

Transcription webcast 3Q24 results

November 6th, 2024

José Roberto Pacheco

Hello, good morning, good morning everyone, welcome to our video conference, Odontoprev, to talk about the results of the third quarter and the first nine months of the year. I would like to thank everyone for their presence and trust and I would like to draw attention to the highlights of the period. So here we go. First of all, I would like to welcome Elsen, our new CEO, here with us for the first time in this forum. Elsen has actually been a colleague here in the company for almost 10 years, leading the commercial area and the business expansion. Welcome, Elsen. Well, in relation to the highlights of the quarter, firstly, we had a net addition of 55,000 new members to Bradesco Dental SME, a product with a higher average ticket than the corporate product and of relevant strategic value. Our dental loss ratio remains well controlled, particularly in this quarter when we had a lower loss ratio, with the annualized level stable and predictable since 2020. Net income has shown an average annual growth of 15% per year since 2019, with a return on equity of 39% this quarter. Net income per share in the third quarter of 2024 was 16 % higher than the previous year. Lastly, quarterly dividends of \$123 million BRL, which added to the already announced interest and capital of \$18 million BRL, total 100 % on the quarter's income of \$142 million BRL. `

José Roberto Pacheco

[Slide 03] Moving on to our presentation on slide #3, we see the sectorial data. At the end of September, the dental plan sector registered more than 34 million members. to be 34 .1 million members, to be exact, according to the National Supplementary Health Agency, ANS, with a net addition in the decade of 14 million new customers, with a growth year-over-year regardless of the economic cycle or the creation of formal jobs. The share of dental plans among the Brazilian population has more than quadrupled since 2006, the year of our IPO, rising from 4% to the current 17%. The Odontoprev business model is exclusively dental, as you know, with a proprietary technological platform, which electronically certifies the quality of oral health services provided to the members in all states of the country in approximately 2 ,500 municipalities.

José Roberto Pacheco

[Slide 4] Moving on to our slide 4, Odontoprev net revenue from corporate contracts accumulated 1.2 billion BRL in the LTM ending in September, while the SMEs and individual plans exceeded 900 million BRL at a level above our peer companies, as is evident in the slide.

José Roberto Pacheco

[Slide 5] Our next slide, #5, we highlight the execution of the long-term strategy of value innovation, in which we see that the corporate segment revenue has grown 4 % per year since 2014, with a low barrier to entry and strong competition. On the other hand, revenue from the corporate segment of SME and individual plans grew by 13 % per year over the last decade, now accounting for 43 % of the total consolidated revenue. With a favorable price elasticity in distribution through the banking channel, in a pioneering move by the company. Very difficult to replicate by competitors.

José Roberto Pacheco

[Slide 6] It's worth noting, as per slide #6, that Bradesco Dental brand already represents around 80 % of our customer base SME, adding 55,000 members in the third quarter of 2024, a historic record.

José Roberto Pacheco

[Slide 7] Our next slide, #7, we present the pricing strategy. according to the Portfolio Risk Profile, in which for similar levels of average cost per member, the SME and individual plans bring a premium of around 100% of the ticket, and with a loss ratio of less than 30 % in that case, versus above 50% in the corporate segment. resulting in returns higher than that of the industry. It's important to note that the growth of the consolidated average ticket exceeds the evolution of costs, that is, the Odontoprev internal inflation, and this is what matters.

José Roberto Pacheco

[Slide 8] On the next slide, #8, as a result of the growing share of SME products and individual plans, both with lower loss ratio, combined with better electronic protocols for auditing and segmentation of the accredited network, we recorded a 38% loss ratio in the quarter, with an annual drop in all segments. Over the last 12 months, the level of loss ratio has remained stable, at the same level as that observed since 2020.

José Roberto Pacheco

[Slide 9] In the last decade, as we can see on slide #9, the SME and individual plans segment recorded average growth of 16% a year, with a contribution margin of about 59% of the revenue. thus doubling its share in the total portfolio, rising from 25% back then to 50% currently. We believe that this diversification movement is once again a clear competitive advantage for the company and reinforces the value innovation strategy with sustainable returns far above those observed in the Brazilian supplementary health care.

