

# 3Q24 Earnings Call Presentation



November 13th, 2024 | 08am (EST – NY) | 10am (BRT)

**HAPV**  
B3 LISTED NM

# Highlights

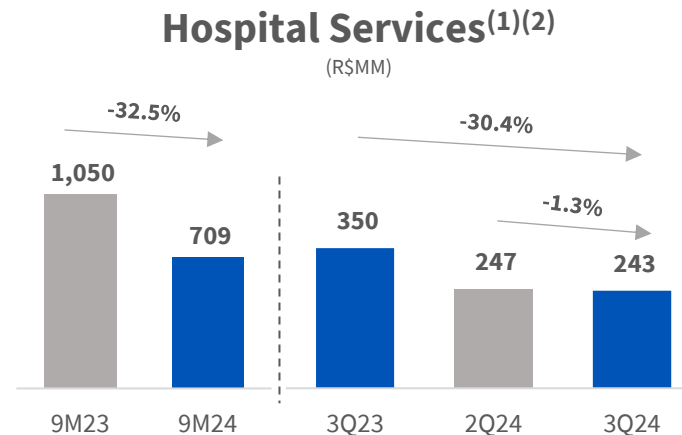
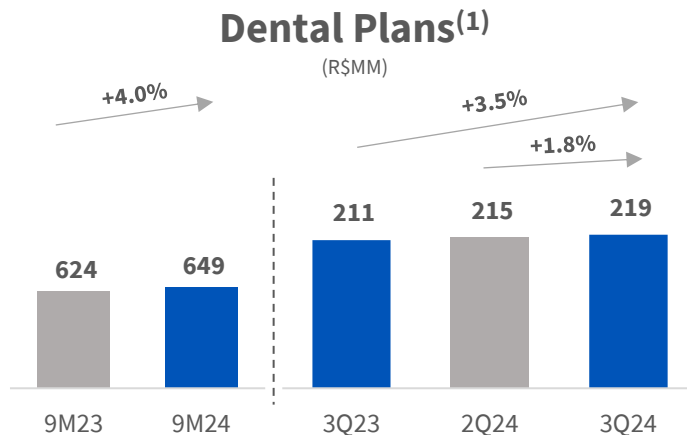
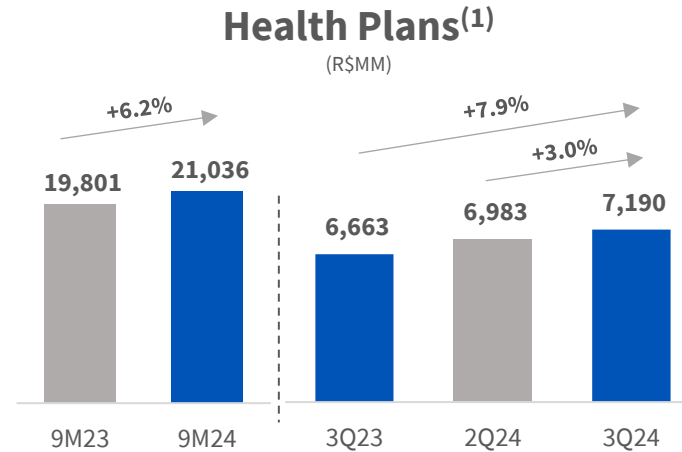
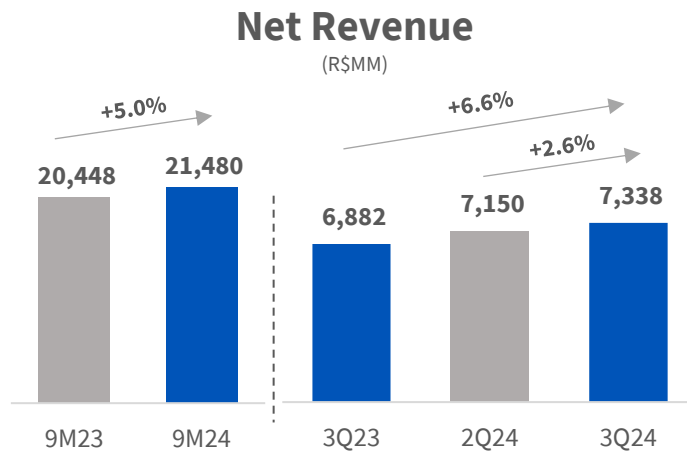
	3Q24	3Q23	Δ%	9M24	9M23	Δ%
<b>Net Revenue:</b>	<b>R\$7,338MM</b>	<b>R\$6,882MM</b>	<b>+6.6%</b>	<b>R\$21.480MM</b>	<b>R\$20.448MM</b>	<b>+5.0%</b>
<b>Health Beneficiaries (EoP):</b>	<b>8,848k</b>	<b>8,925k</b>	<b>-0.9%</b>			
<b>Dental Beneficiaries (EoP):</b>	<b>6,913k</b>	<b>6,922k</b>	<b>-0.1%</b>			
<b>Avg Health Ticket:</b>	<b>R\$276.0</b>	<b>R\$251.8</b>	<b>+9.6%</b>	<b>R\$268.1</b>	<b>R\$244.2</b>	<b>+9.8%</b>
<b>Cash MLR:</b>	<b>70.4%</b>	<b>71.9%</b>	<b>-1.5p.p.</b>	<b>69.6%</b>	<b>72.7%</b>	<b>-3.1p.p.</b>
<b>Cash SG&amp;A<sup>(1)</sup>:</b>	<b>11.2%</b>	<b>8.9%</b>	<b>+2.3p.p.</b>	<b>9.7%</b>	<b>9.2%</b>	<b>+0.5p.p.</b>
<b>Selling Expenses:</b>	<b>6.9%</b>	<b>7.7%</b>	<b>-0.8p.p.</b>	<b>7.2%</b>	<b>7.5%</b>	<b>-0.3p.p.</b>
<b>Adjusted EBITDA<sup>(1)</sup>:</b>	<b>R\$763MM</b>	<b>R\$742MM</b>	<b>+2.8%</b>	<b>R\$2,732MM</b>	<b>R\$1,983MM</b>	<b>+37.8%</b>
% Margin	10.4%	10.8%	0.4p.p. lower	12.7%	9.7%	3.0p.p. better
<b>Adjusted Net Income<sup>(2)</sup>:</b>	<b>R\$325MM</b>	<b>R\$261MM</b>	<b>+24.3%</b>	<b>R\$1,322MM</b>	<b>R\$516MM</b>	<b>+156.3%</b>
<b>Net Debt:</b>	<b>R\$4,078MM</b>	<b>R\$4,954MM</b>	<b>-17.7%</b>			
	0.97x EBITDA	1.58x EBITDA	-0.61x EBITDA			
<b>CapEx:</b>	<b>R\$181MM</b>	<b>R\$102MM</b>	<b>+77.7%</b>	<b>R\$471MM</b>	<b>R\$340MM</b>	<b>+38.4%</b>

(1) Excluding non-cash expenses Stock Options Plan (SOP), Long-Term Incentive Plan (LTIP); and Depreciation & Amortization

(2) Correspond to Net Income excluding expenses with SOP/ILP; Amortization of Customer Portfolio and Trademarks & Patents

# Net Revenue

Consistent revenue increase driven by average ticket improvement



**NET REVENUE: +6.6% vs. 3Q23**

**HEALTH PLANS +7.9% vs. 3Q23**

Avg. ticket: +9.6%

Avg. beneficiaries: -1.6%

- **-138.4k** Organic

**DENTAL PLANS: +3.5% vs. 3Q23**

Avg. ticket: +5.5%

- A result of price adjustments

Avg. beneficiaries: -1.9%

- **-131.6k** Organic

**HOSPITAL SERVICES: -30.4% vs. 3Q23**

- **-R\$80.1MM** in Hospital Services: lower demand in the period and a more selective approach in offering services to third parties

