



Conference Call Transcript 3Q21 Results

Hapvida (HAPV3)

São Paulo, November 12, 2021

Operator: Good morning, everyone, and thank you for waiting. Welcome to Hapvida's third-quarter 2021 earnings conference call. Joining us today are Mr. Jorge Pinheiro, CEO, Mauricio Teixeira, CFO, and Guilherme Nahuz, IR and ESG director. I would like to inform you that we have simultaneous translation available on the platform; to access it click on the interpretation button on the globe item that you can see in the bottom toolbar and choose your preferred language, English or Portuguese. For those of you listening to the English translation, note that you can mute the Portuguese audio by clicking on mute original audio. We would like to inform you that this event is being recorded and will be made available on the company's IR website ri.hapvida.com.br/en where the complete earnings release can also be found. You can also download the slide deck either in English or Portuguese from the link on the chat box. During the Company's presentation all participants will be in a listen only mode, after Hapvida makes remarks, there will be a Q&A session. If you wish to pose a question, please click on the Q&A icon in the lower toolbar and write your name, company, and language to be placed in the queue. When your name is called, you get a pop-up asking you to unmute your mic; please go ahead and unmute your mic to ask your question. Please ask all of your questions at once.

Before proceeding, let me mention that all the information contained in this presentation and any forward-looking statements that may be made during the conference about the Company's business prospects, targets and future performance of the Company are based on beliefs and assumptions of Hapvida 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 Hapvida and could cause results to differ materially from those expressed in such forward-looking statements.

Now I'll turn the floor over to Mr. Jorge Pinheiro, who will begin his presentation.

Mr. Jorge Pinheiro, CEO. Hello everyone, thank you for joining us for Hapvida 3Q2021 earnings conference call. This quarter's results demonstrate once again the robustness and resilience of our business model as through it, we managed to better navigate the pandemic that hit us in March last year. We are glad to see that the second wave of the pandemic in Brazil is almost behind us, and we're very proud of the hard work of our 38 thousand employees, 15 thousand doctors and 15 thousand dentists, a team of giants in yet another quarter in which the Company was able to fully show the strength of its purpose. Once again, we were able to serve all of our customers on time, with efficiency and all the care they deserve. We are able a significant drop in the volume of Covid 19 related admissions throughout the third quarter and also the beginning of the fourth quarter. The daily volume of hospital admissions which reached over



200 hundred at the height of the pandemic, dropped to around five to six per day. The average number of hospital admissions has remained stable at this level since early October. This consistent movement allowed us to safely demobilize all assets that were exclusively dedicated to Covid patients, which involved around 5 thousand medical professionals and more than a thousand and 700 hundred beds demobilized in August. Therefore, we are quite optimistic about the operational normalization in the coming quarters and hopeful when we look at the progress of vaccination in Brazil, which continues to advance with great acceptance from the population.

Starting now with the presentation on slide three, net revenue was 2.6 billion brl's up 20.3%, year over year. There is strong organic growth in our client portfolio and also with consolidation of acquisitions such as Medical, São José, Promed, and Premium. In the last 12 months, in absolute numbers, there was a net addition of 711 thousand health care members and 168 thousand dental members, increases of 20% and 5.9%, respectively. We remain consistent in our organic growth trajectory in the client portfolio as well, adding 116 thousand clients in health plans and 159 thousand in dental plans with commercial performance improving quarter after quarter. This quarter alone we added 29 thousand health lives and 64 thousand dental lives organically, impressive numbers considering that the market is still recovering. The beginning of the fourth quarter already shows an acceleration in the retail channels, especially in corporate accounts. We actually have had several contracts already signed, some of them to be implemented in the fourth quarter itself. Another good news is that we have seen a greater inclusion of new members to existing corporate contracts. Our cash MCR 67%, 1.3 p.p. higher quarter on quarter.

Now, if we zoom into this figure, we'll see that there are some important factors that should be mentioned. First, the effect of the tail of Covid related expenses: we had a high volume of admissions in the second quarter and a strong reduction throughout the third quarter, but there is a natural lag in medical bills. In our own network, we are billed within 30 days, but in our accredited network, usually within 60 days and in some cases within up to 90 days. Covid-19 related costs represented 3.4 p.p. of this quarter's MCR. As we demobilized all Covid dedicated assets, as I mentioned a moment ago, the expectation is that Covid expenses become irrelevant from the fourth quarter onwards. In more mature operations of our Company, we're moving strongly towards our historical levels of MCR.

