

Conference Call Transcription
2Q24 Earnings Results
Grupo Fleury S/A (FLRY3)
August 9th, de 2024

Operator: Good morning. I would like to welcome you to Fleury's 2Q24 earnings release call. We have here with us today, Ms. Jeane Tsutsui, CEO of the Company, Mr. José Filippo, Chief Financial Officer, and Mr. Renato Braun, IR Officer.

I would like to let you know that this event is being recorded and that we also have simultaneous translation into English. First, the Company will present its results and then we are going to start for a Q&A session. At the end of the session, Mr. Tsutsui will make final remarks.

All numbers shared today are compared to the same period in 2023, unless otherwise specified, and they have been rounded to the nearest thousand.

Before moving on, I would like to clarify that this presentation may contain information about future events. Such information comprises not only historical facts but would reflect the wishes and expectations of the Company's management. The words believe, expect, plan, forecast, estimate, project, aim, and like are intended to identify statements that involve known and unknown risks.

Known risks include uncertainties, which are not limited to the impact of price and service competitiveness. Uncertainties also include market acceptance of service, service transactions of the Company and its competitors, regulatory approval, currency fluctuation, changes in the mix of offered services, and other risks described in the Company's reports.

I'd like now to hand it over to Ms. Jeane Tsutsui.

Jeane Tsutsui: Good morning, everyone. Thank you very much for your participation in our conference call today to present the results of Grupo Fleury of the 2Q24.

In our call, we are going to start with an overview of Grupo Fleury and the business combination with Grupo Pardini, moving on to our revenue diversification and growth avenues, and finally arriving at the financial highlights.

In the 2Q24, the combination of Grupo Fleury and Grupo Pardini completed its first year. We are very pleased with this move that has strengthened our position as a major reference in diagnostic medicine in Brazil, with unique competitive advantages, operational efficiency, and financial robustness.

As you can see on slide 5, the Company resulting from this merger has had an expansion of operations in all states, an important geographic and business complementarity.

In B2C, we had 24% increase in potential beneficiaries, reaching 25 million, and we increased our service units by 65% with 557 units in the main economic hubs. In addition, in B2B, Pardini is a national reference in lab-to-lab businesses. Today, we're present in

more than 2,000 cities, reaching all states of the country, and serving more than 7,000 laboratories with highly specialized and efficient logistics.

Slide 6 demonstrates the timeline from the announcement of the operation in June 22 through trustee authority CADE's planning and approval, when we presented the potential for synergies of 200 to 220 million incremental EBITDA to be fully obtained in the third year.

Since May 23, we have been going through a structured implementation process, successfully capturing synergies and integrating the cultures and businesses. Some milestones in the business combination expressed in the timeline are the expression of the portfolio in the service units, such as offering toxicological tasks, and lab-to-lab, offering genomic tests to all partnering labs, the optimization of the lab-to-lab logistic network, the advances in Project X, allowing the processing of tasks with greater efficiency and speed, the greater use of technical areas, the unification of R&D teams in addition to commercial expansions in B2C.

It was possible through a series of structural activities that guided the integration process, with the definition of governance and institution of the IMO, design of the new organizational structure, monitoring of initiatives, KPI monitoring, strengthening of the organizational culture and measurement of results. Thus, we united two companies with converging cultures resulting in a combined Company with more than 20,000 employees and 4,000 doctors dedicated to offering quality services with efficiency and focus on the customer.

As we can see on slide 7, the business combination put Fleury at a new level of revenues and has led to business diversification. In 2017, Group Fleury's revenues were 2.6 billion, concentrating in B2C 84% of the total, and in Fleury brand 49.6%. Since then, the Company has expanded revenues by 3x, R\$ 8 billion in the 12 months ended in June 24, with more diversified profile of revenue sources and payers.

This situation reflects our organic growth acquisitions in B2C, which expanded our regional operations, the business combination with Pardini, which expanded B2B through lab-to-lab, and the gain in representativeness of Novos Elos and platforms. Thus, currently B2C represents 67% of total revenues and the Fleury brand 25.6%.

We continue to strengthen differentiation in the premium segment and expand our positioning and presence in the intermediate and basic segments. We offer a care of journey which is much more completed and integrated, shown on slide 8, with robust network in B2C and B2B diagnostic medicine, prevention, primary, secondary, and tertiary care, as well as initiatives such as health platforms and joint ventures. So, we are present at all stages of people's health and well-being journey.

