



Conference Call Transcript 1Q21 Results

Hapvida (HAPV3)

Operator: Good morning. Welcome everyone to Hapvida 1st Quarter 2021 Earnings conference call. Joining us today we have:

- Mr. Jorge Pinheiro, CEO;
- Mauricio Teixeira, Chief Financial and Investor Relations Director; and
- Guilherme Nahuz, Investor Relations Director.

We would like to inform you that this event is being recorded and all participants will be in a listen-only mode during the company's presentation. After Hapvida's remarks there will be a question-and-answer session for investors and analysts, when further instructions will be given. Should any participant need assistance during this call please press star zero (*0) to reach the operator.

Today's live webcast may be accessed through the Internet address at ri.hapvida.com.br/en/.

Before proceeding, let me mention that forward-looking statements made during this conference are based on the beliefs and assumptions of Hapvida's Management and on information currently available to the company. They involve risks, uncertainties and assumptions because they relate to future events, and therefore dependent 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 Hapvida and could cause results to differ materially from those expressed in such forward-looking statements.

For those of you who are listening to us on the webcast, the presentation will not move from one slide to another automatically. So you can control the slides with the keys below the slides.

Now I will turn the conference over to Mr. Jorge, who will begin the presentation. Mr. Jorge you have the floor.

Mr. Jorge Pinheiro: Good morning everyone and thank you once again for participating in our conference call. It is with great joy that we present to the market Hapvida's 1Q 21 results.

So let us start on **slide number 2**. Here I will give you an overview of the main highlights of the first months of 2021. 1Q 21 was a period in which our operational discipline and the strong execution of our teams were at the forefront. We are very happy to deliver a



quarter with growth in revenue, growth in membership and in income, as well as a reasonable MLR considering the challenging environment we are going through.

The beginning of 2021 was marked by the worsening of the pandemic here in Brazil, with new strains or variants of the virus that are more aggressive than the previous ones, and that reached a greater number of people; therefore, our healthcare units have been impacted with a greater volume of COVID-19-related visits and admissions.

The results that we are now sharing show all of Hapvida's expertise and resilience, as well as the strength of our business model. We have made strong investment in protection; reinforcing our infrastructure; purchasing materials, drugs; and investing in logistics. We were very quick to rescale our own care network in order to meet this rise in demand, adding over 800 beds since the beginning of the year.

This flexibility is one of the strengths that we have in our business model, and once again all of our medical teams involved in fighting this pandemic have been amazing warriors. I would like to take the opportunity to thank once again everyone who have been working in the frontline, as well as all those who are working in the back office, and who are facing so many uncertainties every day - but continue moving on works. Hapvida is very, very thankful to you. We would not have achieved this performance without the unconditional commitment of our 36,000 employees and 30,000 healthcare professionals who work with us. Thank you and congratulations on such spectacular work.

Let us now look at our financial highlights for 1Q 21 that you can see on **slide number 3**. Net revenue was of 2.3 billion BRL, up 11.8% YoY, boosted by the addition of 477,000 healthcare and dental members, and by the increase in average ticket. Even with a strong impact of COVID-19-related care, the non-suspension of elective procedures, and with the consolidation of over 1 million lives of the acquired companies that were operating with an MLR that was at a much higher level than ours, our cash MLR was quite reasonable at 61.1%. We are very happy about this performance.

Our sales expenses were 6.2% of the revenue and our administrative expenses excluding depreciation and amortization were 10% of the revenue. These are also very favorable rates.

As a result, our EBITDA achieved 466.8 million BRL in the quarter, keeping a level above 20%.

Now moving on to **slide number 4** we closed the quarter with a total of 457 care units including hospitals, ERs, clinics and diagnostic units. Also we now have 8 hospitals in different stages of construction; some of them still in the design phase, others in an advanced stage of construction.

We closed the quarter with 3876 beds. That is 1122 beds more than the same period in the previous year and this quarter we made 1567 beds available for COVID-19 therapy



alone, an increase in 803 beds compared to 4Q 20, and this was the result of the bed expansion conducted because of the pandemic. We continue engaged in finding the ideal size of our own care network, which enables us to achieve medical expenses and verticalization gains.

