

Webcast Transcript 1Q22 Results Hapvida (HAPV3)

Operator:

Good morning, everyone, and thank you for waiting. Welcome to Hapvida's 1Q22 earnings conference call. Joining us today are Mr. Irlau Machado and Jorge Pinheiro, co-CEOs; Mauricio Teixeira and Marcelo Moreira, CFOs; Guilherme Nahuz and Glauco Desiderio, investors relations directors.

Should you need simultaneous translation into English, please click on the interpretation button represented by the Globe icon on the bottom toolbar and choose your preferred language, English or Portuguese. For those of you listening to this conference in English, be aware that you have the option to mute the original audio in Portuguese. To do so, please click on Mute Original Audio.

We would like to inform you that this conference is being recorded and will be made available in the Company's I.R. website, where the complete earnings release materials are also available. The presentation is also available for download in the chat box.

During the Company's presentation, all participants will have their microphones disabled. After the Company's remarks, there will be a question and answer session. In order 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 enter the queue.

Before proceeding, let me mention that the information shared and any forward looking statements that may be made during this conference regarding the Company's business perspectives, projections and operations and financial targets are based on the beliefs and assumptions of Hapvida's management and on information currently available to the Company.

Forward looking statements are no guarantee of performance. They involve risks, uncertainties and assumptions, because they relate to future events and, therefore, depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions, and other operating factors could also affect the future results of the Company, and could cause results to differ materially from those expressed in such forward looking statements.

Now, I would like to turn the floor over to the co-CEOs, Irlau Machado and Jorge Pinheiro, who will begin their presentation.

Irlau Machado:

Hello. Good morning, everyone. I would like to welcome you all to our call. We're going through a moment in which we are building the largest verticalized health care industry in Latin America, actually the largest in the South Hemisphere. I think we have one competitor in the U.S. located in California, Kaiser Permanente.

But I would also like to tell you that this was a very challenging quarter. A quarter that was hit by a wave of the pandemic with the Omicron Variant and many other viruses heating us, viruses

that were expected to come in the second quarter actually hit us hard in the first quarter. And we had remaining accounts from 4Q21 still affecting our accounts. On the other hand, we are now seeing a return to the new normal.

Yes, this is a challenging quarter, but we are extremely optimistic, because we think that this is pretty much the end of the pandemic and we will be able to go back to our normal business at the Company.

During the call, we're going to share some issues with you and then, after our presentation, we will have a questions and answer session.

OK, let's get started with our presentation. Our pro forma net revenue was R\$6.000.000.000 in the first quarter. So if you do the math, you'll see that we have a large sized Company and, of course, we're going to grow even more this year.

We are considering dramatic growth ahead of us, so a growth of 14.3% this quarter, compared to the 1Q21, and we had an 8% decrease in individual plans. So, affecting 28% of Hapvida's portfolio and about 10% of GNDS' portfolio.

So even so we had great numbers and the first quarter is the quarter that is most hardly impacted by the reduction in the prices of individual health care plans. Of course the plans are readjusted when they celebrate their anniversary, and we're now going into a phase in which we expect significant increases in our prices, and so we expect to go back to a more reasonable pricing level.

In terms of the number of members, our member base now has 8.8 million members. In 1Q21, we had 7.6 million health care members. So we have had a 16.1% growth year over year. That makes us the largest health care company in the country. I think the second player has a third of our member base, approximately.

In terms of dental members, we have 6.5 million members. We have had a 10% growth compared to 1Q21 and our cash NCR was 72.9%.

That is a high NCR considering the experience that both of our Companies have, but if we exclude COVID effects, acquired companies and this readjustments, our NCR, our cash NCR would be 67.1%, which is quite appropriate and the best in the industry by far.

And this cash NCR will start reflecting the ex COVID reality, because we have virtually no COVID patients in our institutions.

As G&A, we achieved 16.5 in the first quarter, and the adjusted EBITDA, R\$414 million. That was not our goal, but considering the situation that we had in the country and all around the world as well as in our operations, we believe that this number shows our capacity to survive difficult times, having good cash generation in spite of everything.

Jorge, my friend, you have the floor now.

Jorge Pinheiro:

Thank you so much, Irlau. Good morning, everyone. It's great to talk to all of you.

Before I talk about the synergies, I would like to emphasize an important point: this first quarter was marked basically by two main factors. The first one was, of course, the third wave of COVID, with the Omicron Variant that was accompanied by an Influenza epidemic.

But the complexity or the severity of the disease that affected our members was not that bad. But it spread throughout Brazil and all around the world very quickly, this third wave of the COVID pandemic.

And that required huge effort from our part and from all of our teams to be able to deliver care with high quality and on time to fulfill our mission. And of course, we are touched to see the people who suffered the most with the third wave of the pandemic.

On the other hand, we have to say that we're very grateful to all of our employees. We have almost 70,000 employees, another 30,000 doctors and another 30,000 dentists, but especially those that were in the front line fighting this third wave of COVID and we were able to overcome it in the best possible way. So thank you all so very much for that.

The other factor that we've been talking about was the closing of this operation that was expected and long awaited by all of us. It's been only 90 days after the closing of this transaction, but we have advanced a lot.

Irlau and I are very confident about everything we've been doing, because of the governance that was planned in the past and that is running so well in our new building here on Paulista Avenue, where most of Hapvida's executives are working side by side with the GNDI teams.

My room is right next door Irlau's room and all of our major executives are here, so this governance, supported by the integration team and our consultancy firm, has enabled us to deliver everything that you can see now with a lot of discipline.

And our target is to get to February 23 with 46 million recurring EBITDA, among other targets that are being defined.

Just to give you some more information for some of the initiatives, we have our national solution that already has 50,000 lives. So we are implementing this in major companies in many of the Brazilian regions.

In addition to that, we have another national product that is about to be launched, also focused on small businesses and the retail market, and this front has been producing a lot. Family plans, individual plans in our vertical company and GNDI, we've been hitting our targets month after month. This has been launched at an historic speed, and it's already present in dozens of Brazilian cities.