As we can see on slide nine, our focus on the care journey is demonstrated by our four avenues of growth: B2C diagnostic medicine with 31 regional brands and 529 service units accounted for 67% of revenues in the 2Q24, 80% of which was mobile service; in B2B diagnostic medicine with 9 brands and presence throughout the Brazilian territory, the percentage of revenues was 24% while Novos Elos represented 8% with 5

specialties, 9 brands, and 34 units; in health platforms, the percentage of revenues was 1% with telemedicine, distributors, and market place.

We are also announcing today the closing process of the acquisition of São Lucas Centro de Diagnósticos. As detailed on slide 10, with this acquisition, we entered the B2C market in Santa Catarina State, which was already in our B2B business portfolio with Pardini Technical Center. This is a very important move, which also shows our commitment to evaluate the market and consider opportunities which are aligned with our discipline in capital allocation.

Before presenting financial highlights of the 2Q24, I would like to clarify that we provide, in addition to accounting results, values of the same basis for the period, which enables better understanding of the evolution of results.

Based on the table on slide 12, the 2Q24 accounting results captures the results of Grupo Fleury and Pardini comparing with the Grupo Fleury quarterly results in 23. The pro forma result, unordered and for simple comparison, includes the 3 months of Fleury and Pardini as if both operations were combined in the same period of 23 and 24.

Now coming to slide 13, we have the accounting financial highlights of the 2Q24. Gross accounting revenue was R\$ 2.1 billion, growing 19.7% compared to the same period in 23, growth of 6.1% for Fleury brand, 27.4% of other brands in São Paulo and 19.7% in mobile services, amounting to 7.6% of revenues.

EBITDA was R\$ 522 million with growth of 21.7% over the 2Q23 ex-one-time expenses time expenses of the business combination, reaching margin of 26.4%. Net income was R\$ 173.6 million, representing growth of 47.5% compared to the 2Q23, with net margin of 8.8%.

Moving on to the pro forma results, which are available on slide 14, we highlight in another quarter our consistency in delivering results. Gross revenue reached R\$ 2.1 million, representing growth of 8.1% over the 2Q23. Fleury brand grew 6.1%, while the other brands in São Paulo grew 19.9%. In Minas Gerais, there was growth of 11% and mobile service had increase of 16.3%, representing 7.6% of revenues.

EBITDA reached R\$ 522 million, growth of 12.5% with margin of 26.4%, an increase of 115 base points over the 2Q23.

I would like now to hand it over to Josef Filippo, our CFO and Investor Relations Officer, who will tell you more about our financial performance.

José Filippo: Thank you, Jeane. Good morning, everyone. We are now going to provide detailed information about all the financial information.

Slide 15, gross accounting revenue reached R\$ 2.1 billion in the 2Q24, growing 19.7% over the 2Q23, as a reflection of the business combination with Pardini, the good performance of B2C and growth of B2B. Considering the first six months of the year, gross accounting revenue of 34.6% compared to the same period in 2023.

Moving on to slide 16, we can see pro forma gross revenue reaching R\$ 2.1 billion in the period, increase of 8.1% in a situation of good performance of B2C and mobile services, in addition to growth of B2B. In the first half of the year, growth was 7.5% with pro forma gross revenue reaching R\$ 4.2 billion.

Slide 17 show us the accounting results of our service units. Gross revenue reached R\$ 1.4 billion in the 2Q24, growing 14.6% over the 2Q23. It was driven by the Pardini combination. Fleury brand grew 6.1% while the other brands in São Paulo grew 27.4%. Rio de Janeiro reached 12.3% increase. Minas Gerais grew 58% and the other regional brands had 6% growth. In the half-year comparison, the growth of service units was 21.5% compared to the first six months of 2023 with 4,2% increase in Fleury brand, 35,5% in the other brands in São Paulo, and growth of 14.2% in Rio de Janeiro. In Minas Gerais, the growth was 187.4%, reflecting the combination with Pardini, while the regional offices reached a 13.9% increase in gross revenue.

In the next slide, slide 18, we can see pro forma results of our service units. And we can observe the growth was 7.7% compared to the same period in 23, considering the compensation of the Easter week in March. The gain in São Paulo, Rio de Janeiro and Minas Gerais and some impacts on the region offices of Rio Grande do Sul due to the situation of the natural disaster.

In the quarter, the Fleury brand had 6.1% growth with the brands in São Paulo reaching 17.9%. In Rio, the growth was 6.9%, while in Minas Gerais there was 11% growth. The other regional offices retracted 4% due to reclassification of regional offices to B2B. Without this effect, the reduction would be 0.6%.