- **-R\$26.4MM** of divestments of São Francisco Resgate and Maida Health

(1) Gross Revenue

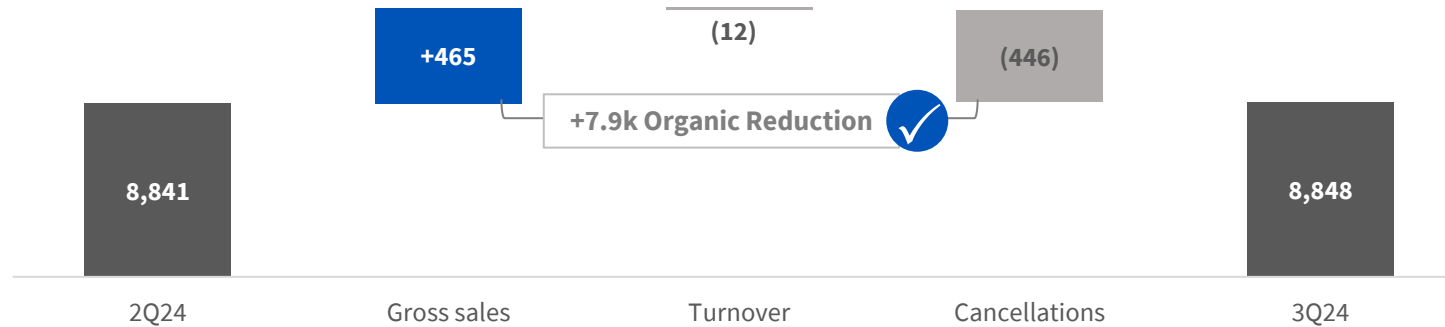
(2) Including revenues with third party hospital services, patient transportation services (ambulances) and other

# Health Plans

Resilient increase in average ticket, up 9.6% since 3Q23

## Health Beneficiaries Evolution

(thousand; EoP)

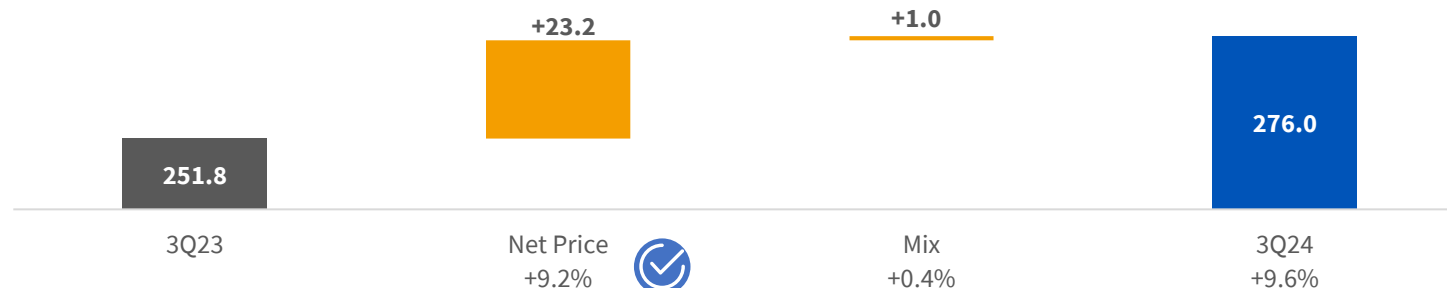


### BENEFICIARIES: +7.9k vs. 2Q24

- **Increase in number of beneficiaries**, as a result of robust gross sales
- Negative **turnover**
- **Cancellations** are gradually slowing down but remain at high levels, concentrated in loss-making contracts, due to portfolio optimization, verticalization, and regulation of the accredited network of providers

## Average Ticket Breakdown

(R\$/month)



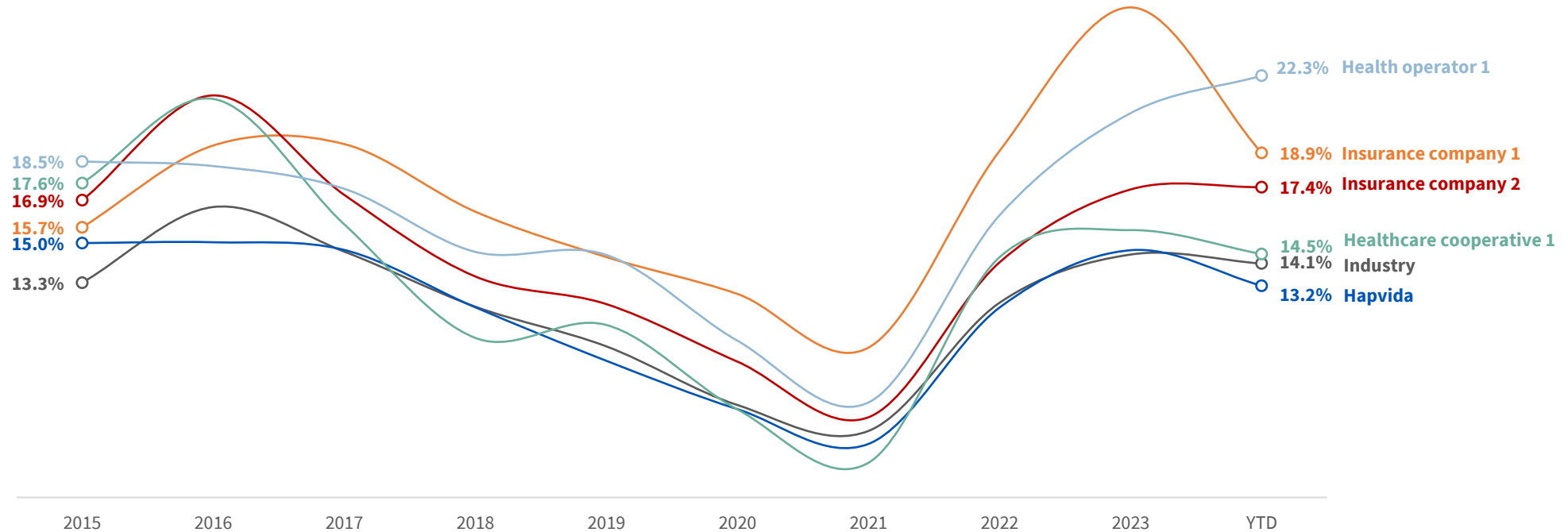
### AVG. TICKET: 9.6% BETTER vs. 3Q23

Reflection of price recomposition strategy and review of the client portfolio, seeking profitability and sustainability

- **+9.2%** Net Price: contract price adjustments, increase in verticalization and co-participation
- **+0.4%** mix of sales and cancellations

