



Conference Call Transcript 3Q20 Results

Hapvida (HAPV3 BZ)

Operator:

Joining us today are Mr. Jorge Pinheiro, CEO, Bruno Cals, CFO, and Guilherme Nahuz, Investors 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 Q&A session for investors and analysts, only when further instructions will be given. Should any participant need assistance during this call please press *0 to reach the operator. Today's live webcast may be accessed through the Internet address at <https://ri.hapvida.com.br/en>.

Before proceeding let me mention that forward looking statements 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 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, leading to results that differ materially from those expressed in such forward looking statements.

Now I'll turn the conference over to Mr. Jorge, which will begin the presentation. Mr. Jorge you may begin your conference.

Jorge Pinheiro:

Good afternoon, everyone, and thank you so much for joining us for our results conference call today. It is a great satisfaction to disclose to the market, Hapvida's results for the third quarter 2020 and the first nine months of 2020. I'd like to take this opportunity to congratulate all of our teams. We have 35,000 employees over 15,000 physicians and 15,000 dentists who are part of the Hapvida's System. We're still fighting this pandemic and it's very gratifying to know that we can keep on counting on you. To all health care professionals who are working in the frontline, physicians, physical therapists, nurses,



nursing assistants, all of you in the midst of so many uncertainties, you moved on heroically with courage and selflessness and you have shown, once again, that you have a noble commitment to life. This reflects Hapvida's vision and we are very, very grateful to each and everyone of you.

We are very happy with Hapvida's performance this quarter. The consolidated net revenue grew by 61.6% boosted by acquisitions and by the increase in the number of members through new sales. EBITDA closed the quarter at R\$512.2 million, up 93.8% year over year. This is due to a combination of organic and inorganic growth and an efficient MLR management, as well as discipline with operating expenses. Speaking about organic growth, we're very happy with the new contracts that we signed and Hapvida has been chosen by over 180,000 new users of health care plans and dental plants. It's important to mention that our MLR was positively impacted this quarter, because, in spite elective procedures and urgency procedures are gradually returning to pre pandemic levels, the frequency of use has not yet been completely normalized. We've also kept a good management of sales and administrative expenses. The latter has achieved its lowest ever level compared to revenue.

From the operating perspective, this quarter was marked by major events. I'll mention some of them. We renewed our brand and we saw the need to adopt a new corporate brand to achieve even more recognition and performance and we also changed our purpose, which has become "providing access to high quality healthcare to our people". This is our focus. We're going to do our best in order to care for people with the quality that they deserve.

We signed a partnership with the Swiss company, Roche, to consolidate our lab diagnostics activities in one single central unit that will have state of the art technology. This operating technical center, located in the city of Recife, in the state of Pernambuco, will be the first of its kind outside of Europe and it will be able to process up to 5 million tests per month replacing the current 18 regional facilities that we have. The center will process around 95% of web tests increasing our verticalization level even further.

Until today, we've conducted over 25,000 appointments throughout our telemedicine channels, are continuous investment in technology and data analytics enabled us to create one of the most robust telemedicine platforms in the country. Today we can say that we have the most variety types of digital appointments or service. In addition to that, in order to provide more security in the telemedicine interactions, we've been adopting facial recognition identification of our beneficiaries.



We also reinforced our board with the coming of Mr. Igor Lima, an executive with vast experience in integration technology and innovation. These topics are key for us to face our current challenges.

We also opened, organically, 5 new service units, and one distribution center for pharmaceutical supply center.

We announced a series of acquisitions in recent months, both in terms of client portfolio as well as in hospital infrastructure. We've made several transactions that Bruno Cals will give you further details about later. This shows our continuous search for positive assets and our focus on inorganic growth in other regions. We're talking about a large number of acquisitions but all of them, each and every one of them, were executed with discipline and rationality. We've been acquiring assets and integrating them in a quick and efficient way and bringing operating indicators of the acquired companies to levels that are close to ours.