Comparing six months over the previous year, there was growth of 6.1%. Our brand grew 4.2%, other brands in São Paulo progressed 14.4%, in Rio there was 3.1% growth in the period, in Minas Gerais, the progression was 11%, and in the other regions, we record a retraction of 4.5%. Excluding the reclassification, the retraction would have been 0.8%.

Now moving on to slide 19, observing the B2B accounting results, growth in the 2Q24 was 48.2%, reaching R\$ 501.6 million. In the half-year comparison, the evolution was 115.3%, with R\$ 991.1 million.

The next slide, slide 20, comparing pro forma, B2B growth in the 2Q24 was 13.2%, reaching R\$ 501.6 million. Comparing the six-month period, there was 12.5% growth, amounting to R\$ 991.1 million. This result reflects our gain in customer share of wallet in lab-to-lab and the maturation of customers in hospitals.

Now slide 21. Moving on to slide 21, in the 2Q24, gross revenue from New Links, or Novos Elos, totaled R\$ 181 million compared to 180.7 million in the same period 23, representing growth of 0.2%, impacting our comparison base because of three doses of the medication Zolgensma in the 2Q23.

In platforms, the growth was 49.9% with R\$ 19.7 million as a result of the business combination. As a whole, in the 2Q24, gross revenue from New Links and platforms reached R\$ 200.7 million with growth of 3.6%. In the year, the increase was 14.3%, reaching 389.4 million in gross revenue.

On slide 22, we show pro forma and consolidated growth of 3.2% in the quarter, reaching R\$ 200.7 million and 13.7% in the half year, with R\$ 389.4 million. The growth of Novos Elo (New Links) was 0.2%, reaching the impact of strong application of Zolgensma in the 2H of the year. In the platform, the advance was 43.4%, reaching R\$ 19.7.

Slide 23, we can see accounting gross profit reaching 24,7% in the period of increase, reaching R\$ 567.3 billion and the margin 28.7%. Half year, our gross profit accounting reached R\$ 1.1 billion with growth of 39.5% over the same period last year.

Slide 24, pro forma result, gross profit reached R\$ 567.3 million with growth of 13.3% and margin of 28.7%, reflecting our disciplining cost. In the half year, the growth was 12.4% reaching R\$ 1.1 billion.

Slide 25, in operating expenses, the accounting result increased by 24% in the 2Q24 with R\$ 237.9 million, amounting 12% of net revenue. In the period, there was increase of 42.5% with 475.9 million year-half.

Slide 26 we show pro forma operating expenses, which represented 237.9 million in the 2Q, with growth of 9.8% period over period. Comparing the half year, operating expenses reached R\$ 475.9 million with 10.1% increase.

Now slide 27. The 2Q24 EBITDA reached R\$ 522 million, increase of 21.7% over the 2Q23, excluding the one-time business combination expenses, with margin of 26.4%. Half year, the growth was 34.1%, reaching R\$ 1 billion, whether the results in the first six months of 23 was 774.9 million.

In the next slide, slide 28, pro forma EBITDA grew 12.5% on the 2Q24, reaching R\$ 522 million and margin of 26.4%, reflecting the increase in operating profit. In the half year, the growth was 11.8% of EBITDA reaching R\$ 1billion.

Slide 29, we can see net accounting income, which reached R\$ 173.6 million in the 2Q24, increase of 47.5% compared to the same period last year, and net margin of 8.8%. Excluding the capital gain of the Institute of Hermes Pardini, net income was R\$ 184.7 million with margin of 9.3%. Comparing half year, the growth was 61.5%, reaching R\$ 341.5 million compared to R\$ 211.5 million in the 1H23.

Next slide, slide 30, CAPEX for the 2Q24 was R\$ 97.6 million, down 8.1% over the same period last year, showing the discipline of our capital allocation prioritizing cash. In the half year, the drop was 6.8% with investments of R\$ 164.9 million.

Slide 31, we can show you cash generation, which reached R\$ 588.2 million in the 2Q, growing 82.4% as a result of the increase in EBITDA and improvement in working capital of the Company. Comparing half year, the increase was 51.1%, with R\$ 808 million and cash conversion of 77.8% of EBITDA.

Slide 32, compare leverage. The indicator in end of the quarter was 1.1 times, with decrease that is especially consequence of higher cash generation and increase in EBITDA. We emphasize that our leverage has been maintained below 3x, which is set by our debt instruments. This level of leverage puts us in a differentiated position to follow the execution of the strategy designed by Grupo Fleury.