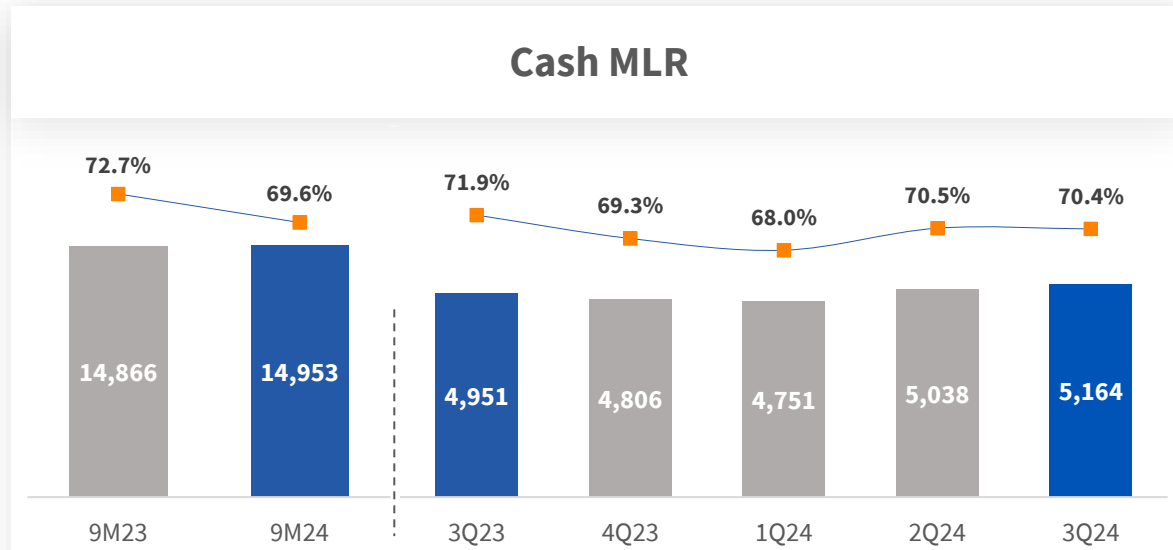
# Average ticket

Hapvida recovered its historical prices readjustments after Covid-19 pandemic

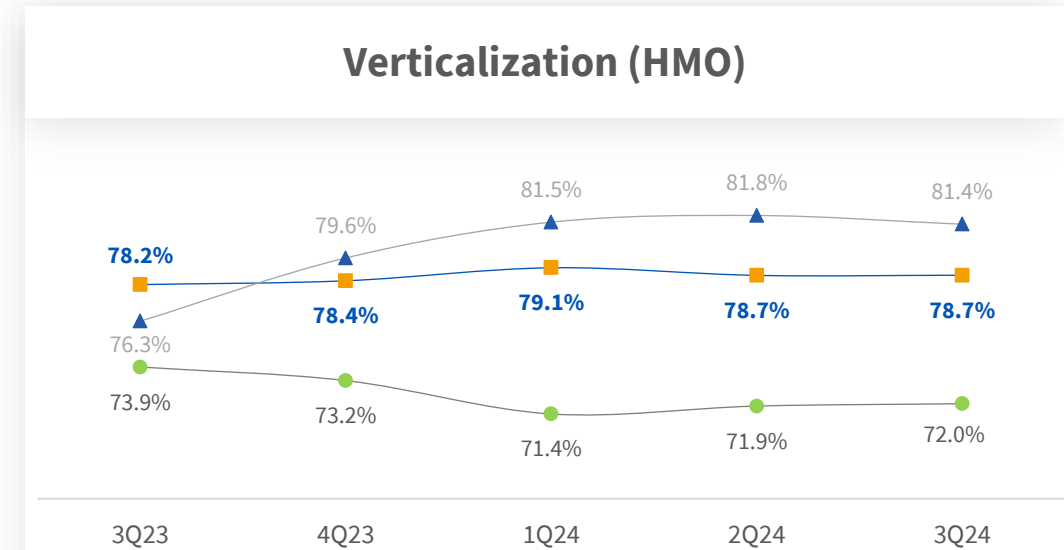


# Cash MLR

Significant reduction of 1.5p.p. vs. 3Q23 and 3.1p.p. compared to 9M23



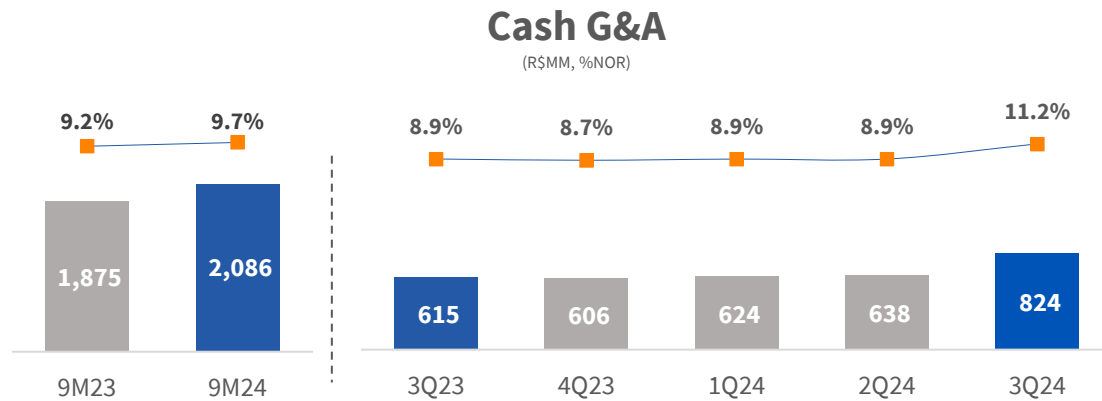
- Cash MLR was 70.4%, a significant improvement of 1.5p.p. compared to 3Q23 and a reduction of 0.1p.p. compared to 2Q24. It went from 72.7% in 9M23 to 69.6% in 9M24 (3.1p.p. better)
- The company was able to overcome the historical seasonality for the quarter, as well as the extemporaneous events, through the various successful margin recovery strategies developed since the beginning of 2023
- Levels of utilization levels, aggravated by (i) the long periods of drought; (ii) the sudden variations in temperatures; and (iii) the indirect repercussions of the significant increase in dengue cases in 2Q24, leading to postponement of elective appointments



- In 3Q24, the HMO plans (HMO) have remained at the same high levels of verticalization since 1Q24, with 81.4% for consultations; 78.7% for daily admissions and 72.0% in exams carried out within the Own Network

# Cash G&A

## Administrative Expenses impacted by Contingencies



### Cash G&A | Breakdown

(R\$ million)	3Q23	4Q23	1Q24	2Q24
Personnel	287.8	237.8	257.9	273.9
Third Party Services	190.3	165.3	194.0	161.1
Occupation and Utilities	72.6	93.9	68.3	77.1
Contingencies & Taxes	96.6	122.1	117.7	154.8
Other (revenue)/expenses	(32.4)	(12.9)	(14.0)	(28.5)
<b>Cash G&amp;A</b>	<b>614.9</b>	<b>606.3</b>	<b>624.0</b>	<b>638.3</b>
%NOR	8.9%	8.7%	8.9%	8.9%

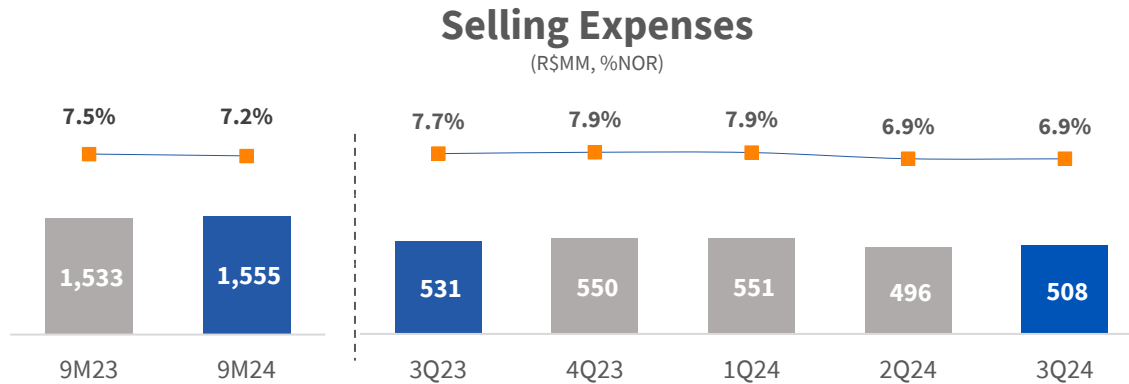
### CASH G&A: +2.3p.p. (%NOR) vs. 3Q23

Unfavorable impacts:

- **R\$151.7MM** in Contingencies and Taxes, reflecting the increased judicialization and its impact on the company
  - Part of the amounts provisioned in this quarter correspond to previous quarters R\$80.0MM
- **R\$24.1MM** from Third Party Services, with positive effects of R\$19.9MM in 2Q24 for aligning accounting practices, which were not repeated in 3Q24

# Selling Expenses

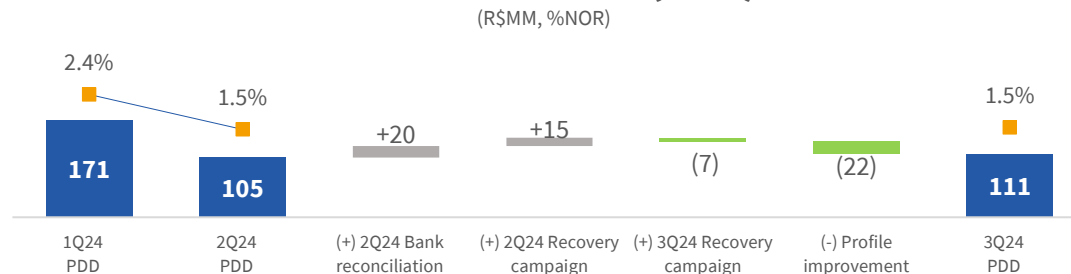
Improvement of 0.8p.p. compared to 3Q23



## Selling Expenses | Breakdown

(R\$ million)	3Q23	4Q23	1Q24	2Q24
Commission	334.9	332.1	315.8	314.3
Provision for credit losses	131.2	138.9	170.7	104.5
Marketing & Advertise	20.0	25.1	12.5	23.9
Personnel	33.4	43.1	43.6	42.1
Other expenses	11.7	10.9	8.7	11.1
<b>Selling Expenses</b>	<b>531.2</b>	<b>550.0</b>	<b>551.2</b>	<b>496.0</b>
%NOR	7.7%	7.9%	7.9%	6.9%

## Provision for Credit Losses (PDD) Evolution



**SELLING EXPENSES: -0.8p.p. (% NOR) vs. 3Q23; STABLE (% NOR) vs. 2Q24**

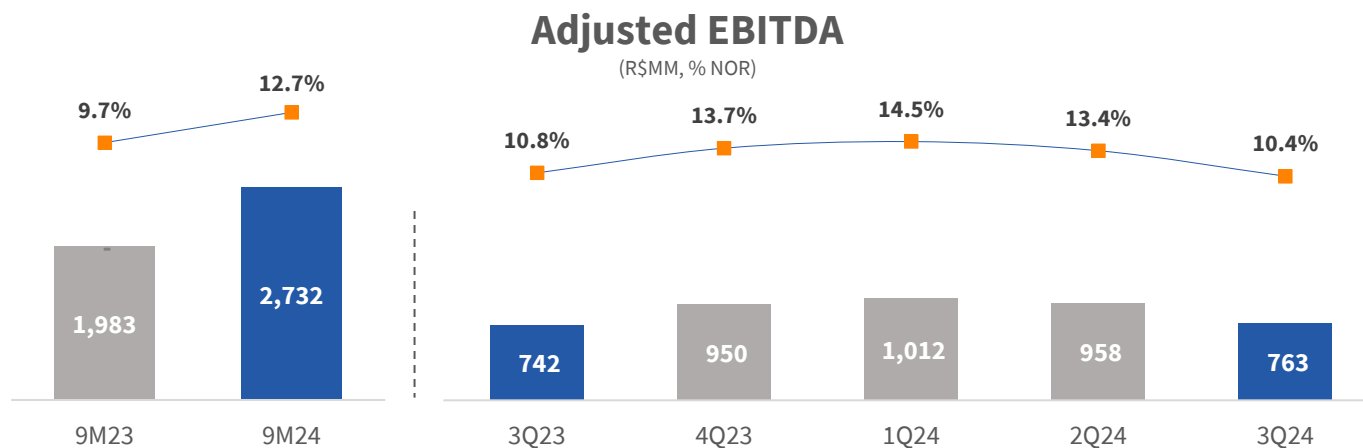
Efforts in preventing and controlling the Provision for Credit Losses (PDD) have led to significant improvements:

- **R\$35.0MM** of positive impact in 2Q24, from bank reconciliation of receipts from previous periods and credit recovery campaign, amounts that were not repeated at the same level in 3Q24, affecting comparability
- **R\$7.0MM** of positive impact in 3Q24, related to credit recovery campaign
- Credit recovery and analysis efforts in recent periods have led to an improvement in the default profile



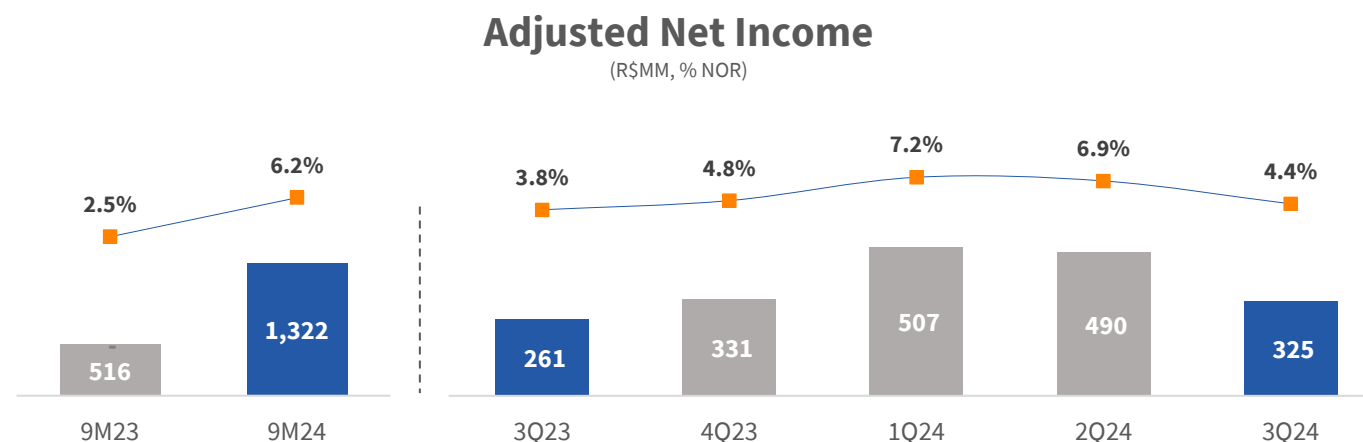
# Adjusted EBITDA

Growth of 2.8% vs. 3Q23 and 37.8% compared to 9M23



## ADJUSTED EBITDA<sup>(1)</sup>: +37.8% vs. 9M23

- **Consistent growth in Net Revenue**, driven by the contractual readjustments implemented with the aim of promoting financial rebalancing
- **3.1 p.p. improvement in the Cash MLR**, the result of intense verticalization and cost control efforts, overcoming the seasonal effects observed in different quarters