We also concluded the incorporation and integration of the operators that are part of the America group. By the end of 2020, we'll also complete the incorporation and deployment of systems in the dozens of health care units that were part of the America group, completing the integration in about 1 year after the closing of the operation, which shows that we have complete possibilities to repeat our business model. We have grown and therefore we changed this is a great new moment and operating changes are key to take us further, but our essence will always be kept the same.

Having said that I'd like to turn the floor over to Bruno Cals, our CFO, and Guilherme Nahuz, our IR director, who will give you further details about the numbers of our quarter and that will have a Q&A session thank you very much.

Bruno Calls:

Thank you so much Jorge. Good afternoon, everyone.

First, I need to explain that, due to the conclusion of the incorporation of the operators and dozens of assistance units that made up the América Group, on September 1, 2020, and the consequent implementation of systems (SAP and systems of the operator and hospital Hapvida), the individualized opening of the operational and financial data of the acquired companies is not comparable with previous quarters. From 4Q20 onwards, the acquisition of Medical in Limeira/SP was concluded now in November and it is possible that we will have new closings later this year, which will also prevent the comparability



of the previous numbers. Therefore, Hapvida's results will only be presented on a consolidated basis. Punctually, when possible and necessary, in some items, we will also mention the effects of the acquired companies, as you may have seen in our earnings release.

Starting the presentation slides, on slide 2, we show the main financial and operational highlights of 3Q20, consolidated data from Hapvida.

There was an increase of 61.6% in net revenue, mainly influenced by revenues from the acquisitions of Grupo São Francisco, Grupo América and RN Saúde. There was also a 7.6% increase in the average ticket for health plans, reflecting the price adjustments implemented in existing contracts and new sales. It is important to mention that, as everyone knows, individual plans have not been readjusted this year and collective plans for readjustments will only be charged as from January 2021, as determined by the National Supplementary Health Agency.

There was a 56.9% growth in the total number of beneficiaries, explained by the 2.3 million increase in the Health and Dental beneficiary base, in addition to the organic growth in both Hapvida and acquired companies that added 37 thousand health lives and 145 thousand lives in dentistry.

The drop in the ex-SUS loss ratio was 0.6 percentage points and the cash loss ratio fell 3.0 percentage points. We understand that this is a spectacular performance when we consider that the acquired companies still operate with a loss ratio well above ours. But I reiterate, as Jorge has already mentioned, that the loss ratio in the quarter was still positively impacted, because although our elective and urgent services are receiving a gradual increase in demand and have already returned to operating at levels close to the historic, the frequency of use has not yet been fully normalized.

Finally, our EBITDA grew by 93.8% with a higher margin of 4.0 percentage points. Here, there is the contribution of reducing the accident rate and also the proper management of expenses. The selling expenses ratio reached 7.9% and the administrative expenses ratio was 9.4%.

On slide 3, we show our continuous search for good assets. In the last few months alone, we announced 7 acquisitions and 1 hospital lease, all concentrated in the Midwest and Southeast regions. They are all acquisitions that add value to our business and that have a strategic fit with our operations.



The largest of them, the Promed Group, will make our entry into the capital of Minas Gerais robustly possible. The region has high growth potential due to both the potential increase in the penetration of private plans and the gain in market share, contributing to our consolidation in the state of Minas Gerais. We have just announced the acquisition of the operator Premium Saúde, also in Minas Gerais. A very synergistic transaction, since a good part of the customer portfolio is located where we will have hospital infrastructure, which will allow us to quickly verticalize the service. We also announced acquisitions in the state of Goiás; in the city of Rio Claro, in the interior of São Paulo; we rent a maternity hospital in Ribeirão Preto/SP. Anyway, it was a busy quarter that kept our movement of consolidation and expansion in the Southeast and Midwest regions. All operations cited are awaiting regulatory approvals.

It is also important to highlight that these regions are under construction: 1 hospital in Dourados (Mato Grosso do Sul), 1 hospital in Uberlândia, in addition to 3 hospitals in the countryside of São Paulo: Barretos, São Carlos and Bauru.