Now the second point is the care cost from newly acquired companies that still operate at higher levels, notably Promed and Premium, in the city of Belo Horizonte. Both of them had an MCR that was above 100% when they were acquired. These two, alone, contributed to nearly two p.p. in this quarter's MCR. Here we're doing a great job adjusting and enhancing our own network, a process that should last around 24 months since we took over, and we're going to bring the MCR for that region down to the same levels as our more mature operations.

The third point is about the São Francisco Group. We made this large and relevant acquisition aiming to reach certain financial and operational targets. In terms of MCR, our target was around 65% since São Francisco has half of its operations served in their own units and the other half in accredited network units. Excluding Covid effects, we have achieved this target earlier than expected, and we still haven't finished the development of our own network in the region, which has several investments in progress, such as new hospitals and emergency units.



Last but not least, we have the negative readjustment of individual plans, which increased the MCR by half a p.p. this quarter. The impact should be a bit more significant in the fourth quarter of 2021 and the first quarter of 2022, as you all know, but it should be fully recovered with the next year's readjustment. Excluding the Belo Horizonte operations only with Promed and Premium and the negative readjustment of individual plans, which represented 2.4 p.p. , the cash MCR would have been 65.5%. Now, if we exclude all the effects mentioned above - Covid related expenses, newly acquired companies that operate with a higher MCR, and the negative readjustment of individual plans - then the cash MCR would have been 61.6% in the quarter and 59% year to date. A spectacular result, from our point of view, which reveals once again our operational discipline. It is important to point out that throughout the three quarters of 2021, even with all the impacts mentioned previously, our cash MCR remained within 60%. This is a unique feat in the country; once again our business model has allowed us to buffer impacts like these much better than the rest of the market. Note that even including all of the situations I mentioned earlier, our cash MCR in the first nine months of 2021 was 65.3%, much lower than that of the market in normal periods, which reinforces the strength and sustainability of our business model as well as the execution capacity of our team. Our SG&A level remained pretty much stable, demonstrating our strong expense control. Our EBITDA reached 321.9 million brl's, Hapvida continued, operating or generating, operating cash throughout all quarters of the year, unlike the other players in the market.

Now moving on to **slide number four**. We remain engaged in reaching the ideal size of our own care network, which allows us to improve the quality of the medical services provided to our members. We closed the quarter with a total of 475 care units, including hospitals, emergency units, clinics, and diagnostic units; 10 more units than the previous quarter, and we've added 29 units in the last 12 months. As a result, we closed the quarter with 2,988 beds, 852 more beds than in the same period last year, when we only consider ex-Covid beds. In addition, we now have eight more hospitals that will join the Hapvida system, some were acquired, and others are in different developmental phases; some are still in the planning phase and others in an advanced stage of construction. In line with our inorganic expansion strategy, we won the competitive process for the acquisition of group HB Saúde in São José do Rio Preto, State of São Paulo, with a portfolio of approximately 128 thousand healthcare members. We also announced the acquisition of two hospitals Madrecor, in Uberlândia, Minas Gerais, and Hospital Viventi, our first owned asset, in Brasília.

We were now moving on to **slide number five**. Here you can see the market share of our health and dental segments at the end of the third quarter of 2021 compared to the same periods in 2020. In the healthcare segment, we had a total increase of 1.2% p.p. with stability in the Northeast region and growth in all other regions. In the dental segment, we successfully continued our path of sustainable growth, and as a result, we gained 0.2 p.p. of share in the period.

Now **slide number six**. We continue committed to the sustainability agenda; in the environmental sphere, we celebrated "Julho sem plástico," or "Plastic-free July," by starting a project to replace the use of disposable plastic cups in some admin units, sparing more than a million plastic cups per year from use and disposal. In the social sphere, Hapvida has been developing a large work front, called "The evolve project," which encompasses the diverse actions with our employees. We have digitized the entire employee journey and created affinity



and ally groups to further advance in the topic of diversity. Still, in the social sphere, we published "Hapvida's harassment and discrimination booklet" that reinforces the Company's concern about and respect for this topic.