Now, in terms of crossed implementation of our providers, this has already been mapped. And I can give you some examples. In Joinville, users from the GNDI portfolio can already use Hapvida's Home Network. In Santa Catarina, in the city of Florianópolis, the Hapvida portfolio has already been steered to the GNDI Network. And Brasília members will get the portfolio of both companies.

So you see that all of the cities that have more than 2000 lives of both companies are being analyzed to see what the best solution is, either verticalization or cross accreditation or transfer of portfolio to another company.

And we work - right, Irlau? - with a lot of discipline. Going over each discipline, its timeline and implementation as part of our synergies plan.

Hapvida and GNDI are the largest network of hospitals in the country. I'm talking about the number of hospitals we have. We had initiatives that were not well explored, especially in Hapvida's vertical, but with the network that we are implementing today, this represents a huge opportunity.

We have new directors and the teams have already been put together so that we can capture the most on this front.

Now, synergies in the financial area, just an example. Tomorrow we're going to settle a new debenture transaction that was issued earlier to pay for some of our debts. We issued CPI and 65 and we closed it yesterday with very high demand.

So you see that synergies in the financial area were not even mapped in the past. We had not yet explored this, but now we have identified these new synergy opportunities and we also see synergies in the areas of supply.

These are huge opportunities that have been put in our timeline when it comes to materials and drugs. When it comes to our thesis, last week we saw many new opportunities and also the universe of third-party services has been mapped, and we have already established a timeline to capture all of these synergies. So many, many opportunities indeed.

Irlau Machado:

Jorge, I just want to go back to one point here and emphasize something that you said.

In individual and family plans, we have addressed 51 new cities in Brazil with the sales of individual plans through the GNDI vertical. And by intense use of technology and understanding of Hapvida and with this idea of good integration.

Now cross accreditation we already have many hospitals that are doing this and this increases our verticalization process and decreases costs in third party networks.

So this reassures that we did the right thing, because the merger of these two Companies brings many opportunities for virtualization, cost reduction, NCR control, and as Jorge said, the opportunity to sell a national product.

Jorge Pinheiro:

That's right, Islau. Many things were done, mapped and identified in such a short period of time. And there are still many opportunities to be explored.

Next slide, please. Here you can see this amazing map. You can see the footprint that we currently have in our own network. We are the largest integrated care network in the country.

And look at our footprint. We are located here with hospitals, diagnostic clinics, imaging clinics, present in 93% of the Brazilian GDP.

In some regions, we have just entered, like Minas Gerais. And if you see after a short period of operations, we already have 11 hospitals in that beautiful state. In Rio Grande do Sul, we have just entered there through GNDI Vertical, and we have a very beautiful new hospital there. In the Federal District, we opened a few days ago a major hospital in Plano Piloto with three outpatient units.

So you see that we have many opportunities for organic and inorganic growth. We have 85 hospitals operating with 7.231 active beds.

Remember that in those hospitals we also have inactive beds that can be activated at any point in time should we need to. That's what happened during the COVID 19 pandemic. Both Companies created almost 4000 beds within existing units. So the existing network now offers 7231 active beds, but we have flexibility to add more beds if need be.

We also have another eight hospitals being built that will add another 817 beds. So we're going to have more than 8000 beds in total, in addition to other M&A transactions that are ongoing.

77 walking emergency units with six new walking emergency units being built. 318 clinics already spread throughout the country and another 15 on the way. 269 diagnostic centers and we have almost 70 thousand employees.

This verticalized network is working really hard to become integrated. Each company or each vertical was already quite integrated, but now we're working hard to have one single Company, one single database and one single information repository.

Much beyond being verticalized and integrated, this whole database of medical information is being worked on and we'll continue capturing this information so that our Company can stand out in terms of preventive medicine, best medical practices, performing procedures with the highest possible efficiency, intense use of technology, robotization, and artificial intelligence. And both verticals are working really hard to get there.

Now, I would like to ask for Irlau's help to talk about ESG. We have many new things being implemented or that were already implemented. Let's hear from Irlau.

Irlau Machado:

Thank you, Jorge. Well all of you already know how much I care about this ASG concept. And we have accomplished so much in the 80 days we've been together. We have implemented this statutory ASG committee with the recommendation by the board and a sustainability policy for the combined company that strengthens everyone's commitment to the ASG concept.

We have implemented a third-party due diligence platform with the acceptance of the Code of ethics and conduct. That happened really fast, and that shows how committed the board is for this to be implemented in a timely manner at the Company.

We have also held training workshops, awareness campaigns on privacy and information security at GNDI, with workshops on LGBT training with leaders, webinars and integration processes of the acquired Companies.

We have approved six policies in addition to the Code of Ethics and Conduct, which will now guide the operations of the merged Company.

Now, from the environmental perspective, which is something very close to my heart, we have started a water and energy monitoring system at Hapvida that we have published the third GNDI Sustainability Report. We have started to send infectious waste to AFBU, an alternative fuel production unit.

In the social sphere, we have delivered lectures on diversity and inclusion. We have inclusion teams in all of the sectors of the Company. We have an affinity program and we work with people that are prepared to improve the inclusion process at our Company.

We have launched the Evolve Academy in our corporate university at GNDI, and that's something we are also doing at Hapvida now. We have over a thousand training courses to develop our people, and the GNDI Research Institute that is now also linked to all of Hapvida's hospitals.

And this research institute developed recently 20 different studies in areas of oncology, cardiology, infectology, nephrology, obstetrics. Publishing 12 papers in congresses, journals and eight international trials that have been in progress over the last year.

This is a great contribution to the scientific community and also to the establishment of new protocols. After these trials with state of the art drugs, I think we're becoming a reference. And this will improve the quality of the health care provided in Brazil.

Jorge Pinheiro:

OK. Now we would like to invite Marcelo and Mauricio to continue with the presentation.

Irlau Machado:

Oh, I'm sorry, Jorge, let me interrupt you. I would like to talk about this slide.

The combined Company has a broad addressable market, a very large addressable market, and not many people understand the magnitude of this market.

At ANS there are 40 million members, but we are a cyclic and anti cyclic Company. When the macroeconomic condition is bad, many of the contracts available in the market come to us because we offer this smart health care solution, although we might lose lives in existing contracts.

