Conference Call Transcript

Hapvida

4Q24 Results

Operator

Hello everyone and thank you for waiting. Welcome to the release of Hapvida's fourth quarter 2024 results. Mr. Jorge Pinheiro, CEO and Mr. Luccas Adib, CFO, will be present with us today I would like to point out that simultaneous interpretation will be available and all you have to do is to click on the interpretation button and choose the english option.

This event is being recorded and will be made available on the company's IR website along with the full results materials. You can download the presentation by clicking on the icon in the chat and please note the disclaimers at the end of the presentation.

During the company's presentation, all participants will be in a listen only mode. After the company's remarks, there will be a Q&A session. To ask a question, please click on the Q&A button on the bottom of your screen and write your name, company, and language to join the queue.

Now I would like to hand the floor over to CEO Mr. Jorge Pinheiro, who will start the presentation. You have the floor, Sir.

Jorge Pinheiro – CEO

Good morning, everyone. Thank you very much for joining us on Hapvida's fourth quarter 2024 Earnings Conference Call. We are here in São Paulo — myself, Luccas Adib, our CFO, along with Guilherme, Renato, Gleycianne, Ana Luiza, our Investor Relations team, and Candido Neto - to share with you some key highlights of our results.

We are closing out a historic chapter for our Company in this cycle that ended on December 31, 2024. Almost two years ago, we invited the market and our investors to learn about a bold transformation plan that encompassed operational, commercial, technological, corporate, and most importantly, post-acquisition integration initiatives. I can confidently say that our teams acted with discipline, determination, and common sense, and we have now successfully concluded the execution of that comprehensive plan.

This milestone has positioned us to begin 2025 from a very favorable standpoint with fully integrated and unified operations, supported by robust and reliable controls. We are now redirecting our teams, resources and efforts toward a new strategic agenda, always keeping our beneficiaries at the center of everything we do. We will focus on accelerating the digitalization of our operations, expanding and upgrading our proprietary network, and broadening our scope of activities. Our Company has tremendous execution capabilities, and now, relieved from the intense integration agenda that consumed us over the past two years, we are ready to embark on a new cycle, a new journey.

Now, before we dive into the financial highlights, I'd like to provide a general overview of the year 2024. It was a year marked by both significant challenges and important achievements. At the beginning of the year, the state of Rio Grande do Sul faced a critical situation due to severe flooding. We quickly set up a crisis committee that held daily meetings, and our healthcare network remained fully operational. With our teams working under extraordinary conditions, we were able to overcome the challenges and provide care to the affected population whether or not they were Hapvida members. Also early in the year, we faced the largest dengue outbreak in Brazil's history. During this period, the Company made significant investments in opening specialized units, increasing the number of medical professionals and hospital beds, in line with our mission. The volume of urgent outpatient visits and exams related to dengue and other viral infections was far above our historical levels for this time of year. Even so, we were able to keep our medical loss ratio under control. This highlights the strength of our vertically integrated business model. In the second half of the year, the issue of excessive judicialization became increasingly relevant, significantly impacting the entire healthcare sector, both public and private. In response, we created multiple task forces, which will be detailed later in this presentation.

On the achievements front, 2024 brought several important milestones: We invested approximately R$300 million in system development to prepare for the final stages of our integration journey with NotreDame Intermédica. The final system migration was completed in December 2024, and we are now a fully integrated company from a systems standpoint, with significant gains in customer journey oversight and full visibility into all of our quality of care indicators, critical tools for our management. Our Monitoring and Control Center already tracks over 100 healthcare quality indicators in real time, monitoring every single one of our operational units. As we have reiterated in previous quarters, all stages of the integration - both on the healthcare and the health plan operator sides - were carried out diligently, ensuring that customer perception of service quality remained intact and, as a result, had no impact on churn.

We also took advantage of this post-integration phase of our operational and corporate systems to review a wide range of processes and internal control policies. Several teams were involved in this comprehensive review to ensure the security and integrity of our information. With a unified and standardized system now in place, management is able to identify discrepancies more quickly and respond with greater agility bringing significantly more security, reliability and predictability to our operations heading into 2025.

We invested approximately R$500 million in infrastructure to expand and enhance our own healthcare network. Over 112,000 square meters were renovated, expanded or retrofitted. Throughout the year, we inaugurated 1 hospital, 2 emergency care centers, 32 medical clinics and 3 diagnostic and imaging units totaling 38 healthcare facilities across the country. Speaking of our own network, the expansion of our healthcare infrastructure remains a top priority for the next two years. Our verticalization strategy remains strong and is expected to accelerate following the intense integration process we have just completed. We will continue to expand and upgrade several hospital units across Brazil. In December, we announced our infrastructure investment plan totaling approximately R$2 billion and we are already seeing its execution materialize. In Manaus, we inaugurated the Nilton Lins Hospital in December, one of the largest hospitals in the city. In Fortaleza, we opened the Santa Maria Hospital in January 2025 a state-of-the-art, fully equipped facility. This week, we are also reinaugurating the Jardim Anália Hospital, located in the Anália Franco neighborhood here in São Paulo. The expansion of Layr Maia Hospital in Belém (Pará) is expected to be completed by April, while Ariano Suassuna - our flagship hospital in Recife (Pernambuco) - is nearing completion, with its inauguration scheduled for May. Our two new hospitals in São Paulo and the one in Rio de Janeiro are progressing well and are currently in the design and planning phase.

Our ongoing efforts to improve the quality of care remain a top priority. When we look at our healthcare quality indicators, satisfaction levels by operator have shown consistent improvement. The investments we've made in quality have been recognized by our clients, as reflected in a steady decline in complaints. As a result, our consolidated General Complaint Index (IGR) across all Group operators outperformed the industry average throughout 2024. We did experience a slight uptick in complaints in January 2025, which was expected given the final stage of the system migration for NDI Saúde. However, thanks to the swift action of our integration team, the index has already begun returning to healthier levels as of February. I would like to take this moment to thank the incredible team of employees and service providers who have been working tirelessly throughout this assisted operation phase. You are true warriors!