On the right side of the slide, we also inform the status of the acquisitions announced in 2019. We incorporated América on September 1 as mentioned at the beginning by Jorge. Grupo São Francisco, we are moving well towards the incorporation process and expectation to capture synergies within the expectations of the Company. At RN Saúde, our systems have already been implemented. We concluded the acquisition of the operator Medical de Limeira on November 3, which is now part of our structure. Plamed is still being evaluated by CADE.

On the next slide, 4, we show the map with the distribution of hospitals by state (there are 41 hospitals at the end of September), 42 emergency rooms, 188 clinics and 175 laboratory and image diagnostic units, thus totaling 446 service points. Thus, we are getting closer to our beneficiaries in all five regions of the country. During the 3rd quarter, 2 hospitals were opened (Lauro de Freitas in Bahia and Mário Palmério in Minas Gerais), 11 medical clinics (7 were closed), 2 emergency rooms (1 closure) and 8 diagnostic units (7 closures) in the period as part of the consolidation of service in new and large units.

We ended the quarter with 2,939 beds, 1,097 more beds than in the same period in 2019. In this quarter, we made 890 beds available for the treatment of Covid-19. This was a reduction of 124 beds compared to 2Q20, as a result of the demobilization of beds dedicated to the treatment of patients with Covid-19.

The Company's market share at the end of September indicated a total market share of around 7.5%. Here we also show the percentage distributed by region, with the Midwest



gaining representativeness and the Southeast and South with high growth potential. Remembering that the lives of the announced acquisitions are not yet accounted for, as they have not yet been finalized.

I would like to give the floor to Guilherme Nahuz, the company's Investor Relations Officer, who will give more details on the results.

Guilherme Nahuz:

Thank you, Bruno. Thank you, Jorge. Good afternoon, everyone.

So, moving on to slide #5, you can see the number of members we have. As Jorge and Bruno said, we've had a spectacular growth, almost 50% growth in healthcare and almost 70% growth in dental. Of course, this has the contribution of members coming from the acquired companies, but as Jorge said, the highlight of the quarter for us was the recovery of our organic growth. 53,000 lives in the health care unit and 130,000 members in the dental plans. In spite of this very challenging scenario that we faced in the third quarter, because of the economic effects of the pandemic on society, as a whole, we grew in every region of the country. Those 53,000 health care lives, I mean, half of them were in the Midwest and this was organic growth. We had 10,000 extra lives: in the North and in the South 2,000 lives and then the Southeast 8,000 lives. So, these were the number of members that we gained in the third quarter of 2020.

Compared to the second quarter of 2020, the acquired companies are growing in about 30,000 lives and Hapvida in the North and Northeast ex-acquisitions had about 20,000 lives in terms of growth, so 30,000 lives of organic growth. This is what we were talking about when we mentioned that this was about more than acquiring portfolios and we were focusing on creating regional hubs and this is what we've been doing in the third quarter.

Just a reminder, we're not yet working with new products or our own network products, which are even more affordable in these new regions of operations, but in Goiânia, for example, we just launched our own network product on September the 1st, so no impact whatsoever on the third quarter. But that shows that we can grow organically in these new regions from now on.

We will probably launch our own network products when the investments in medical and hospital infrastructure in those units are completed. So, this is the path forward.

When it comes to dental, we're still growing firmly, but the opportunities are abundant specially in the new regions of operation and also with the recently acquired companies



that are currently being integrated. This growth is also possible in the regions where we are planning to acquire companies, just waiting for the approval. Many of those companies don't offer a dental product, so this is a major opportunity.

The company can only achieve this type of growth that we achieved in the third quarter, because our commercial department is the most competent in the country, and we have an amazing distribution force compared to our competitors. Our commercial area was reinforced recently and that gave us scalability and robustness to make the most of the opportunities that are arising.

Now on the next slide you can see our average monthly ticket. We grew almost 8% in the health care business, that is quite a significant growth considering that we did not have price increases for individual plans, which accounts for about 30% of our members and 40% of our revenue. In spite of that we were able to grow by 7.6% our ticket is achieving almost R\$200, which is one of the lowest ticket prices in the country, which enables Hapvida to provide high quality health care to the greatest possible number of clients and that is our goal.