This is the group where we are gaining market share, and there's also a population in Brazil that doesn't have health care plans, those that get up to 4.5 minimum salaries a month. And this is a population that can buy a health care plan from a Company like ours.

There are also top managements that this is also a target of ours, either to convert to health care plans from our operations or to take part in our sales of products to third parties.

This is a type of sales that has been enhancing, considering the volume and footprint of the hospitals we have.

Outside ANS, there's also another six million people in a total of 119 million people in this addressable market. So we now have the possibility of offering a national product at affordable

prices to all of these people.

So in the individual book, we have excellence in administering individual plans. And just as a reminder, in the Brazilian population, based on all of the studies that we see in the market, the population wants to have their own homes and then they want to have a health care plan.

In the past, they wanted first a house, then a car, then a cell phone, and then a health care plan. But things have changed.

Now we are the second, we are among the top two desires of the Brazilian population, because of everything that happened in the last ten years.

And we have the great possibility of an increase in the penetration of health care plans in the country, because only 22% of the Brazilian population has access to a private health care plan.

In the U.S., 67% of the population has a private health care plan, so there is a great opportunity here in front of us. And both Companies are operating in an emerging market of the middle class, the emerging middle class that is expanding in the country and that has not been sized correctly in all of the initiatives.

So we think we are in the right niche at the right time, with the right prices, and we have a huge opportunity to grow ahead of us, considering this addressable market.

Marcelo Moreira

OK, let's move on. Thank you, Irlau. Good morning, everyone.

It's looking at this addressable market that the Companies are now sharing yet another quarter with a robust and consistent revenue growth, despite the negative readjustment for individual plans.

So let's get started on slide seven. Here, you can see our net revenue for the quarter. Accounting net revenue amounted to R\$4,841,000,000. But that's because we only have two months of the GNDI numbers included in our numbers. But we're working here to share this with all of you, we want to be very transparent and in the last five quarters, we want to share the numbers here with you up until 2021, so you see the revenue of each Company.

In 1Q21, the combined revenue of both Companies was R\$5,000,000,200. And with this Pro Forma exercised, that is actually relatively simple for revenue. You can see that in 1Q22 we reached six billion in revenue, as you heard in the opening of this call.

So this is a pro forma growth of 14,3% and the beauty of this growth is that this growth was mainly boosted by growth in volume, that is an increase in the number of lives and in our member base.

And in that growth we would like to emphasize the organic growth. GNDI with 98,000 lives of organic growth in the last 12 months, and Hapvida bringing 72,000 lives of organic growth in the number of members in the last 12 months. So a very robust growth and also an extremely sustainable one.

Now moving on to slide eight.

Irlau Machado:

I'm sorry, Marcelo, can we go back to slide seven? I just want to make a comment here.

This is not the growth that we usually experience. We usually experience higher growth, but this quarter was extremely hard. And I mean this whole period was hard because of the macro economic condition. But it's nevertheless a robust growth in this very challenging period in which we were able to continue growing and continue generating value to our members and expand our member base.

So I would say we are very well positioned.

Marcelo Moreira:

Perfect. Thank you so much.

So moving on to slide eight, you'll see a bit more details about the changes in our number of members. As I said, our Company has had organic and inorganic growth in the last 12 months, consolidating Hapvida and GNDI as the absolute leaders in the market.

On the left hand side, you can see the growth of our health care members. Compared in 1Q21 with 1Q22, we have had a 16% growth. We now have 8,700,000 members in the health care segment. The second layer in the market has 3,900,000.

And we have also seen growth in our dental segment, a 10% growth year over year, reaching 6.5 million dental members. We still see the dental product as an important tool to create customer loyalty and also an important tool to improve the profitability of our operations. And we have great projections here for our dental business.

This is data from the last 12 months. Now let's look at the number of lives in 1Q22 only. What were the major growth drivers we had?

Well, first of all, I would like to emphasize that the M&A has been and continues to be an important component to continue to grow in our business. It was important in the past and it is important this quarter for the growth in the number of lives we have.

And for the companies that we have already announced the acquisition like HB, Smile and Permed, we have already announced their acquisition and there are about 200,000 new lives to be added to our base or through a new pipeline of mergers and acquisitions that we are constantly considering with a lot of discipline.

But in addition to M&A, our organic growth was also strong in the last 12 months: 170,000 lives, in spite of the difficulties we had this quarter.

This quarter we had a negative organic growth of 64.000 lives and what we can see here is that the attractiveness of the products through organic growth is still very strong. But this quarter we had more cancellations and a higher turnover for cancellations, it's worth mentioning that.

And we have announced this to the market in our recent interactions. This is data that you have access to through ANS panels, so this is nothing new for you. But I just want to emphasize, once

again, that we have cleaned up the portfolio of the acquired companies and this has affected our cancellation numbers.

Turnover reflects a bit of the movement we see in the economy, either up or down. But we also had an atypical movement of a major retailer customer of ours that closed operations of one of their segments and they will close a contract with a new player. So that was a major GNDI customer.

But it's important to highlight that this negative quarter does not affect anything.

Irlau Machado:

I'm sorry, Marcelo. They will start working with another player and their name. They will not necessarily leave our operations.

Marcelo Moreira:

OK, perfect. Well, just to conclude this slide, what I would like to highlight is that when we close the numbers of the quarter, and looking especially at the margin numbers, we see an increase in new sales. So there is a recovery here also happening in the sales of individual products.

And we see a clear reduction in the cancellation level and also a reduction of the turnover level. And this reassures us that we'll be able to, throughout the year of 2022, in spite of this negative beginning, deliver a positive organic growth within the historic levels of our Company. And even capturing a bit more, considering a pricing scenario that will change in the second half of the year.

Since we're talking about prices, let's go to slide nine. On slide nine, you can see that our business model enables us to deliver more affordable products that were conceived, to meet the needs of the Brazilian population.

The average health care ticket in 1Q21 was 240 for GNDI and 205 for Hapvida. And this health care ticket stayed relatively stable and had just a small drop.

And the impacts here were the negative readjustment of individual plans and the lower average tickets of the acquired companies, like Premium Saúde, CCG. All of these companies that were acquired had a lower average ticket than our average consolidated ticket. And now our new average health care ticket is of R\$218.

