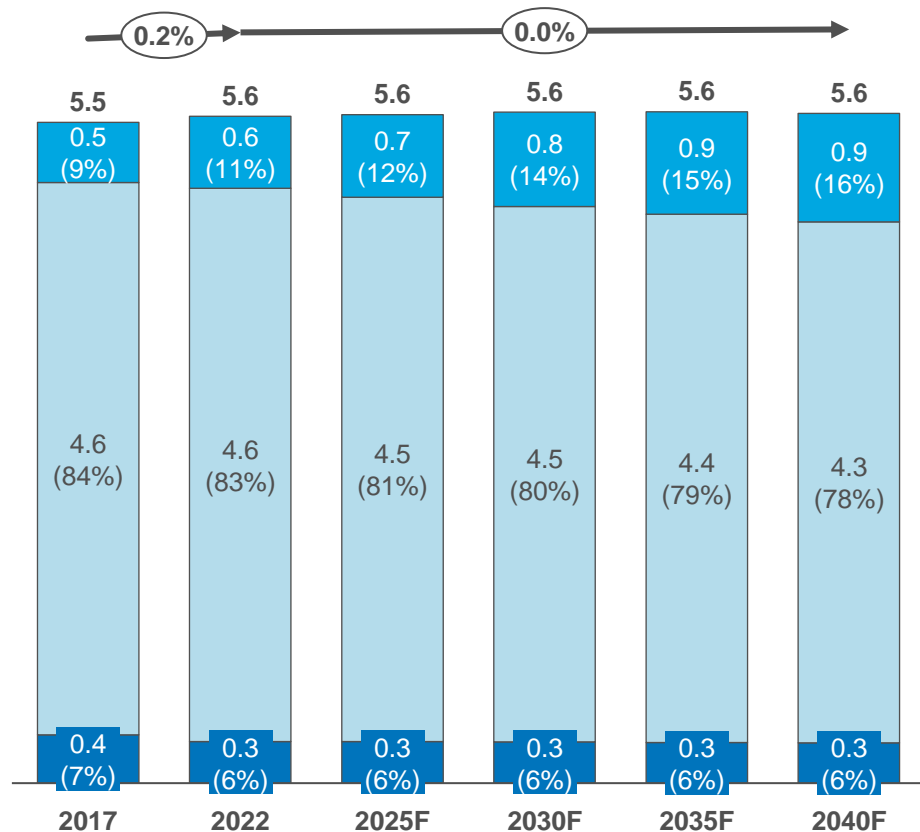
# Population outlook stable but polarized due to ageing population, low birthrate and urbanization