The dental ticket is stable. This is a strategic and synergic product for the company as I mentioned previously.

Now on the next slide #7, about our net revenue. We already shared the numbers related to members an average ticket and that's the main reason why we grew so much. Our net revenue grew by 63.2% in the first nine months of 2020 compared to the first nine months of 2019, and in these first nine months of 2020 we grew around 10%. We achieved over 10% growth compared to the whole year of 2019.

Now on slide #8, you can see our medical costs in our medical loss ratios. All of our indexes improved, you know, Cash-MLR, ex-SUS MLR and total MLR, which is what you can see here on the slides. This is of course a consequence of the excellent MLR management we have in our company and all this innovation process we're going through, with intensive use of technology and artificial intelligence. We also achieved relevant gains of synergy from the acquired companies, the volume of synergies captured is pretty much aligned with what we expected, but these synergies were captured earlier than we planned. There's also a positive impact of the pandemic here, as Jorge and Bruno said.

So, SUS reimbursement has decreased. I will talk about that later, but we reduced the backlog of surgeries created in the second quarter, because of the pandemic, and this has not impacted our loss ratios. We created a cell for that, we got in touch with the



members and with the physicians in regions where there was no restriction, and we performed 100% of the surgeries in those locations. Service levels are going up gradually throughout the third quarter, I mean, in terms of the number procedures delivered, and we entered the fourth quarter of 2020 at levels that are very close to the pre pandemic era, so that is a very important point. There's also been an increase in the number of services provided for respiratory syndrome in some locations, but that has not led to an increase in the number of hospitalizations.

Our acquisitions have an MLR that is above ours, so if it wasn't for the pandemic we would probably be presenting a total MLR that was higher than what we presented in our history, but, of course, we are completely prepared to reduce the MLR of the acquired companies and that's what we've been doing.

So, the consolidated MLR that you see on the slide already includes the impact of the implementation of our business model in the acquired companies. The beauty of Hapvida's vertical model is to see this return to normal with a very low risk of over suiting our MLR.

Now and slide nine you can see Hapvida's SUS reimbursement, a total cost of R\$27 million in the quarter, half with claim costs and the other half with financial expenses. The volume was lower than the usual levels, because many of the ABIs were not sent to us. ABIs, the identified beneficiary notice, but also because of the deadlines that were frozen. ANS, the Brazilian Regulatory agency for private health care plans, has been trying to normalize the levels of ABIs invoices. The operator is receiving two ABIs in November and a few in December, so we think this is probably going back to normal and the first quarter of 2021.

On slide 10, you can see our operating expenses number. Jorge and Bruno have already mentioned that this is one of the highlights of the quarter and that shows how disciplined we are when managing our expenses. Despite the new acquisitions, new assets and new geographies we've been able to do that very efficiently. Our selling expenses have had positive impacts with lower losses or lower PDD, positive impact of the acquired companies that work with a selling expense level that is below Hapvida's. So the consolidated numbers are being positively impacted by that.

Now administrative expenses, here you can see all the efficiency gains coming from innovation projects in the company and we've also been able to capture synergies in the acquired companies: San Francisco, Grupo America and RN. But this process has not



been completed yet since 2 ongoing, and other synergies to be captured in all those three acquired companies I mentioned.

Now next slide, EBITDA grew 4 points in the quarter. We achieved over half billion reais in EBITDA, great level.

On slide 12, you can see our free cash flow and capex in this quarter. We achieved a free cash flow of R\$415 million, which is higher than the free cash flow throughout the 1st nine months of 2019. Capex of R\$290 million, like we said at the end of last year and beginning of this year, we were planning to invest about R\$400 million in 2020 and 2021.

OK, that's the end of our presentation. We would now like to open for questions. Thank you very much.