So this quarter there was almost no change here, looking at the history in the last 15 months.

We clearly believe that this pricing dynamic is stable, but that's going to change - starting in May, with the adjustment of the small and medium businesses plans. And also when ANS releases the new readjustment rates.

We're still expecting to see ANS' adjustment rates and what they will be like. But according to Yes, the Institute of Complementary Health Care Studies, we expect to see a re-adjustment level of around 15%.

With the readjustment of the plans for small and medium businesses and individual plans, this will also influence the prices of the corporate health care plans, pushing up the prices of the

health care plans of the industry as a whole, especially when we look at the competitors and we see that they have extremely high MCRs.

So these were the points that I wanted to emphasize, and now I would like to turn the floor over to Mauricio, so that he can continue with the presentation.

Mauricio Teixeira:

Thank you, Marcelo. Good morning, everyone.

On slide ten, you can see the historical NCR in recent quarters at Hapvida and GNDI. The combined Companies achieved 72.9% NCR in 1Q22, especially due to the spread of the Omicron Variant with a greater volume of visits, appointments and hospitalizations and the negative readjustments of individual plans and also the higher NCR of acquired companies.

On slide 11, you can see what the NCR would be if we excluded these effects. The combined NCR would be 72.9% in line with our historical levels.

If we look at the individual history of each Company, I would like to say that the ex COVID and acquired companies NCR would be 72.8% for GNDI, and this is in level with the history of both Companies.

Now, on Slide 12, you can see the combined selling and administrative expenses, 6.8% selling expenses and 9.7% administrative expenses. This shows our discipline in controlling expenses, and we're still starting to capture all of the synergies.

And as Irlau said, we have seen many opportunities to capture even more synergies after the merger and this will impact the results of the coming quarters.

On Slide 13, you can see our adjusted EBITDA according to the accounting reconciliation numbers. We are using GNDI's results only for February and March because the closing of the operation happened on February 11. The month of January was not the object of the audit review. Therefore it's not included here.

So the adjusted EBITDA was impacted by the higher NCR that we expect to go back to normal levels now with the end of the pandemic. In addition to that, we are capturing new synergies that we release to the market in our guidance.

On slide 14, you can see that, in spite of the challenging moment we're going through, we were able to show strong operating cash generation of R\$85 million, benefited by the working capital and lower income tax payouts. We are now benefiting from the goodwill of the acquisitions that we made.

Now I would like to turn the floor over to Jorge for his final remarks.

Jorge Pinheiro:

Thank you, Mauricio. On the last slide and looking ahead, we want to share with you what our priorities are for the coming quarters, where Irlau, myself and all of our teams are focusing our energies on.

First of all, we're going to focus on organic growth. We know that the beginning of the year was challenging, but the month of March showed a good trend that is now being repeated in the second quarter.

We have good signs from retail. The retail business, they are already reaching sales targets and we are making the most of the synergies. So we expect growth at historical levels for both Companies. That has always been above the growth of the rest of the market.

Now, the second point we're going to focus on is our discipline on capturing all of the synergies. There are huge opportunities from different fronts and they all have their timelines already mapped, and there are new opportunities that we are identifying on a daily basis.

Another internal driver that we have is the integration of the newly acquired assets. So assets that have already been acquired and are now being adjusted.

We have many opportunities here by enhancing the verticalization level of these assets and renegotiating with all players through the centralization of a G&A back-office and implementation of systems and best practices.

So there is a lot of work to do, and we can improve the results of these acquired companies because these assets are not as mature as Hapvida and GNDI's assets. Actually, Hapvida and GNDI already had significant plans to increase verticalization for all the reasons you know so well.

And here with new beds, diagnostic units, walking emergency units, outpatient clinics, we will improve our offer of services and strengthen the resilience of our model to offer more sustainability to our customers. We will make the most of this verticalized integration, to use medical data, as I said earlier, to work in a preventive manner and be even more efficient.

And finally, our M&A pipeline, Marcelo already commented on that. And our agenda is extremely active.

We have a low penetration in the Brazilian population, only 22% of the people in Brazil have health care plans. And this population desires, they're eager to have a health care plan.

And the country has hundreds of operators working, so there are many opportunities ahead of us. Would you like to add anything, Irlau?

Irlau Machado:

Jorge, if I may add just a brief comment. What you said was just perfect, but I just want to say that we're going through a strong organic growth now in March, and we expect even more growth to come with the national product that was launched a very short while ago with contracts already signed, and we have around half a million lives mapped for that product.

So we are a unique supplier to this market with the model we have. And in terms of asset integration, I just want to remind you all that both Companies acquired eight or nine assets, each one of them in 2021, and we are in the process of integrating those companies and adjusting their MCRs., cleaning up their portfolios and so on and so forth.

But with time, they're going to bring us huge benefits. All of the acquisitions that were made in

recent years were great acquisitions, and we're very excited about the moment we're going through right now.

From the perspective of Verticalization, the fact that we now have 52 units already cross accredited. So from Hapvida to GNDI and from GNDI to Hapvida is amazing.

And this number is going up as we conduct all the studies we need, so that this integration process can run as smoothly as possible. And we see a great opportunity to increase our verticalization even further in a very robust manner.

And in terms of M&A, of course we're going to be very diligent and we will implement our investment discipline, but we have 20 targets at the national level and we are constantly looking at new opportunities to expand our footprint also through acquisitions. That's all.

Vinicius Figueiredo, Itaú BBA:

Good morning, everyone. Good morning, Jorge, Irlau, Marcelo and Mauricio. Thank you for taking my question.

I would like to talk a bit more about MCR. Of course, we tried to exclude the COVID effects readjustments in recent M&As, but we see that your MCR is above the levels you had before the pandemic. Can you give us more details about why this number is higher? Is there influenza effect or is there any effect of the acquisition of San Francisco? Do you think we can get close to 61% by the end of the year, in the Hapvida vertical?