José Roberto Pacheco

[Slide 10] On the next slide, #10, we show commercial and administrative expenses, which were 26% of revenue in this quarter.

José Roberto Pacheco

[Slide 11] On the next slide, #11 we present the level of bad debt of 2.3% of the first 9 months of 2024, practically identical to the 2.2 % in the last 12 months.

José Roberto Pacheco

[Slide 12] Our next slide, #12, as a result of what we have presented so far, the adjusted EBITDA margin rose from the historical average of 25% until 2019 to the current level of 30% since 2020. At a level much higher than that of the industry and of peer companies.

José Roberto Pacheco

[Slide 13] On slide 13, we present a net profit of 142 million BRL in the quarter, reaching a record of 546 million BRL in the 12-month period, with an average annual growth of 15% since 2019.

José Roberto Pacheco

[Slide 14] On the next slide, #14, the annual Capex level reflects the company's investment in digital initiatives, measuring in 2024 with a downward trend for the coming years.

José Roberto Pacheco

[Slide 15] On slide 15, in a meeting yesterday, the Board of Directors approved the distribution of quarterly dividends of 123 million BRL, which added to the already declared interest on capital of 18 million BRL. Total payout of 100% of the quarterly net profit of 142 million BRL.

José Roberto Pacheco

[Slide 16] It's worth noting, according to slide #16, the company has 549 million BRL in dividends and interest on capital already resolved to be disbursed by the second quarter of 2025.

José Roberto Pacheco

[Slide 17] On the next slide, #17, we present the evolution of treasury shares, which at the end of October reached 5.6 million shares, with an average acquisition cost adjusted for dividends of 10.91 BRL.

José Roberto Pacheco

[Slide 18] On our next slide, #18, we present the company's globalized shareholding position with investors from more than 30 countries, with emphasis on North America.

José Roberto Pacheco

[Slide 19] On our last slide, #19, we have two recent recognitions. For the first time, we won the Great Place to Work seal, which selects the best companies to work for in Brazil. And last month, we were the winners in the 2024 edition of the Top of Mind Award. As the dental care service with the most votes among human resources professionals for the 11th consecutive year. These were our opening words. Thank you very much for everybody's attention. We'll now move on to the Q&A session. Thank you very much.

Q&A Session:

Samuel Alves, Banco Pactual.

Good morning, Stella, Pacheco, Elsen. Good morning, everyone. I have two questions on my side. The first question is more specifically related to the third quarter in the line cost per member. We know there was a significant drop in all segments year-over-year and quarter-over-quarter. The question is to understand the reasons behind that. Was there any reason related to the frequency? Unit cost or deflation in costs? Is anything that is recurrent? This is my first question. And the second question is a little bit more strategic. I would also like to take the opportunity to welcome Elsen in the new position and ask about his term of office that has been aligned with the strategy of the company. If the idea is to continue the proceeds and if you're going to focus more on SG &A or do you have any plans to accelerate the company's growth? Thank you.

José Roberto Pacheco

Samuel, good morning. I'm going to start addressing the question related to the loss ratio and then I'll pass the floor to Elsen. Last year in 2023, we had 39.6% of loss ratio, so, it's a bit more efficient, since we are in the level of 40% and this is something we have been observing since 2020. It's important to observe that this most recent cycle of 2029, since 2019, it has reflected a loss ratio which is more controlled, more efficient, and lower than the historic level of 45% that we were used to. Let us understand why this level has changed and talk about the dynamics we are going to use to address the third quarter. The company has been changing its Profile of clients, bringing to the dental industry profiles of new clients, customers who are getting to the market for the first time, the differentiators of distribution of clients that bring a higher risk, higher risk as we select them,