At the beginning of the fourth quarter, the Company received a credit rating upgrade to a stable outlook, reaffirming Hapvida's financial strength. Shortly thereafter, we announced another capital markets transaction - our 8th debenture issuance - raising R$2.0 billion. This issuance also received the highest investment grade rating (AAA). It is also worth noting that our gradual and organic deleveraging process remains on track, with our net debt to EBITDA ratio approaching 1.0x, a very healthy and comfortable level. Additionally, the Company closed the year with a strong cash position of approximately R$9 billion, which is essential for navigating volatile periods such as the current environment.

Diving deeper into our financial performance on slide 2 of the presentation, the fourth quarter was marked by historically low medical loss levels, driven by lower utilization volumes compared to previous quarters. In 4Q24, our Cash MLR reached 67.9%, the best result in the history of the combined company. This represents a meaningful improvement of 1.4 percentage points compared to 4Q23, and a 2.5 percentage point reduction versus 3Q24. For the full year, the ratio stood at 69.2%, which is very close to our aspirational levels.
Our own network has been gaining greater relevance within our total cost structure not only due to the investments we've made in expanding our own facilities, as previously mentioned, but also as a result of the ongoing portfolio refresh. New sales are increasingly attracting clients who choose more vertically integrated plans, further reinforcing this trend.

An extraordinary event in the quarter was the Company's adherence to an agreement for the partial settlement of amounts related to reimbursements to SUS (Brazil's Unified Health System) and fines imposed by the National Supplementary Health Agency (ANS) on the Company's healthcare operators. As a result of this negotiation, the Company recognized a benefit of R$470 million. Luccas will provide further details on this transaction later in the presentation.

One key highlight I must mention is our gain in lives during the quarter, with a net addition of just over 20,000 health plan beneficiaries compared to 3Q24. We maintain a positive outlook for 2025. We are moving forward confidently into this new cycle, supported by appropriate pricing adjustments and a responsible, sustainable underwriting policy. Our adjusted EBITDA totaled just over R$1 billion for the quarter, representing a nearly 20% increase year-over-year. Our adjusted net income nearly doubled over the same period. When comparing full-year results—2024 versus 2023—our EBITDA grew by almost R$1 billion in just one year. While we did face some non-recurring effects, which will be detailed later, we also experienced pressure from legal contingencies that impacted G&A. The topic of judicialization will be addressed in more depth further ahead. As for adjusted net income, it posted even stronger growth—up just over 170%. We are very proud of these results.

With the integration process now complete, and supported by a controlled medical loss ratio, comfortable leverage levels, strong cash generation, continued improvement in our customer satisfaction indicators and the return to organic beneficiary growth, we begin 2025 with several strategic priorities. The first is the expansion and upgrade of our own network, as previously mentioned. Second, we will focus heavily on technology—shifting from system implementation to true technological disruption through the intensive use of artificial intelligence. We have established dedicated governance to monitor all AI-related initiatives currently under development. Dozens of projects are underway, many being developed in-house and others in partnership with national and international institutions, tailored to each specialty. Our current focus is on initiatives in medical care delivery, as well as several back-office projects, all of which are expected to generate significant impact in both service quality and cost and expense reduction.

And finally, we believe that 2025 will still be a year of synergy capture, as we are currently reviewing all of our performance indicators, which are now fully integrated and standardized. It is important to reiterate that our focus remains on the customer. All of our efforts are aimed at placing the beneficiary at the center of our ecosystem, in order to continuously enhance satisfaction levels. Today, our quality indicators already place us at the top of the rankings among the country's largest health plan operators. We are entering a new chapter following all the achievements and transformations of recent years, especially as we look ahead. For this reason, we see the need to adopt a new corporate brand that will further strengthen recognition, standardization and performance across our business. It is a new brand, but our essence remains the same: we remain focused and disciplined, always guided by and confident in our business model, with a long-term vision.

The results we are delivering come from our people. That's why I want to express my gratitude for the commitment and dedication of our nearly 70,000 employees, as well as our medical teams and service providers together totaling close to 130,000 individuals. I also thank our partners, brokers, and suppliers for their valuable contributions, and the Board of Directors and our shareholders for their trust and active engagement. Above all, I thank our clients, who are the very reason for everything we do. We reaffirm our commitment to serving the Brazilian people by delivering quality healthcare in an accessible and sustainable way.

Luccas, please go ahead with the presentation.

Luccas Adib – CFO

Thank you, Jorge. Hello everyone and thank you for joining us. It's a great pleasure to be with you once again for another Hapvida earnings call.

To begin, I'd like to comment on the restatement of the financial statements, which was disclosed in a Material Fact released last night. In the context of the system integration and migration process, intensified in the last quarter of 2024 and with the environment now enabling natural enhancements to our internal controls through the unification of legacy systems and our central ERP, we conducted a broad and thorough review of our processes, teams, governance structures, and methodologies.

In addition to that, we were faced with the issue of judicialization, which caught both us and the broader sector somewhat by surprise and ultimately prompted us to enhance and reinforce our processes. We will go into more detail on this topic shortly, but I mention it here to provide context: it was through these two events that we took a deeper dive into a number of areas and the result of that effort is what I will now present.

It is important to emphasize that all—let me repeat—all of the adjustments we identified were proactive. In other words, they were detected and diagnosed internally by our team and then reported to the independent auditor. PwC conducted extensive testing and additional reviews of our financial statements and internal controls, including identifying the root causes behind these adjustments, and reached the same conclusions as we did. In short, we have done and continue to do our homework, including reinforcing our controls to help prevent any future need for adjustments. We firmly believe these were adjustments related to process enhancement and improvements in our control environment nothing beyond that.