In April 2021 we opened a new hospital in Maceio with urgency care, emergency care for adults, children and obstetrics care, in addition to an imaging diagnostic unit. Our investments in infrastructure have been seeking consolidation, increasing the offer of healthcare services with larger and more complex units.

In the inorganic front we concluded in February the transfer of members from Samed and Plamed portfolios, both of them located in Goiás, and now we have added about 30,000 customers to our portfolio that are now part of Hapvida.

Another important step that should be mentioned is on **slide number 5** with the advance of another stage in the business combination between Hapvida and GNDI. On March 29, 2021 the general shareholders meeting happened, and the shareholders of both companies approved the operation. This was a historical moment for the Brazilian healthcare industry.

The possibility of providing people with high-quality healthcare at affordable prices is very consistent with the times we are going through, and this will continue to be the purpose that will guide this combined company. The operation is still waiting for regulatory approval.

On **slide number 6** we talk about innovation and ESG. Innovation is considered a very important topic here at Hapvida, and we believe this can be a tool to transform society and that is why Maida.Health, Hapvida's system health tech, is sponsoring an artificial intelligence research center at the Federal University of Ceara. The goal center is to develop projects in healthcare involving internet of things, big data and digital transformation focused on diagnostics, prevention and therapy - all of that at a low cost.

Now our telemedicine platform that has now facial recognition is conducting over 85,000 appointments/month. Just so you have an idea of the size, this number accounts for about 3x the number of appointments conducted in our greatest infrastructure, physical infrastructure unit, which is hospital Antonio Prudente, located here in the city of Fortaleza.

When it comes to sustainability we have been advancing. We have made some public commitment to gather efforts and so that we can put in practice respect and inclusion and diversity promotion. Our strategic plan of sustainability here at Hapvida is now prioritized in the strategic plans and defining sustainability indicators. In the following weeks we will release our annual sustainability report for 2020, and we have lots of news to share with you in this report. We believe Hapvida is just and the beginning of this journey and we are sure that the advancement in the ESG agenda is key for the sustainability of our business.



And in April concluded successfully our second offer, our follow-on offer. Proceeds of about 2 billion BRL were added to the cash of our company, and they will be invested in strengthening our own care units and those of the recently-acquired companies.

We continue focus on acquisitions and we believe in the consolidation of the Brazilian market. We have a robust pipeline of assets being studied. Most of the proceeds of the follow-on will be invested in new acquisitions.

Another important fact is that the consolidated number of COVID-19-related care and admissions have been showing a downward trend, as you will see later on. In addition to that, with the vaccination campaigns running here in Brazil we are hopeful that there will not be a third wave hitting us here in Brazil. We continue firm, engaged and restless to provide the best service that our members deserve, and I am sure that our company is strengthened and prepared to make the most of the opportunities that may arise in the future.

Having said that I would now like to turn the floor over to our CFO and investor relations director Mauricio Teixeira, who is going to give you further details about our quarter results, and then we will have a Q&A session, thank you very much.

Mr. Mauricio Teixeira: Thank you Jorge, good morning everyone. On **slide number 7** we can see that the number of healthcare members had a 5.5% growth compared to the same period of the last years, boosted by the addition of 76,000 members coming from Medical and 52,000 coming from the Sao Jose Group.

We also concluded the transfer of the member portfolio from the Samed and Plamed operators, adding 30,000 lives to our own portfolio.

Also there has been an organic growth of 61,000 members of the Hapvida operator plus America, and a reduction of 14,000 from the Sao Francisco and RM acquired companies.

The number of dental plan members grew by 9.9% compared to the same period of the previous year. Organically there has been an increase in 135,000 lives in individual plans and 143,000 lives in group plans.

We have also included members that had dental coverage, but they were all the considered as healthcare members because we had sold the product as a combo at the time. Also we now have customers with service provision contracts with a fixed price table. As a result, we have added 144,000 lives to our membership.

We can also see the evolution in the average number of members in every quarter, and we use these numbers to calculate our average ticket.