Vinicius Ribeiro

Good afternoon, everyone. Oh I have two questions. First, the legacy operations of Hapvida's, do you see any improvements when we think about the new contract and existing contracts? What can we expect for 2021 considering the product offer? Now about price increase, can you tell me a bit more what was your accounting procedure for your receivables? Thank you very much.

Jorge Pinheiro:

Thank you for your question. I will answer the first part and then I'll turn the floor over to Bruno to talk about the price increases. When it comes to organic growth, we need to emphasize that the company has a unique position. We are the first Brazilian company to be present with our own network, our own hospitals in all 5 regions of the country, thus we can make the most of the potential of each region. We know that some regions are usually faster than others, so this model gives us a competitive edge compared to the competitors. With regards to growth in recent months, we have noticed a very strong interest of the Brazilian population to acquire private health care plan. This pandemic has shown how important the services we provide are. We have worked relatively slowly, and our rates are completely out of the curve the death ratio of healthy to user. Compared to the rest of the country is much lower and we've been showing that through our daily newsletter and, although the economy has not recover completely, we are very optimistic about this recovery. This has been boosting you know retail channels, individual plans, small and medium enterprises, are almost at pre pandemic levels. And when it comes to group plans, we have noticed that the second quarter of 2020 was impacted by new bids of small medium and large enterprises and we've been benefiting from that. The third



quarter already includes many major clients in all regions of the country the fourth quarter will also see new clients joining us, so we think that these two aspects are quite favorable companies are hiring employees once again, but their headcount is not yet at the levels they were in before the pandemic. It's great news that they are already hiring employees again, but they have not gone back to pre-pandemic levels yet. Generally speaking, I'm sure 2021 will be a great here when it comes to organic growth. The worst is over. When it comes to the pandemic, in the state of Amazonas, we saw second wave, but that was much smaller than the 1st wave, which shows that we've been treating this disease much more efficiently now. So, in spite of this new second wave of COVID-19, we've provided great care through our protocols to our clients so there has been no increase in the number of hospitalizations. So, we think that 2021 will achieve organic growth levels similar to those that we had before the pandemic. Now I turn the floor over to Bruno to talk about price increases.

Bruno Calls:

Thank you for the question. Well but price increases were suspended starting in September only, so only one month of the third quarter. And we are in contact with the regulatory authorities to define those price increases that have been negotiated. So, in the fourth quarter we will take into account the price increases, although there were only going to force starting in January 2021. For group plans, we've been negotiating the price increases and therefore there already taken into account in our revenue, now for individual health care plans the market has not been authorized to increase the prices of individual plans this year, but starting next year we do expect to see price increases starting in May, because that's the timeline defined by the regulatory authorities.

Vinicius Ribeiro:

Great. thank you very much.

Gustavo Miele:

Good afternoon, Jorge, Bruno, Guilherme. Thank you for your presentation.

I have two questions. The first one about organic growth, I'd like to go back to that topic, but from a different perspective. Comparing quarters these numbers were great, even better than what the ANS data suggested, but there was not an increase in selling expenses, there was actually a drop in selling expenses compared to the last quarter. So can you tell me a bit more about how this works, when we look at this comparison of the third quarter with the second quarter, is that a better control of the churn rate? How



do you control the selling expenses? Do you have any specific policy at the company? So, this is my first question. How these two variables correlate? So, if you can answer that question 1st and then I'll move on to my second question.

Jorge Pinheiro:

Thank you for your question. Well there are some variables, the first one San Francisco group brought us a very interesting experience of our own sales. So they had an in-house sales team that was working very efficiently and we were working here at the company to identify in which regions it would be best to have our own sales team and in which regions it would be best to have brokers selling for us. So, we may choose to have one or another in each specific region, but we can also choose to have both in a specific region. So, in some regions we have already decided to have our own sales team. This commercial approach has lower costs to us when compared to the brokers channel. This is still significant channel for us but the regional characteristics of the places where we operate, and the sales characteristics of those locations will be factors taken into account when deciding which model to use. The volume of commissions in that, when we have our own corporate team are smaller, then with regards to the churn rate, there was also a positive impact on that. You still have another question right Gustavo?