In this context, we carried out the following accounting adjustments and corrections, which are duly reflected in the 2024 financial statements you have access to, in accordance with CPC 23. These adjustments were made through the restatement of comparative balances as of December 31, 2023, and the inclusion of balances prior to December 31, 2022, in the Company's shareholders' equity.

On slide 3, we present these adjustments, which are immaterial in terms of balances. They reflect positive adjustments equivalent to 1% of shareholders' equity under IFRS 17—the Company's current and official GAAP—and negative adjustments of 0.4% under IFRS 4, the previous GAAP still used for performance tracking purposes. Let's go through each of the adjustments shown on this slide.

- The first refers to the write-off of a tax liability calculated as a temporary difference on goodwill, which was recorded under the business combination line item related to the 2016 acquisition by NDI. It also includes adjustments related to the impairment of tax assets and liabilities with no expected realization, as well as the deferred tax effects on those corrections. This first group of adjustments resulted in a positive impact of R$310 million on shareholders' equity.

- In the second bar on the screen, we addressed assets and liabilities with no expected future realization. This primarily refers to the write-off of indemnifiable assets, totaling over R$180 million, related to an arbitration process, which had not been properly reflected in the opening balance sheet. Individually, this was the most significant adjustment among all, and it now positions us in a fully comfortable and provisioned stance should the arbitration outcome be unfavorable.

- Also under this category is the write-off of a liability related to the stock grant plan, which was reclassified back to shareholders' equity, and the recognition of a tax contingency included in the balance sheet of a hospital acquired by the Company in 2021. These adjustments totaled a negative R$224 million, already including the R$180 million related to the arbitration case.
- The third group of adjustments refers to the regularization of balances related to judicial deposits and frozen amounts that had already been released by court

authorities in prior years but were still recorded on our balance sheet. This adjustment ties into the topic of judicialization, which I will discuss in more detail later. This item totaled a negative R$168 million, covering the period from 2016 to 2023.

- The fourth item refers to the correction and standardization of our monetary restatement policy for assets and liabilities. Adjustments under this group amounted to a negative R$120 million.

Lastly, two adjustments impacted only the financial statements under IFRS 17. The first was the recognition of deferred revenue from certain contracts consolidated as part of the business combination with NDI in 2022, which had a positive impact of R$676 million. And the final item, similar in nature to the second group presented earlier, refers to assets and liabilities with no expectation of realization, totaling a positive R$29 million.

Turning the page on this topic—which reflects our strategic view of continuous improvement in corporate governance and the strengthening of our internal controls agenda—let's move on to our results:

Moving on to the next slide—slide 4—you'll see that total revenue reached R$7.5 billion in 4Q24 and R$29 billion for the full year 2024, representing year-over-year growth of 7.8% and 5.8%, respectively, compared to 4Q23 and 2023. This performance was driven by growth in our Health and Dental Plan segments, the result of our successful pricing strategy and financial balancing of contracts. This strategy more than offset the decline in revenue from medical and hospital services and the discontinuation of other business lines and activities. Looking ahead to 2025, we maintain a positive outlook on this front, as we expect average price adjustments to trend below 2024 levels—gradually returning to the Company's historical pre-pandemic adjustment levels.

Moving on to slide 5, we saw a net addition of 20,000 health plan beneficiaries during the fourth quarter. In addition—and contrary to our initial expectations at the beginning of 2024—we ended the year with positive net growth. We lost fewer lives and gained more than anticipated, and we believe 2025 will bring positive developments in this journey and trend, supported by the significant investments and enhancements we've made in our network. These efforts are clearly reflected in improved churn control and new member acquisition. It's worth noting that the first quarter is typically more challenging due to seasonality, in addition to the natural effects of system transitions. However, this does not affect our constructive outlook for the year ahead.

In 2023, we implemented important and necessary changes to bring medical loss ratios back to appropriate levels across our operations. These included portfolio optimization initiatives and adjustments to the products we offer. Today, we can segment the regions in which we operate into three main groups: The first group consists of our more mature operations, such as the North, Northeast, and Central-West regions. These areas continue to grow in a sustainable and consistent manner, with strong margins. The second group includes the operations acquired by Hapvida in recent years, which required corrections. These regions have now stopped posting net losses in membership—and some have even returned to growth, such as Rio de Janeiro and the Federal District. Finally, we have the Southeast and South regions of the country, including states like Rio Grande do Sul, Paraná, Minas Gerais, and São Paulo mostly NDI-originated operations. These were the last regions to undergo adjustments, operating in more competitive environments and having experienced higher churn in recent years. However, these markets have been showing improved performance quarter after quarter.

In the bottom right-hand corner of the slide, we can see the evolution of the average ticket, which increased by 10.2% between the fourth quarters of 2023 and 2024. In this chart, we highlight an 8.4% increase in Net Price, which reflects the effects of higher verticalization and greater cost-sharing in existing contracts. The second component, labeled "mix" which represents, on a net basis, the difference in average ticket between incoming (gross sales) and outgoing (cancellations) contracts—contributed an additional 1.8 percentage points. This was mainly driven by updated pricing tables and a more favorable portfolio mix. For the second consecutive quarter, the mix effect is no longer diluting overall ticket growth.

On the next slide, slide 6, we present a cash medical loss ratio of 67.9% for the quarter, representing a significant improvement of 140 basis points compared to 4Q23 and 250 basis points versus 3Q24. The 4Q cash MLR reflects the typical utilization patterns of the segment in fourth quarters, with a seasonal drop in demand for services during December due to year-end holidays. This year, we did not experience any atypical events such as viral outbreaks that could have distorted results.