Slide 33, we can see our amortization schedule of debentures financing and acquisitions of Grupo Fleury, showing our robust cash position in relation to our obligations. We have debts with healthy profile, average maturity of 3.6 years with no concentrations of due dates.

Before we start our Q&A session, I would like now to hand it back to Ms. Tsutsui to finish the presentation. Thank you.

Jeane Tsutsui: Thank you, Filippo. At this moment of celebrating one year of business combination between Grupo Fleury and Pardini, we would like to thank all our employees and physicians who have dedicated intensely in our integration process forming only one essence.

We are a stronger Company with broad recognition for medical excellence, robust positioning in science, technology and innovation, national presence and operational efficiency as well as known for our commitment to ESG practices. In fact, we were recognized by magazine Exame as the best of ESG, highlight of the year in health.

Finally, we would like to give our special thanks to all of those who participated actively in the efforts in Rio Grande do Sul in all the flooding events that we have experienced in May and June.

Since the beginning, we have been monitoring the situation and offering continuous support on different initiatives. Through our regional brands, we offer essential health services to the population, and we continue to support the process of rebuilding the state. We are confident that with strong culture, focused on customers, clarity of strategy, and execution with discipline, we are going to be firm in our ambition to be one of the leading companies in health in Brazil through increasingly complete, integrated, and sustainable solutions and good experiences in people's health and well-being journey.

Thank you all very much. And now we are available for the Q&A session. Thank you.

Question and Answer Session

Raphael Elage, XP: Good morning, everyone, Jeane, Filippo, Renato. Thank you for taking our question. I have two questions. First, concerning the level of refusals, we see it is still very low, but still there is a similar level to the previous quarter and previous half year. So what would we expect of this line for upcoming years and quarters? First question.

And secondly, could you please shed some more light on the impacts of Rio Grande do on your regional businesses. We would appreciate if you could tell us a bit more about that specific line, excluding the effect of the impacts and what we can expect from the denials.

Jeane Tsutsui: First of all, concerning denials, Raphael, we have here a situation – I'm going to take step back to talk about the healthcare system –, there had been a lower level of loss ratio during the pandemic than higher loss ratio after the pandemic. And now, based on the data of the private healthcare agency, we can see better operating results of insurance companies and better controlled loss ratio.

In general, in diagnostic medicine, the process is a better structure, so to speak. We always ask for pre-authorization for MRI, CT scan, and throughout time, we've also improved our processes to maintain better control of the whole cycle of receivings. Therefore, it's impact in the level of denials, which is very much under control.

It's difficult to predict the future and we don't give you any guidance, but I can tell you that we are paying close attention to having very good relationship with health insurance companies, contributing to the health industry with sustainability measures, and having an internal process that's very strict.

We hope that this moment of greater challenge that we've all experienced during the pandemic will take us to a more sustainable and better situation. It's a system where people value really health and where we also have to deal with the challenges of population aging. But Grupo Fleury has a position of constant discipline and offering solutions of outpatient and prevention solutions that contribute a lot.

Concerning your second question about the impact of Rio Grande do Sul floods, unfortunately, it was a massive disaster in May and June in the state. We have operations in Rio Grande do Sul with our brands Weinmann and Serdil in Porto Alegre, and there was an impact on revenues. We have resumed quite quickly our services, there was some impacts on some specific patient service centers but have also provided essential services to the population of the region. And in general, the impact had been documented in our accounting of the months, and now we expect to have the rebuilding.

Without the impact, we would have had an expansion of regional brands. But unfortunately, this is a situation, an uncontrolled situation, and I would like to emphasize all the actions that we had put in place during the situation of crisis, providing good support to the safety of our own staff, and also providing solidarity, really supporting the population, health structure to the whole society, especially our own staff. And now we are contributing for the rebuilding of the state.

It was a one-off impact. Without it, we would have had some minor growth in the regional offices, but we expect the impact to be over by now. Thank you, Raphael.

Artur Alves, Morgan Stanley: Hello, good morning, Jeane, Filippo, Renato, and everyone. I have two quick questions. Let me understand how you deal with gains of market share, especially where you do not have Fleury brand. Is it a result of having partners? Are there more beneficiaries or do you have more health care insurance companies in the specific regions?

If that's the third option, what has attracted them? Price, the strength of brands, what's the most relevant action in your opinion?

Jeane Tsutsui: Thank you, Artur. You've seen that throughout time, we've been showing resilience of Fleury brand, our premium brand, there was growth of 6.1% in the quarter. In the first quarter, there was the calendar effect as we explained with the Easter just invading March, so the 2Q had an increased number of working days.