Now, another question. Can you comment on the monthly performance that you had this first quarter? I think that the January numbers were quite low, and this data suggest an inflection point from February to March. What were the main reasons for this? You talked about the turnover in the Hapvida vertical, but is this because of the macroeconomic conditions? Can you also tell us a bit about the performance you had in April?

Thank you so much.

Jorge Pinheiro:

Should I start, Irlau, by talking about the MCR?

Irlau Machado:

Sure, go ahead.

Jorge Pinheiro:

I'm very confident that Hapvida and GNDI - and Irlau can add to my comment later -, but I'm confident that we have our foundation strong and improved so that we can go back to our historical MCR levels. Nothing has changed internally at the Companies. On the contrary, the verticalization level's higher now, investments in technology, greater knowledge through best practices. Everything is on the way for us to increase our efficiency even further.

On the other hand, we should highlight the external factors, which are quite clear, and they do not affect Hapvida and GNDI alone, but the whole industry. I think that Hapvida and GNDI will be

very resilient.

Talking about Hapvida vertical, I would like to remind you that, as we usually see, Hapvida in the acquisitions that were made a longer time ago, like America and Minas Gerais in normal conditions after the readjustment is recomposed and there is no COVID effect is running at around 60% MCR.

Now San Francisco is an asset that is partially verticalized. Half of the operations are performed in their own network and the other half in third party network, and our MCR is already at around 65% there. And the good news is that we were planning to get to this number in four years, but we were able to get there only after two years.

Of course we also have the effect of the new acquisitions. Any new company that we acquired for obvious reasons has an efficiency level that is way below Hapvida and GNDI, like the companies Promed and Premium, that we bought from Minas Gerais, had an MCR that was above 100%, it was actually 110%. And their MCR is now at around 80%.

It will take us months to improve these assets to the fullest. But our mature operations are going back to normal, excluding these effects, and we have this continuous process of improving the operations in the acquired companies.

Would you like to add anything, Irlau?

Irlau Machado:

No, you were perfect. Our MCR is going back to the normal levels, and we need to recall that there were two factors. First, the increase in costs that happened during the pandemic.

Before the pandemic, Gloves cost R\$0.07. In the peak of the pandemic, that was R\$0.85, over 1000% price increase during the pandemic. And this value is now at R\$0.13. Is that back to normal? No, but much closer than it was during the pandemic. So we're going back to normal price levels, normal cost levels.

From the perspective of complexity, we're also going back to normal levels. And COVID postponed many surgeries, so we had to work on this backlog here in this first quarter. And we have the operating cycle of the third party network that can take 90 to 120 days for rendering accounts.

So from the perspective of MCR, I have no doubts whatsoever that we will be able to go back to the original MCR levels we had.

At the same time, we had an increase in prices, as Jorge said. And according to IESP and all other studies, like ANS' calculation for readjustments, which is quite transparent, all of the formulas are there for anyone to see. And the readjustments once again will be at around 15%, according to all of those studies.

For small and medium businesses at GNDI, we have 1,300,000 members in small and medium business health care plans with a readjustment that will be around 19%, as we know. And with a spike in inflation rates that we can see, both medical inflation rates and consumer inflation rates, that will affect the readjustments of corporate plans.

So we can expect readjustments that are appropriate for us to reach a good balance in those quarters. So this would help us to revert our MCR to historical levels and pre-pandemic levels.

Jorge Pinheiro:

I just want to add that the month of April was the last month without the readjustment recomposition in individual plans. For the Hapvida vertical, that accounts for more than 30% of our revenue, so it's quite relevant. And at GNDI, it accounts for around 12%.

Correct me if I'm wrong, Irlau. And the readjustment had two effects: it was a negative readjustment, so we reduced the prices to users, and the effect that Mauricio and Marcelo showed here includes only the amount that was returned to users. Looking ahead, we plan to have the recomposition of prices. And that means two readjustments in one year.

So we will no longer return any amount to them and we will start having an annual readjustment. And we expect this increase to be around 15% this year, as Irlau said.

Another interesting fact is that we see the need of our competitors to readjust prices and this is a strong need they have.

So we see two opportunities here. First, to have a well-balanced recomposition to meet all of our needs, as Irlau said. And that can give us a bit more wiggle room.

We also have the possibility to have even more organic growth, since the competitors are going to demand a lot from their members. And in years like this, Hapvida and GNDI gain market share.

Historically speaking, our Companies grow by gaining market share, and we have all it takes to keep the same pace this year. And we're also the first Company, when the economy improves, to benefit from a higher penetration rate of health care plans.

Vinicius Figueiredo:

Excellent. Now, about the second topic, med additions. Can you tell us about the performance from January to March?

I believe that the turnover affected mostly the first months of the year. So can you give us more information about those monthly performance?

Jorge Pinheiro:

Would you like to start, Irlau?

Irlau Machado:

Sure. The months of January and February... Well, before that, let me tell you the following: the first quarter - and that's not something that is happening only in 2022 -, If you look at the history, at least here at our Company, since 2014, the first three months are always a bit cool, I would say. Because you have holidays and other seasonal events or replanning of the budgets especially at the corporate level. So these are months that are a bit cold in terms of sales.

Just to give you an example, we have integrated CCG these first two months. And there are portfolio changes happening at Hapvida and at GNDI and in several instances and we would expect it to have a calm or quiet as a result.

But the month of March was spectacular. And we were going back to historical levels of organic growth for the month of March. And corporate contracts take some time to be signed or to be closed. But with the information we currently have, we are very, very excited, Jorge and I, in terms of the execution that we have planned for the whole year, despite the fact that the first two months were calmer.

So we're very excited about the growth that is ahead of us.

Jorge Pinheiro:

That was perfect, Irlau.

I just want to mention that we saw two very positive signs. Retail was a highlight, showing signs here about the recovery of the real economy. And we exceeded our targets in March and April. April was the best month of the year for retail.

And I was talking about the turnover at those companies. So current companies that are our customers were dismissing employees, but now their turnover has decreased. And that's a great sign in retail and at the corporate level, and also a good sign in retail, showing great opportunities for organic growth in the second quarter of the year.

Irlau Machado:

Let me add something here, Jorge, if you allow me.