On the other hand, throughout the year, the Company strengthened its own network to reduce wait times and increase beneficiary satisfaction. Investments in quality of care were made across the country, with a particular focus on São Paulo and Rio de Janeiro following the system migrations, which required adjustments to align these regions with the models and performance indicators of our more mature markets. Additionally, in 2024, we implemented a targeted task force aimed at reducing wait times for elective surgeries in the São Paulo metropolitan area. We are delivering more healthcare to our beneficiaries, and the results are clear reflected in our NPS, in the General Complaint Index (IGR) by operator, and in our churn rate. We are achieving all of this by placing our beneficiaries at the center of our ecosystem, and as a result, we reduced our medical loss ratio by 270 basis points compared to last year. This is a robust, consistent, and sustainable improvement that reflects our commitment and professionalism in delivering cost-efficient care.

Let me open a quick parenthesis here to address two specific sections before diving into G&A, as both involve extraordinary events that significantly impacted these line items. I want to provide the proper context upfront to ensure everything is clear. The first is a very positive piece of news we're excited to share with you: the signing of a historic agreement with the Federal Government that resolves a substantial portion of our outstanding balance related to SUS Reimbursements and ANS fines also detailed in the Material Fact released yesterday. The second is a more in-depth update on the judicialization topic, which we'll cover on slide 7.

Regarding the first topic on December 31, we reached favorable terms to adhere to an agreement for the partial settlement of amounts related to reimbursements to SUS and fines owed to ANS. The conditions proposed in the agreement negotiated between us and the Federal Government and mediated by the Office of the Attorney General enabled a significant reduction in the amounts under discussion. In this historic negotiation, we resolved liabilities registered as federal debt totaling over R$2.9 billion for R$1.7 billion, resulting in a net positive impact of R$470 million on our financials, broken down into R$145 million in EBITDA and R$325 million in financial result.

The agreement includes a combination of judicial deposit releases, acceptance of settlement for both probable and possible contingencies, and monetary adjustment settlements, structured as follows:

On the positive side, we recorded a net reversal/discount of R$866 million on ReSUS charges up to December 2024, against a liability of R$2.2 billion. This amount is broken down into R$541 million related to SUS provisions under Cost of Services and R$325 million in reversals of fines and interest under Financial Result. On the other hand, the agreement also included, primarily:

- R$250 million in net recognition of contingent liabilities related to ANS fines.
- R$128 million in judicial deposits converted into revenue by the Government, without the possibility of applying those amounts to other proceedings or Hapvida Group entities—following all ReSUS reversals, as required under the regulation governing the agreement.
- A R$187 million cash installment expected to be disbursed in the first half of 2025, which has already been provisioned.

This is why those who accessed the individual operator data on ANS's BI platform yesterday saw a significant reversal in the PESL-SUS balance. It was not a typo it makes complete sense, as we settled a substantial portion of the liabilities associated with this provision through the agreement.

One question that may arise is: going forward, how will we act? We will continue to engage in discussions regarding ReSUS, as we believe we have a strong legal basis concerning the

IVR—an indexation mechanism that increases SUS reimbursement amounts by 50%. As for ANS fines, in light of Normative Resolution No. 623, published in December 2024 and set to take effect in July of this year, we will begin settling fines more quickly—particularly those for which we see low chances of success—while taking advantage of significant discounts. Our efforts to mitigate the financial impact of fines have already started to bear fruit, as demonstrated by a more than 40% reduction in NIPs (Notices of Preliminary Investigation) throughout 2024. We will remain committed to further reducing NIPs in 2025 and beyond. We are already the top performer among the country's largest health plan operators in this area, but we are determined to continue improving.

It is also important to mention that the final conclusion of the agreement is still subject to internal and operational procedures by ANS and the Office of the Attorney General (AGU). However, these pending steps do not have the capacity to materially alter the terms under which the Company submitted its adherence to the agreement.

Now, moving on to the topic of judicialization, starting on slide 8. In December 2024, we completed a comprehensive review of our entire base of judicial deposits and reassessed the need for civil provisions. After making all necessary adjustments, our coverage ratio—calculated as provisions divided by blocked amounts—stood at 104% in 4Q24. Looking at the adjusted pro forma figures for previous periods, with deposits and provisions aligned to their respective accounting periods, we can see that the coverage ratio has remained above 100% over the past two years.

In the course of our comprehensive analysis of the full stock of blocked and judicially deposited civil amounts, we identified several cases in which such deposits had already been released to beneficiaries over time. Historically, the verification of these amounts was performed manually and individually—case by case—which led to a mismatch in the records. We were able to pinpoint the exact release date for each deposit paid out to beneficiaries. Additionally, we identified and linked any remaining provisions related to those cases, allowing us to write off the corresponding balances. As a result, we had the opportunity to realign the effective accrual periods for each disbursement, matching them with the respective provision movements, and to recalculate what the asset and liability balances should have been in 2023 and 2024. That is precisely what you are seeing on this slide.

It is also worth noting that, in addition to adjusting the balances, we corrected our practices related to the monetary restatement of assets and liabilities, which had not been applied previously. This impacted the accounts on a cumulative basis during the quarter. In the recalendarized pro forma view, we also made the appropriate adjustments to each account for the respective periods. As a result, the pro forma provides a quarter-by-quarter view of the adjusted effects reflecting how these balances and their impacts on results should have been recorded over time.

We also performed this recalendarized pro forma analysis for total contingency expenses as a percentage of net revenue, shown at the bottom of this slide. In 4Q24, pro forma contingency expenses totaled 3.3% of net revenue, a decrease compared to 3Q, and now at a level more in line with the additional judicialization impact we had anticipated and shared with you at the end of the third quarter last year.

On the next slide, slide 9, we present this pro forma analysis of judicial deposits and civil provisions for the second half of 2024. In the first chart at the top, focusing on deposits and comparing the movements in 4Q24 versus actual 3Q24, we observe the following:

- We observed stability in new deposits, net of recoveries, at around R$200 million.
- Write-offs and expenses totaled R$94 million in 4Q24, compared to R$147 million in 3Q24. In the bottom chart, which refers to provisions, we noted the following:
- New provisions of R$93 million in 4Q24, compared to R$151 million in 3Q24.
- Payments of R$47 million, versus R$56 million in 3Q24 and monetary restatement of R$12 million.