## Population outlook by age groups



Finnish population by age 2017-2040F,  
mil people

**CAGR  
'22-'40F**



2.2 %

-0.3 %

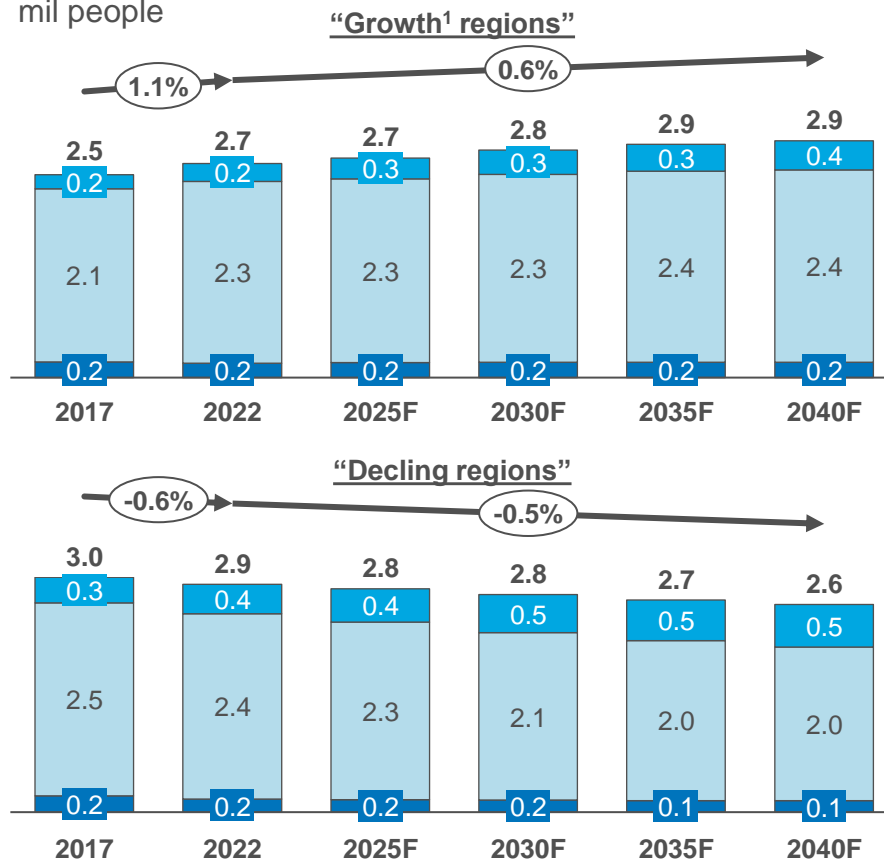
-0.2 %

## Population outlook by regions and age groups



Finnish population by age & growth regions 2017-2040F,  
mil people

**CAGR  
'22-'40F**



2.7 %

0.3 %

0.3 %

**CAGR  
'22-'40F**

2.0 %

-1.0 %

-0.8 %

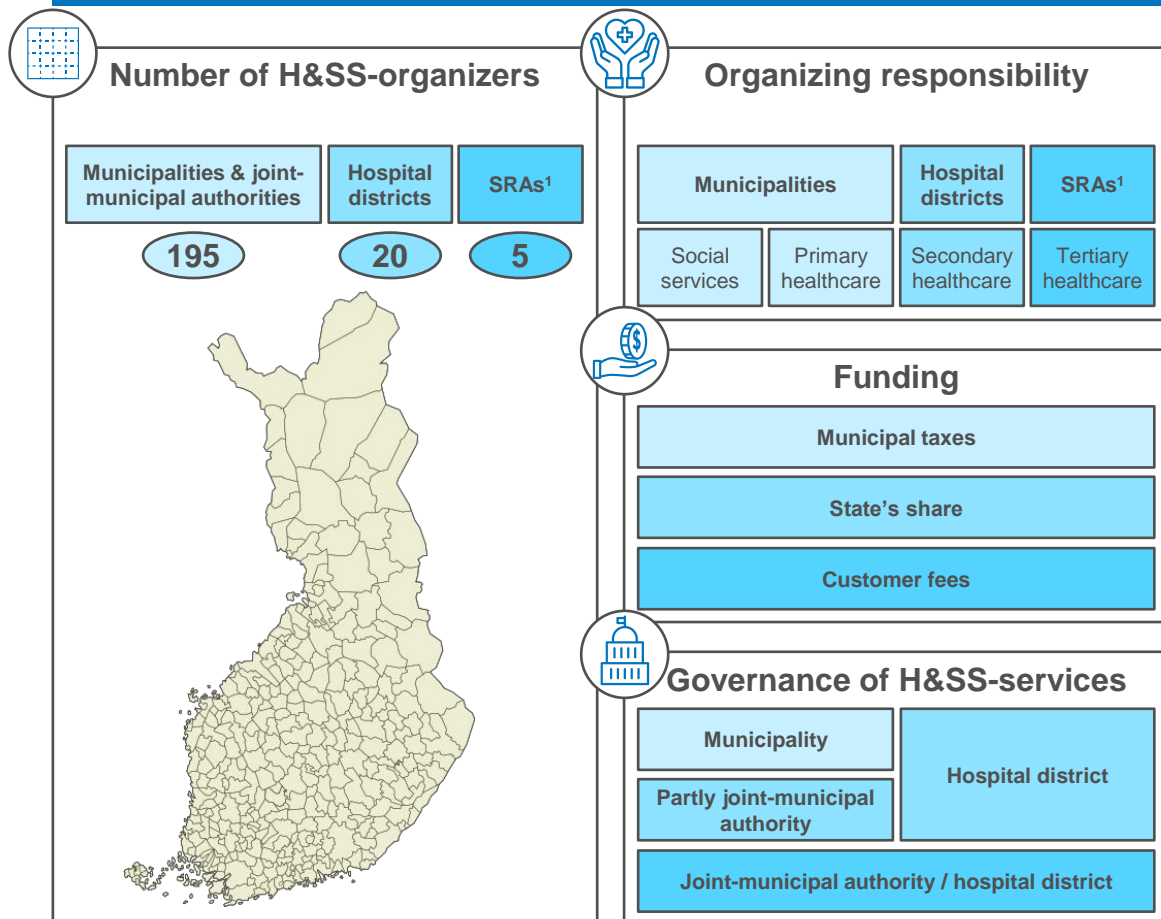
0-6 7-74 75+

1) Growth regions (21) are the larger cities (e.g. Helsinki, Tampere, Turku, Espoo) and their surrounding municipalities where growth of child population is expected  
Source: Statistics Finland, NHG analysis

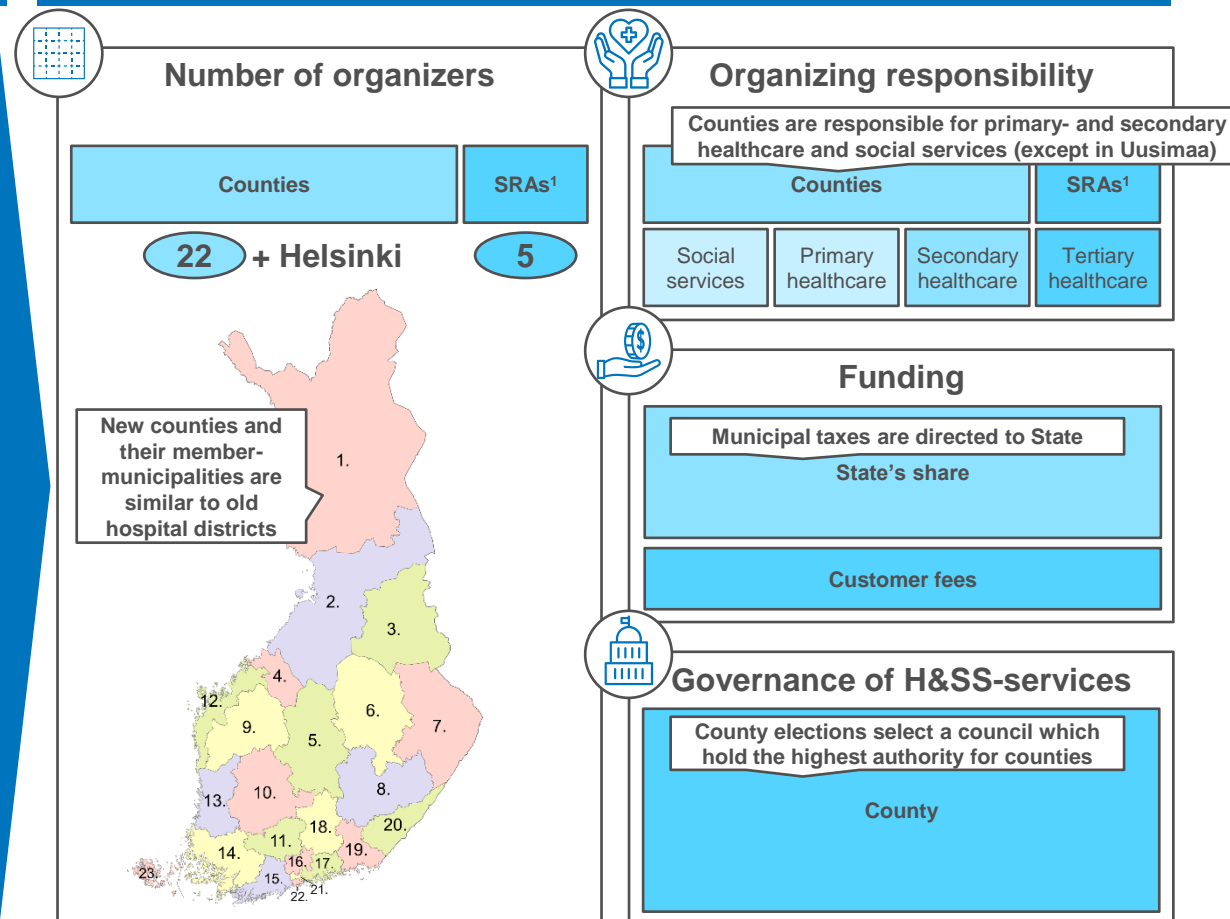
# Health and social care reform driving consolidation, increasing emphasis on quality and equal access to care