On **slide number 8** you can see the monthly average ticket for healthcare and dental plans. The healthcare average ticket grew by 6.8% compared to 1Q 20, mainly boosted by



new sales, readjustment of existing contracts and the addition of members coming from Medical and Sao Jose Group that have a higher average ticket.

Now for dental the average ticket had a drop of 0.7% compared to the same period of the previous year because of a lower average ticket of all operators, with the exception of Sao Francisco, which had a 1.6% growth compared to 1Q 20.

On **slide 9** we can see net revenue that grew by 11.8% in 1Q 20 compared to the same period of last year, 2020. We had 318,000 lives being added to our membership in healthcare and dental; and an increase in the average ticket of healthcare, reflex of the readjustments in prices and new sales; and there is also the revenue of the acquisitions consolidated in 2020: 45.7 million BRL for Medical and 46.1 million from the Sao Jose Group, and the acquisitions consolidated in 1Q 21 with 13.6 thousand lives from Samed and 15.5 thousand lives from Plamed.

On **slide 10** we will talk about the COVID-19 scenario for the pandemic, for the company since the beginning of the pandemic. We were able to, thus we want to be able to explain the MLR numbers.

When the WHO declared COVID-19 as a global healthcare emergency, all the elective procedures were suspended. This fact added to social-distancing measures led to a drop in medical care services demand in the period. So all the volume caused by COVID-19 in our healthcare units during the pandemic was offset by the suspension of the elective procedures.

However, with the advance of the pandemic in the end of 2020 we were able to see a significant increase in the number of admissions in 1Q 21, and we reached a peak in mid-March with a high number of daily admissions that was 32% above the previous peak.

That led to a higher demand in healthcare services that were already at a historical level of usage before the pandemic, because of the government flexibilization and the non-suspension of elective procedures.

On **slide number 11** you can see a breakdown of our MLR. Cash MLR in 1Q 21 was 61.6%, a 5.3 p.p. increase, especially due to the second wave with an impact of 85 million BRL.

Also we had an impact of the higher level of MLR of the acquired companies that led this number upward, and that is going to be seen until we conclude the integration plans and reduce MLR to our own levels.

We had a total MLR of 65.5% in 1Q 21, a 3.9 p.p. increase YoY. There was a reduction of the SUS provisions and IBNR reversion, due to the elective procedures that were suspended in our accredited network because of the second wave of the pandemic.



We still have great operational efficiency with our projects to manage MLR, and we were able to increase our verticalization with a 1.9 p.p. increase in the volume of services provided in our own network in 1Q when compared to 2020.

On **slide 12** you can see a breakdown of the SUS reimbursement provision. In 1Q 21 ANS kept the process to regularize the flow of invoices. The net impact was of 71 million BRL on claims. Although there was a new lot of notices issued and an increase on the historical level of charges, the notice provision has more reversions than constitutions in the quarter because of a faster invoicing process.

On **slide 13** you can see the percentage of representativeness in SUS reimbursement that has been dropping compared to the total claims of the company. We used the number of notices in the quarter to which it refers, and this drop shows the results of the projects we have implemented to reduce our claims.

On **slide 14** you can see our operational expenses that had a reduction compared to 1Q 20. Selling expenses was of 6.2% of revenue in 1Q TY, a 1.2 p.p. drop compared to 1Q 20. The reduction happened because of operational leverage and the lower level of delinquency, which had a reduction of 12.4 million BRL in the allowance for loan losses, and we increased the average term of contracts: one month for individual plans and two months for corporate plans with a positive impact of 10.5 million BRL.

In addition, the recently-acquired companies had a lower sale expenses level than Hapvida's. The administrative expenses level was of 10% revenue in 1Q 21, at the same level of 1Q 20.

On **slide 15** you can see our EBITDA numbers that were aligned this quarter with the levels that we achieved in 1Q 20. This is aligned with our strategic goal, although we were hardly hit by the pandemic.

Net income ex-value-added totaled about 300 million BRL this quarter, a 14% increase compared to 2020. This was mainly due to the maintenance of our EBITDA, even in this scenario that was hardly hit by the pandemic, a lower level of net income and also a reduction of income taxes.