Today, we have significantly stronger governance and control mechanisms than we did in the past. We have engaged consulting firms, brought in data scientists, automated processes, and are implementing the right technology to build the dashboard of indicators required to manage this issue with greater precision and security. We now have daily visibility into all incoming freezes and outgoing deposits, with weekly performance targets. Jorge and I personally monitor these balances on a daily basis. The working groups we established and mentioned to you last quarter are gaining traction, and we are increasingly confident that they will deliver results. This is an important topic, and I'd like to draw your attention to one specific point: One piece of information we can already share is the trend in net new judicial deposits. While figures are still preliminary, for the months of January and February of this year, we are already seeing a decline compared to the monthly average in the fourth quarter. It's a meaningful reduction relative to the 4Q monthly average.

Now returning to SG&A—on the next slide, slide 10, which covers Cash Administrative and Selling Expenses—we can see that administrative expenses as a percentage of revenue reached 17.2%. This was impacted by the two topics I just discussed:

- 5.3% was related to the settlement of contingent liabilities from ANS fines; and

- 1.5% came from write-offs of civil judicial deposits from the first nine months of 2024 - both considered non-recurring items.

Excluding these events, Administrative Expenses as a percentage of Net Revenue would have been 10.4% - 0.7 percentage points higher than in 4Q23, but 1.0 percentage point lower than in 3Q24.This reflects the impact of judicialization, particularly over the last two quarters, as well as the system integration efforts, whose related expenses were seasonally concentrated in 4Q due to the December migration.

I want to reaffirm our confidence not only in our ability to generate savings following the conclusion of the assisted integration process, but also in the significant time we've invested in long-term planning—focusing on initiatives such as automation, digitalization, artificial intelligence, back-office training, and more. As our founder and visionary often says, 2025 will be the year of Hapvida's digital transformation. And 2026 will be the year of preventive medicine, powered by embedded technology. There are so many projects and initiatives already underway that, unfortunately, we can't cover them all here. But we intend to start incorporating tangible updates into our communications over the coming quarters. Jorge already gave a small preview of some of these initiatives.

In the bottom right corner of the slide, we've created a bridge chart to facilitate the understanding and composition of what impacted the contingency expenses. I believe this chart is self-explanatory, but I would like to highlight the one-off events related to the ANS Fine Agreement and the disbursements from previous quarters.

Selling Expenses, shown in the top right corner of the slide, reached 7.4% in 4Q24—50 basis points higher than in 3Q24—due to the concentration of advertising campaigns in 2Q24 and 4Q24, with campaigns launched in the South and Southeast regions. On the other hand, Commission and PDD (Provision for Doubtful Debts) expenses have remained well-controlled and consistent.

On the next slide - slide 11- our adjusted EBITDA for the quarter reached R$1.063 billion. For the full year, 2024 EBITDA totaled R$3.8 billion, a nearly 35% increase compared to 2023, driven by all the effects we've discussed so far. This is a naturally more pressured result, as it reflects the greater impact of judicialization on 2024's financial performance. However, it is still a strong result, reflecting the resilience of our operations and demonstrating that we are on the right path toward margin expansion and the recovery of growth.

It is also worth mentioning that our Adjusted Net Income under IFRS 4 increased from R$680 million in 2023 to R$1.8 billion in 2024, representing a 170% year-over-year growth.

Similar to G&A, we also performed a pro forma exercise here, excluding the effects of the ANS Fine Agreement and the Reversal of ReSUS, and reallocating the disbursement of R$113 million to the appropriate periods. For Adjusted Net Income, we also included the reversal of financial expenses and taxes related to the Agreement.

Moving on to the Cash Flow on slide 12. In 2024, we had a net cash increase of R$1.4 billion, with R$1.5 billion generated from Free Cash Flow and R$0.4 billion from Financial Activities, which were partially offset by a negative result of R$0.5 billion from M&A Activities. Starting with the R$3.8 billion of Adjusted EBITDA, in Free Cash Flow, we have the following: R$163 million from the ReSUS Agreement and ANS Fines, which had positive effects on EBITDA but no cash impact

- R$254 million from Judicial Deposits related to ReSUS, required for the Company to defend itself in court without incurring late fines or charges
- R$123 million in Net Taxes to be recovered/collected, due to the mismatch between assessment and disbursement
- R$115 million in Accounts Receivable, with R$53 million from long-term receivables related to Hospital Services Sales and R$62 million from Health Plan receivables, in line with revenue growth.
- R$75 million in Net Provisions and Civil Judicial Deposits.

We also had R$251 million in Income Tax (IR) and Social Contribution (CS), and to help with understanding, we've included the chart below to reconcile Cash Tax with Current Tax. Throughout the year, the Company makes monthly payments under the Annual Real Profit System, along with taxes withheld at source. In December 2024, after the payment of Interest on Equity (JCP) by the operators to the holding company and the ReSUS/ANS Fine Agreement, the Company reversed part of the current tax and credits R$202 million, paid as advances throughout the year, which will be offset during 2025. In 2025, to smooth out the cash tax rate, we plan to make monthly JCP payments to mitigate the impact of tax carryforwards. This strategy should reduce the volatility of the effective tax rate in a high Selic rate environment.

The CapEx for the year was R$835 million, reflecting a stronger investment pace in new units and IT. This amount includes the Company's disbursement of R$158 million for the purchase of the property for one of our new hospitals in São Paulo. As we finalize BTS (Build-to-Suit) agreements for this hospital, we expect to be reimbursed for this amount throughout the year.