In addition, other legislative changes implemented in parallel increasing emphasis on quality and improved access to care

## Prior H&SS-reform: Multiple organizers of H&SS-services



## After H&SS-reform: Counties are responsible for H&SS



1) Finland is divided into five Special Responsibility Areas (SRAs), which are lead by university hospitals and are responsible for most demanding healthcare

Source: Finlex, Ministry of Social Affairs and Health, NHG analysis

# Back-up: H&SS-reform changed the organizing, funding and service provision model for publicly funded health and social care services



**Organizing:**  
The organizing responsibility of H&SS shifts from municipalities to counties

- **22 counties and Helsinki responsible for arranging and financing health- and social services** compared to the previous 195 municipal- and joint-municipal organization (Special solution for Uusimaa, with four counties + Helsinki and HUS responsible for secondary care)
- **The governing authority was moved from municipalities to county councils**
- **The ownership of H&SS real estates remains with municipalities<sup>1</sup>**; Wellbeing service counties obliged to rent real estates used for H&SS service production with a termination clause (3+1 years)



**Funding:**  
Government allocates H&SS funds centrally to counties

- The **state's steering power increased due to the shift of H&SS funding from municipalities to government**; Funding is based on county's service need and other health economic factors and counties can take long-term loans with government's approval to secure financing of its investments
- **County integrations are possible in the future**, if the counties are not able to cope with the expenses
- **Counties don't have the right to tax**, some plans included the option of adding county tax, but new government has it on hold; Additionally, preliminary talks of removing multichannel funding of H&SS have been on the table



**Service provision:**  
Public provision is emphasized, private production supplements

- **Public sector is mainly responsible for the service production, with private- and third sector supplementing it**; The county must have sufficient public own production to secure its legal responsibilities in arranging H&SS
- **Counties can outsource any services which the law does not restrict<sup>2</sup>**; service voucher use is possible, and workforce procurement is possible, while large outsourcing contracts covering majority of health and social care services are forbidden

1) Real estates originally owned by hospital districts remain in the ownership of wellbeing service counties

2) Counties cannot procure services which include the use of public authority, social work, social emergency services, 24/7-healthcare (unless in exceptions) or authoritative tasks in emergency services.

Source: Finlex, Ministry of Social Affairs and Health, NHG analysis

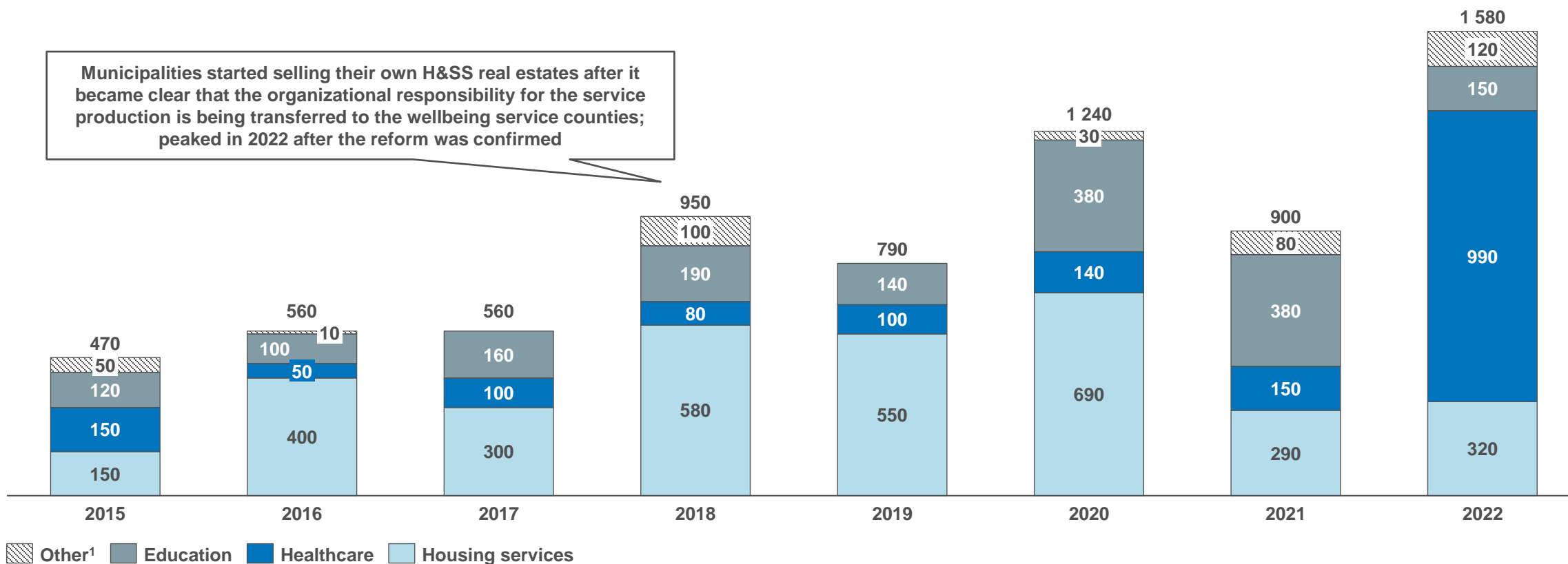
# Municipalities divesting health and social care real estates in the aftermath of the health and social care reform