In the last slide, **slide 16**, you can see our cash flow. Free cash flow generation ex-acquisitions was of 343 million BRL this quarter, a 62 million reduction compared to last year that was mainly due to a Capex of 134 million BRL invested in the expansion of our own network infrastructure.

We are now open for questions.



Q&A Session

Operator: Thank you. The floor is now open for questions from investors and analysts. If you have a question please press star one. If at any point in time your question is answered, you may remove yourself from the queue by pressing star two.

The questions will be taken in the order they are received. We do ask you to pick up your handset to provide optimum quality when asking your question. Please hold while we pool for questions.

Our first question comes from the Vinicius Ribeiro, UBS. Vinicius you have the floor.

Mr. Vinicius Ribeiro: Good morning everyone, thank you for taking my question. I would like to explore two points: first the competitive dynamics for the coming quarters. In a removing macro scenario what are the competitive trends that you see in each region? Do you expect a significant change compared to previous quarters?

Now when it comes to individual plans, what are the initiatives that you are planning to take in order to mitigate the readjustments impact that will probably be negative, considering that the competitors are also under pressure?

Now a question more about the results. I would like to explore Jorge's comment in the beginning of the call about the operational flexibility. We see many players in the healthcare industry working strong. Do you think that the COVID-19 demand has impacted your operations? Do you think that your business model helped you to deal with that demand, helped you more than the competitors? I would like to understand your business model and the potential synergies of the merger as well.

Mr. Pinheiro: Hello Vinicius, thank you for your question. These are all great questions. Now talking about the competition we see that the Brazilian market is increasingly consolidated. In the past we had over 1000 operators in the market and now we have around 600 operators in the market, and with think that we will have stronger operators in the future in this more mature market.

So today we see a very competitive environment, especially in the hospital area more than in the operator's area. There are operators that are more aggressive in specific regions only; but we question the sustainability of these players that are more aggressive locally.

But we are very confident about our business model to deal with all of that. Once again, with our solid and robust results that we have shared with you, you know the pandemic numbers are quite impactful in 1Q as you saw in the chart; but considering that we have over 1,200,000 lives with a higher MLR to our portfolio in a very short time, and with the effects of the pandemic, it was our business model that enabled us to have this stability and a very small variation in our MLR.



So that gives us a very strong commercial power that will enable us to grow organically and will enable us to be competitive, and what we want is to provide the population with high-quality healthcare; but thinking about the affordability as well for families and companies.

And I believe that after this 1Q is over and after the second wave of the pandemic is over, which impacted the market because many companies are closed and not hiring new people; but we had spectacular growth in 4Q LY and we were boosting the growth in the country. So considering our competitiveness and our business model we believe we will continue gaining share organically.

Now talking about our operational flexibility, that reflects the strategic decisions that we have been making for a long time now. Our company has our own network units in all the strategic regions for us, and that gives us a lot of agility. We have an amazing expertise in hands that enables us to allocate resources, to hire people and to have a very well-designed logistics operation, and all this agility makes us more independent. We do not need third-party resources.

We only need those resources in the recently-acquired companies that are still maturing, which is quite natural, and this is something that has a greater impact on the numbers; but considering that we have our own network that can still be expanded, enables us to mitigate or to buffer impacts of the changes in care volume. So we are very confident that we have great chances of continuing gaining market share, considering the strength of our products.

Mr. Ribeiro: Thank you so much Jorge for your answer. I will now give the chance of our colleagues asking questions, thank you so much.

Operator: Our next question is by Ricardo Boiati from Banco Safra.

Mr. Ricardo Boiati: Well, one of the questions I had was about your expectations about the readjustments or price increases in individual plans. When will this happen, or is this readjustment negative? How will this impact the company? So that is my first question.

Now the second question about the future M&As or future acquisitions. I would like to know whether you see some type of asset inflation to acquire operators or hospitals, for example, because of a greater competition in the market right now. Do you see any type of inflation for possible acquisition of assets? So these are my two questions, thank you very much.