We generated R$2.6 billion in operational cash flow, which represents a 68.6% EBITDA-to-Cash conversion—this is a healthy level, but we aim to improve it further. On the next slide, slide 13, M&A Activities consumed approximately R$520 million in 2024, with the following breakdown:

- R$270 million from the release of the retained portion of the São Francisco Group acquisition;

- R$180 million related to the agreement with the seller of NotreDame Intermédica, a transaction that took place in 2014, in the context of an arbitration process already explained in previous quarters;

- R$109 million in amortizations of retained amounts from other acquisitions.

These amounts were partially offset by the proceeds from the sales of São Francisco Resgate and Maida Health, as previously mentioned.

Regarding Financial Activities, we generated R$366 million, with the following highlights:

- R$780 million in Financial Income, yielding 9.5% on the Company's average cash, slightly below the CDI for the period, mainly due to market-to-market adjustments on some assets in our funds; and
- R$220 million from share buybacks

We closed the year with a Net Debt to EBITDA ratio of 1.06x, a reduction since the end of 2023 and a slight increase compared to the previous quarter, due to the share buyback and other factors mentioned earlier. We aim to continue gradually deleveraging the Company and will do so over the coming quarters.

In addition to reducing our Net Debt, we also improved our debt profile, reducing the weighted cost from CDI+1.56% at the end of 2023 to CDI+1.36% at the end of 2024. We also increased the duration of our debt from 3.1 years in 2023 to 3.3 years in 2024. We continue to evaluate opportunistic moments for repurchasing our bonds in the secondary market.

In summary, for the year 2024, we achieved a margin expansion of over 280 basis points year-over-year, delivering more healthcare and higher quality to our beneficiaries. We generated more cash, deleveraged the Company, returned to a stronger investment pace in new projects with appropriate methodologies for capital return, and grew our beneficiary base in an extremely challenging year. We extended our debt, completed the largest system integration in our history, and reached a significant agreement regarding ReSUS and ANS Fines, among other accomplishments. In short, many victories that leave us motivated and engaged for the year 2025.

Once again, I appreciate your patience. This was not a trivial result for the Company; we had specific explanations and topics to address, but I hope this level of detail has been helpful. We will now open the floor for your questions and are at your disposal.

Thank you very much.

Q&A

Operator

We'll now start the Q&A session for investors and analysts. When your name is announced, a prompt to unmute your mic will pop on your screen, and you must then unmute your mic to ask your question. We kindly request that you ask a maximum of two questions and that you ask them all at once.
Our first question is by Vinícius Figueiredo, sell side analyst at Itaú. Vinícius, please unmute your mic and ask your question.

1) Vinícius Figueiredo (Itaú BBA)

Good morning everyone, thank you for taking my question.
Going back to slide 9, we can see in the top chart that the write-off of deposits in the fourth quarter was lower than in the third quarter, R$147 million in 3Q and now R$94 million. How much of this reduction in write-offs is related to seasonality or external factors? What should the company be already accounting for, such as agreements or disputes, etc.? My question is: those R$200 million that came in 3Q and R$200 million in 4Q when you're looking at the actual write-offs, is it lower than that? Clearly, there's this timing mismatch that makes it difficult to reconcile these figures. But the question is: could those R$200 million become an expense in 2025?
The other point is on slide 8, where you mentioned that contingencies, on a pro forma basis, are 3.3% of revenue. Given the write-offs from blocking and the internalization of some of these processes, which would fall under cost rather than contingency expenses, what would the final impact on margins from judicialization be that we should expect for 2025? Would it remain at 3.3% of revenue, considering MLR and the expense?
I think those are my questions, thank you.

Jorge Pinheiro – CEO

Hi Vinícius, thank you for your questions. I'll start with the conceptual answer and then pass it over to Luccas.

Yes, the fourth quarter already started bringing some good news. I think you remember that when we had the opportunity to talk about this topic, we showed that the formation of our working groups was beginning to show results. The first group we set up was tasked with addressing the blocked claims. After identifying a block, even if we have a strong legal position, we evaluated that handling the procedure within our own network where we have fixed costs and expenses would be much cheaper than using an accredited network or accepting the proposal from the other party. This group started working with great intensity in October and November, gaining traction during this period, and the results are already showing in the fourth quarter. In essence, if the company is able to maintain this approach for all operational blocks by directing them to our own network and negotiating well, we would be able to continue seeing these gains reflected in the fourth quarter through a significant reduction in write-offs. And remember that when there is a block and we issue the referral, the costs are already reflected in our fourth-quarter results. So, the write-offs we avoided by addressing the block have already been reflected in the fourth-quarter MLR. Now, Luccas, I'll ask you to answer the second part.

Luccas Adib – CFO

Hey Vinícius, great question. Thanks for the opportunity to explain this topic.
We don't expect this to maintain the same percentage of contingencies over net revenue going forward—we are working hard to reduce it, and we do expect to bring it down. However, right now, when you look at the fourth quarter, that extra 1.5 percentage points is a result of margin erosion due to this topic. The reason there is some doubt about this 1.5 percentage point increase we mentioned in 3Q and the same 1.5 percentage points now in 4Q is that, in the third quarter, we had said that the provision was sufficient for both Q1 and Q2. But when we recalendarized all these movements throughout 2024, we noticed that 3Q was a bit worse. When we make the proforma adjustment, the 3Q contingencies come in at R$287 million, and now in 4Q, they drop to R$249 million. So there are two factors at play: The third quarter was slightly worse when we recalculated and aligned everything with the correct accrual periods and the fourth quarter came in a bit better than 3Q.

We don't expect this to maintain the same percentage of contingencies over net revenue going forward—we are working hard to reduce it, and we do expect to bring it down. However, right now, when you look at the fourth quarter, that extra 1.5 percentage points is a result of margin erosion due to this topic.

Vinicius Figueiredo (Itaú BBA)

It's clear. As we can see from all the actions of the working group, reducing the amount written off from new blocks along with the internalization process, which could also lead to a slowdown in new deposits along with the write-offs of what has already been incurred, we expect the new deposits to decelerate. In the end, this will result in the number falling below the 3.3%, right? Just to clarify this point.