2022 a spike year in real estate transaction volumes

## Public services real estate transactions



Public services real estate transaction volume 2015-2022,  
€ mil



1) E.g. culture and sports, judicial and rescue service real estates  
Source: KTI Finland, NHG analysis

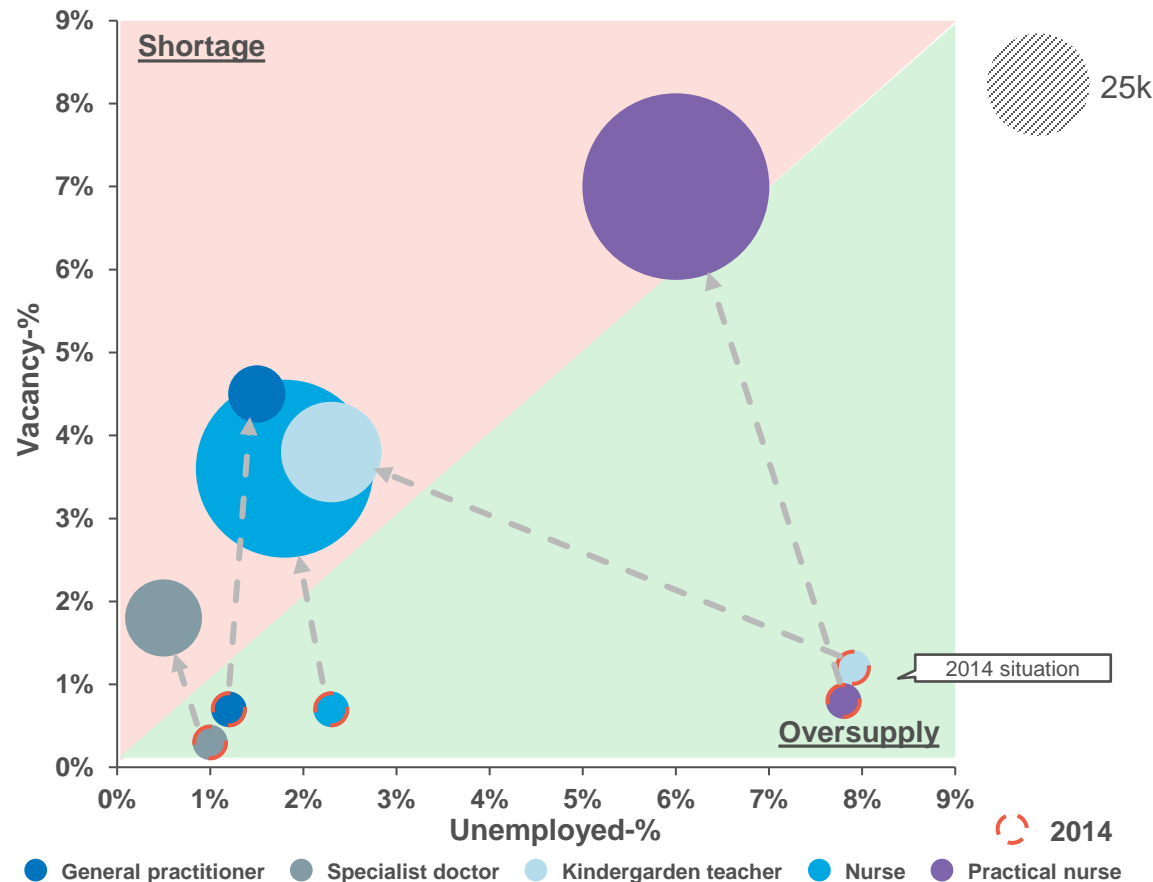
# Lack of professional care personnel is limiting service provision and increasing competition for personnel

Mitigating actions for personnel shortages only gradually put into practice and mainly by the actions of the private sector

