



1st QUARTER 2023 EARNINGS RESULTS – 5/12/2023

Operator

Good afternoon, thank you for waiting. Welcome to Dasa's earnings conference call for the 1Q23.

We would like to inform you that this event is being recorded. After the presentation we will have a Q&A session for analysts and investors. If you need assistance during this call please press *0 to speak to the operator.

The link to access the webcast transmission with audio and slides is available on Dasa's Investor Relations website at www.dasa3.com.br. The presentation is also available for download from the website.

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Now I pass the floor to Mr. Glauco Desidério, who will start the presentation.

Glauco Desidério - IR Director

Good afternoon, everyone, thank you for attending our call. We will start the presentation with the remarks of Pedro Bueno, the CEO of Dasa, followed by Felipe Guimarães, CFO. Also here with us we have Emerson Gasparetto, Chief Officer of Hospitals and Oncology; Rafael Lucchesi, General Officer for Diagnostics and Nelsina Troupardi, Chief Legal Officer. All of us will be available for the Q&A session.

Now I turn the floor to Pedro Bueno to start the presentation.

Pedro Bueno - CEO

Thank you Glauco, good afternoon, everyone. It is a pleasure to be with you today. Let us have the first slide. So this was a quarter where we were very satisfied with the operating results of the company, showing an important step towards the right direction. Of course there is still a lot to be done, we are really focused on doing our things here at our company, but we saw a record, quarterly record of revenue and EBITDA, and 1Q is usually one of the quarters with the worst seasonal results - but we started with a very positive note.

When we look at hospitals and oncology 16% growth YoY, 40% organic growth. Here the difference is basically the Paraná Hospital, which entered 1Q LY meaning that starting now in 2Q onward we will have a 100% growth, organic growth in hospitals and oncology.



And oncology also with a very significant growth, 47% YoY, also organic growth meaning we have been gaining share in an accelerated manner in oncology, particularly using the power of our ecosystem, of our diagnostics and hospitals in order to capture patients and direct them to our oncology.

Changing to our other big business units, diagnostics and care coordination, 9% growth YoY. In 1Q LY we had the Omicron sub variant, so when we look at ex-Covid gains we had the growth of 19% YoY, an extraordinary growth really. I would like to congratulate the whole diagnostic teams who have been doing an outstanding job, particularly with progress on our main locations.

And at the same time, concurrently with this growth our gross margin is resuming its historical levels reaching almost 37%. When we compare gross margin of this business with 4Q LY we had an 8 p.p. gain QoQ, a very important leap, also with outstanding results in diagnostics and care coordination.

We are still diluting our G&A, as we have been saying. We, in the 1Q we will accelerate particularly February, March and April, with reduction, relevant reduction in costs in our G&A structure. So we finish this 1Q with 13.4% of net revenue compared to 1Q LY - considering that in 1Q LY we had the reversal which was positive in 1Q which benefited G&A - but if we do not consider that our recurrent G&A last year was 14.4%. So we are gaining 1 p.p. in EBITDA margin with this dilution of G&A YoY, and we expect that this will be accelerated over the course of this year because many of the reductions we had were in February, March and April. So here too great news.

And finally the platform that has been having excellent results. We have over 7 million patients registered, over 40,000 physicians registered in our platform, and as you will see later we also see an increase in the recurrent use of these patients and physicians in our platform.

And we also made important progress in our capital structure finishing our follow on which raised almost 1.7 billion. So we finish the leverage of 1Q already with the pro forma of the follow-on 3.61 compared to 4Q, which was around 3.9x, already indicating this trend, and with the other strategies we have been implementing, which I will be commenting at the end of my presentation, we expect to go on with this trend and accelerate it over the year.

Now I give the floor to Felipe, who will give you more details regarding our figures.

Felipe Guimarães - CFO

Thank you, Pedro. Starting on slide number 6 looking at the hospitals and oncology business, where in this quarter we had a significant growth of 16% with 14% organic growth, resulting in a gross revenue of 1.9 billion BRL in the quarter, a new record for the company. The robust growth in this quarter can be attributed to an increase in the number of active beds, which is mainly due to the acquisition of the Paraná Hospital and the maintenance of an occupancy rate and increase of the average tickets due to greater complexity and price increases in the past 12 months.