## ADJUSTED NET INCOME<sup>(2)</sup>: +156.3% vs. 9M23

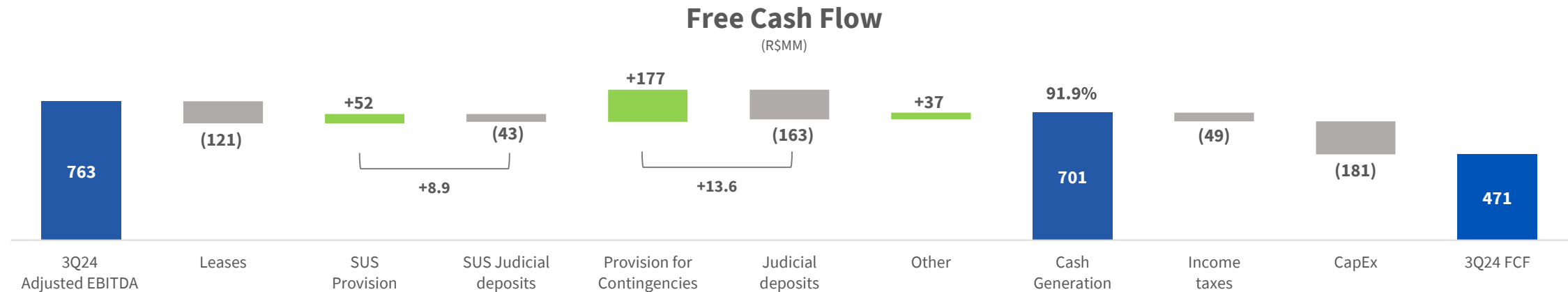
- **+R\$63.5MM** compared to 3Q23, totaling R\$324.5MM in Adjusted Net Income as of Sep'24
- Gradual recovery of the company's profitability

(1) Adjusted EBITDA for Long-Term Incentive Plan (LTIP) expenses, Stock Option Plan (SOP), and non-recurring expenses

(2) Adjusted Net Income for Long-Term Incentive Plan (LTIP) expenses, Stock Option Plan (SOP), non-recurring expenses, and amortization of goodwill

# Cash Flow

Strong conversion in line with Company's historical performance



## Cash Evolution

(R\$ million)	3Q24
<b>Jun'24 Total Cash</b>	<b>8,345.0</b>
(+/-) Free Cash Flow to Firm	471.5
(+/-) M&A Activities	(96.6)
(+/-) Financing Activities	(792.7)
<b>(=) Free Cash Flow to Equity</b>	<b>(417.7)</b>
<b>Sep'24 Total Cash</b>	<b>7,927.2</b>

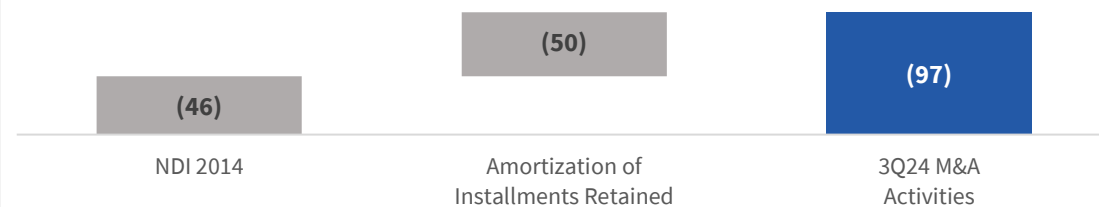
### FREE CASH FLOW: R\$471.5MM

- **+R\$8.9MM** from SUS, net of R\$52.2MM of provisions and R\$43.3MM of judicial deposits, which are required for the Company to conduct its legal defense without incurring late fees and penalties
- **+R\$13.6MM** in Contingencies and Judicial Deposits, including (i) R\$176.8MM in Provision for Contingencies, net of monetary restatement and payments made during the quarter; and (ii) R\$163.2MM in judicial deposits/blockages, a procedural reflection of the growing judicialization in the sector
- **+R\$37.3MM** in cash generation from the Company's operational activities
- **-R\$48.7MM** in income taxes, although Current Tax was R\$89.7MM, there is a shift between calculation and actual disbursement, we also used withholding tax from the year
- **-R\$18.7MM** in CapEx, mainly in IT, with a gradual return to historical levels

# Net Debt

Balanced management with leverage reducing to 0.97x EBITDA vs. 1.03x EBITDA 2Q24

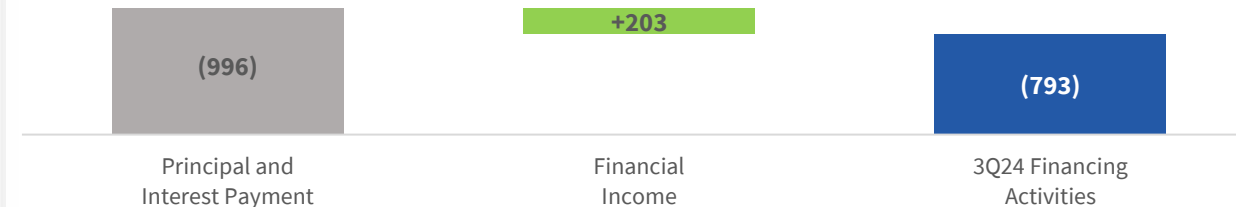
## M&A Activities



### M&A ACTIVITIES: -R\$96.6MM in 3Q24

- R\$46.1MM corresponding to the monthly installments of the agreement with the seller of NotreDame Intermedica (transaction occurred in 2014)
- R\$50.5MM in payments for retained installments from the Company's acquisitions, including Santa Mônica, Hospital Duque de Caxias, RN Saúde and others

## Financing Activities

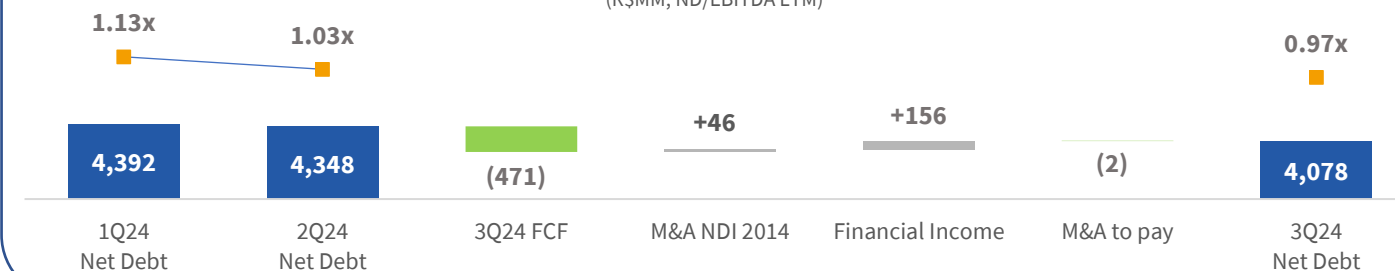


### FINANCING ACTIVITIES: -R\$792.7MM in 3Q24

- R\$995.9MM in principal and interest payments, using funds raised in 2Q24
- +R\$203.3MM in financial revenue, a yield of 2.5% on the Company's average cash, in line with the CDI yield in the period

## Net Debt

(R\$MM; ND/EBITDA LTM)