## Health and social care workforce balance



Employment balance in key care professions 07/2014 & 07/2023,  
thousand people



Source: KEHA-center, Statistics Finland, NHG analysis

## Comments

- **Workforce shortage has worsened in key care professions in the past decade**
- **Employee shortage expected to worsen** due to service demand increase, tightening legislation for care personnel staffing ratios (e.g. elderly care), ageing & retirement of personnel and decreased attractiveness of the professions
- **Mitigating actions for personnel shortage only gradually taken into use;** emigration and hiring foreign care workforce applied in past years
- **Government has communicated initial plans to alleviate the work shortage** (e.g. enable use of care-assistants and account impact of technological solutions in staffing ratios), however, not yet put into practice



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	Day-care	21
	Disabled Care	25
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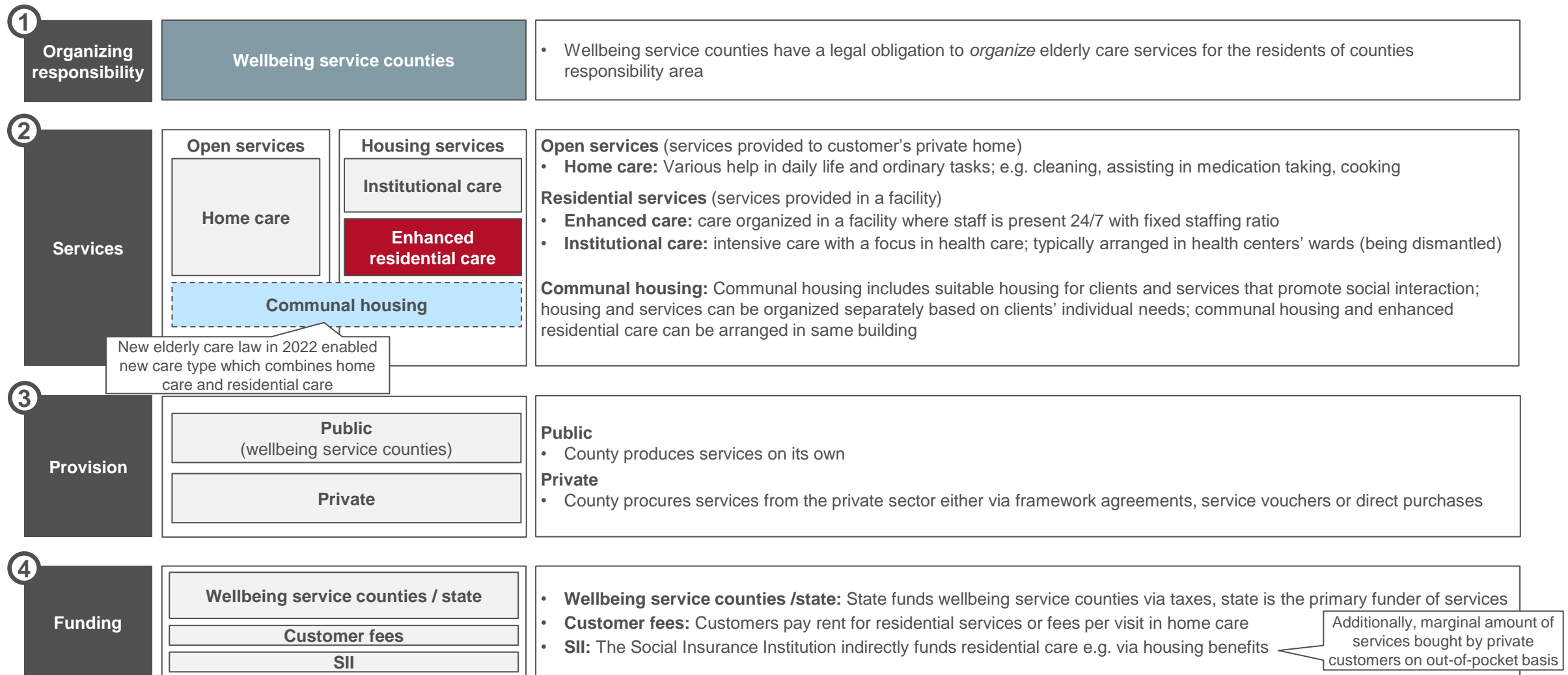
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# Elderly care services organized and funded by the wellbeing service counties and provided by both public and private providers

Main services of the market are open services and residential services; the new CH service a combination of OS & RS