Luccas Adib – CFO

Perfect, perfect. I think it's important for us to have this perspective, and that's exactly the work we've been doing here, as Jorge mentioned. You had the first group that started in early November, very focused on preventing the write-off of blocked claims. Once a claim is blocked, we immediately take action to negotiate and try to prevent that amount from being written off and released to the other party. We already saw some of the results of this in 4Q.

At the beginning of December, we set up another group focused on controlling the composition of the blockages. So, when you look at the composition of new blocks from 3Q to 4Q, it's flat because we didn't take much action on this yet. We expect to see results in the first, second, and third quarters of 2025. When you look at the write-offs, we've already seen the impact of this group in 4Q, which improved the write-off composition for that quarter. If we're successful in this, and we believe we will be throughout the year—both in controlling write-offs and managing new blocks—this margin should fall. But these are scenes from the next chapters. Is that clear?

Vinicius Figueiredo (Itaú BBA)

Perfect, it's very clear now. Thank you, Dr. Jorge, and Luccas. Thank you.

Operator

Our next question is from Mauricio Cepeda, sell-side analyst at Morgan Stanley. We will unmute your audio so you can proceed. Please go ahead.

Mauricio Cepeda (Morgan Stanley)

Good morning, Dr. Jorge, Luccas, thank you for the opportunity.
I have a question here, which might shift a bit from the main topic, which I understand is judicialization, but coming from an angle that I believe is also important now that your operations are much more streamlined, stronger in terms of commercial structuring and also in claims control. How will the commercial aspect play out this year? I understand that you are quite optimistic and expect it to be a good year in this regard. So, I'd like to understand a bit more about what you're seeing in the competitive environment. What are the key success factors for this year, and why do you believe you have these key success factors? Why do you believe you will achieve commercial success this year? This is my first question. Returning to the inevitable topic of judicialization: now that you have a much more structured legal intelligence, and have made significant progress in this area, will it be possible for you to provide more frequent tracking of what is happening in this area for the market? Also, how will you communicate this with ANS, considering the nature of these disputes is primarily related to healthcare services? Should you reconsider how you classify these, whether as claims, and how will you align these numbers with ANS GAAP? Thank you.

Jorge Pinheiro – CEO

Cepeda, thank you for your questions. Yes, we are excited for 2025. Imagine that 2024 was still a very intense period for the company. We spent the first half of the year still reviewing portfolios in a crazy process that involved many of our teams, including commercial and post-sales. During this entire period, instead of our teams being on the front line—selling, visiting clients—they were internally correcting processes, adjusting the system, performing tests for system implementation, and uploading data into the new database. As we move through this task and free up our teams, which I would attribute to more than 30% of our time, the last few months have been dedicated to the integration process, given the complexity and scale of the business. Our teams have now refocused their intelligence, strength, and financial resources to ensure we not only perform better with new products that have been launched but also offer new product lines. For example, our "Nosso Médico" product will be fully rolled out across Brazil by the end of April. This product is 10 to 15% more affordable than our most basic offerings. We have also made revisions to half of our HMO base and the PPO floor, as well as a series of product revisions. We are developing several new technology platforms for online sales and increasing our online sales volume. Additionally, we're expanding and improving the quality of our proprietary network, giving us more power over our cost structure, alongside strong control of medical loss ratios, which will make us highly competitive. All of this leads us to believe that 2025 will be a productive, growth-driven year. That said, we do anticipate the first quarter to be seasonally weaker, as we know it's never a strong sales quarter, but we're very positive looking ahead to the second quarter and beyond, at least that's what our sales pipeline is showing us. Our corporate segment is performing very well, and cancellations are at the lowest historical levels for the company. So, if the retail segment performs as we expect, we will have a virtuous period ahead. Now, I'll pass it over to Luccas.

Luccas Adib – CFO

Hey Cepeda, thank you for your question. I'll start with the most difficult one, as it's always good to tackle the hardest part first, then we'll move on to the easier ones.

The strategy for more timely or periodic communication on this topic is important for us to have a reference for how early the discussion is—not only for the sector but also for the company—and how the effects of what we've been doing internally will be captured over time. As Jorge mentioned, we set up action groups focused on post-blocking in November, very recently. We realized that we needed intelligence—not only from a legal and statistical perspective but also an intelligence to handle negotiations, having specific people doing negotiations with beneficiaries to prevent further blocking in late November and early December. So, the capture of the actions we took throughout the end of the fourth quarter is now being seen in the first quarter. As this evolved and as we gained more conviction and confidence on this issue, we can indeed discuss a more timely communication strategy until it cools down. Currently, we understand that it is one of the main topics the market is following, and rightfully so, with great reason. So, our conviction here is that once we can demonstrate to you that the issue is under control, effectively addressed, and that the outlook moving forward is stable, it will no longer be necessary to talk as much about it or to raise this communication outside the Earnings Release environment. I think this should be a topic that, logically, should have an end point, and that will happen in the near future. We are expending a lot of energy on this matter, with a lot of heat around it. So, once we conclude this topic, it won't be necessary anymore, but until we complete it and give you the security that it is 100% managed within the company, we can evaluate other types of communication. I'm speaking out loud here, without aligning this with my boss, but this is the general concept—it should make sense.

Regarding ANS, as you mentioned, how do we communicate this as claims to ANS, and how does the discussion go? Historically, the company has never passed the discussions involving amounts spent on healthcare coverage, incurred in the legal and judicial environment, through the cost. As we explained to you, this has never been included in the cost, and as you saw, it is now reflected in G&A in our most recent disclosure. Starting on January 1, 2025, we will reallocate this portion of judicialization - what is being written off - to the cost. Since this is an evident expense related to the company's healthcare coverage, it will now flow into the cost. This will be classified by ANS in the ANS GAAP chart of accounts as a claim, whether it's a claim within our own network or under medical accounts, when it's done through an accredited network. So, regarding this, we are completely at ease. We are very well prepared in terms of systems, the chart of accounts, and the necessary adjustments to ensure everything flows correctly. We've already started this process in January, and it will now be included in the cost. This will also be reported to ANS and incorporated into our managerial reports for corporate adjustments. This will be part of the company's cost structure and should help us in building our actuarial and technical adjustment framework, especially for individual plans in the coming years. These amounts were previously not included in the cost but will now be accounted for in this specific line starting in 2025. Is that clear?