Additionally, the oncology business continues to show significant progress with the growth of 47% in 1Q. We are optimistic with the results of this business going forward, result of the



progress in the management of hospital assets and the main growth levers for this year, which are occupation of ORs, conversion of outpatient clinics, oncology and navigation of patients from labs hospitals.

Moving to the right side of the slide we can see the gross margin for this business, which had a slight decrease when compared to 1Q 22, which was basically the result of the incorporation of the Paraná Hospital in late March 2022, an asset that has a lower margin than the rest, and the seasonality of the operating schedule for 1Q considering the concentration of price increases in 2Q.

And we should mention that the company has been making progress in synergy and efficiency projects, particularly focusing on the management of our physicians' compensations and materials and medications, and we expect to see incremental results over the next quarters as a result of this effort.

Moving on to the diagnostics and care coordination business on slide number 7 we see that the revenue this quarter was also a record for Dasa totaling 1.9 billion BRL with an increase of 9% in comparison between the periods, with a 19% organic ex-Covid growth, above the main publicly traded competitors, and the growth of six p.p. compared to 4Q 22 when we had the growth of 13% ex-Covid.

This shows a continuous acceleration of growth in this business and organic share gain, result of the growth levers for 2023 that have been giving us results which are new commercial contracts, management of offering of exams, digital experience and high growth initiatives that include but are not limited to the expansion of our premium brand, Alta Diagnósticos.

Moving on to the gross margin we kept the normalization of the margin level this quarter with an increase of over 8 p.p. when compared to the previous quarter. Comparing with 1Q 22 the margin dropped 1.3%, particularly due to the mix effect that brings a drop of the representativeness of Covid 19 tests. Covid 19 tests, which accounted for 9.4% of the gross revenue in 1Q 22 due to the Omicron sub variant, this quarter is accounted only for 1.3%. Moving on to slide number 8 now we show the progress of our digital strategy and the monetization funnel of the Nav platform.

Today the main purpose of our integrated healthcare platform is to explore the full capacity of our ecosystem, looking for the navigation between the different Dasa business units and the efficient monetization. In order for this to happen we were on five growth levers which you can see on the left side of the slide and they are: navigation from diagnostics to hospitals; outpatient conversion; Dasa Empresas, or Dasa Companies; care coordination; and Nav.

Moving on to the right side of the slide we can see that we are still very effective in increasing our user base, both patients and physicians. In the end of 1Q 23 we had already 7.2 million patients and 41,000 physicians registered in our platform, a very significant growth when compared to the previous year.

From the registered users we see an increase in the recurrent use of our platform showing a greater engagement with progress in both indicators; regarding physicians the number of active weekly physicians increased by 1.5x.



Finally, we also see a robust progress in the reach of our services measured by the number of patients accessing the products in the platform that grew also 50%, further generating opportunities for navigation.

Now moving on to slide 9 you can see the progress of our expenditures and adjusted EBITDA in this quarter, with two good pieces of news: on the left side we see expenditures. This was the third quarter in a row that we had dilution, in line with our efficiency and productivity plan. In comparison with 4Q 22 total expenditures as a percentage of net revenue reduced 0.6 p.p.; when compared to 1Q the adjusted number by provision reversal the dilution was one p.p.

On the right side we see the progress of adjusted EBITDA, which grew 12% when compared to 1Q 22 also considering reversal adjustment last year. The growth compared to 4Q 22 was 34%. The growth of EBITDA in these periods reflects a robust increase in revenues in both business units.

Now on slide 10 we finished the quarter with a pro forma leverage for covenant effects of 3.6x the value of net debt/adjusted EBITDA LTM.

Our net debt was 9.6 billion or 8 billion considering the resources coming from the offer finished in April. The increase in net debt versus the past quarter is due to greater cash consumption mainly related to the payment this quarter of the CapEx from 4Q 22, which had a volume of about 50% of last year's total expenditures and worsening in accounts receivable on the one hand, and also a worsening in the date of receivables - but we have already a plan in place in order to normalize Accounts Receivable and a reversal will start in 2Q.