Mr. Pinheiro: Thank you for your questions. So now about the individual plans this topic has been addressed by our company here. This is something that we were already planning for the year. We did not have any expectations in terms of price composition, because the decision that ANS made last year to suspend elective procedures.

Not if there is no readjustment this year, next year this is going to be offset. But our company has a great cash position and we have a business model that enables us to absorb any cost variation much better than the rest of the market. I think this is not a major concern for us.

However, I understand that for smaller operators, small HMOs, this can be a great challenge and less capitalized players will suffer much more for sure.

Now about your second question about M&As no, we do not see many operators conducting acquisitions in the market. So in the hospital area we do see a run for assets, so this is an area that has been more impacted - but this does not affect us much.

We like to grow by building our own hospitals, and we rarely acquire hospital assets available in the market. So we do not see a lot of pressure there, so this is not a concern for us. There are other operators with expertise and know-how and access to capital; but we also have know-how for M&A and for this integration, and I do not see many other operators in the market with the same expertise and know-how. So that is not a major concern for us.

Mr. Boiati: Okay, thank you very much, Jorge.

Operator: Our next question is by Mauricio Cepeda from Credit Suisse. Mauricio, you have the floor.

Mr. Mauricio Cepeda: Hello this is Mauricio, thank you so much for your presentation. Now about the commercial part companies are now trying to reinforce their plans. Do you think that this cooperative market...

Mr. Pinheiro: I am sorry to interrupt; but we cannot hear you well, maybe you could speak a bit closer to the microphone so that we can hear you?

Mr. Cepeda: Is it better now?

Mr. Pinheiro: yes much better, thank you.

Mr. Cepeda: Okay, I think it is a problem on my phone, I will speak a bit louder. So I would like to hear about the commercial environment, if you feel that companies are willing to rethink the healthcare plan benefits that they provide to employees.

And now about individual plans, do you think that the individuals are still affected by the pandemic and they are going after individual plans? What are your perceptions in terms of that?

And I also have a question about elective procedures. Is there a backlog from 1Q that you will need to address in the rest of the year? Thank you.

Mr. Pinheiro: Okay thank you, much better now. About the wish of having a healthcare plan here in Brazil that is something that is only growing. We know that Brazilians value healthcare plans here in Brazil, and the second wave of the pandemic was really harsh; but we see clear signs that the second wave is being left behind thankfully, and that requires a lot of efforts and opening units. We were hiring over 3000 employees - I do not know exactly what the right number is - but to provide the best service during the pandemic - and we did that. We never lacked beds in any of the cities we operate.

So since the healthcare is now, healthcare industry is in the limelight, is not part of the everyday lives of Brazilians and actually everywhere in the world, the population is increasingly interested in acquiring a healthcare plan.

Now with the recovery of the economy and the decrease in the number of cases, the possibilities to sell a healthcare plan are greater now, and users are now seeking our products - not only in retail, in individual plans; but also in corporate plans. With the reduction in the number of cases we see a natural trend for sales to happen.

We see many businesspeople considering investing in their businesses now, because the vaccination pace is going up and the economy is recovering, and COVID's impact is decreasing. So I think that the individual channel is probably going to grow.

And also from the corporate level we have contracts that have just been signed with major companies, large companies. This happened really strong in 4Q 20, so I am very optimistic when it comes to our organic growth that can be accentuated with the recovery of the economy.

Now about elective procedures you probably remember that last year with the first wave of the pandemic all elective procedures were suspended, and that includes appointments, tasks and surgical admissions that were not then performed. Now the backlog of procedures that happened in the beginning of the pandemic was actually provided in 3Q and 4Q 20.

Now ANS has not defined a suspension of the procedures and the operators could make the decisions their own, by themselves, and we decided not to suspend elective appointments, tests and procedures; however, in March some health departments suspended elective surgeries only. So we do not have a backlog of medical appointments or of tests; but we do have a small backlog of elective surgeries, but in some of the cities we have already resumed those elective surgeries.