Each quarter we take a new step in this continuous journey, confident that the ESG agenda is crucial for the sustainability of our business. In October, we announced two capital market operations: an issuance of debentures totaling 2.5 billion brl' s - actually the financial settlement is today November the 12th - and issuance of the state receivable certificates of up to 1.2 billion brl's. This operation is still in progress. Once completed, the proceeds from these two operations will be used to cover the financial obligations arising from acquisitions and investments that were already disclosed to the market or that should be disclosed soon in accordance with the Company's organic and inorganic expansion strategy. We have kept a robust balance sheet which will allow us to continue participating in the process of consolidating the supplementary health care market in Brazil, which is still quite fragmented. The proceeds will also be used to improve our infrastructure and welcome our members with even higher quality.

Regarding the merger between Hapvida and Grupo Notre Dame Intermédica (GNDI), the process is under analysis by Cade, the Brazilian competition regulator, and is on its ordinary and expected course, following the initial timeline. The clean teams, with the support of our consultancy, have also evolved significantly in their analysis of the synergies in recent months. In M&A, we have a robust pipeline of assets being prospected in different phases, different regions of the country and including healthcare operators, whether verticalized or not, and hospitals. In integrations, we continue advancing at full steam: America Group was fully integrated and incorporated in 2020; and in 2021 we focused on the San Francisco Group. Now in October, we have successfully completed the largest integration in the healthcare operators segment in the country, to date with every single San Francisco operation, integrated and running on Hapvida's hospital system, with the operator now incorporated by Hapvida Assistência Médica. By the end of 2021, throughout Q4, we plan to integrate Medical and São José Group.

Finally, we have also taken advantage of the opportunities created by the market momentum to repurchase shares in order to generate value for our shareholders. We believe that the current share price does not reflect all of Hapvida's values and business opportunities. In October alone, we repurchase 9.5 million shares for a total of 115 million brl's; in the second half of the year almost 15 million shares were repurchased, totaling around 190 million brl's until the end of October.

Now, I would like to turn the floor over to our CFO, Mauricio Teixeira, who's going to give you further details about the numbers of the quarter, and then we'll move on to the question-and-answer session. Thank you very much.

Mauricio Teixeira, CFO. Thank you, Jorge. Good morning, everyone. Jorge has already mentioned the highlights of our results, but I'll give you further details about some of them.

Moving on to **slide number seven**, we can see the variation in revenue and its respective growth drivers; net revenue in the third quarter of 2021, grew by 20.3%, when compared to the third quarter of 2020, mainly boosted by the organic increase of 116 thousand lives in the health



membership and 159 thousand lives in the dental membership. Also, a 1.3% increase in the consolidated average health ticket. This increase would have been 3.8% if we excluded the acquired companies that were not included in the numbers of the comparative period and that have a lower average ticket. We also had a negative readjustment of individual plans, reducing the revenue by 20.6% in the quarter and 25.8 million brl's year to date. If this negative effect were disregarded, the average total health ticket would have increased by 4.7%. Now, our revenue was benefited from the acquired companies with 47.9 million from Medical, 42.9 million from São José Group, 125 million from Promed, and 46 million from Premium Saúde consolidated only in August and September 2021.

On **slide 8**, we show the daily volume of covid admission cases since the beginning of the pandemic, with a strong reduction over the third quarter. Despite this drop, as Jorge mentioned, there was still a high impact on Covid medical expenses due to the lag in the submission of medical bills. Note that in the fourth quarter and up until now, the average daily Covid admission level has remained quite stable at a very low level without any need of dedicated or additional assets to provide service to Covid patients.

On **slide 9**, we showed the breakdown of the MCR in the last quarter and in the first nine months of the year. We can see that the cash MCR was 67.9% in the third quarter of 2021 and 65.3% in the first nine months of the year. Now we can see that Covid related expenses were 87.7 million in the third quarter of 2021 against 49.7 million in the third quarter of 2020. This year to face the pandemic, we spent 334 million against 99 million brl's in the same period in 2020. We also had an increase in the volume of appointments tests and elective procedures not only due to the return to pandemic levels but also due to the backlog of the elective surgeries that is now being addressed when comparing the third quarter of 2021 to the second quarter of 2021, there was a 20% increase in the volume of appointments, around 9% of the increase in tests and around 10 thousand additional surgeries. It's important to mention that the surgery backlog was fully addressed throughout the third quarter. Now another negative impact is the consolidation of a higher MCR of acquired companies Medical, São José, Promed, and Premium that were not present in the comparative period. The MCR of these companies is going down because of the integration initiatives, but they are still higher than our own levels. Just as a reference, these four operators together had a total MCR of 84.2% in the third quarter of 2021. We also had the impact of the collective salary increase in the hiring of new employees, including expenses with personnel at the new units. The total MCR was 72.3% in the third quarter of 2021 and 69.6% year-to-date, an increase of 11.9 and 10.8 p.p. year over year, due to a higher ibnr constitution due to the return of elective period, elective surgeries in the accredited network, an increase in sales reimbursement, that I'll give you further details later, and an increase in depreciation and amortization due to the increase in the number of healthcare units coming both from organic and inorganic growth.