Concerning brand Fleury, and I'd like to emphasize the growth of other brands in São Paulo pro forma, growth of 17.9% and growth in Minas Gerais of 11%, growth in Rio of

6.9%. In other words, in general, we can see an increase in market share. Of course, we are paying close attention and working very closely to manage our commercial contracts. All the time, we try to interact and discuss with healthcare insurance companies to bring more lives to be served by all our different brands, focusing on quality of care. And in general, what we see is growth based on volume more than price in all the different brands. But we are also bringing new lives and gaining market share.

Speaking of all services in our units, it's important to emphasize that appropriate use of resources is a key focus that we have. We focus on medical education, development of algorithms, adjusting the utilization of diagnostic medicine. But bear in mind that with the increase of chronic disease and population aging, diagnostic medicine can really support medical decision making.

I believe that all our teams – and I would like to thank everyone that works in our units – , we've been increasing the offer of services to increase revenue by square meter in our existing units. This is something that involves all areas. It takes us to expanding the schedule for ultrasound, for example, something continuously done, always focusing on what we can capture as additional demands in our patient service centers. It has been translated into growth and market share gain.

Brand Fleury, as we always emphasize, is a very mature brand with high market share in a segment that grows the least. So the growth we are showing means we have gained market share, and the same applies to other brands. But it's interesting to point out that throughout time, we've experienced different levels of growth by the different brands.

We always share with you that Grupo Fleury, especially after the combination with Pardini and something that we had been working on before, which is to diversify businesses and revenue sources. As we showed you, today we have a better portfolio with Fleury brand representing 25% of the total revenue of the group, other regional brands have their share, an increase of the percentage of what is B2B, which has presented consistent growth, but above all, thanks to our discipline of cost, expenses, and capture of synergies, despite the change of mix, we've been maintaining our good level of profitability, including in quarter showing the expression of 115 base points of EBITDA margin.

It's a combination, a very healthy combination of having a Company of portfolio with national expansion, different businesses, and the business combination has brought strength in the diversification of paying sources, but always focusing on results. Thank you, Artur, for your questions.

Estela Strano, JP Morgan: Hello. Good morning. Thank you for taking my question. It's also about competitiveness. We have two quick points. Do you anticipate weakening of competitors in some specific regions with difficulties of contract renegotiation? I would like to hear you speaking about the HMOs, the different healthcare insurance companies and your contracts with them.

And do you think there is a favorable now environment for M&As in 2024?

Jeane Tsutsui: Thank you, Estela. I'm going to start and hand it over to Filippo. You have to bear in mind, Estela, that since the very beginning of this cycle, pandemic, post-pandemic, a more challenging situation for healthcare, and all different trends we've described before, and our position concerning pain sources and negotiations with HMOs take into consideration a very clear position of acting as partners, understanding a challenging moment, understanding a moment of high loss ratio, but bringing solutions to the table because we focus on prevention, because throughout time chronic disease monitoring really leads to better control of loss ratio, or from a time perspective, operationally, we've got adapted to meet the needs of HMOs in that moment where the system is under more pressure.

Of course, it also takes into consideration the competitive environment, of course. We know of a number of movements happening in health concerning our competitors, and we are prepared and the whole organization is fully focused on providing good care to our customers, running commercial contracting negotiations, bringing new agreements and offering new products to HMOs, capturing the largest and the more market we can.

The diversification and the strength that we have has placed us at a level of being acknowledged for our quality with all our brands. Now, we are going into Santa Catarina State with a very well-positioned asset in terms of quality and diversification of paying sources. And this is something that really helps. And I can tell you that we are highly focused with all our teams in all the different business units, lab-to-lab, B2B, New Links, with a very clear path towards providing good services to our clients and capturing all possible demands.

Filippo, please.

José Filippo: Good morning, Estela. Concerning M&A, as we've just told you, we've closed the operation of São Lucas, which was an operation that we had announced some months before, and it was quite important because it was the first event after a while, right? But it doesn't mean that M&A hadn't been active or prospecting.

We've been managing our prospecting, we have our pipeline of M&A fully active, we are working on it, but the profile that the market offers seems to be the same. Looking for quality assets as we want to have, still have higher price resilience, something that hasn't adjusted to a new cost of capital as a result of market assumptions. Therefore, we haven't really progressed as fast as expected.