### NET DEBT: reduced by R\$270.8MM vs. 2Q24

- R\$4,206.9MM of EBITDA LTM in 3Q24, an increase of R\$0.4k vs. 2Q24

# Regulatory Requirements

Maintenance of regulatory requirements

## Technical Provisions / Assets

(R\$ million)	3Q24	2Q24	Var. R\$ 3Q24/2Q24
<b>Required Technical Provisions</b>	<b>(3,218.5)</b>	<b>(3,131.4)</b>	<b>(87.1)</b>
(-) SUS Provisions (net of judicial deposits)	(1,161.4)	(1,130.8)	(30.6)
(-) IBNR Provision	(974.9)	(953.6)	(21.4)
(-) Outstanding claims reserve <sup>(1)</sup>	(1,079.3)	(1,044.0)	(35.3)
(-) Reserve for benefit granted	(2.9)	(3.0)	0.1
<b>Assets</b>	<b>8,209.5</b>	<b>8,611.1</b>	<b>(401.7)</b>
(+) Cash and financial investments	7,927.2	8,345.0	(417.7)
(+) Real estate pledged	282.3	266.2	16.1
<b>Free Cash</b>	<b>4,991.0</b>	<b>5,479.7</b>	<b>(488.8)</b>

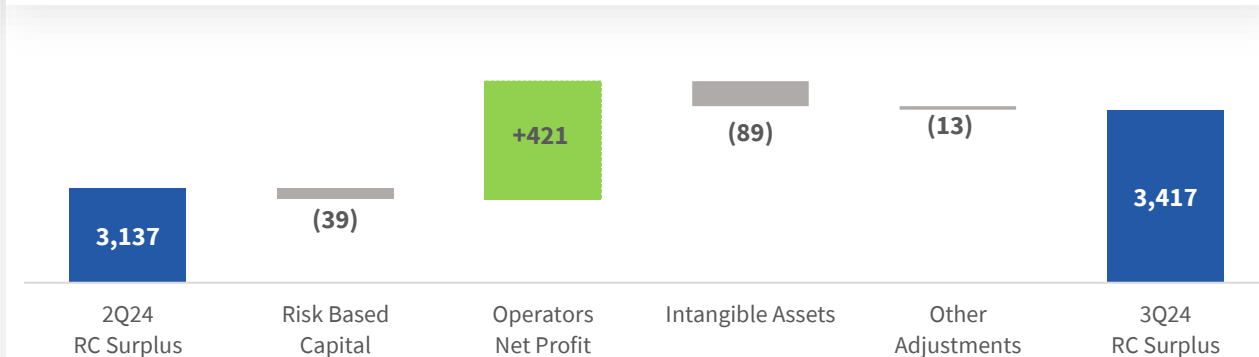
### REQUIRED TECHNICAL PROVISIONS: increase of R\$87.1MM vs. 2Q24

- Medical costs received at the end of the quarter (Outstanding Claims Reserve)
- Increase in the adjustments to the SUS reimbursement provisions in accordance with ANS rules
- IBNR's increase in the period with a stable level of internalization and growth in the portfolio compared to 2Q24

### ASSETS: -R\$401.7MM vs. 2Q24

- -R\$417.7MM due to the net reduction in Cash and Financial Investments

## Regulatory Capital (RC)



### RISK-BASED CAPITAL: increase of R\$39.1MM vs. 2Q24

- Nominal increases in Revenue and Claims from the recurring activities of the operators

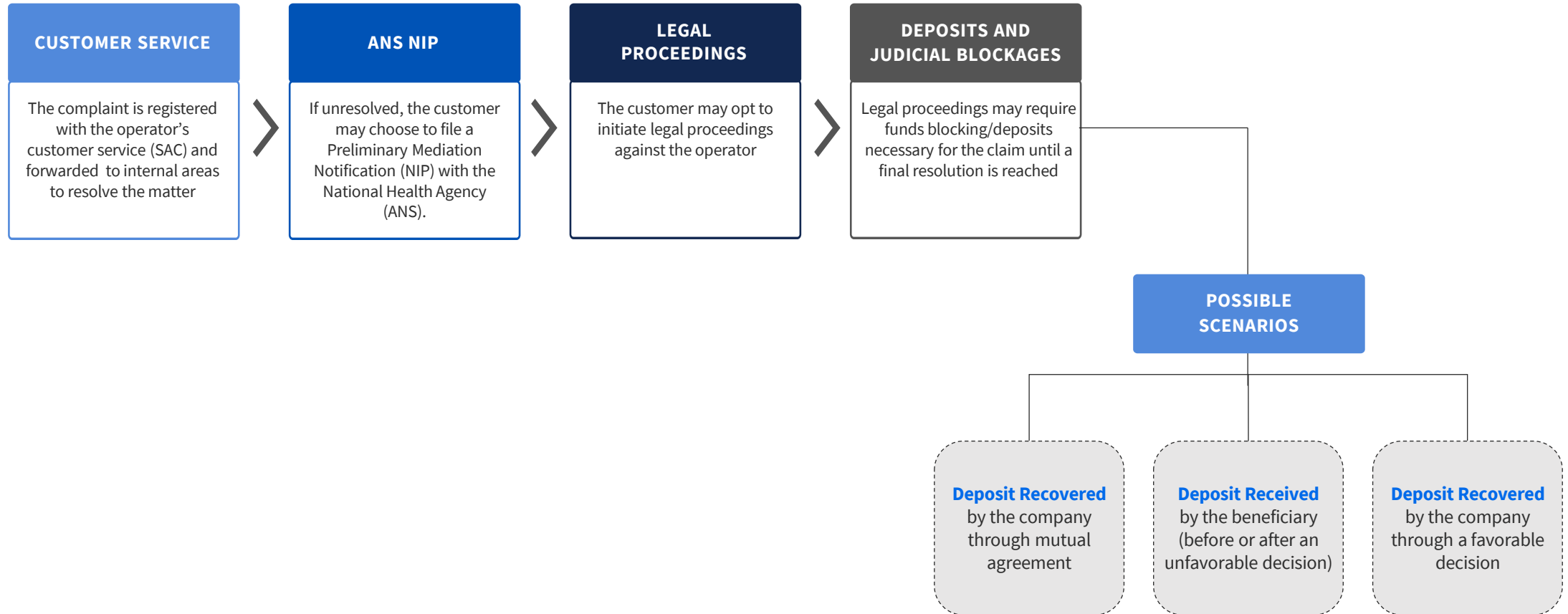
### ADJUSTED SHAREHOLDERS' EQUITY: +R\$319.5MM vs. 2Q24

- +R\$421.4MM in net income for operators
- -R\$88.8MM in Intangible Assets, mainly due to investments in technology

(1) Represents the sum of the Medical Accounts of the individual operators before consolidations and eliminations effects

# Concept

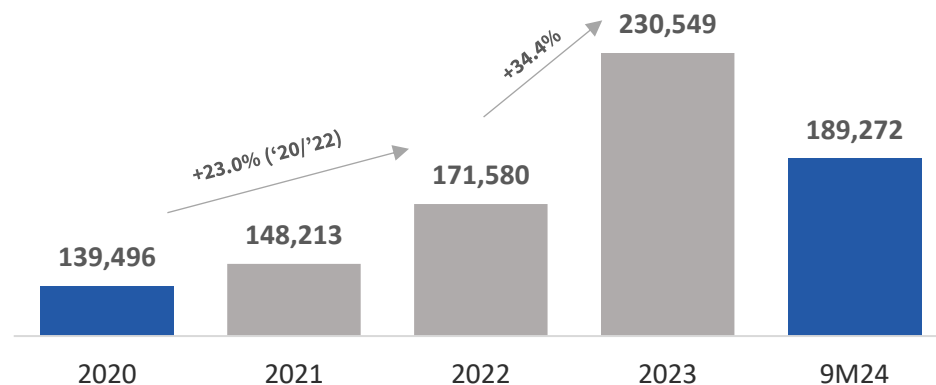
*From service to legal resolution*



# Lawsuits in Brazil

Current scenario

## Annual Civil Lawsuits filed against Healthcare Operators - CNJ



Source: CNJ, Conselho Nacional de Justiça

### Main Factors

- Health sector {
  - 1 - ANS Coverage List
  - 2 - Therapies
- Hapvida {
  - 3 - Integration
  - 4 - Massified products