So I am talking about a very small backlog, much smaller than the backlog that we had after the beginning of the pandemic last year. We are already conducting elective procedures in almost all the cities in Brazil.

Mr. Cepeda: Okay thank you very much, Jorge.

Operator: Our next question is by Samuel Alves, BTG Pactual.

Mr. Samuel Alves: Good morning Jorge, Mauricio, Guilherme. I would like to explore two topics, the first one about your membership base. The number of legal entities in the company is it growing? So is the net loss of lives in corporate plans explained by employees being fired?

And now what about the ex-COVID MLR? You said that in this quarter elective procedures have not been suspended; but the ex-COVID MLR has gone up quite significantly. So I would like to hear from you, do you think that the MLR of acquired companies has already been decreased since they were acquired? Thank you very much.

Mr. Pinheiro: Hi Samuel, thank you for your questions. The audio was not very good, so I will try to answer your questions; but if there is anything missing just please let me know.

So about our membership base the good news is that we do not see any companies dismissing employees right now. They have made headcount adjustments in the beginning of the pandemic, but after that we have not seen any other headcount adjustments. I believe that they now have adjusted to the lower volume of the pandemic.

So this gives us new expectations that with the vaccination and the slowing of the pandemic, we can have a growth when companies start hiring the employees to the same level they had before the first wave of the pandemic. So my answer is companies are no longer dismissing employees, and we expect them to start hiring back employees once the economy recovers.

Now about the MLR we have great news. Our company has prepared for that. We have a complete team for integrations. Also our operations area has been reinforced and that was so that we could make multiple integrations at the same time. And the results can be clearly seen with results that were even better than expected.

Yes, we have been able to reduce every costs, medical costs of the acquired companies, every acquired company. Just by combining of Hapvida, which has around 60% MLR with 2.4 million lives; and adding 1.2 million lives that came from the acquired companies, the simple combination would lead to a resulting MLR of almost 66%, and we delivered 61.1% cash MLR.

This is a very dramatic reduction that due to the customized monitoring of each integration process - and there is still a long way to go. Many companies are not mature enough yet with hospitals under construction, with outpatient departments. We have not yet implemented our system in all of the acquired companies and that requires a lot of technology, protocols, standardization and so on and so forth; but the package of the acquired companies have had their MLRs reduced.



However, we are going to add new companies to our base. We expect to receive the operations in Belo Horizonte with over 300,000 lives of a company with an MLR above 80%, and the same integration process will be implemented.

That is the beauty of our work. We want to keep MLR under control. The new assets that are added go through this adjustment process so that they can achieve an MLR that is closer to our own MLR; but the new acquisitions are coming, and we have been very disciplined to implement this flow.

Mr. Alves: Okay thank you Jorge, that was very clear.

Operator: Our next question is by Gustavo from Bradesco.

Mr. Gustavo Tiseo: Good morning everyone, thank you for taking my question. So I actually have two questions, the first question is about cancellations and migrations in 1Q, especially focusing on April, the gross adds coming from the acquired companies. Can you please tell me a bit about that so that we can understand a bit about the future?

Now my second question is about the merger with GNDI. Are you considering short-term partnerships or anything else that you can share about that? Thank you very much.

Mr. Pinheiro: Thank you for your question, Gustavo. Well, 1Q was aligned with what our company really presents in the regions where we operate. The pandemic has led to a slow down, many companies shutting down during this process - and this is quite natural.

But what we expect is once the number of cases decreases we can grow, just like we did in 4Q LY, which was quite impactful.

In 1Q TY we had the loss of one large contract. It was not actually a loss; but we let this contract go because their MLR was really high, above 100% - but we do expect this contract to come back at a more appropriate price. I think this company is now with an operator that will find it really hard to keep the MLR at an acceptable level.

But that was nothing different from what we expected, and we are very confident about our growth in the retail and corporate businesses starting in 2Q.

But now I will give the floor over to Mauricio to talk about the GNDI merger.

Mr. Teixeira: Good morning Gustavo, thank you for your question. So after the approval in the end of March we started working with CADE and ANS. We have opened the previous protocol with CADE, and we are about to file the final protocol. We have some regulatory due dates that can be shortened or not - but we are going to monitor that from up close.