also risk in terms of distribution, risk in relation to cancellation of contracts. So, the Odontoprev Modeling is very conservative. We try to obtain higher returns for market segments in which the risk is higher than the classic corporate risk. As you well observed, today we have, for the time, reality of deflation. It's a very specific word when we mention deflation. In fact, this is something that happened in the past few years when we also made this measurement. The operations area of the company has been the protagonist in the management of the network of all the country. And on a daily basis, we make improvements when we deliver solutions, as we adapt to each profile, and we have made this adaptation to this segment of SME and individual plans. I think the main word for us to discuss so that we can be on the same page is technology. Yes, the company has a technology platform widely known, with more than 20,000 procedures which are audited on a daily basis by the headquarters of the company. The control standards for quality and mitigation of possible fraud events are being proved every day. So we really believe that all those factors put together, network segmentation, management mechanisms for quality, mitigation of frauds, they are all being improved. They are being maximized on a continuous basis. And it's important to note, Samuel, that since 2020, the company has been bringing aboard 20 million clients with the network across the country. The company is bringing more customers for providers, which has a very stable basis. In essence, we have a cost of service that has been very stable since 2020. And this is a very important message because the loss ratio of the third quarter is, is not an indication of a change of level, but on the other hand, the company is confident that it has had a level of loss ratio, which is unique in the industry, which is a result of a lot of work, a lot of competitive edge. Once again, focused on quality and on the management of the services we delivered. We are really interested in maintaining this diversification strategy for the years to come, bringing ever more new clients to the industry of dental plans. Above all, counting on a clear and exclusive differential of the company, which is the bank assurance and the strength of the distribution channels that leads us to smaller clients and also to individual plans. These were the comments I would like to make, Samuel, in order for us to understand the dental loss ratio that you saw in 2024, which in fact is not so different from the previous year. Now I turn the floor over to Elsen.

Elsen Carvalho

Good morning, Samuel. Good morning, everyone. From the strategic viewpoint, the growth strategy does not start now, just because I took over the position of CEO and I was already the commercial director and I was also involved in the top line of the company. There are two very important slides on the presentation that shows that in the past 10 years, the non-corporate segment moved from 20 something to 40% and the control in BRLs is higher than the contribution margin of the industry sector. So we have a growth strategy that is not starting now. We have intensified our strategy since

2020 and we are going to grow, but we are to grow in the non-corporate segment and we are focused on SMEs and Pacheco mentioned some of the points of the strategy because this is related to having a bank channel in order to make the distribution. When we look at the three segments where we operate, the corporate, the SME and the individual plants, the corporate segment is interesting because companies are a natural buyer, but it's a market which has a lot of penetration and the competition is harsher. Individuals have a market to be developed yet, but it's not a natural buyer, it's a market which has a lot of churn. And the combination of both of them is the SME, where you have a natural buyer, the company, that understands the idea of providing benefits to the employee, but it's a market which is underpenetrated. So we have a blue ocean in order to explore, and we have a possibility, which is the use of a banking channel in order to explore the market. So, our strategy is to accelerate growth with the non-corporate segment as a protagonist and focusing also on the SME. Thank you, Elsen Pacheco, good morning. Thank you.

Renan Prata, Citi.

Good morning everyone. Thank you very much for taking my question. It's a quick question. It's even a follow-up on Samuel's question in relation to the loss ratio. It was not very clear when Pacheco answered when he said that the loss ratio of the quarter does not reflect any change in the level. The cost of life per member reflects what we saw in the third quarter and this is what we're going to see in the future and of course this is going to impact the loss ratio. So this is my first question and the second is I would like to understand the technical part of the average ticket. I saw that there was an increase but it's probably an impact from Odonto System members. So could also give some light on this. Okay, thank you very much.

José Roberto Pacheco

Renan, okay, here we go. I'm going to start from the end in relation to the average ticket. You notice that it increased not only in the corporate segment, but also we had the recovery in the SME in the third quarter, right? So, the SME segment had been affected and the banking channel was very successful to bring aboard new employees with a larger number of members and there's a lower ticket for companies with more employees and this is what we saw in the third quarter of 2024 and we see that this is a cycle that has been stabilizing so we an expectation of having ever higher average tickets in the corporate level. And more specifically in the SME, considering that we are going to have a stabilization in the profile of the SMEs. In relation to the loss ratio and the cost per member, no, it's not a trend that the cost per member, regardless of the segment, should go down along the time. That's not the case. Of course, there is going to be some level of accommodation, and this is something that we are going to see a gradual change along the next periods. This is our

expectation. The clear message is that we do not follow the IPCA. So we have to have total control of the evolution of the cost of the company, the internal inflation of the company, the behavior and how we use 9 million members. So this is the main competition edge. So we have to understand the different behavior of different profiles in Brazil according to the distribution channels and we are going to transform this into value generator so do not connect the generational ticket with the IPCA because there's no correlation among those two items. The company studies the cost evolution so that at the bottom line we are going to see margins which are much higher than those of our competitors. So, the cost had this lower trend on a temporary basis, not only in this quarter, but also in previous quarter. We are going to level this up and we are going to maintain tickets in different segments of the market, bringing a dental loss ratio which can be sustainable for many years to come. This is what we have been doing for many years, and this is what we would like to draw your attention to, the new level of loss ratio of 40%. And this is what we have been doing in the most recent period. Okay, Renan?