Now on **slide 10**, we have a breakdown of the provision for SUS reimbursement; the net impact of several recess provisions on claims was 45 million brl's in the third quarter and 162 million in the first nine months of the year. Compared to last year, there was a reduction in the provision levels because of the suspension of regulatory terms. The charges this quarter are more aligned with our recurring SUS reimbursement levels.



On slide 11, you can see how much the provision for the SUS reimbursement accounts for in the company's total medical costs, which decreased up to the first quarter of 2021, considering the denominator of the first quarter of 20, because of the average 12 month lag for the ABI lot that we received. This quarter which refers to procedures performed mainly in the third quarter of 2020, the nominal value is similar to that of the last 15 quarters, but in the last two quarters the rate was higher due to the medical costs which is the denominator which is below historical figures in the second quarter of 2020 and third quarter of 2020 because of the suspension of elective procedures.

Now on slide 12, you can see what would have been our cash MCR in the third quarter of 2021 if we disregarded the effects of additional Covid expenses of 87.7 million brl's. The highest MCR level of the acquired companies and the negative readjustment of individual plans the MCR would have been 61.6 % in the third quarter of 2021 and 59.0% year to date, in line with our historical levels, as Jorge mentioned in the beginning of the call.

On **slide 13**, we present our operating expenses. The selling expenses was 6.6% in the third quarter of 21 and 7% year-to-date. A reduction of 1.3 p.p. and 1 p.p. respectively compared to the same periods the previous year. These reductions are explained by the reduction of PDD, the reduction in delinquency levels of overdue payments in individual and group plans. The administrative expenses rate was 10.6% in the 3Q21 and 10.2% in the first nine months of the year, an increase of 1.2 and 0.5 p.p. respectively year over year. The main impacts were the collective salary increase, the hiring of new employees, severance pay legal and consulting fees related to the recent M&A operations, including the merger with GNGI.

On slide 14, you can see our Ex-LTIP EBITDA in the 3Q21 of 321.9 million brl's, a decrease of 37.2 percent compared to the 3Q2020. The EBITDA margin in the 3Q was 12.6% a reduction of 11.5 p.p. In the first nine months of the year the EBITDA was 1.1 billion brl's a decrease of 30.7 compared to 2020 and margins of 15.1%. These comparisons can be explained by the increase in MCR excluding Covid care costs are EBITDA margin Ex-LTIP and Ex-Covid would have been 16% in the 3Q2021 and 17.9% in the first nine months of 2021. Adjusted net income totaled 178.1 million brl's in the 3Q2021, a reduction of 46.2% compared to the 3Q2020 and 655 million brl's in the first nine months of the year, a reduction of 27.7% year over year, mainly impacted by the reduction in EBITDA due to the effects of the pandemic that we already discussed.

On **slide 15**, you can see our free cash flow which was positive by 114.1 million brl's in the third quarter, but still negatively impacted by the reduction of EBITDA which was 220.7 million brl's lower. We also had payments that were due in October to the São Francisco Group which had an impact on our numbers. On the other hand, we had a positive impact of the underpayment of income tax and social contribution in M&A 114 million in the third quarter were paid for Promed and Premium acquisition. It's important to highlight that throughout this critical period of the pandemic, the Company continued generating operational cash flow throughout the whole time, showing the strength of our business model and our team.

We're now available for the Q&A session.

Operator: We'll now start the Q&A session for investors and analysts only. As a reminder, if you wish to pose a question, please click on the Q&A icon in the lower toolbar and write your name,



company, and language to be placed in the queue. When your name is called, you get a request to unmute your microphone; please do so and ask your question. We also request that you ask all of your questions at once.

Let's now go to our first question from Fred Mendes. Fred, please, unmute your mic and ask your question.

Fred Mendes: Thank you. Good morning, everyone. Can you hear me well?

Jorge Pinheiro: Yes, we can hear you.