And at the same time we are at the final phase of hiring a consultancy company that will help us map all the synergies and the value generation potential that can come from this merger - but of course, we need to wait for CADE's approval. We think that we are going to

hire this consultancy, this week or next week we are going to sign the contract. As soon as we have any news we are going to let you know.

Mr. Tiseo: Perfect, thank you very much for your answer.

Operator: Our next question is by Gustavo Miele, Itau BBA.

Mr. Gustavo Miele: Good morning Jorge, Mauricio and Nahuz, thank you for taking my question. I want to talk about two points very briefly: the first one is about the COVID admissions component on your MLR. We see the impact of the number of admissions on your results; but were there also changes in the dynamics of COVID-19 admission costs in the industry?

Is COVID care now more expensive than it was in the beginning of the pandemic?

Now my second question is about selling expenses that was one of the highlights of the quarter in my point of view. The resilient PDD dynamics is something that we have been seeing in recent quarters; but you also said that there was a positive impact of the acquired companies.

So about the M&As that you have to integrate, especially Promed, do you also forecast a positive impact in the dilution of the selling expenses? So can you please tell us a bit about the assets that are to be included in your P&L? Thank you very much.

Mr. Pinheiro: Hello Gustavo, thank you for your question. So about COVID-19 admissions yes, the new strain not only affects younger patients than the first strain. When we look at the ICU we saw that the patients affected were usually older, or patients with overweight or with other comorbidities; but now the second wave was different. It affected older patients with more severe disease, and it also affected younger patients, even patients without any comorbidity. So yes, the cost of care is higher and the length of stay in hospital is also longer.

On the other hand, we have good news because the results are increasingly better as time goes by, even with the virus being more severe we are able to deal with that - but yes, there is an impact on costs because hospitalizations are longer and the cost of care is also higher.

Now about selling expenses I will give the floor over to Mauricio to answer that question; but in general in Belo Horizonte we have not yet decided which commercial model to use. On the other hand, we have already mapped the possibilities of cross-selling. Many companies that are our customers could benefit us with a much lower commercial cost. We provide services to many retail companies in Brazil in different States and major industries as well.

But let me give the floor over to Mauricio to talk a bit more about that.



Mr. Teixeira: So in 1Q we saw a drop in delinquency rates, and I think that everyone has been giving priority to healthcare plans, especially during the pandemic, and I think this is going to remain in the future because of this memory of the pandemic. So in the list of priority of payments the healthcare plan is always at the top of the list.

And now for people who do not have access to a private healthcare plan, with the recovery of the economy more people will be able to afford this in the future, and our business model aims to provide affordable healthcare plans, so this is also going to help us with our strategic goals.

Now about selling expenses and commissions we are giving greater term, extended terms of the contracts and our customers usually remain with us now for longer than they used to stay with us in the past. That is great news for our results and for retention.

Now about M&A yes, we want to dilute the selling expenses. Commercial in Belo Horizonte is being defined with the entrance of Promed. That is the major integration that we had ahead of us; but our history has shown that we are able to reduce the selling expenses of the acquired companies, and the consolidated selling expenses usually decreases as a result.

Mr. Tiseo: Okay, thank you Dr. Jorge and Mauricio.

Operator: Thank you. If there are no further questions I would like to turn the floor over to Mr. Jorge for his closing remarks. Mr. Jorge you have the floor.

Mr. Pinheiro: I would just like to thank everyone for joining us today to hear about the results of a quarter that was very intense in our lives. I would like to reinforce once again our commitment with life and commitment to resisting providing high-quality healthcare. We are going to work really hard in order to find solutions and achieve our mission of providing care to all our patients who have been affected by this terrible disease that is COVID-19.

I would like to thank our managers for their restless work. They work day in, day out so that we can fulfill our mission. I would like to thank our partners and our investors for

believing in our business. Thank you very much and I am always available to you, have a great day.

Operator: Thank you. This concludes Hapvida's earnings conference call. You may disconnect your lines at this time and have a nice day.