Renan Prata, Citi

Very clear, Pacheco. Thank you very much. Have a good day.

Lucca Marchezini, Itaú BBA

Good morning, thank you very much for taking my question, in relation to profitability, we saw a good result in the EBITDA margin, but it was affected due to bad debt and also SELIC, what was the reason for increase in the expense line and is this a level we should expect for the next quarters?

José Roberto Pacheco

Lucca, excellent point you raised. In fact, this was an atypical quarter, if I may say. We have been following some quarters and the company expects the SG&A to be diluted. And this is not what happened in this quarter. So this was an atypical quarter because the level was above the standard of 2.3% as to SG&A, especially in the selling. It's above our historic levels. So this is not what we imagined to have in the future. So in the third quarter, the SG&A was not typical. We had a net debt, which was not typical. And this is going to be equated in the short term. The company continues to be very optimistic with the dilution of SG&A for the future. We intend to maintain the level of bad debt, which is much more efficient now than we had in 2020 by 4 or 5%. So these are important gains that we have made. But this was not what happened in this quarter, and we continue moving forward in order to bring this gain in scalability. This is likely to become more evident in 2025 and also in 2026. Okay, Lucas?

Lucca Marquezini, Itaú BBA

Okay, that was very clear, Pacheco. Thank you very much.

Artur Alves, Banco Morgan Stanley

Good morning, Elsen, Pacheco. I have two questions on my side. The first question is in relation to the individual position. We saw that the average was a bit flat, but it was a drop in the portfolio. What's your idea? What to expect in this line? Is it not being as prioritizing in relation to SME, or do you have any plans to resume this? I would like to know also about Mexico. What do you see in terms of the drop year-over-year? We saw that there was a sequential drop. I would like to understand what's happening in Mexico.

Elsen Carvalho

OK, Arthur, good morning. I. I'll speak on the point of view of strategy in the individual segment and then Pacheco will talk about Mexico. The individual segment is a less developed segment considering the three segments that we operate in Odonto. When we consider the initial slide of the presentation showing the evolution of the market when we chose since 2014, health remains flat from 50 million BRLs and we moved up to 34 million and most of them are corporate, small companies and not individuals. So this is a market where we have the individual segment has a higher risk of fraud and there's also the cultural aspect because the buyer is not an obvious and natural purchaser of the plan. So, there's a point to consider. This market now in Brazil stands at 6.7 million lives, and this 6.7 million lives, and out of those 1 million are people who are with us. It's an area that develops much more slowly, and those who work with insurance, they use brokers in order to sell. The sale for us does not use brokers but rather distribution channels. It's a slower process and life has more risk. So our growth strategy is to be non-corporate but our focus will be greater on SME. We already have a strategy underway and it's already being successful, which is to focus on SME. The traditional sale is for very small companies and we like to sell and we learn to sell to SME with more than 30, 50 or 100 members. It's a market which is underpenetrated and we have the bank channel and capillarity to reach those companies and this is why this line of contribution margins and members line has grown so much. We are not going to deprioritize the individual segments, but the portfolio's growth is lower because the average ticket is higher, but when we look into the future of the company and when we talk about our vision to grow, we understand that the protagonist is going to be the SME.