It doesn't mean we are not going to keep on doing business. We are still prospecting, we expect to move ahead, but we are always going to maintain the discipline in our negotiations, maintaining our figures. When we prospect M&A, we take into consideration three aspects: Strategic aspects, São Lucas is very important geographically speaking in a state where we were not present with clinical analysis; secondly, we take into consideration financial aspects, return on investment, etc.; and cultural aspects. Our practice is always to have integration once we have a new asset coming into the group.

So the cultural fit can be an advantage or a hindrance. So, we really have to take that into consideration. That's all to tell you with being considering possibilities and a market

that's still very price levels to meet our minimal financial standards to really close any M&A. This is how we see things.

Estela Strano: Great. Thank you very much. Have a great day.

Felipe Amâncio, Itaú: Hello. Good morning. Thank you for taking my question. I would like to hear more about the brand A+. You've emphasized that to some extent, but I would like to know whether it makes sense to maintain this constant growth, as we've seen in the quarter. Do we expect the brand to keep on growing like that?

And I'd also like to know whether the partnerships you have made with some specific HMOs in São Paulo are contributing to your results.

Jeane Tsutsui: Thank you, Filipe, for your questions. The brand A+ in São Paulo is a brand where we still see opportunities to increase market share throughout time. It is a brand that has performed quite well, as we told you, the brands in São Paulo grew again 17.9% pro forma. When we consider the potential of the brand, which has the endorsement of Grupo Fleury, a recognition by physicians, and what we've been doing with our team or business team or medical team of brand A+ is to expand some services with our portfolio of tasks, increasing the schedule available for different tasks, better use of square meter, and it has generated gaining market share.

Please, bear in mind that brand A+ is somewhat new. It derives from other acquisitions, but it's a brand that has got stronger and captured all the demand of a high-intermediate segment and it's known for its quality. We are focused. It makes sense to have continuity of growth of brand A+.

And concerning partnership with HMOs, we've been making these partnerships. And we also have a potential of expanding the brand Pardini in São Paulo, which is another segment in which we can benefit from the capillarity we have, combining in São Paulo brands Fleury, brand A+, and Pardini. We used to have Campana, now it's Pardini Express, so we have great capillarity providing to HMOs services and units in different levels of healthcare services.

This is a strength. Some companies have different healthcare plans to meet the needs of all the different social strata. So I would say that this is a strength we have, not only capillarity in terms of geographic coverage, but also segmentation.

Another relevant point is our mobile services, something that has been growing, including in brand A+ and Pardini brands, we still can see a potential to expand the routes, and it takes us to the expectations of combining businesses, and with that, have better and better synergies.

We have to bear in mind that similarly to São Paulo, in Rio, with the business combination we have a medical center in Rio, and now we have greater capillarity, more services being offered, and we are prepared to capture as much demand as possible and provide that to HMOs.

Thank you, Felipe.

Felipe Amâncio: Great. Thank you.

Yan Cesquim, BTG: Good morning, Jeane, Filippo, Renato. Good morning, everyone. I have two questions. First about margin. We've seen in the first half year consistent gains in margin compared to the same period last year. It's a result of synergies with Pardini. I would like to know whether there is still space for gaining margin in the 2H of the year. This is my first question.

Second question about B2B. We can see that B2B has been growing faster. And I would like to know whether you anticipate continuous growth and try to understand what are the growth leverages that you anticipate for the B2B strategy. Thank you.

José Filippo: Thank you, Yan. I'm going to go first, and Jeane can jump in and compliment. Concerning margins, we are very satisfied because in our results we can see what has been generated by that. More margins, more combinations, and the result of synergy, of course. In this quarter, we are celebrating one year of our business combination with Pardini, and this is a result of our work. The integration has generated gains in synergy.

As you pointed out, whenever the year goes round, you increase your comparison basis, and you would be able to compare against the previous year. This is something that we will have to manage as the year goes by. And then in terms of comparison, over the previous year there wouldn't be that much expansion, even though we are always adding more items to gain more and more margin.

Another important factor, which is a disadvantage, is the mix. As business grow, for example, lab-to-lab, B2B, the area of New Links, it brings into the mix a less advantageous margin, it impacts EBITDA and gross profit, but in terms of margin, they also tend to be negative, but they are offset by the combination of programs we offer.

We don't have any specific guidance, but speaking about the future, we want to keep on diluting costs with growth thanks to our programs of cost efficiency that we have in place and gains in synergy. I don't think we can expand margin as we used to in terms of speed, but we are gaining in efficiency. So we have a perspective of maintaining our relevance of the results of margin when we look ahead. Thank you, Yan, for the question.