It is important to highlight that in line with our liability management strategy we continue to work towards optimizing our future amortization's schedule, and out of the total in 2024, 2 million BRL refer to a commercial paper.

Now I will give the floor to Pedro, who will be talking about our capital structure optimization strategy.

Pedro Bueno - CEO

And thank you Felipe. Next slide well, as we have been talking about we have five main fronts for our capital structure: first one we have just finished the increase in capital of almost 1.7 billion BRL in our company; and the second strategy which we are focusing a lot right now for 2Q, which is the possibility to sell hospital real estates, in particular two with a relevant value, and we are prioritizing them; and the third is CapEx, which as Felipe said we had an atypically high CapEx in 4H 22, and in 1Q TY we had almost 80% reduction when compared to past quarter already indicating a trend for this year. So we are also optimistic, we are really optimistic that our cash flow will be significantly better this year in terms of investments.

The fourth front here it says 'G&A efficiency', actually it goes beyond that; it goes through improving the profitability of our company which will come by improving gross margin particularly in hospitals, which is where we are still executing our profitability turnaround; and also with a reduction in G&A and we hope that this will be accelerated over the year.



And finally optimizing our working capital, which we historically we cannot see 1Q comparing Dasa with all our competitors, but anyway historically we have a payment term for receiving and paying which is benchmark in our industry.

This 1Q was worse than we expected but I am very optimistic. We are engaged, our financials, everyone here is really focused on a strong recovery of our Accounts Receivable, and as Felipe said we still have an opportunity to have a few more days in our payment terms, so we also expect over the next quarters to optimize, to have a significant improvement of our working capital.

So the combination of all these factors make us believe in the next months to have a very healthy leverage level, bearing in mind that we have many opportunities in our company. We are operating with an 18% EBITDA margin, so there is many opportunities with gross margin from hospitals, with decrease in G&A and also as a result of our thesis, which is integrate our journey of care, of navigating our patients, and this is one of the main levers that has been driving our growth.

And before I close just another piece of information: we have announced a change, a significant change in our team. We will have now - next week by the way - Helisson Lemos who will join us, he will be leading, or running, our platform business. He has 17 years of experience on the Free Market, which is one of the main platform companies in the world. He was country manager in Brazil. So we are really excited with Helisson joining our team - and I would like to thank Andrea, who is leaving the company. In addition to being a friend, she was extremely important in building what Dasa is today. She has led our platform starting 2020 and she is delivering as a platform with over 7 million users registered. Thank you so much Andrea and I wish you luck in your new cycle.

And I would like to reinforce the fact that we are very focused on the execution in the next quarters of sustaining growth rates, hold the growth rates trying to improve our profitability and we will also be focusing on putting together the capital structure plan, particularly Accounts Receivable, and we hope to have good news in coming quarters.

And I think now we can open the Q&A session, thank you so much.

Q&A Session

Operator

Ladies and gentlemen, we will now open the Q&A session. To ask a question please press *1. You can also send your questions through the webcast platform.

Our first question is by Mauricio Cepeda, Credit Suisse.

Mauricio Cepeda - Credit Suisse

Good afternoon, Pedro, Felipe, thank you for the opportunity. I have three questions, the first one has to do with gains in efficiency, something you have been working on. So you have been taking many initiatives, but we know that there is still a gap compared with your competitors,



both in hospitals and diagnostics. Could you please further elaborate on that? What do you think you can already do and how close would you be able to get to your competitors?

Specifically on hospital costs, the issue of materials increased more than normal. Could you please talk more about that and elaborate on that?

And the second question has to do with G&A. You have been working on it, but I understand you have probably had severance costs in 1Q. So could you please talk about that too? What do you think would be a sustainable G&A level?

And the third question, this agreement with Unimed, could you please give us more details how is it right now and what would be the rationale behind this agreement with Unimed? Thank you very much.