At GNDI, in terms of turnover, if we look at how many people were hired and how many people were dismissed within the same contract, we had the best month in the last 30 months at GNDI. This is the first time we actually had a positive turnover. That means that more people were hired than fired.

Vinicius Figueiredo:

That's excellent. Thank you very much for your answer. I'm sorry I'm taking so long, but I just want to follow up on what you said about MCR.

Because of the influenza wave happening earlier on in the year, then the seasonality that we usually see with the first quarter having one of the best MCRs, I think this year this doesn't make sense, right? Maybe the second quarter will be best in terms of the MCR, because the influenza outbreak came earlier. Does it make sense?

Irlau Machado:

I agree with what you said, but there is a caveat here. It was atypical, you're right.

But that was mainly due to the COVID wave. The Omicron Variant hit our whole industry because, since it happened at the same time as the influenza outbreak, that happened much earlier than expected, then if a patient sneezes, they think they have COVID and they want to

take a test. They want to go to the E.R. and that would not happen if it was only an influenza outbreak. You know, if you have the flu, you take an aspirin and you stay home and that's it.

So that had an important impact on the first quarter. Indeed, the first quarter was much more complex than expected because of that. But the first quarter did not keep up with the expectation of having the first quarter as the best quarter in MCR levels for the year, but the influenza wave, we still have the cold weather coming and the children that can bring the numbers up but much lower than in previous years.

So, yes, the first quarter was not that good. And I think the second quarter will be much better

Leandro Bastos, Citi:

Hello, everyone. Good afternoon. Well, I have two questions here.

First, I want to talk about how you were cleaning up the portfolio of the acquired companies. I just wanted to hear more about this. Do you think that most of the adjustments have already been made or do you think this is more of a continuous process that will have to happen from time to time?

I'm talking about the cleaning up portfolios.

Now, a second question about synergies. You have reaffirmed what you said in your guidance, but can you give us some color about the non quantified synergies, those that you did not include in that guidance? Can you tell us about other possible levers?

Thank you very much.

Jorge Pinheiro:

OK. Irlau, I'll start by talking about the cleaning up of portfolios and then you can conclude.

This is something that GNDI and Hapvida have done. We did the math and it's like 60 operations or 60 acquisitions that we made in recent years. And both companies have a very successful history in this front.

And throughout the years this has shown us that any company that we acquired - for many different reasons that we cannot explore right now - but the portfolio of those companies have some component that need adjustments, either because they are located in regions that are not part of our strategy, or because the pricing level's not right, or because these were lives that were in the portfolio, but they were no longer active. So they were not paying for the health care plan, but they were still in the member base of those companies. That's extremely common.

Last year we removed 30 thousand lives from the member base of companies acquired, but these were users that had not paid for months or even years. So it's quite common, around 5 to 10% of the portfolio of any company that we acquire usually needs some type of adjustment, and that takes time.

Depending on how long it would take us to implement the systems, it can take from 12 to 18 months, no more than that. After that, there are no other adjustments. And the good news is that Hapvida and GNDI have already made all adjustments needed, almost everything. There are

only a few details left for the most recently acquired companies, and both Hapvida and GNDI are doing those adjustments right now.

In terms of pricing, when we make a proposal to acquire a company, we include in the price we offer all the adjustment costs.

Now, when it comes to the synergies, every week our dynamics is shared between checking what is already in our timeline, so we follow up on everything we have in our agenda. Irlau, myself and our main integration teams and the consultancy firm that is helping us.

We hold meetings every Monday to follow up on the synergies that were already mapped and included in our timeline, and we check whether they are on the right pace for the month. And so we have a due date and also an owner for that synergy. That's the first part of our Monday meetings.

And the second part of the meetings, we check for new possibilities and new initiatives. So this is a dynamic process, but every week we do get together to check for new opportunities.

One of them is in the financial area, as I said earlier, because we had talked about commercial synergies and cost synergies, and we had also mentioned G&As and synergies, but we had not mentioned financial synergies earlier. But now we have seen relevant opportunities for financial synergies.

And we have this disciplined process in which we get together every month, which is something that gives us confidence that we will achieve everything that we have planned and also add new fronts and new opportunities to that.

Samuel Alves, BTG Pactual:

Good morning, Irlau, Jorge, Marcelo, Mauricio. Good morning, everyone.

I have two questions about effects that impacted you during the quarter. The first is the performance of Hapvida, average ticket. The corporate average ticket of Hapvida got worse quarter after quarter. So are there downgrades in your mix of plans or do you think the Company needs to be more aggressive in terms of price to retain customers? That's one of the first questions.

Now, is there a sequential worsening of loss ratio at GNDI? We saw a three-point decrease at GNDI, even though the prices were going up. Is there any other effect that could explain that worsening?

Thank you very much.

Jorge Pinheiro:

I'll start with the average ticket for Hapvida and then you can talk about MCR, Irlau.

About Hapvida's average ticket prices, the reasons are very clear. Let's say that if someone paid R\$100 for an individual plan, then last year they started to pay R\$92 for that same individual plan. Individual plans have the highest average ticket among all of Hapvida's portfolio.

Starting in May, those who were paying R\$92 for the health care plan, will now start paying R\$108 approximately. Of course, the average ticket of individual plans at Hapvida are 200 plus.

But this is just an example, let's say then that 30% of the portfolio and a bit more than that in the earnings had negative readjustments, and that's going to change starting in May. One 12th every month until we achieve a full priced recomposition. So that was the first reason.

The second reason, the acquisition of companies with lower average tickets, especially Promed and Premium, that had lower prices than Hapvida's. But if we remove those aspects, Hapvida's average ticket is growing in line with inflation rates, so there is no other effect here.

This year, we are very confident about the price recomposition, not only because of the individual plans, but we see more possibility to readjust our prices because our competitors have been increasing their prices much more than we have.

For OPME, Hapvida has already implemented 16 something, and GNDI 18 something and individual, that's going to be around 15T%. For corporate plans, that's a more customized dynamic and that depends on the Companies' MCR.

But this year we expect to have a good price recomposition.

Irlau Machado:

If you allow me, Jorge. I would say that my answer coincides with yours; the MCR or MLR, is revenue. It depends on the relationship between revenue and expenses.