Fred Mendes: Okay. I have a couple of questions, the first one: you have already mentioned, but I just want to better understand the numbers for the coming quarters. How confident you are that most of the backlog for elective surgeries caused by the pandemic were already addressed this quarter and that there will be no impact in the coming quarters, that's my first question. Now, the second question: gross sales had a slight drop, and when I look at the commission value, that was a great increase of 17%. So, can you tell me a bit more about that? Was there an increase in commissions paid by life to give this boost to gross sales?

Jorge Pinheiro: Hi Fred, thank you for your question. About the backlog of surgeries, it's quite simple: we look at all the surgery requests by the date of request, and we're very confident that all surgical procedures that were requested and not conducted during the pandemic have now been conducted. There is no backlog left. The good news is that today the pace of new surgical requests for the mature operations has already gone back to pre-Covid levels. So, we have gone back to normal when it comes to elective surgeries. Now for the acquired companies, especially in Belo Horizonte, which is a new operation, we have a level of request that is higher than our historical levels. But in the next two years, I'm very confident that we can install our own network, and with other actions, we will put this into the same levels of our care indicators. But we're very confident that the backlog has already been addressed, and the fourth quarter should not be seeing any more pandemic effects. If there are any effects whatsoever, they will be irrelevant. Now I'll turn the floor over to Mauricio.

Mauricio Teixeira: Hi, Fred. Thank you for your question about sales commissions. There's a point here that the commissions are deferred based on the average term of the contract. So, what we see in the quarter actually refers to sales that were done in the past; it's not directly proportional to the sales of the quarter. So, there is no direct relationship here. In the fourth quarter of last year, in the first quarter of this year, we deferred the commissions to the beginning of the year, but this has now gone back to the normal levels it's in the run rate of what goes in and out in terms of deferrals. We have a greater mix of individual plan that has a higher commission, and the growth in sales then was impacted by that.

Fred Mendes: Okay. Thank you, Jorge and Mauricio, that was very clear.

Operator: Our next question is by Leandro Bastos. Leandro? We will unmute your mic so that you can ask your question. So go ahead and ask your question, Leandro.



Leandro Bastos: Thank you, everyone. I also have a couple of questions. The first one is about MCR. I think the message is clear that it's going to be normalized from now on, but can you comment on the evolution of the MCR within the quarter like month by month. So that we can have yet another input of the trends from now on. Now the second question about commercial dynamics Jorge said that in the fourth quarter you see a positive trend in retail and corporate contracts so I just wanted to understand a bit more about what is making you excited here when it comes to sales, you think that the competitive environment, is more rational, or it is the mix of products or now because the pandemic is a bit more under control? Thank you.

Jorge Pinheiro: Hi, Leandro. Thank you for your questions about MCR. Well, first I would like to say that we're very happy with what happened in the third quarter, because of everything you saw in the market. Our Company was able to keep it within 60% even with the operations in Belo Horizonte with almost 500 thousand lives. The negative readjustments of individual plans and all the Covid expenses, and the second and third quarter were paying for the service provided during the height of the pandemic and even despite all of that we had a great cash generation and organic and inorganic expansion, this is something that is just unbelievable the whole team should be praised because we were able to navigate in the best possible way through the pandemic. Now about the MCR dynamics in the third quarter it's important to mention two aspects, first service: the month of July we had a high level of admissions in August, in terms of service, we had demobilization of our assets, we hire over 5 thousand professionals, and we had almost 2 thousand beds exclusively dedicated to Covid, but in the month of August, we had the demobilization of those assets, and the month of September was a month in which we started to see a low level of Covid related service stabilized. So, July was strong in August we had a reduction in the volume, so we demobilized assets, and in September we had the stabilization of the Covid related service at low levels. Now when it comes to stabilization, there is a mismatch between service and cash MCR. In July we paid medical costs of June and May, now in the month of August although, it was the month in which we demobilized our assets we were still paying for July which was strong. June which was even stronger, now the month of September showed a completely different trend, we paid for the month of August which was the month of the demobilization of assets, we already entered the month of August with those demobilization, so there was a strong reduction in the cash MCR in the months of September which refers to August and July. So, within the normal dynamics now, so from now on we expect that the fourth quarter be irrelevantly affected by Covid which is wonderful news. Now about your second question, about growth, we're very optimistic, we're confident that the fourth quarter has everything it takes to be the best sales quarter of the year, we had a first quarter that was almost even, you know, then we grew 23 thousand lives, the third quarter almost 30 thousand lives, and then the fourth quarter I believe will be the best quarter of the year. I think we'll go back to historical levels in terms of growth which is excellent news. And if we break down by channel, Mauricio has just mentioned that retail recovered faster from the pandemic, because it's easier for us to sell plans in the retail segment while the corporate segment was a bit more frozen. It's hard to sell corporate plans during the pandemic because many patients were hospitalized in ICU, and it's really hard to change plans, but the third quarter was marked by many corporate growth opportunities that will come true in the fourth quarter. We have major contracts already signed one of them with almost 10 thousand lives that we had discontinued because it had the wrong pricing, in the beginning of the year and in a few months, they came back to us with a fair price, it was our decision to discontinue this contract, but they're coming back now in the fourth quarter, and another two companies as well. I remember that,