Pedro Bueno - CEO

Thank you for the questions, Pedro. I will start giving a general answer regarding your question on gains of efficiency, taking care that we will not be giving you any guidance because this is not our policy. When we look at the hospital assets of Dasa comparing them with our peers, there is no structural difference that would make us believe that our margins, our optimized margins should have important differences when compared to our peers. And I would say the same thing regarding the diagnostics business just saying, Lucchesi, that in diagnostics with the gross margins we have had and with a dilution of G&A that will take place over the course of the next quarters, we are talking here about an EBITDA margin that is pretty close or in line with our main peer or competitor. So I think that the challenge is actually more in the turnaround of the hospital margins and we are pretty confident that we are going in the right direction.

In terms of G&A dilution and connecting to your second question, we hope to have an acceleration of the G&A dilution vis-à-vis net revenue, because the implementation of our efficiency plan happened in February, March and April. So still a part will be implemented, but 80% has already been completed, so we are not able to capture the full benefit of this plan yet in 1Q, so we should see this accelerating over the course of the next quarter; the remaining 20% so that we have the whole plan implemented will happen over the course of the year because this depends on automation and process changes - but most of it has already been implemented. So we are very comfortable that the risk of execution is very low.

And finally comment on Unimed agreement, Unimed Rio historically has been an important partner of our company. We have had a long-standing relationship, ever since I joined Dasa they already had a very nice partnership that only grew over time.

And the rationale behind this agreement is that we managed to have a close partnership with one of the main players in Rio, which is an important city for us, and also with mechanisms in place that will make us feel really sure in terms of Accounts Receivable and payment terms. So we think that this has been a good partner of our company in the past few years, and the details of the deal you probably have already seen, but that was the rationale: being close to a relevant player in Rio with mechanisms in place that make the receiving process a pretty fluid



one as we have this guaranteed accounts as you probably saw in the minutes of the Board meeting.

Now I give the floor to Emerson to talk about Mat/Med.

Emerson Gasparetto - Hospital Operations and Oncology Officer

Cepeda, well before you do that regarding the margin in hospitals, we have many lines in our P&L that have made a lot of progress in terms of efficiency, but we still have opportunities for further improvement and we will see that over the course of the next quarters of this year. But there is another point which is the heterogeneity among different hospitals and we have to take them all to the same level. So these two initiatives will lead to increased margins with a growth of revenues, diluted in our administrative costs.

When you look at materials and medications, what happens, the costs of materials and medication or drugs in oncology is much higher than in hospitals. The hospitals we work with 21, 22%; and in oncology it accounts for 50% of the revenue. Since oncology is growing more than hospitals this leads to an increase in cost, but this is a good increase because the margin in oncology is pretty good, that is why we saw this percentage increase in Mat/Med considering the share of oncology in the business as a whole.

Mauricio Cepeda - Credit Suisse

Thank you.

Operator

The next question with Yan Cesquim, BTG Pactual.

Yan Cesquim - BTG Pactual

Good afternoon, Pedro, good afternoon, everyone. I would like to ask two questions; the first question is related to working capital. I would like to understand if you expect that in spite of cash generation in 1Q the impact of these external factors, do you expect that this year will still be a breakeven year with cash generation?

And the second question, which is also related to cash generation, is regarding working capital. I would like to understand more about the timing for normalization. Was that something isolated in 1Q and then things will go back to normal in 2Q? And I would also like to understand a little more if this swing, this variation is coming from one single payer. So I would like to understand a little bit more about the size of this impact and when we should have that normalized. That is it, thank you so much.

Pedro Bueno - CEO



Thank you, Yan. As I said we see that as something that is isolated, it does not really change our vision for this year. The good side of it is that these extension of our Accounts Receivable was mainly with insurance companies with good credit risk, and we are pretty sure that we will receive these payments.

And another positive note or information is that this is not concentrated in one single insurance company; we have actually a set of 10 insurance companies which for different reasons, some had delinquency or delays in payments, so different reasons. So we are very much focused addressing this issue. I would expect that things would normalize over the course of this year, but with a pretty positive sign already in 2Q - not receiving the whole, but the rest we will look for in 2H TY. I am personally involved in these conversations and talking strategically from CEO to CEO, and as I said in the beginning of our call I am quite optimistic that we will start having improvements in this line in the next quarters.