Although only 12% of the revenue was impacted by this negative readjustment, it was still a negative readjustment that was defined by ANS. And at the same time, we also had some companies that had a high MCR.

Eight companies were acquired throughout the year of 2021 with a higher MCR level, and we're now adjusting their operations to our protocols or ways of working, and so on and so forth.

There was a dramatic increase in the price of drugs supplies, hospital supplies and, in some cases, that increase was of over 1000%.

But we, at GNDI, were more exposed to this third party network, because of our footprint. Where we were located and where our customers were located. And now what we see is that we are integrating the acquired companies and we are improving their processes and using our resources better.

And the additional verticalization is being achieved by the merger of the business with Hapvida and the use of crossed resources. This can dramatically improve our verticalization and our MCR also, as a result or as a consequence.

Right now, as I said, we have 51 hospitals that are cross contracted, and this is growing. So we have a great opportunity to reduce MCR even further.

But that's why we had this MCR dramatic increase in costs, COVID and influenza effects and we have a greater exposure to a third party network. But right now we are reducing the third party network, reducing the cost of materials and supply because of the macroeconomic

environment of the availability of supplies now, and the price readjustments that are now happening.

So I think we are on the right track here.

Ricardo Boiatti, Banco Safra:

Good afternoon, everyone. Thank you for taking my question.

I just want to follow up on what you said about organic growth. In your view, is there an impact of the current situation on this as well? Because in previous economic slowdowns or, I mean, many operators do not have affordable products to offer as they have today with intermediate segments that are more expensive than Hapvida and GNDI, but they have a more complete offer in the intermediate segment.

So do you think that this was an impact that you felt and also a fierce competition in recent months? The commercial aggressiveness of some players in some regions, is this going back to normal or are they still very aggressive in those regions? That's my first question.

Now, the second question about M&A. You talked about a very robust M&A pipeline. So my question is, did you ever consider, in this more challenging scenario, that we experienced in the last quarters and a potential economic downturn, have you considered slowing down with the M&As from now on and focus on the integration of the acquired companies to gain efficiency? Or no, you think that you can continue acquiring companies and, at the same time, continuing integrating the acquired companies and merging the businesses of Hapvida and GNDI?

Irlau Machado:

Jorge, can I start?

Jorge Pinheiro:

Sure, Irlau. Go ahead.

Irlau Machado:

OK, I will start with your second question.

About M&A, both Companies have always been very disciplined in developing internal M&A and integration teams. And we've done that separately for a very long time. So I'd say we have a playbook and we know how to do this very well now. We have expertise in doing so by now.

And of course, the cost of capital is important to us and we are considering the opportunities. We want to focus on the same returns in tiers that we would be planning before these challenging times, in terms of interest rates.

But we're not leaving our M&A pipeline aside. We have almost 20 targets and we are negotiating with them. And at the right time we'll also focus on other opportunities.

Now, your first question was about organic growth? The competitive environment, I think. Organic growth and competition.

We need to remember that the second quarter of 2020 was a magic quarter for all payers. But it was a very hard quarter because it also led to some misunderstandings throughout the community.

Part of the community thought that the health care companies were making too much money, and the other part said "well, this is a good MCR, so I can lower the prices of my products".

But both Hapvida and GNDI had great discipline and we're very similar when it comes to that. And I think this is extremely positive, because it shows this long term experience. We were very disciplined in determining the prices of our products and the cost of operations.

Some competitors were more aggressive at a certain point in time, but in my opinion, that strategy did not work.

I'm not going to mention the names of the competitors here, because you have access to ANS and to all of the balance sheets and you know that some of them have combined rates of 108%, 106%, 102%. So that means that they are losing money in their operations, and we have not reached that point.

On the contrary, we were quite robust, resilient and well structured, so the pricing that we see being practiced by our competitors does not satisfy our needs. So we can expand the gap we have in terms of prices from our products against the product of the competitors.

So I think that that's why we are so optimistic, as we said in the beginning.

Jorge Pinheiro:

That's perfect, Irlau. I just want to emphasize another point. We see that the sales are going well, the volume of sales is good. And we can add to that the great news, that the turnover at our customers is going down, so the net addition of lives will increase.

So this is going well in the corporate segment and also in the retail segment. And now, with the lower turnover level of those companies, this is going to bring us great opportunities for growth.

Irlau Machado:

And also, Jorge, during times of turbulence we have many small and medium enterprises getting into the Company. Many, many of them.

We have record levels today of new small and medium businesses coming to us, which is quite positive.

Fred Mendes, Bank of America:

Yes. Can you hear me now? OK, thanks, everyone. OK, let me start over. I apologize. Thank you for sharing this information with us.

I have two questions. Going back to organic, I know it's hard but I want to know about the price sensitivity and organic growth. You said that once the competitors have increased their prices more than you, then you'll see a pickup in organic growth.

Is this basically boosted by price or are there any other factors influencing organic growth? That's my first question.

On the second question about GNDI individual product. You said that 43% of the actions were completed. Is that in terms of the total product that will be offered? They are already being offered?

Thank you very much.

Jorge Pinheiro:

Irlau, I would like to start and then you can complete by talking about GNDI individual products.

In terms of sales, both Hapvida and GNDI have already recomposed their price tables for the year. For Hapvida, we usually have two readjustments, one in January, which was already been implemented, and another one that was already set and will come in the end of the first half of the year.

So no changes in our pricing dynamics here. So we have already made the recomposition we needed.

And Irlau can talk about GNDI. I know that they have already recomposed their prices for the year and the individual portfolio is going really well, reaching sales targets in all of the products, right?

Irlau Machado:

That's right, Jorge. We need to remind you of the following: GNDI was already selling individual plans in many locations, especially in the South, where we acquired operations, acquired companies that had individual plans.

So we continued offering them and we accelerated the sales. And now we are starting to offer this in 51 new locations, and we have exceeded all of the targets that we have established.

In terms of pricing, as you well said, Jorge, we had a readjustment in January and we have another one scheduled for May, and that's going to reflect the costs of the operation. So we're very well balanced now.

Mauricio Cepeda, Credit Suisse:

Hi, Jorge, Irlau, Mauricio, Marcelo. Good morning.