in the beginning of the year, we discontinued four different companies for the same reason, and three of them have already come back to us. They have already signed contracts which will start on the fourth quarter. So, the corporate channel has great news in terms of growth, with many major contracts already signed. Now another piece of good news is about the inclusion of new members. Corporate contracts are now at the highest level of inclusion of new members since the beginning of the year, which shows that companies are hiring once again. So, they are including new members at record levels now, at least compared to the other quarters of the year.

Leandro Bastos: Thank you, Jorge.

Operator: Our next question is by **Samuel Alves**, from BTG Pactual. Samuel, we will unmute your mic, so you can ask your question. Go ahead Samuel.

Samuel Alves: Thank you. Good morning, everyone. Good morning, Jorge and Mauricio. I have two questions, both of them about topics that you have already addressed, which I just want a bit more detail. First, about organic growth, maybe talking a bit more about the past than about the future, we noticed an acceleration of organic net additions in the quarter, but this is still a bit timid. So, can you tell me a bit more about this? Is this due to a higher level of churn in the geographies where you operate? I just want to understand the reason for that number.

Now about MCR, Jorge mentioned in his opening remarks that MCR was naturally impacted by the consolidation of recent M&As and that you expect to take this MCR level to the same level of other more mature operations you have. So, you think that when we achieve two years after the consolidation of each one of the assets, you think that the assets consolidated will be running with the same levels of the Company, the same MCR levels of the Company before these assets were acquired?

Jorge Pinheiro: Hi, Samuel. Excellent questions, thank you. So, going back to organic growth. The dynamics that we see, you probably remember that, in the first wave of the pandemic we had a week sales period, but right afterwards, we saw this heating of the market, and in the second wave of the pandemic we see a similar behavior. Now, that the second wave is almost behind us the retail channels have accelerated, but major companies, because we have many contracts with major companies and the corporate channel is very important to us, it takes a bit longer for it to accelerate because the negotiations are harder during the pandemic, and it's also harder to change products during the pandemic, but the negotiations were intense in the second and third quarters and, as I said, we have great news for the fourth quarter and the beginning of 2022, with contracts, with a large number of lines that have already been signed. But it's important to note that there are regional differences. The economy is going back to pre-pandemic levels at different paces, like in São Paulo and in the Northeast, which is a bit faster than other regions. So, some regions have heated faster than others after the pandemic. The Northeast has a lot of activity now, the North, as well some of the contracts I mentioned, are actually in regions that are not the Southeast. So, we have now a better balance between retail and corporate channels which is everything we want. So, we're very confident based on what we have had so far, and what will still be implemented, and we think that in the fourth quarter we'll go back to historical levels of growth. Organic growth has always been very strong for us, and that allowed us to gain market share, but we see a great competitiveness of our products in