## Judicial deposits and blockages by insurer group

Judicial Dep./Benef.	2Q23	2Q24
Group Medicine	36.5	66.9
Insurance Company	45.2	59.9
Healthcare Cooperative	34.9	29.4
Self-Management	42.7	54.4
Philanthropy	7.2	10.8
<b>Total</b>	<b>37.3</b>	<b>50.1</b>

## Judicial deposits and blockages by main insurers

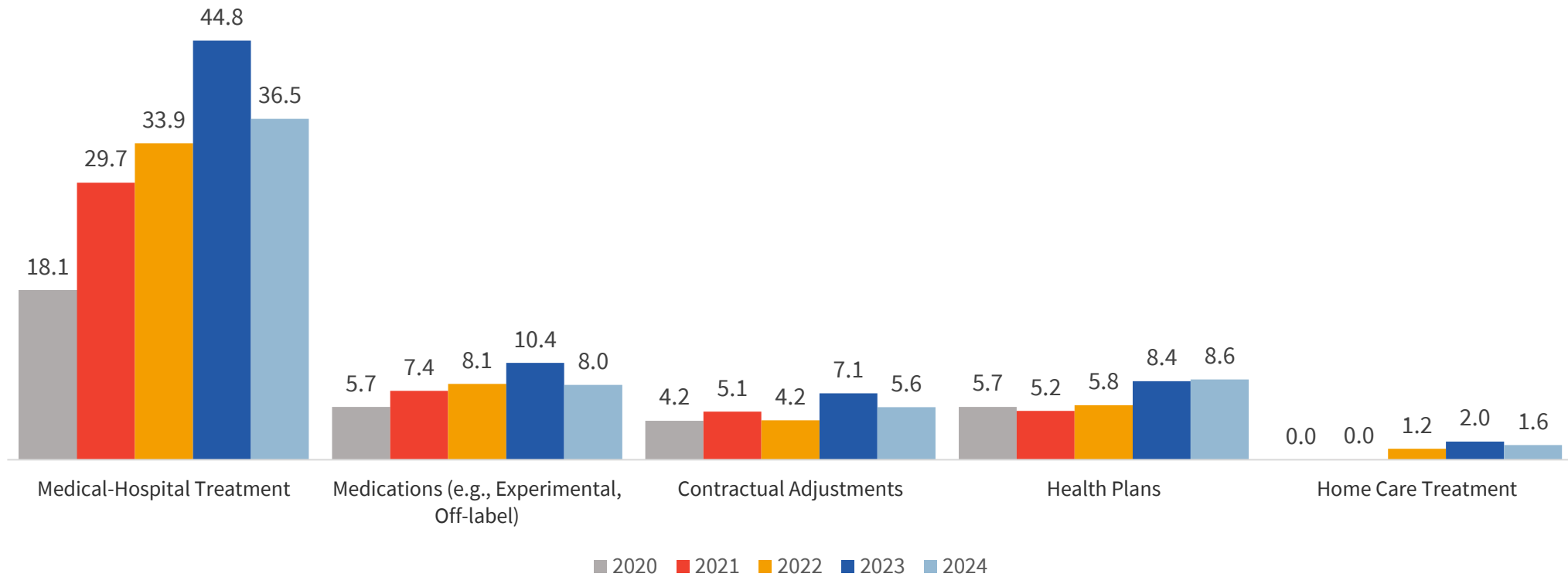
Judicial Dep./Benef.	2Q23	2Q24
Operator 1	50,0	102,2
Insurer 1	84,0	99,3
Hapvida NDI	36,2	82,5
Insurer 2	29,0	46,6
Healthcare Coop. 1	33,9	45,8
Operator 2	32,6	33,4
Operator 3	25,2	32,3
Insurer 3	11,6	20,3