I have three questions about the future. We understand that you're making a clear effort to increase verticalization, that's your value proposition to have a more efficient commercial product. But we also see that it takes some time to be able to verticalize operations.

So my question is: wouldn't they be the case, since you're now talking about the possibilities of organic growth, in order to accelerate this organic growth, wouldn't it be the case of making offers in new regions in order to maintain or grow the member base?

The second question is about M&A. I know that my colleagues have asked about this, but

wouldn't it be the case to focus on verticalization now, rather than acquiring new members?

And the third question is about synergy. I know that you decided to keep your structures apart for some time, but now that you have to focus on decreasing MSR and average tickets, so with lower margins, wouldn't it be the case for you to improve as G&A in order to achieve your ideal situation faster?

Jorge Pinheiro:

Would you like to start, Irlau?

Irlau Machado:

Yes, sure. I think that right now we are going through an atypical situation. We had a poor quarter from the macroeconomic perspective, especially because of the health crisis, more than anything else, and the operational cycle of the companies.

Of course that affected us. But I don't think that we should be aggressive in terms of prices right now. On the contrary, I think that this discipline is key right now, because if you make a mistake in an actuarial calculation in a Company like ours, in our industry, then this causes damage for three years, just to correct a mistake because of an enthusiasm that shouldn't have happened. I mean, it takes two or three years to correct that mistake.

So we don't want to do that. We want to continue with our discipline and the understanding we have of the industry. So we don't want to do anything crazy that will strengthen the results in one quarter, but then damage our results for three years to come. It doesn't make any sense to do that.

I think that in the last eight or more years we have created credibility to prove to you that we work with a strong discipline and we want to keep doing that. Otherwise, we're going to reach mediocre results in the long term. So I think that would be the first question. Jorge.

Jorge Pinheiro:

Yeah, I think you're right, Irlau.

The good news is that I think that our model, the model that gives us full control of customer experience and quality control, and that fits into the reality of the Companies, this is an extremely sustainable model in the short, medium and long terms.

This is what's going to continue to be the greatest organic consolidator in the Company. This discipline and this value proposition to keep ourselves on track.

And that's easy when you look at all other experiences that are different from ours. And we have seen the difficult results in the market as a whole, but we continue. Even in challenging quarters like this, we were able to pay for all of the expenses created by this third wave of the COVID pandemic. And we continue verticalizing and making the acquisitions we need.

We have M&A in our pipeline to increase verticalization. We have announced the acquisition of a hospital in Rio a while ago, and we also have announced transactions in Minas. So yes, we are increasing verticalization through M&A as well.

Caio Moscardini, Santander:

I have a question about your national product, about the price level that you need to quote, and another question about the MCR.

You have talked about the impact of drug and material prices on your results that was around 9% of the revenue. And I would like to understand what this is like right now, how much this was before the pandemic? And do you expect to go back to historical levels?

Jorge Pinheiro:

I will start, right, Irlau?

About the inflation rates of materials and supplies, last year that was a world right way for items in COVID related care, the prices skyrocketed. But our target at Hapvida and GNDI is to have met mad inflations below general inflation.

The prices are going down. We have not reached pre-pandemic levels yet. In absolute numbers, pre-pandemic numbers. But since we have many other possibilities to develop new suppliers and unify suppliers for all of our hospitals, we've been able to reduce the price of acquisition of materials, medication or thesis and prosthesis as well.

That is one of the initiatives that gives us confidence, because we know this is going to bring as many gains, not only the gains generated by the synergies in that merger, but also the companies that were already working hard to reduce the cost of acquisitions.

About the national product, we have the first contracts that were already signed, 50,000 lives and corporate contracts that are being implemented, and this enables us to have local costs, and we are now developing a new product that will provide services at all of our hospitals.

And we have mentioned how large our own network is and how we are located in all major urban centers in Brazil. So a local solution with integrated care and a national product offering service to all of our network.

Joseph Giordano, J.P. Morgan:

Thank you for taking my question.

You talked about several topics and individual plans. So, in your release, you talked about this plan that is focused on an age group of up to 48 years, and that was a GNDI product for the senior age group.

So is this an opportunity that you're still considering? And what is the MCR level that you expect for this type of product? Is the churn going to be the same as Hapvida's individual portfolio?

Irlau Machado:

We're still very excited about our senior product, and we devised this product and, in spite of the obstacles we had because we launched this product two months before the pandemic and the senior age group or the elderly were those that were at higher risk during the pandemic.

So we slowed down in the beginning and we worked really hard with the pilot projects. We consider this a fantastic health care plan and we started offering this in other regions.

But now, with the merger, we had the support of the technology and knowledge of Hapvida in managing individual plans. We were able to expand this to other age groups. And therefore we also expanded this to 51 other municipalities.

And the MCR we were expecting here was the same as we had in small and medium businesses. So, 65 to 70%, that's the target MCR.

Operator:

This concludes the Q&A session. Now I would like to turn the floor over to the co-CEOs for the final remarks.

Irlau Machado:

Go ahead, Jorge.

Jorge Pinheiro:

I just want to thank you all for joining us this morning, and I want to emphasize our commitment to the values of our Company.

I want to thank all of our employees that have helped us overcome this obstacle. We were able to fulfill our mission. And I also want to thank the investors for the partnership and the GNDI team for the partnership and this journey.

So let's continue on our mission to do the most for our members.

Irlau Machado:

Yes. Thanks, everyone.

I just want to remind you all that in the last years, we were very transparent and we showed credibility to deliver everything we said, everything we were offering. And we're very confident about what we can deliver.

It's in moments of hardship, I mean, these things happen and, because of these external factors, with a health crisis of the magnitude that we saw, this was completely extraordinary, but we're now on track to go back to normal. And the principles we have are the same.

Verticalization, cost reduction, availability of products at affordable prices, an addressable market that is growing and that we can address with the products we have at affordable prices.

So we're very confident about the future and we count on you on that journey. Thank you so much for the trust and we're here for you. See you next time.

Operator:

This concludes Hapvida 1Q22 earnings conference call. The RI is available, should you have any other questions. Thank you for joining us.