José Roberto Pacheco

Artur, just to add what I also said in relation to, now in relation to Mexico, we have an operation which has been there for a while. The Mexican market is still in the beginning, so that reminds me of the Brazilian market some years ago, and we have learned a lot from the lessons in Mexico, and we had some important contracts especially in the corporate segment in 2024. The central point is the following. The recognition in the revenue in Mexico is not the same as what we see in Brazil. So when we close the agreement, when we execute the agreement, there is very intense accounting, much more than what we would do here in a linear manner. So that leads to a volatility in the growth of the revenue. And this is something that we bring into Brazil. There's nothing new. We are very optimistic in relation to the Mexican results, of course. They are still in the beginning. But this is a fact, the recognition of revenues happens when the agreement is executed. And this is not what we saw in the third quarter. And that's why we see the difference in speed of growth that we saw in the previous quarter. And this is what you observed in the third quarter. Okay, Artur?

Artur Alves, Banco Morgan Stanley

Okay, thank you very much. Have a good day.

Andres Salles, UBS.

Good morning, Elsen, Pacheco, Stella. Thank you very much for the possibility of asking questions. I have two questions on my side. First is the one on the dynamics of the member base. We had an exit of one client. Was it something specific or is there anything done to reallocate this? And the second question is to address the question to Elsen and welcome him. The question is, what are the events that have been keeping you busy in the company?

Elsen Carvalho

Thank you, André. Good morning. Thank you very much for the welcome. This exit is of a client. It's an isolated situation. It's a client headquartered in the south of Brazil. We had many members, but the average ticket was low. So it generates an impact in the number of members, but not in the revenues. So it was acquired, the company was acquired by another company and the plan went together. So it's not a matter of bidding and competition process. It was a non-recurring event of a company that was purchased by another health operator that took all the lives to the dental plans that they had. So there's nothing recurrent in this event. What has been taking my time as a CEO now. There is a very important topic related to continuity. I've been with the company for more than seven years and of course I know the company and our colleagues who share the management of the company with me. We have been together for many years and we have the topic of continuity,

improving the operating efficiency. And there are three topics we focus on, which is the growth of members and revenue, optimization and gains in efficiency, and improvement of the journey of our stakeholders. So everything we do here is related to those three aspects. So what we've been doing now is to conduct a strategic review so that we can explore what we already do well. So we already have a successful strategy underway which is focused on non-corporate segment and with a SME as a protagonist using Bradesco as the banking channel. So we have a successful strategy already implemented and we have different projects distributed in growth, in efficiency and improvements of stakeholders journeys. members, human resources, departments, brokers, and dentists. Very clear, thank you very much.

Estela Estrano, JP Morgan.

Hello, everyone. Good morning. Thank you very much for taking my question. I would like to delve into the dynamics of the competition of the dental market, really, in Brazil. Is it a perception of the company? What are you feeling in terms of other competitors, especially those who have a more aggressive health operations? Is there the competition according to the clinics and accreditation.

Elsen Carvalho

Good morning, Stella. Let me talk about competition. We understand that competition is different considering the segment and within each segment, especially in the corporate, it's different according to the region. So it's difficult to talk about competition as a whole. You have to break down into segments. In the corporate segment, it's a very competitive, Competition dynamics change according to the region, and a player that may be aggressive in the South of Brazil, in the North of Brazil, will have a different player. So, we do not have competitors which compete at the national level with us. Our competitors are Regional forces, and since we are spread across Brazil, we have different competitors depending on how strong they are in each region. The health players have been very aggressive, yes, but this is a game we are used to playing. We have a high level of retention capacity. Our turn in the corporate level is very low, very low. Why is that? Because capacity to provide good services, and this is related to what Pacheco mentioned. We have the technology and the service provided, and so we have a high level of loyalty. We lose some clients, but the retention level is very high. And this high retention level and with our competition capacity allows us a very good advantage. We have a lot of volume, we have a lot of scale, so we dilute a lot of cost, a lot of expenses, and this allows us to have a good pricing whenever necessary. So we can combine competitiveness in pricing new agreements and with a high level of retention, and we can face competition and grow, as you have seen. Every year we grow at the corporate level. So it's a competition that changes per region because there are competitors which are stronger depending

on the region, they are aggressive, but we can retain lives and we can also be aggressive because of the scale that we have. When we price new products, we have high scale. We do a monitoring study and we study per client how many agreements we won, how many members we won, how many members we lost, and last year we did this statistics and we gained more than we lost. So, this is the dynamic of the corporate segment. When we talk about SME, for example, or for non-corporate segments in general, it's a bit different. Because if you try to sell in the market with brokers, this dynamic is also there. Everybody competing for the same client, on the same channel, and then you have price at play. But when we talk about a non-segment game, we are talking about the bank channel. So, distribution and capillarity using the bank channels. So, this allows us to have a growing portfolio with a healthy average ticket and health, healthy profitability. When you move from corporate to non-corporate, you have different channels because now, and for the SME, the same happens. Yes, corporate segment is very competitive as always. health as a health plan used as a strong element in the negotiation and we continue retaining more than we lose. And we can play this game because we have the strategy of using channels.