Jeane Tsutsui: Thank you for the answer, Filippo. B2B, and it's the second avenue of growth, in other words, we consider the patient service centers, but also B2B and platforms. B2B has gained a representation of 24% of our total revenues and in the quarter, it maintained significant growth, 13.2%. In 24, it has amounted to 12.5% growth total.

B2B is a combination of our lab-to-lab businesses and diagnostic medicine within hospitals, which is something that varies in terms of new contracts coming in, old contracts leaving, but something that has also presented good performance.

Now, analyzing lab-to-lab, which is something in which Pardini is quite strong, Pardini has always been a reference in lab-to-lab. It's a team that knows quite well the business and has very good relationship with the labs, they know about logistics, and they have provided for us gains really in efficiency.

Please bear in mind that in the first half of the year, within the B2B growth, there was a very important contribution of toxicological tests. There were regulatory changes with more toxicology tests being required. And this was one of the highlights which resulted from a synergy effect. Pardini has always been a reference in toxicological tests. We implemented that so that can be collected in all Fleury brand units. And we started offering a portfolio of Fleury to all partnering labs of lab-to-lab Pardini. So these are examples of strength and advantages of combination of our businesses.

In the first half of the year there was a benefit of toxicological tests. This is something that will be maintained with the regulation, but without a peak. And we are going to keep on looking for the opportunities of lab-to-lab to better use our technical areas. We have 24 technical areas in our group, Fleury and some other areas coming from Pardini, and this is a different model, you don't have to invest in patient service centers, but you need logistic efficiency and a need to integrate systems.

It's a very interesting model, something that brings the possibility of diversifying services, and we are very satisfied with everything that we've had. Thank you very much.

Yan Cesquim: Thank you.

Emerson Vieira, Goldman Sachs: Good morning, Jeane, Filippo, Renato, everyone. Thank you very much for the opportunity to ask a question. Capital allocation, my first point. One more quarter where you had improvement in your net debt, giving you a very comfortable position of balance. There was a slight increase of capital and 184 million for dividends. That's a high payout ratio. So what's an optimal mix of capital allocation considering all these initiatives and dividend sharing?

Secondly, let me ask about synergy. According to the schedule, 60% of the synergies with Pardini would have been reached by now. So how well have you done it? What is your current status? When are you expected to reach really the full integration with Pardini?

And finally, if I may, I would like to ask about a ticket in our patient service center. The decrease that we've noticed of 0.2% in growth year over year concerning 1.7 in the previous quarter, this decrease has resulted from the fact that you have a normalized ticket because in the previous quarter you pointed out there was a positive impact of toxicological tests, imaging tests, and others. So these are my questions. Thank you very much.

José Filippo: Thank you, Emerson. I'll go with the capital structure. This is a very interesting point. As we've said before, we are very concerned about being disciplined and consistent in our management. The distribution, in our opinion, is quite clear in terms of CAPEX. And I would like to say that our CAPEX in the first quarter and the half year was below the level of last year, but it's a result of the prioritization that we've made so that we can have cash liquidity.

The 2H, things tend to speed up, which is expected, but we really have to analyze CAPEX as something in terms of percentage of revenue, similar to what we've observed before. We don't expect any changes there.

The CAPEX has been divided half of it to IT, digital initiatives, especially digital acceleration, and the other half, maintenance, expansion, and rebuilding of our units. In this quarter, IT and digital was less than half, which is a dynamic really of what we observe. And we've been trying to talk about digital acceleration. This is something important, but it is below other items just for circumstantial reasons. This is no trend. We want to keep on focusing on digital acceleration as a very important component to us.

Secondly, M&A. As we pointed out we want to keep on advancing. As we have the right assets, we have results and appropriate parameters fully met, we'll keep on expanding.

Inorganic growth is another component of our capital allocation which we consider to be important. It's been more prevalent in diagnostic medicine, but we've been considering the different assets that are part of our portfolio.

Thirdly, it's associated with what we've just announced with an equity. It will be included in our plan and dividend sharing. Then we are going to decide about payout, which is another situation that we are going to see as we go. But as our financial condition can do it, we are also going to consider the payout as a potential of really sharing, all based on interest on equity.

The level of leverage, it's 1.1, but in the end of the quarter, it can go up. Nothing very relevant, but it tends to be high in the 2H of the year. But we are always going to focus on having the lower level of leverage. We understand that this is still something appropriate to be done, there is high cost of capital in terms of interest rate, of course, and considering the macroeconomic conditions that will probably remain in place for a while, we understand it's more appropriate and careful as a management to have lower leverage. Looking ahead, this is how we manage our capital.