Gustavo Miele:

Yes, I do. My second question is a bit simpler you mentioned on your release, and Guilherme emphasized, that the backlog of elective surgeries has been 100% addressed by you throughout the border. What about the backlog of other procedures? Can you give me any update about the month of October and the backlog of other elective procedures? Thank you.

Jorge Pinheiro:

Gustavo as we predicted the second quarter was indeed marked by our ability to perform all the elective procedures that had been withheld because of the pandemic. We were extremely active, we took the first opportunity to perform surgeries once the restrictions were removed and that we always worked with high levels of safety both our clients and employees and we were able to zero our backlog of surgeries and high complexity procedures in the second quarter. The fourth quarter now has levels of elective procedures that are very, very close to pre pandemic levels, so we see that people are slowly resuming the use add medical procedures.

Gustavo Miele:



Great, Jorge that was very clear, thank you very much.

Mauricio Cepeda:

Good afternoon, Jorge, Bruno, Nahuz.

I'd like to talk about organic growth. When you talk about individual plans in new regions this is a leverage that you've been using a lot, but you mentioned that in some of the regions you don't have your own network products. So generally speaking, both in group plans and individual plans, do you have a different commercial positioning to make the most out of it? Is the current conditions in which other healthcare operators might be a bit weakened a good opportunity so to speak?

Jorge Pinheiro:

Thank you for question, Mauricio.

We actually have different stages of verticalization in each region, so we have our M&A area and our integration area working hard and we are currently creating an integration book. This book includes many activities that will help us implement our business model completely, so that we can reproduce this model in all of the companies. An example of that is our verticalization we are performing due diligence, assessing the assets, but our teams already start assessing the possibilities to verticalize labs, support services, you know and other types of services in the region. So, after our team maps that out and we start operating on the asset, we have this very detailed plan to implement our business model. The assets acquired usually have verticalization levels that are below ours, ex-acquisitions. I'd say we are the most verticalized company in Brazil and around the world. So, as soon as we acquire a company, we start this verticalization process. Most of the times that process happens organically, but we can also, you know, acquire a hospital, for example, to add or to help us in that process. Once we achieve the expected verticalization levels and after we implement the new systems which, you know, have lots of technology imbedded to control MLR, another synergies that are already very clear, such as, G&A, supply and so on. So, all that enable us to review the product offer for the region and, as a consequence, we also review our price list. Our goal is to implement our model fully and then offer the best products at the lower possible costs in the responsible and efficient way, but we don't want to leave quality aside. Quality is always in the center of our approach. You know, history shows that once we go into a new region, we don't focus only on gaining market share, but we also focus on expanding the market. This has been our model and that's the model that we want to continue reproducing throughout the country. So, once again each region has a different maturity



level, in some cities we've been able to implement our model completely and in others this process is already ongoing, but it's all part of our integration process. Now when it comes to group plans, of course, there is always a possibility, an opportunity, for us to offer our product, but the economy has been hardly hit by the pandemic and companies are reviewing benefits, so we are making the most of this opportunity and using that to grow. Group plans are highly customizable, you can offer participation plans, family plans, prevention programs and others. That enable us to customize our product and adjust to the reality of the company. You know, we have the example of Joinville, in which we entered the market because of customer's request. So, we signed a long-term contract with a client and during that time we built a high complexity hospital, our own clinics, our own lab units, a verticalized network and right after we entered the region. We were able to attract the three largest clients in the region, so affordability is really important to us and this has been showing great results.

Mauricio Cepeda:

OK. Thank you very much.

Gustavo Tiseo:

Hello. Jorge Bruno, Nahuz, thank you for your presentation.

I have a few questions first about organic growth, which was very strong. You said you had 5,000 lives coming from the Midwest region. Some regions depend on seasonal activities, so for example, in places where there are many power plants, did that have had an impact on your numbers? And now, can you give us further information about the impact of COVID-19, did that impact on MLR? And finally, my last question: how much do you pay in commission for group plans and individual plans?