Primary Aedifica presence

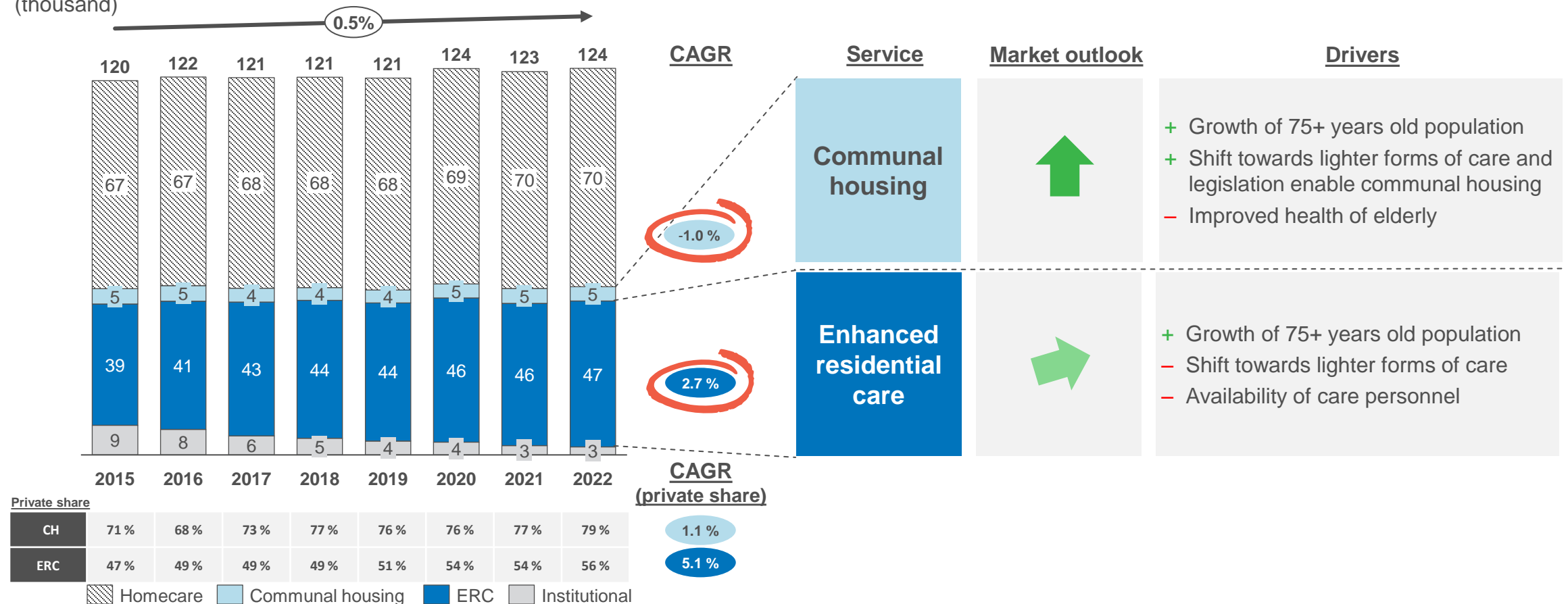
# Elderly housing solutions demand outlook positive due to ageing population; growth shifting towards the lighter forms of care

Growth of the private provision market has historically outpaced public provision growth

## Historical development by service segments

## Demand outlook in relevant sectors for Aedifica

Customers in elderly care by service type 2015-2022, (thousand)



Note: CH= Communal housing, ERC = Enhanced Residential Care  
Source: National Institute for Health and Welfare, Sotkanet NHG analysis

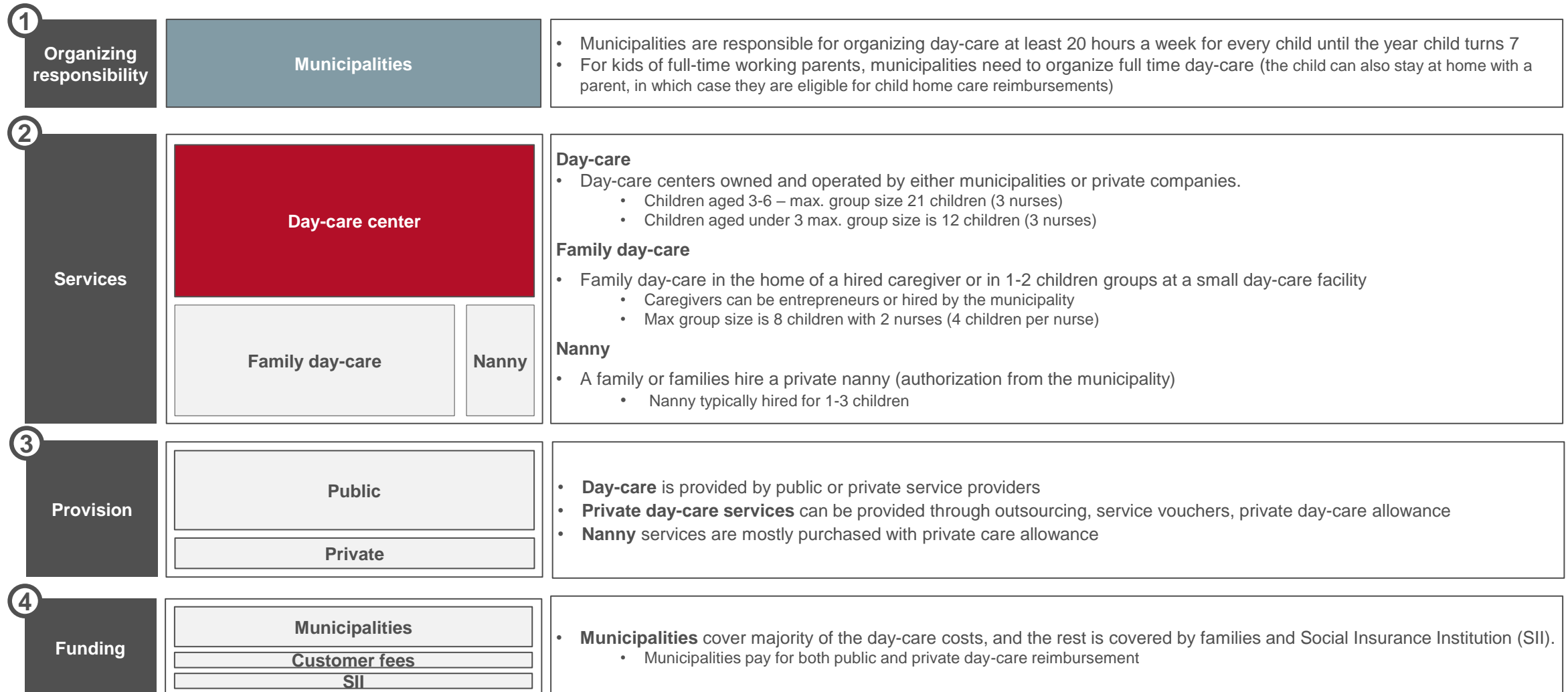
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# Day-care services organized and funded by the municipalities and provided by both public and private providers