the retail channel. We've always been competitive in the corporate channel and now we've seen even new opportunities in the corporate channel. Now about MCR, thinking about Hapvida's MCR, we should break it down into different clusters. First, Hapvida and more mature operations, like America, in Goiânia, RN in Minas Gerais, and others that are more mature already. So, here we should look ahead with an a trend to go back to historical levels Hapvida MCR gravitating around 60%, maybe a little bit more, a little bit less, but going back to the stability. Now another cluster would be São Francisco due to its size and relevance, and here we have a different dynamics, our target MCR for São Francisco is around 65% because half of São Francisco uses an accredited network in which the MCR is closer to 70%, and the other half of São Francisco has an MCR that is closer to 60%. So, our target MCR for São Francisco is 65% for those reasons, and we had already been achieving that which is great news And as a reminder, we had defined this target for São Francisco to be reached in four years time, and we were able to achieve that in two years time, already achieving then our target MCR from São Francisco. But there are still opportunities to improve in São Paulo we have three hospitals that are being built, we have an acquisition in São José do Rio Preto, that will increase the verticalization, and lives in the region, the implementation of collection points, a lot of imaging tests in São José dos Campos, Limeira, we still have a long way to go, but we have already achieved our target for São Francisco, which is great news. That would be the second cluster, and the third cluster, then, would be Belo Horizonte. These two companies that we acquired in the region had over a 100% MCR, and they worked mainly with an open network. Our plan for Belo Horizonte has been very well defined, we are already implementing it and we've been decreasing the MCR of these two companies strongly, and for these two companies will see a plan to correct the asset which will take two years. So, when you ask me how long does it take for each asset, well, we have an individualized plan for each asset. There are some assets in which we achieve the results a bit faster, and others not so much, but we're always very transparent with the market: São Francisco we said four years, but we were able to achieve it earlier, for America's, we said 30 months, but we have already delivered in America's also earlier than expected, and now we want Belo Horizonte companies to go to these MCR levels in two years time. We have a great operational discipline, our operations and incorporation areas are acting at full steam, and in every case in all of our assets we were able to achieve our integration and results plan earlier than expected.

Samuel Alves: That was very clear. Thank you, Jorge.

Operator: Our next question is by Vinícius Rbeiro, from UBS. Vinicius, I will open your mic, so, you can ask your question. Vinicius, go ahead.

Vinicius Ribeiro: Hello, good morning, everyone. Thank you for taking my question. I actually have a couple of questions: first, about the fourth quarter. What is the ticket dynamic and price negotiation in light of the last 18 months, and everything that happened with frequency postponement of readjustments, and so on, and so forth? Now my second question: Jorge just mentioned the different regions, can you tell us about the growth expectations by city for 2022? So, ticket competition and maybe the launch of new products as the assets are not that busy with Covid related cases? Thank you.

Jorge Pinheiro: Hi, Vinicius, thank you for your questions. About ticket, what should we expect? New sales. We have implemented two readjustments this year: one, in the first quarter, around



4%; and another one, in the beginning of the second quarter, also around 4%. So, no sales comparing to the same period last year will lead to a ticket increase of around 8%. Now, about the membership and group plans so small businesses, affinity groups, we've seen something around 8.14%. That's the average readjustment that we've had throughout the period. And now, finally, when it comes to individual plans, this is what you all know, we're giving back to users this negative readjustment that will be offset, but we also have another adjustment next year, starting in may 2022. So, this is the price dynamics there in terms of average ticket. About the growth, per city or per place, even in cities where we have a high penetration, even in those cities we believe will be able to grow, but the targets are personalized. We have a target for Goiânia, a target for Anápolis, a target for Manaus, Fortaleza, Recife, Ribeirão Preto, Joinville, Belo Horizonte. We have different targets depending on the penetration we already have in that location, our market share, and our own network capacity. We're usually more aggressive when our own network is already ready and running. So, it's a very detailed plan, and I wouldn't be able to tell you city by city, because within regions we also have different targets, depending on all those variables. And also, as a reminder, these two readjustments that happen every year are common to our operations. So, we always break it down into two annual adjustments, rather than having an 8% adjustment in January, we break it down into two readjustments of 4%, so that users are not that impacted.

Vinicius Ribeiro: Perfect. Thank you very much.

Operator: Our next question is by **Mauricio Cepeda**, from Credit Suisse. Mauricio, will now unmute your mic, so that you can ask your question. Go ahead.

Mauricio Cepeda: Thank you. Hello dr. Jorge, Mauricio, thank you for your time. This is Mauricio Cepeda from Credit Suisse. I'm not going to be very creative, I want to go back to topics that were already mentioned, but from a different perspective, when it comes to organic growth. Can you give us a bit more idea about what is going on in the field? Who are you competing with for these organic lives not in the corporate or an affinity because individual you have a certain advantage, but who's competing with you? When we see these cancellations, are you being beaten by someone else? And my second question, I have another two questions. So, the second is about verticalization: what are your plans from now on to create your own? Where do you have new plans for a more comprehensive verticalization? And my third question is about the backlog itself: you have been monitoring by the date of request, I know, you mentioned this, and now that people are doing their screening tasks. Do you think that that can lead to another backlog procedures for the future?