Yan Cesquim - BTG Pactual

Perfect, thank you Pedro.

Operator

The next question is by Leandro Bastos, Citibank.

Leandro Bastos - Citibank

Hi there, good afternoon. I have two questions regarding the hospital business. You mentioned a concentration of price increases starting in 2Q. Could you share the magnitude, the size of these price increases, that is the first question.

The second question is actually a follow-up of the Mat/Med question. You talked about oncology and the impact in oncology, but without including oncology how do you see this issue of prices going forward, without including oncology? Thank you very much.

Pedro Bueno - CEO

Thank you. I will start answering regarding the commercial performance. Well, actually we think that this is one of the opportunities the company will have this year. Our commercial or sales area has an outstanding performance. Well, by the way this is one of the areas where we made important adjustments particularly in the turn from 2021 to 2022, and we have an extraordinary sales or commercial appeal.

When we look our performance regarding price rises, we are managing to get a premium in our hospitals, and this shows how we have been managing to increase prices in a challenging scenario. This reflects our value proposition. So we have been developing an operating model that focuses on efficiency, average length of stay, conversion from the ER. This gives us arguments to get price increases even in challenging scenarios. In hospitals we have been able



to get a premium price and this will start having a positive impact on figures in the next quarters.

In diagnostics we have a greater concentration of price increases in 3Q, late 3Q, but price increases that have been happening earlier this year in diagnostics we have been doing in line with what we had forecasted, historically a small deflator of IPCA, but we will try to get gains in efficiency and scale getting even small margin increases.

And adding to that we have had an outstanding performance not only in price rises, but also new accreditations that have been happening in 4Q and 1Q. These may have a ramp up when you accredit them; it does not mean the next day everybody is going to your unit, so it takes some time, but anyway we expect that these accreditations should continue to speed up our growth in the next few quarters. Emerson, would you like to make any comment on oncology?

Emerson Gasparetto - Hospital Operations and Oncology Officer

The Mat/Med line is not really a matter of concern for us looking forward, because if we go back in time two years ago, we doubled the number of beds and for that reason we have this bargain power based on volume. Part of that is related to volume and part of it has to do with clinical efficiency and protocol, and you cannot implement all the protocols in a very fast speed. We are still implementing protocols, we measure this standardization of the protocols and we have a very high KPI this quarter, around 90% standardization of clinical protocols, and this generates further power for negotiations as we standardized our product goals. Considering clinical efficiency and growth in volume we have made good growth in Mat/Med.

And all these actions I have mentioned for hospitals they also apply to oncology. We doubled the size of our business and it grows 50% YoY, and this also leads to better bargaining power when we have to negotiate.

Leandro Bastos - Citibank

Thank you.

Operator

Our next question is by Gustavo Miele, Goldman Sachs.

Gustavo Miele - Goldman Sachs

Good afternoon, Pedro, Felipe, Glauco and the other directors, thank you for the presentation. I would like to ask two questions, one about each one of the BUs. If we start with business unit 2, what were the main drivers of this growth, this growth of 15% YoY? Is there any backlog that was addressed, anything that you thought that was like a backlog that now has been addressed? Did that contribute to this figure?

And could you please share with us at which level of this pyramid? Did it grow more in premium brands or intermediate brands? I think it would be interesting to understand that



because you have been talking a lot about high brands, or premium brands; could you share any KPI regarding the performance in this niche? That would be really nice.

And the second question if you allow me more related to business unit 1. Could you please give us some direction, what has been the ticket performance if we excluded recent M&A and oncology? That would change significantly, would not it? You have talked a little bit about the contribution of oncology. What about the ticket and what was the weight of the hospitals that joined the company more recently? These are my questions.