Jorge Pinheiro:

Hi Gustavo, thank you so much for the question.

Now about the Midwest. Just like here in the Northeast, we went through an important consolidation, then we went to the North region to start a similar process. We've been growing, we've been creating new clusters of growth and the Midwest is one of them. We have studied all the opportunities in that region thoroughly, we started with São Francisco that had operations in Mato Grosso, Mato Grosso do Sul and Goiás. And then America, that had a strong presence in Goiânia. Then we made three other acquisitions. One of health care plan portfolio in Annapolis and we have a hospital under construction there in Annapolis. We purchased another portfolio in Goiania, we are building another



hospital in the Midwest region. M&A in our expansion teams are working really hard on that region. We entered organically in Brasília, as well, so we've mapped out all the important cities that would give us good conditions to implement our model, so that's what we've been doing. And in the short and medium terms that's what we want, to consolidate the major hubs of the Midwest region. The Midwest region is very strong in Agri business and Agri business is boosting the economy of the country, it has been able to overcome economic crisis, so right now we're very well prepared to make the most of the opportunities in the Midwest region, and also in the countryside of the state of São Paulo. After San Francisco, we also rented an asset in the city of Ribeirão Preto, we had made other acquisitions in the countryside of São Paulo, we're also building hospitals there, we also have a verticalization plan for labs. So, this is what we do, we study the region thoroughly, we identify the best opportunities to implement our model efficiently. Goiânia had a very interesting platform, you know, with their own labs, their own hospitals, so we were able to implement your own network there. We increased the number of beds, so we created a mega walk-in emergency unit in one of the regions of Goiânia, with the largest population, we also have a great diagnostics unit there. So, we achieved results faster in Goiânia, because the platform was more mature and enabled us to do that so. It is, indeed, a new cluster of growth and we want to continue benefiting from that growth in the Midwest region and others.

Now you also asked about MLR and what would be our MLR without COVID-19, well it's very hard to answer that question but Hapvida ex-acquisition is very well managed and the MLR ex-acquisitions is always around 60%. This is the third year in a row, I mean, we've been listed for three years now and you saw that our MLR ex-acquisition has always been very stable you know around that level of 60%. But you know the market as a whole has been growing, great companies have an MLR of around 70%, ours is the only in the country with MLR around 60%. But sometimes we acquire companies that have MLRs at 70 or even 80%. Medical if I'm not mistaken had 85%, so of course it is something that requires a transition process, you know, to implement our systems technologies, new product, supply, G&A... Depending on the maturity level of the asset, then the MLR ratio is different, is higher and it takes us longer to take the MLR levels to numbers that are closer to Hapvida's. But today, in the South in the Midwest, and in the North, Northeast and Southeast, we already have locations with standard Hapvida's MLR, similar, because our models have already been implemented in those regions. Now, the other regions in which we're still implementing our model, the MLR may be a bit higher, you know, they start at 70 or even 80% and slowly we reduce to achieve our own levels. In places where we can implement our model completely then we are able



to achieve MLR's of around 60%, but in regions that our model cannot be completely implemented, like small towns, in which doesn't make sense for us to have our own hospital, well in those locations the MLR will be around 65% or 70%, which is a great level.

Now about your last question, commission for large group plants are around 60% retail 320%. So, the retail channel has higher commission rates for corporate plans. In some situations, we also pay at lifelong fees.

Gustavo Tiseo:

OK. Thank you very much, Jorge.

Jorge Pinheiro:

I would like to thank our partners and investors who make it possible for us to offer high quality health care. To our clients, thank you so much for helping us in such a special mission. Once again, I'd like to thank our 35,000 employees 15,000 physicians and 15,000 dentists, especially those who we're in the frontline this year. Many of these health care professionals where exposed to the virus, but they did not get infected. They are working even harder than they were before the pandemic, you know, they have this noble commitment to life. So, I would like to thank once again our team, especially our hospitals team. Thank you very much for doing that together. We've been overcoming this.