Jorge Pinheiro: Hi, Mauricio. Thank you so much for your question. I'll try to answer all of them, but if I don't, please remind me. So, first, about the competition and organic growth. So, what we noticed was the following: among the large players, we saw no different behavior then compared to what we're used to. But last year, we saw the postponement of elective procedures, especially in small and medium businesses, but locally and with a higher level of aggressiveness like in CDA, B and C, we saw someone being more aggressive in small and medium companies or individual plans, but it was an atypical behavior. So, right after the second wave of the pandemic, and especially now, that these companies have to give back part of the readjustment for the individual plans, we notice that these companies are, you know, with a short of breath. So, I see that these small and medium businesses that were a bit bolder. So, to



speak are suffering now, and this has been bringing us great opportunities from the organic perspective, because these players are now having to offset readjustments in other channels, since in the individual channel they have to give back money to users, and they have the Covid expenses to pay for. So, they're losing competitiveness and trying to offset this in other channels and that also applies to the inorganic channel. We have several M&A projects in course, many of the companies that had their negotiations closed, came back to negotiate with us, we have many MOUs already signed, many processes and due diligence. So, I think that we're going to go through a period of normalization, with the small and medium businesses going back to reality, and being a bit more responsible now, and that will give us great opportunities for organic and inorganic growth. I do not see any competitor with the capacity to have, like a cost structure, faces in most of the regions where we operate, we've been very disciplined, we continued to invest in our model, in our own network and technology. So, that our product is always the most competitive one, I don't see any player with cost structure and balancing between cost and quality that could face us in a holistic manner. Now, about verticalization, we have many, many actions, let me give you some examples: in the midwest we're building a hospital in Campina Grande, so, in Brasília we just made the acquisition of a hospital, and we're going to verticalize in the region there, and we have a hospital in Anápolis, and other opportunities. And in the Northeast, for example, we are just delivering a new pediatric hospital; in Manaus, we are working on two new hospitals; in Recife, also pediatric hospitals, and other opportunities; in the Southeast we have Belo Horizonte in which we have a plan to implement many of our own units, labs, diagnostic units, imaging clinics, and we plan to expand our hospital network; in the Triângulo Mineiro we just announced the hospital in Uberlândia that's all we needed to verticalize our operations there; and in the countryside of the state of São Paulo also many different initiatives three hospitals under construction, we're also working in the outpatient and areas we're moving firmly towards our purpose and during the pandemic this year from January to September we did 65% in terms of cash MCR, even with those many acquisitions. Then, absorbing all of the impact of the pandemic and that shows the resilience of our model and gives us great competitiveness there are many projects ongoing and we continue implementing them firmly. Now, about the backlog, we have not seen that happening, we monitor the number of new requests every day, and it's been in normal pre-pandemic levels in recent days. So, nothing new there.

Mauricio Cepeda: Okay, thank you, George. Just going back to my first question, in cases in which you have lost lives, are you losing these lives to someone else, or are these employees are not there?

Jorge Pinheiro: Well, Cepeda, as I said, we discontinued four companies this year, from the beginning of the year. All the companies had a low price for us, and we did not reach an agreement with them, but of those four companies, three of them have already come back to us and signed new contracts, and they had gone to small and medium operators in their cities of origin. So, three have come back to us already and the fourth will come back as well. So, we're not losing lives to competitors in the corporate channel, on the contrary, it's now the season to gain market share and beat our competitors.

Mauricio Cepeda: Okay, thank you so much. You're very clear.

Jorge Pinheiro: Thank you, Cepeda.



Operator: Well, if there are no further questions, we are now closing the Q&A session. Now I would like to turn the floor over to the Company for the final remarks.

Jorge Pinheiro, CEO, so, we just want to thank all of our employees for the huge effort in facing the second wave of the pandemic. I want to thank our partners and our investors for believing in our dream, which is to offer very high-quality care in an affordable manner to all of our customers, and our greatest commitment to our users for whom we struggle on a daily basis. We're very hopeful that the fourth quarter will be wonderful with great growth, acquisition integrations and going back to normal levels of operations after having gone through this challenging period, so thank you very much, and have a great day.

Operator: This concludes the Hapvida quarter 2021 results conference call. The IR department is available to answer any other questions that you might have. Thank you so much, and have a great day.