Rafael Lucchesi - Outpatient and Diagnostics Officer

Thank you for your question, Gustavo. Drivers of our growth, we started in the middle of last year with this acceleration project, which is a multidisciplinary process. We saw that after 4Q we could once again start accelerating growth. We executed it and we are still executing it, executing this plan with a lot of discipline. The first point which Pedro clearly showed you, the commercial or more active and well-structured sales area close to the business seeing where important opportunities are, which are the opportunities which in addition to increasing volume we can also increase our margin, and with that we have a greater revenues/m2 better using our assets. So this is very positive growth that brings profitability and that is why we are able to preserve and recover our gross margin vis-à-vis the last quarter.

And we have a second front or effort which are more related to operations. So managing service offers, creating service offers; converging schedules also using the digital now with this platform Nav that is increasingly connected or integrated in scheduling; we have a growth in some high-growth levers as mobile care and vaccines. So there is a number of activities in terms of managing conversion and so on which will also bring revenue, and most of them in already existing assets, thus with a lot of profitability. So bringing together the sales front, the commercial front with optimization of the use of assets and conversion of consultations we will grow in profitability.

Talking a little bit about different segments we are still growing stronger in the premium segment, so this is still, is an important growth lever, above our average lever; in addition to Alta, that has this outstanding growth, in other segments we have a very similar growth with executive and standard, as we make them down here, no one is really standing out. We have been able to grow in all of them and we are really trying to meet the needs of the insurance companies so that we grow where they need it. I think that is it, thank you.

Pedro Bueno - CEO

Just to make it clear, Alta still represents a small share of diagnostics. So in order to have this 19% of growth this means that all brands have been growing very significantly. So we grew in standard and executive brands - and premium is higher than the other ones -, but the other ones also grew a lot in 1Q as a result of these levers and also the navigation which we have been working on in our company. So it was not a backlog, it was not something isolated; we are expected to grow at good rates in the next quarters.



Emerson Gasparetto - Hospital Operations and Oncology Officer

Regarding the average ticket, Gustavo, when we remove the effect from oncology, when we remove the effect of the operations that joined our business more recently looking at the mature segments where we have complexity and mix already, the main action here is commercial, sales, and we have a ticket that is slightly above inflation rates when we look at those operations.

Gustavo Miele - Goldman Sachs

That was very clear, thank you so much.

Operator

Ladies and gentlemen, just reminding you if you want to ask a question just press *1.

Our next question is by Ricardo Boiati, Safra Bank.

Ricardo Boiati - Banco Safra

Hello, good afternoon, thank you for having my question. I have a follow-up regarding costs. The Mat/Med point is very clear, but in business unit 2 there was a growth in expenditures with staff. I know you have less revenue because of Covid, but is there any other factor that explains this cost pressure regarding personnel, staff? And also general expenditures for both business units. Could you please give us more details?

And the second question is related to oncology. You mentioned in your release and your presentation some services that have been implemented. Could you please give us more details? What exactly is being done and how much room do you still have for the implementation of new services and internalization of services, services that so far were outsourced to other players?

XXX - Dasa

Ricardo, regarding costs with staff in BU2 the main thing is negotiation with the union. We have a curve, we had some peaks of inflation rates last year, the impact of negotiation with unions in important cities, it is way above current inflation rates. So we carry that cost in our P&L and we are trying to offset that with all the productivity actions, keeping a positive margin forward.

XXX - Dasa

Well, regarding oncology, well, some hospitals that joined our system still had outsourced oncology services and now we have in-house services - but that is not really relevant for oncology as a whole. That is what we meant with that point.



Ricardo Boiati - Banco Safra

Okay thank you.

Operator

The Q&A session is closed. Now I would like to give the floor to Pedro Bueno for his final remarks. So the floor is yours, Mr. Bueno.

Pedro Bueno - CEO

Thank you everyone. As I said we are really happy with the records we broke in this quarter and really aware of the work still to be done. We will go deeper in our growth levers sustaining the growth rates we have had, gaining more share, trying to improve the gross margin in hospitals, accelerating the dilution of G&A with a big focus on capital structure, particularly improving our working capital and Accounts Receivable. We are very much focused on having improvements in these areas in the next quarters. Thank you very much and I wish you all a great weekend.

Operator

Dasa's earnings conference call for 1Q 23 has ended. The Investor Relations area is available to answer any other questions you may have. Thank you all for attending and have a good afternoon.