Jeane Tsutsui: Now, speaking of synergy – and thank you for your question –, I'm going to emphasize once again that capturing synergy is a result of good integration. The cultural part is really important, processes, and the governance, right, that we've put in place with IMO, all the different forums, weekly monitoring of all our 8 executives, leading our 60 initiatives, and just following criteria and discipline.

Since the beginning, when we announced the perspective of having 200 million of incremental EBITDA up to the third year, we've made a curve of 60% in the first year, 85 in the second year, 95 in the third year. 90% of the synergies were in reduction of costs and expenses. And we are very confident.

My answer is yes. We've maintained our timeline. This is reflected in our results. As Filippo pointed out, there is a changing mix of brands and services, and even so, we have a margin expansion thanks to the synergies. We are following the curve and highly confident that throughout time we are going to capture the results.

We've had a very detailed planning and when we announced the curve, we had had a number of initiatives, some that have got in the period of maturation, and nothing has happened as we had planned, and all executives had the clarity that if we don't capture the synergy there, we should look for it somewhere else. So always maintain the curve.

Now concerning the average ticket of patients at the center, you pointed out something interesting. In the first half, we have pro forma growth of 1% gross revenue per test. In the 2Q, it was 0.2%. But there was a changing mix, and it fluctuates a lot. And this is why we always show you test, test per encounter and gross revenue per test.

When we have more lab analysis, we end up having an increase in number of tests performed and therefore the revenue per test is somewhat lower. In our patient service center in the quarter in pro forma, there was a 7.1% growth. But you can see that mobile services, which predominantly clinical lab analysis, it has grown pro forma 16.3%, and mobile services is mainly clinical lab analysis.

So this is just to let you know that in general, in our planning and considering all opportunities, we've captured really a good demand, and we want to keep extending in the clinical analysis. It impacts really the gain and gross margin because of the changing mix.

Emerson Vieira: Great, thank you very much.

Renan Prata, Citibank. Hello, I'll be very quick. I think most have covered the main questions. Just to let you know whether you are seeing any difficulties of negotiations, especially with brand Fleury and the downgrading of plans. For the past two or three years, the price increases have been massive. Have you been observing any downgrading and something that might impact the expansion of brand Fleury from now on? That's it. Thank you.

Jeane Tsutsui: Thank you, Renan. Concerning brand Fleury, when we observe what has happened in this quarter, 6.1% growth, please note it's not increasing number of beneficiaries in the premium segment. Brand Fleury throughout time, is a 98-year-old brand, is very resilient, but the number of beneficiaries is limited. Of course, when there is an expansion of macroeconomics, there is also an increase in numbers of beneficiaries. But our brand Fleury has a very clear position, it delivers value, it's recognized by the community, by customers, high NPS, and as such, growth is compatible with the growth that we used to have before the pandemic.

The growth of the brand this year has resumed the level that we used to have before pandemic with the brand Fleury.

Concerning downgrading of health care plans in the intermediate level, or even in basic or entry level plans, this is where we have more beneficiaries and where you can expect a greater growth according to the data of ANS. It's important to know that we have very well-positioned brands to capture this demand. We've talked about brand A+ São Paulo and how it has been growing with the endorsement of brand Fleury, as well as Pardini and other regional brands.

We are strategically prepared as a group in terms of position of our brand to keep on serving our clients. Group Fleury is much stronger with this position today. Throughout time, it was a strategic decision to bring on board brands from different segments and we are still very confident. Brand Fleury will always have that differentiated bracket,

always be recognized, it's a very strong brand and we are very confident of the perpetuity of brand Fleury, of how resilient the brand is in the premium segment.

Renan Prata: Thank you everyone.

Operator: Thank you. With that, we close the Q&A session. I'd like now to hand it over to Ms. Jeane Tsutsui for her closing remarks.

Jeane Tsutsui: I would like to emphasize my gratitude for all of those that have worked for the successful integration of Fleury and Pardini in our first year of business combination. It was, it demanded hard work and dedication, and I would like to personally thank all of you.

We were very confident about the future of our group and our ambitions of becoming one of the health leaders in the country with strong brands, recognized businesses, operational efficiency and robust capital structure. Thank you all very much for your participation in one of our conference calls and hope to see you next time. Have a great weekend. Hope we succeed in the Olympic Games in Paris and thank you.

Operator: Thank you. We close now the conference call. Thank you all very much for your participation. You may disconnect now. Thank you.