Estela Estrano, JP Morgan.

Thank you. That was very clear. Thank you very much.

Gustavo Tiseo, Bank of America.

Good morning, Elsen, Pacheco. Thank you very much for the availability. I have two questions on my side. Still talking about SG&A commercial expenses. I see there was an increase to 11% above of what we saw last year, you said that this is a non-cash event. Are we talking about commissions being deferred a long time, maybe related to the payment of brokers to grow in the period? Or is it something non-recurrent, specific? Could you provide more information about this? And still about SG&A. You said that there is going to be improvement related to technology and avoidance of frauds, but what can we expect down the road in the next years, please?

José Roberto Pacheco

Gustavo, if I understood your question, well, the first question is related to sales expenses. In fact, in the third quarter, we have had a higher level in this third quarter, yes. And that shows the incentive, especially for small and medium companies, especially in the bank channel, which is a new market. We are opening the doors to this market. Those clients are not familiarized usually with the dental benefit. So Odontoprev has pioneered in opening the doors to this market using the bank channels. And there are some commercial channels that are reflecting these sales expenses. we do not see a dilution in selling. As you said, we see opportunities for SG&A, some opportunities associated with

technology. We have already mentioned this in previous quarters. We are implementing a large size system at the company, a project that will last three years. It's about to end, by the way, and it brings new tools, cutting edge tools that are going to provide gains be it in the personnel line or productivity gains. So this is something that we expect to happen in the future. We believe that in 2025 we are likely to bring an SG&A ratio which is more efficient than what we see now. So these are a result of the campaigns that we have made. One is associated with the bank insurance and this is something cyclic. We are really interested in the market of SMEs aligned with the strategy of the controlling company. And as to SG&A, we see improvements related to gains of productivity resulting from technology, and this is going to be reflected in the personnel line, which is a very important line in terms of administrative expenses.

Gustavo Tiseo, Bank of America.

Thank you, Pacheco, that was very clear. and congratulations on the results.

José Roberto Pacheco

Thank you.

Gustavo Mieli, Goldman Sachs.

Thank you, Stella. Good morning, Elsen, Pacheco. Thank you very much for the presentation. I would like to ask the questions on my side, both related to SME. The first one is related to what Pacheco mentioned in the beginning of the presentation. The 80% share that Bradesco holds. I would like to understand what's the target of the company in relation to this ratio. So looking into the future, what's this penetration likely to be? What would be the economics associated with SME? Do you see that there was, there's going to be a selling dilution also associated with the previous question? Or would you expect a higher percentage of Bradesco in SME and maybe a selling area will be increased in the longer term. The second question is related to the cost per member. And I would like to understand the dynamics differences within the categories. In the consolidated results, we see that there was a very important reduction year-over-year, but in the SME, the reduction year-over-year is much more significant, about 20%, 19.5% to be exact in this comparison. I would like to understand if in the SME there's any specific events that could explain this gap. The explanation is related to the mixes in the agreements or if there's a base related effect or another effect that we are not attentive to. Thank you very much and I would like to wish good luck to Elsen in his new position.