Mauricio Cepeda (Morgan Stanley)

That's absolutely clear, thank you, Dr. Jorge, thank you, Luccas.

Operator

Our next question is from Leandro Bastos, sell-side analyst at Citi. We will unmute your audio so you can proceed with your question. Leandro, please go ahead.

Leandro Bastos (Citi)

Good morning, Dr. Jorge, Luccas, thank you. I have two questions as well.
The first is still on the topic of deposits. Referring to your comment that at the beginning of 2025, you have already observed a deceleration in the average new deposits with this more dynamic reading, I would like to understand if there is any component of seasonality, perhaps a legal recess, that we should be paying attention to, or if with the visibility you have, this might be a better reference for us to think about 2025. Also, if you could comment

on the new deposit figures you provided, for the second half of 2024, where there were over R$400 million in new net deposits, what would that reference look like for the first half of the year? If you have an order of magnitude, that would help in reconciling the numbers. So that's the first topic.

The second topic is about the NDI integration. You mentioned that it is in the system stabilization period, so just to get an update on how that is progressing. When do you expect that this period will end, and when can you operate in a more fully integrated manner across the board? That's it, thank you.

Jorge Pinheiro – CEO

Alright, Leandro, thank you for your questions.
Regarding seasonality, the first part of your question, whether we think it could benefit the period: The healthcare nature of these demands means that any potential short breaks in the judiciary, such as holidays, don't affect these emergency-related requests. Demands for procedures, hospitalizations, or chemotherapy don't have breaks; they are daily and don't follow seasonality. What might decrease are elective procedures, which have much less volume in this type of demand. Issues related to waiting periods are in real-time. So, when we try to carry out an urgent procedure with an unmet waiting period, it gets resolved immediately—whether positively or negatively, but it gets resolved right away. Therefore, the seasonal effect is limited because the nature of these demands requires short-term decisions.

Regarding the integration, we are doing very well. Despite being the largest and most complex integration, we've ever undertaken, it is by far the best one. But naturally, the last few days and weeks have been intense with adjustments, improvements in procedures, and the development of new functionalities within our systems to meet demands. Our expectation is that by March 31, the vast majority of the system development requests made by the teams to facilitate their daily activities will be completed, leaving only more residual points for the second quarter with a much smaller volume of needs. In other words, we are very, very close to passing this phase and successfully turning this key. It's a massive achievement for the company, and I can't emphasize enough how much this allows us to look ahead to new horizons not just by reducing the workload but also by improving the quality of the work and the information we have here, enabling us to be much more efficient in our daily operations. I'll pass it over to Luccas to answer your second question.

Luccas Adib – CFO

Hey Leandro, how are you? I'll answer here regarding the composition of new net deposits. In the second quarter, we had an additional composition of R$152 million in new net deposits, and in the first quarter, it was around R$111 million. So, it's been an upward trend throughout the year.

Leandro Bastos (Citi)

Absolutely clear, everyone, thank you, good morning.

Operator

Our next question is from Flavio Yoshida, sell-side analyst at Bank of America. We will unmute your audio so you can proceed with your question. Flávio, please go ahead.

Flavio Yoshida (BoFa)

Good morning everyone, and thank you for the opportunity to ask questions. I have two questions as well.

The first is regarding the deposits. You showed that in the fourth quarter, you converged to a 100% ratio between deposits and provisions, whether from a financial or pro forma perspective. I'd like to understand how we should think about this dynamic going forward. Is there room for this ratio to be below 100%, or is the goal to maintain it at this level?

My other question: you seem very optimistic about the entire integration process, which indeed is a major milestone for the company. I just wanted to confirm whether you're still operating in an assisted operation, meaning running with duplicated systems, and whether that will truly end by March 31st. I'd also like to understand the costs associated with shutting down some systems if this is relevant and your expectations for efficiency gains from the integration. When should we expect to see these gains, and to what extent? Thank you.

Jorge Pinheiro – CEO

Great, Flávio, excellent questions. I'll start with the integration process. We no longer have any legacy systems; everything is running on the new systems. All operations billing, authorizations, service, call center, and client life cycle management are now running on the new system, still in an assisted operation, which should take us a few more weeks. So, we are progressing very well in this area. I'll pass it over to Luccas to answer the second part.

Luccas Adib – CFO

Hey Yoshida, how are you? Thank you. The company has never been below 100%, and it should never go below 100%. When we were in the third quarter and reported 96%, and in the second quarter we reported the accounting figure of 88%, there was a perspective that, looking at our historical series and forward-looking, this value should not fall below 100%. We need to always remember that the provision is made with the forecast evaluated by the legal department and the lawyers handling the case, whether internal or external. Our work here in critically analyzing this provision is heavily based on the evolution curve of this data. If there is a mismatch between the coverage of the deposit and the block, we need to be more critical in evaluating whether this provision is being made correctly. What I can tell you is that we've done a series of tests, and PwC conducted a series of tests as well. The provision we have here is absolutely in line with what is required by CPC 25 and reflects our risk view of the provision and contingent liability stock. The goal here is that this threshold does not fall below 100% under any circumstances.

Flávio Yoshida (BoFa)
That's great, everyone, thank you.

Operator
The Q&A session has concluded. With that, the 4Q24 Hapvida earnings release event is now closed. The IR team remains available for any further inquiries. Thank you very much for your participation and have a great morning.