Source: DIOPS - ANS

# Lawsuits in Brazil

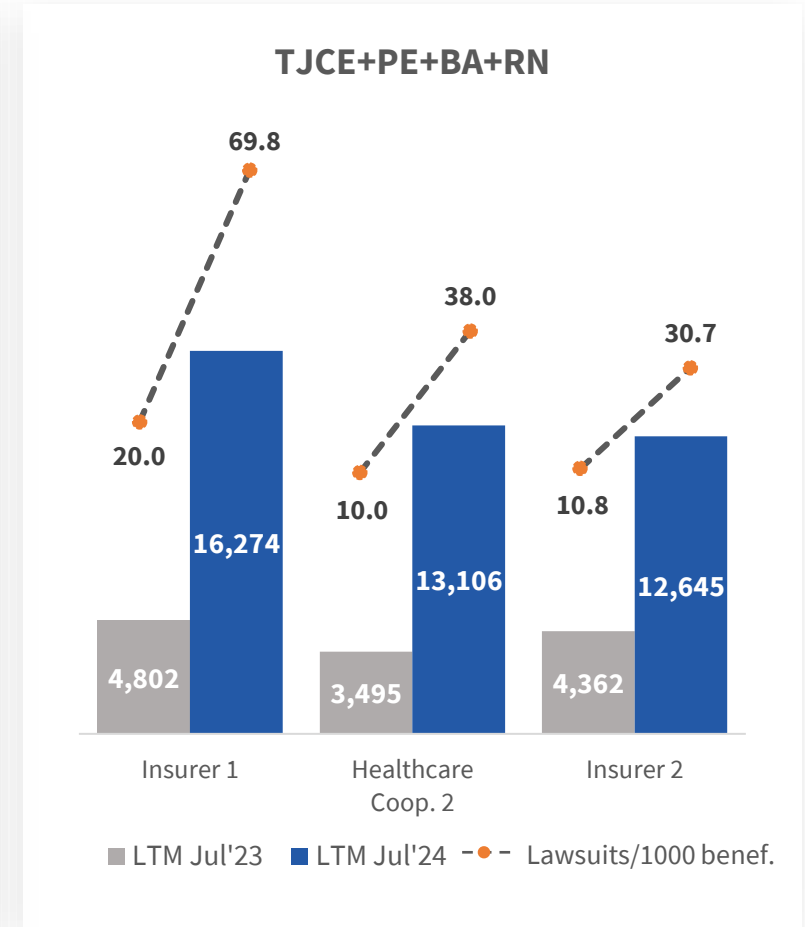
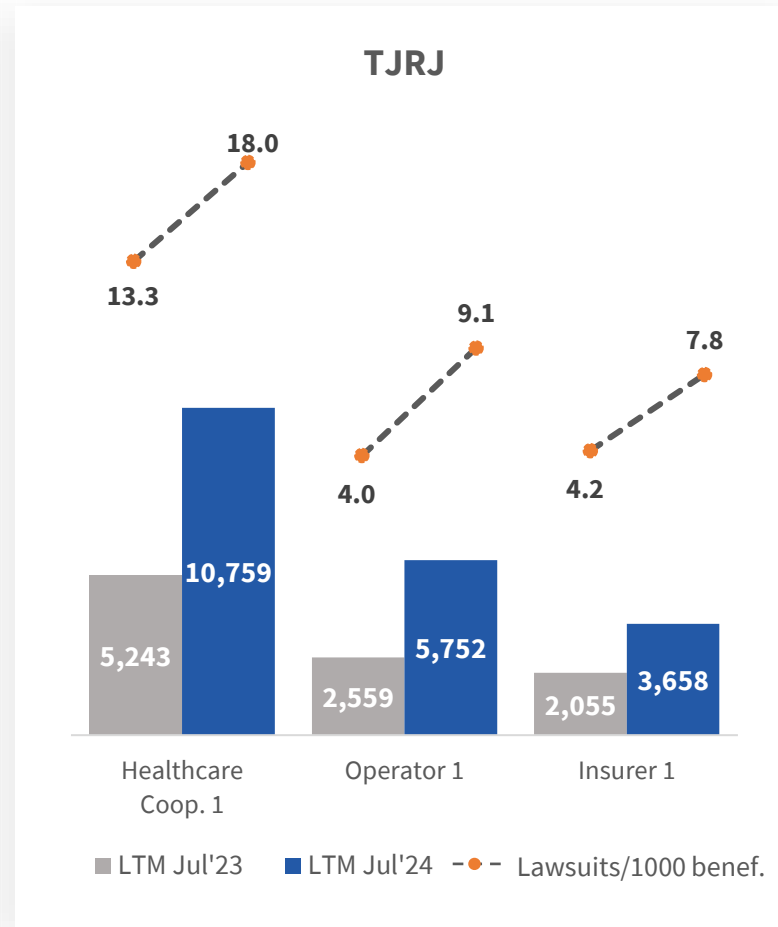
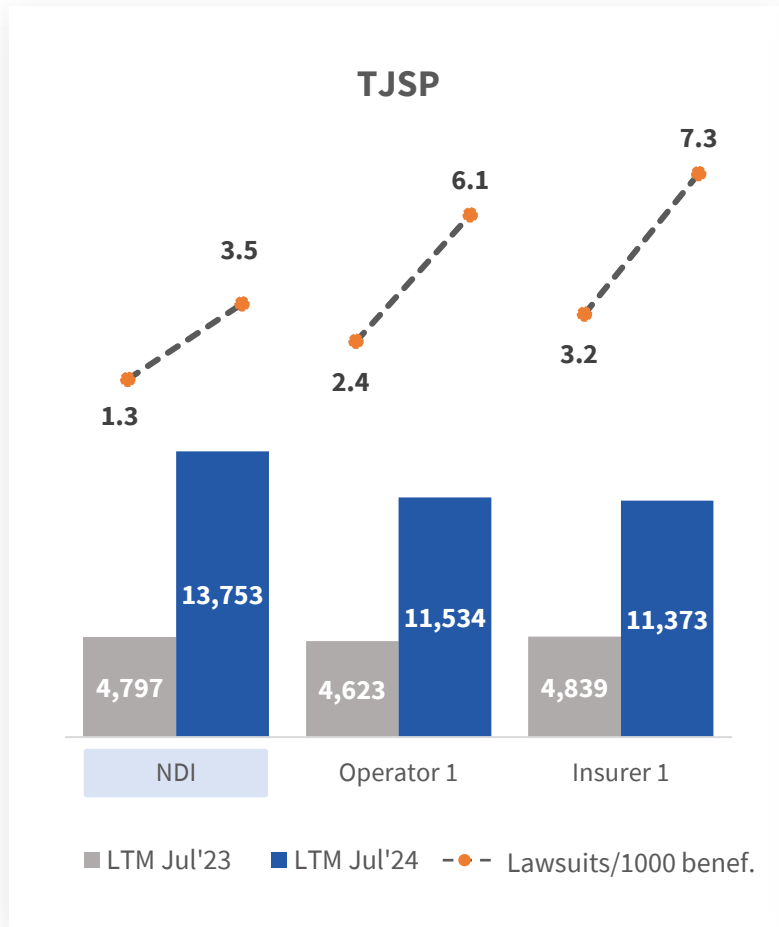
Current scenario

New cases per year for the top 5 demands ('000)



# Lawsuits in Brazil

Top litigated by region (civil, labor, and tax)





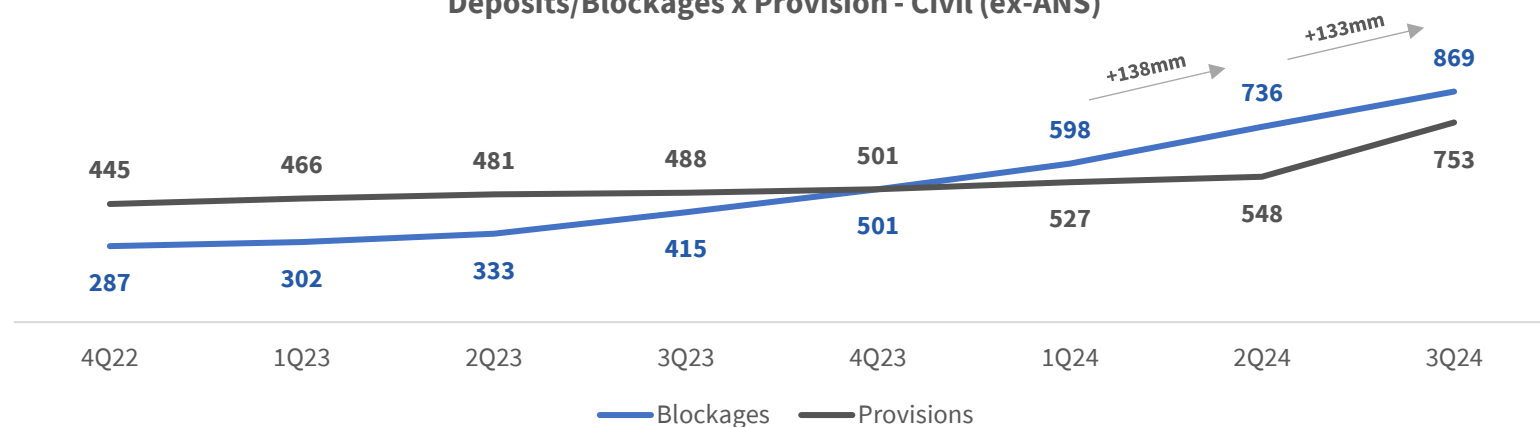
# Impact in 3Q24

Provision, and judicial deposits and blockages

## 3Q24 Provision breakdown

Amount (Financial Statements)	(R\$MM)
<b>In Jun'24</b>	<b>548</b>
Civil organic change	50
Additional provision	155
3Q24	75
Previous quarters	80
<b>In Sep'24</b>	<b>753</b>

## Deposits/Blockages x Provision - Civil (ex-ANS)



# Ongoing Initiatives

*Measures implemented by the Industry and the Company*

## INSTITUTIONAL

- **Abramge (Brazilian healthcare operators association) - Meeting and discussions with key State Courts**, to address judicial misconduct and fraud, highlighting the detrimental impact of excessive litigation and advocating for stronger adherence to regulatory standards and the recommendations of NatJus (Health Technical Support Centers for Justice)
- **Abramge - Advocacy and Awareness Campaign**, to inform and educate both the public and opinion leaders on the systemic negative consequences of excessive litigation

## CORPORATE

- **Working Groups** for early legal case analysis, with daily decision-making meetings to quickly address cases
- **Pricing** adjustment for the new estimated level of litigation environment by increasing pricing for new quotes, updating new sales tables for massified products, intensifying adjustments for group contracts, and revising internal cost tables to account for claims trends and copay adjustments

# Q&A Session



# Disclaimer

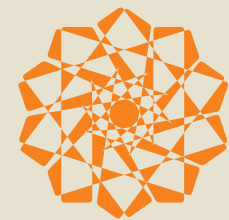
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