Private day-care services purchased via outsourcing, service vouchers & private day-care allowance



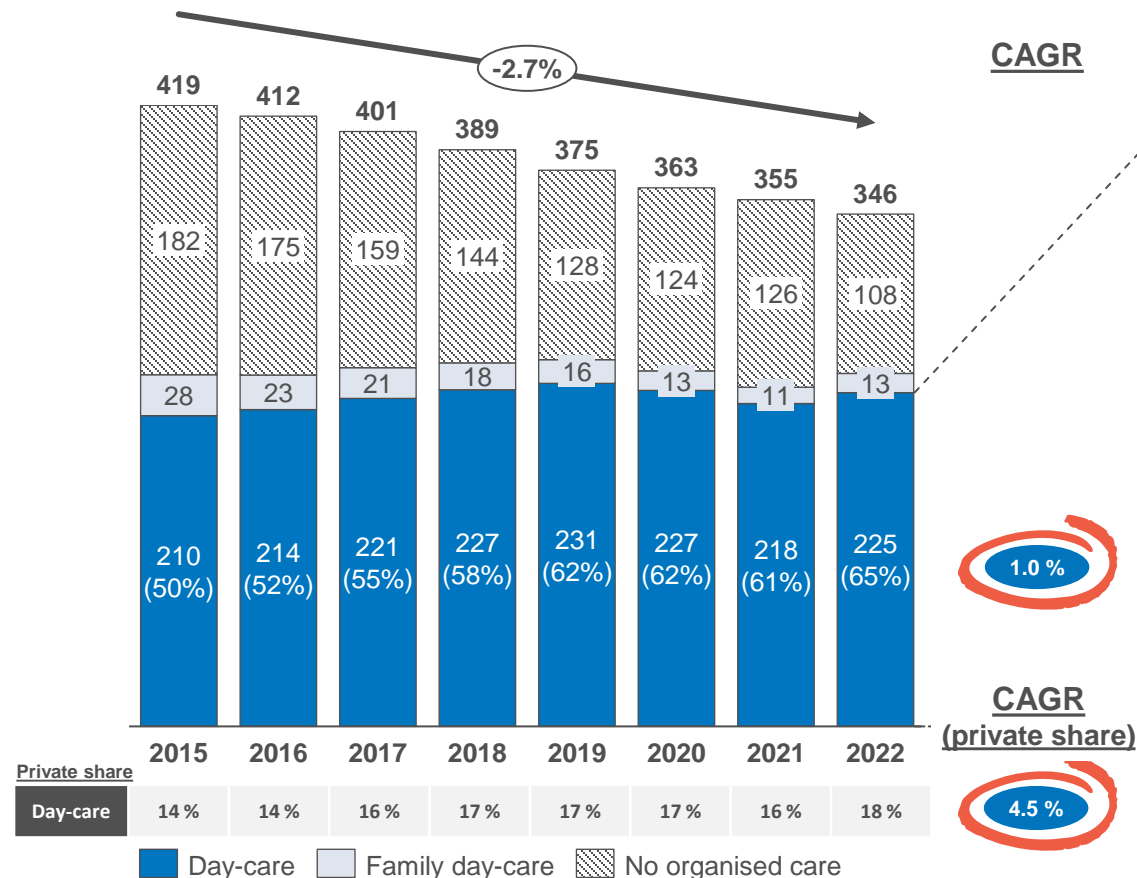
Primary Aedifica sector

# Day care demand outlook differentiates between regions; child population decline compensated by increasing organized care service coverage

Growth of the private provision market has historically outpaced public provision growth

## Historical development by service segments

0-6 year old population by service usage 2015-2022,  
(thousand)



## Demand outlook in relevant sectors for Aedifica

### Service

Day-care

Outlook differentiates between growth/declining regions

### Market outlook

### Drivers

- + Earlier send of children to day-care
- + Subjective right for early education
- + Increased usage of service vouchers growing private sector
- ± Employment outlook
- ± Increase of child population in cities, while decline in smaller municipalities
- Availability of care personnel

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# Mentally disabled housing services organized and funded by the wellbeing service counties and provided by both public and private providers

Housing services for disabled are divided into 4 service segments based on the form of living and the level of support

1	Organizing responsibility	Wellbeing service counties	<ul style="list-style-type: none"> <li>Wellbeing service counties are responsible to organize the disabled housing services is stipulated by the laws on Intellectual Disabilities &amp; Act on Services for Persons with Disabilities</li> </ul>
2	Services	<div>Housing services</div> <div>Supported living</div> <div>Residential care</div> <div>Enhanced residential care</div> <div>Institutional care</div>	<p><b>Supported living:</b></p> <ul style="list-style-type: none"> <li>Living at a rental apartment provided by a service provider or living in an own apartment; supported by social services</li> </ul> <p><b>Residential care:</b></p> <ul style="list-style-type: none"> <li>Living at a group home (unit), where nursing staff typically present a part of the day</li> </ul> <p><b>Enhanced residential care:</b></p> <ul style="list-style-type: none"> <li>Living at a group home (unit), where nursing staff present all the time (night surveillance)</li> </ul> <p><b>Institutional care:</b></p> <ul style="list-style-type: none"> <li>Living at an institutional service unit, where nursing staff present all the time; customers in need for heavy support and help</li> </ul>
3	Provision	<div>Public</div> <div>Private</div>	<p><b>Public</b></p> <ul style="list-style-type: none"> <li>County produces services on its own</li> </ul> <p><b>Private</b></p> <ul style="list-style-type: none"> <li>County procures services from the private sector either via framework agreements, service vouchers or direct purchases</li> </ul>
4	Funding	<div>Wellbeing service counties / state</div> <div>Customer fees</div> <div>SII</div>	<ul style="list-style-type: none"> <li><b>Wellbeing service counties /state:</b> State funds wellbeing service counties via taxes, state is the primary funder of services</li> <li><b>Customer fees:</b> Customers pay for normal living costs</li> <li><b>SII:</b> The Social Insurance Institution indirectly funds services e.g. via housing benefits</li> </ul>