José Roberto Pacheco

Gustavo, I'm going to start making some comments on the SME economics, especially in the bank channels. As you said correctly, it already accounts for 80% of the file of customers in the SME. SME is maybe a larger market than the corporate segment formal jobs in Brazil exceeds the number of the employees in large companies, and our company has pioneered in this market. We cannot open this market alone, so we are working together with the controlling company, opening, and beginning executing new agreements across Brazil. As for selling, nothing is new as for SMEs the acquisition cost does not change. The banking channel offers the same percentage as we see with the brokers that would complement the remaining 20% of the base in the SME portfolio. There's no dilution in the acquisition cost in the SMEs. Another aspect that you raised is related to behavior and what I can say is the following, did new SME clients via banking channel in 2024, have a similar behavior as the ones before? The answer is probably no. In the past, there was an approximation, there was an approximation of the health channel that automatically would purchase the dental plan. And what we saw in 2024, that there are many new agreements in the SME for dental specifically and with different speed of growth in relation to the health plans. This client has a use profile which is slower. It's not purchasing health plans. What is offered to him is the dental plan and he's reaching the market for the first time in the dental area and he uses the dental plan along the time. Which is different what we see in terms of behavior of the health plan. And this reflects in a utilization which is shared along the time. So this is something we have to understand, that this is something that we do the pricing of. And we have to go back to the cost along the time. So the deflation effect does not have a downward trend, but it's not a trend that we will see quarter-over-quarter. So this is not our expectation. We expect to have gradual adjustment and we are always monitoring the average ticket of the company that reflect the variation of the cost. Once again, this has nothing to do with inflation rate or IPCA. We have to disconnect those associations. Odontoprev does not make adjustments according to deflation. Most of the agreements are adjusted according to the frequency of use, according to the risk profile of each portfolio. These are the most important factors for us. Okay, Gustav?

Gustavo Mieli, Goldman Sachs.

That's very clear. Thank you very much and have a good day everyone.

Caio Moscardini, Santander

Hello, thank you very much for taking my question. It's a question about the dynamics of the dental loss ratio down the road. You said that the cost per member is likely to increase and therefore the loss ratio will also increase. This is a trend. I would like to understand if you have a strategy in addition to accommodating the cost or I mean transfer this efficiency that you have conquered along

the years can be migrated to price and how are we going to have this accommodation for a member and even at a higher level.

José Roberto Pacheco

I think we have to divide the answer into two ideas, two visions. The corporate on the one side and that of the other plans on the other hand. So higher cost does not mean that the loss ratio is going to be higher. So that depends on the evolution of the ticket. We understand that the pricing power in the corporate segment is very low. So, the one who's going to win the game is the one that has the best margin. and who has the cutting-edge technology in order to understand the components of the services provided. We are very well positioned in order to maintain high profitability and to maintain a loss ratio which is predictable and controlled in the corporate segment, where the average ticket will reflect the behavior of the cost once again. If the cost is under control, the tickets are stable. This is the idea for the pricing by the company in the corporate segment. When we look at the non-corporate segment, the SME, and the individual plans, we see that the strategy of the company is to have higher returns. Yes, as Elsen has already mentioned, those two markets that we refer to as non-corporate segments, namely SME and individual plans with higher risks so we have higher margins and this is what the market should expect. The margins are higher and they will continue to be when we address SME and also individual plans. The cost in BRLs and services should go back to going up and our expectation is to have efficient tickets that would allow us to accelerate our top line in comparison to the competition. This is the pricing strategy of the company and it's our understanding that competitive costs do not make declining costs quarter-over-quarter. This is what we would like to share with you. Okay, Caio?

Caio Moscardini, Santander

Okay. At the end of the day, the ticket has moved up in the past quarters and the cost has been dropping. So, I would like to know if this is a continuing trend, if the average ticket continues to rise at the pace it has. Of course, the cost will not be able to be aligned with that, and then the dental loss ratio will be much lower than the 40% that we used to observe.

José Roberto Pacheco

The idea is to have a cost structure that would reflect the commercial reality and also reflect the operations of the company so that we can bring a consolidated loss ratio below 40%. In the past few years, we have been observing a consolidated loss ratio, a little bit below 40%. This is what we saw last year, is very likely to happen this year again, and the years in the future. As no other company, we have a good portfolio management, which is very unique. Odontoprev differentiates because it

paved the way of the market and little by little we are building this portfolio in a very conservative manner. So, the cost is not declining every quarter, and the average ticket will be the possible ticket in order to maintain us able to get new agreements.

Caio Moscardini, Santander

Okay, thank you.

José Roberto Pacheco

I would like to thank everybody for participating. We have a very optimistic message in relation to the contract pipeline. and the strategic vision as mentioned for the segmentation for the next quarters. This was the last event of 2024. We are very optimistic in relation to what lays ahead of us. Have a good day, everyone.