Primary Aedifica sector

# Mentally disabled housing services demand outlook positive driven by ageing parents of disabled people

Growth of the private provision market has historically outpaced public provision growth

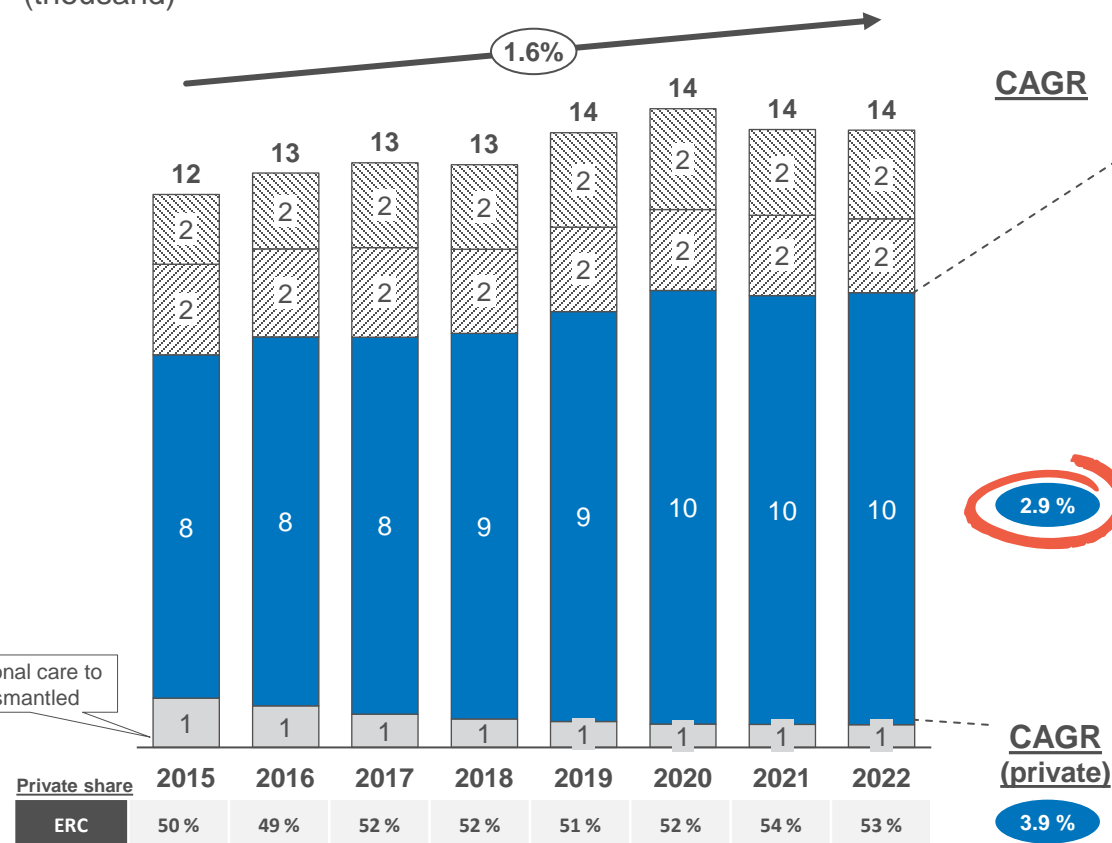
## Historical development by service segments



## Demand outlook in relevant sectors for Aedifica



Customers in mentally disabled housing care by care type, (thousand)



Note: ERC = Enhanced Residential Care

Source: National Institute for Health and Welfare, Sotkanet NHG analysis

### Service

Enhanced residential care

### Market outlook



### Drivers

Ageing of parents decreases their ability to take care of mentally disabled children, resulting in increased transfer to the disabled care services

- + Ageing parents of disabled children
- + Dismantling of Institutional care
- Shift towards lighter forms of care
- Availability of personnel

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# Growing demand outlook provides opportunities for service operators and real-estate investors

Increasing cost pressure & shortage of care personnel constitute risks for service providers and real-estate usage

## Implications to service operators and real-estate usage

### Opportunities

- **Growing service demand in growth regions of Finland and in elderly and disabled care across the country**
- **Public sector's tighter financial ability to invest in own capacity and ageing of the current real estate portfolio** – may drive need for private production or lease properties instead of own real-estate
- **Private housing service providers have been able to gradually shift cost increases to prices** – providers able to leverage negotiation power towards regions due to large regional share of capacity
- **Emergence of new communal housing service model in elderly care may open market for both ERC and new providers** – may open new real estate investment opportunities and enable to use existing ERC buildings to provide new communal housing services

### Risks

- **Shortage of care personnel** may cause utilization-risk for some service providers and units, despite growing service demand
- **Increasing cost pressure and purchasing power of wellbeing counties with increasing personnel cost** may tighten margins in private sector
- **New communal housing service model emerging in elderly care** – may reduce demand growth for ERC services in the long term
- **Decreasing child population outside growth regions** – decreasing need for day-care capacity in the long term

