

Conference Call Transcript Odontoprev 2Q22 Results

Stella Hong:

Good morning, ladies and gentlemen, and thank you for waiting. Welcome to the Odontoprev Conference Call to discuss the earnings of the second quarter and first half of 2022.

I am Stella Hong, IR Manager. Today we have with us Mr. Rodrigo Bacellar, CEO, and José Roberto Pacheco, CFO & IRO.

This video conference is being recorded and streamed on the web. The link is available at the Company's IR website at ri.odontoprev.com.br, where the respective presentation is also available or on the Company's YouTube channel.

This video conference has simultaneous translation. To use, click on the interpretation button - the Globe icon at the bottom right of your screen - and choose the preferred language, Portuguese or English. You may also click on the original audio.

Next, we will start the Q&A session. To enter the queue, your name and company must be included via the Q&A button at the bottom of the screen.

The questions will be answered in the order they are received, and when announced a pop up to turn on your microphone will appear on the screen. We suggest that your questions be asked all at once.

It is important to note that submitting questions is only allowed for participants on the webcast platform.

The aforementioned instructions are also available in the chat, as well as the presentation of this webcast.

Before proceeding, let me mention that statements made during the call relating to the Odontoprev business perspectives, projections, operational and financial goals are based on the beliefs and assumptions of Company management and on information currently available to Odontoprev.

Forward looking statements are not a guarantee of performance, as they involve risks, uncertainties and assumptions, because they relate to future events and therefore depend on circumstances that may or may not occur.

Investors and analysts should understand that overall conditions, industry conditions, and other operating factors could also affect Odontoprev's future results and therefore could lead to results that materially differ from those expressed in such forward looking statements.

Now, I will turn the conference over to José Roberto Pacheco to begin his presentation. Pacheco, you may begin.

José Roberto Pacheco:

Hello. Good morning, everyone. Welcome and thank you very much for being a part of our conference call to talk about the results of the second quarter and first half of 2022.

We are Odontoprev and we are here to talk to you about our performance in such a challenging first half of 2022, but many interesting aspects that we will address here today.

To begin our presentation, **on slide number 3**, we have the more recent data from the ANS. We are on the right of this slide, we see continuous growth in a younger segment in Brazil, which is dental plans.

We will soon celebrate the 30 million members in the industry, which is a huge leap compared to the 7 million that we had back in 2006.

That is very important growth and we are very confident about the future position of this market that does not stop growing, and 2022 is no exception to that.

As you can see, since the end of 2020, approximately 3 million new members joined the dental plants in the country.

On the next slide, number 4, we would like to highlight the main players in the industry. So on the top spearheading the health care plans, our direct controller, Bradesco Saúde, with approximately 32 billion in revenues, is much higher than the other players mentioned.

Here **on the next slide, number 5**, we can see the main players, now specifically in the Dental Plans segment, where the Company accounts are R\$2 billion in revenue compared to lower levels in revenues of the other players.

On the next slide, number 6, we can see continuous growth of revenues after the harsh impacts that we had in the first half of 2020 that were brought on by the pandemic.

Since then, the Company has continuously grown quarter after quarter, after 22 years in the market, achieving a volume in revenues which is approximately 12% higher compared to the 2Q20.

On this slide, number 7, we show the annual variation of revenues, where the Company, after the impacts that we mentioned resulting from the pandemic in 2020, we have been recovering year after year.

This is an important aspect to explore here, that this revenue recovery was mainly a result of volume and not ticket, the prices have remained stable. And naturally that will change by the use of the dental plan benefits again. We should have the tickets going back to normal from now on.

Here on the next slide, number 8, we can see the long-term strategy of the Company. So here we are comparing the year of 2014 with more recent data in the past 12 months ending in June this year.

You can see that the Company has two major business segments: the traditional one, corporate with the low barrier of entry and the average ticket does not really go up year after year. We have scale, low costs. We are definitely the market leaders, having the lowest costs in the industry.

On the other hand, we are innovative and pioneers in increasing company revenues, not only in corporate plans but also here on the top right, the plans that are mainly for individuals and SMEs, where revenues have been growing 15% every year since 2014.

On the next slide, slide 9, we can see the net additions. They were approximately 170,000 in the last quarter. It accrues over 431,000 new members in the past 12 months, approximately 937,000 new members since the beginning of the pandemic, the peak of the pandemic, in the second half of 2020, with premium prices compared to the market. Obviously, we are adding market share in revenues in the more recent periods.

On the next slide, slide 10, we can see the net additions composition, not only for the quarter, but also for 12 months and 24 months.

We would like to highlight Bradesco Dental, that's the main incremental brand and accounts for a great part of the Company's growth. It is worth noting in all market segments from corporate to SMEs and even into individual plans.

So, the Bradesco Dental brand is a brand that gets closer to Odontoprev, considering the share in our 8.1 million in the Company.

Here on the slide 11, we are comparing the dental loss ratio, the dotted line that shows the average of the dental care ratio pre-pandemic, average.

The Company is at an advantage at lower cost, and that is mainly resulting from the mix effect. So, the Company has been able to bring in new customers to its business with a higher ticket and lower dental care ratio, as we can see **on the next slide, number 12**.

That shows that in each business segment, starting off with corporate, we can already see similar use to the levels closer to the pre-pandemic levels.

On the other hand, you see SMEs and individual plans where together they account for approximately 40% of our revenues.

As you can see here, bringing in lower dental care ratio, more competitive dental care ratio.

On this screen, I would like to highlight the plans for SMEs where the pre-pandemic historical rates were 41% and now the Company presents the dental care ratio lower than 30%.

We believe that the dental care ratio for SMEs is not very likely to go back to the levels that we saw in the pre-pandemic area.

Going on to the next slide, slide 13, we have a summary that leads us to the historical record of EBITDA margin, and not only because of a mix of a more competitive dental care ratio in the pre-pandemic period, but also given the dilution of SG&A, so it is also worth noting the bad debt levels is much lower than what we have seen in the past, and that is a result of the increasing bankability, not only in SME plans but also individual plans.

So the bankalization of those non-corporate segment products is very competitive and difficult to be replicated, leading the Company to higher returns that are much higher than the industry average.

As a result of everything that I have mentioned so far, the new product mix, dental care ratio is well behaved, the possibility of diluting SG&A and the possibility of having a competitive expenses framework, as the Company has been presenting, since 2019, robust cash generation, the average rate of growth was 15% and from 2019 up to the past 12 months ended in June of 32% margin in LTM.

On the last line of the financial statement, or income statement, we see that the Company is debt free and has a cash position over R\$800 million.

So financial income, **as our slide 15**, has been benefiting from actual interest rates in Brazil and we have been recording, quarter after quarter, higher financial income.

In this specific key, this last year we have extended our investments profile so we can take advantage of the real interest rates in Brazil.

We have addressed and determined for the upcoming years a significant amount of actual interest rates to our portfolio, which is 100% dedicated to long term government bonds.

As a result of what we have been mentioning, **on the next slide 16**, the net income is created at a higher speed than cash generation achieved in ROE in the last 12 months of 40%. As we mentioned before, the Company's net cash position is R\$830 million in June, **as our slide 17**.

This is the last part of the presentation. **The next slide, slide 18**, this is the profile of minority shareholders, a free float of 46% with global investors in over 30 countries, and the Brazilian share is 14%.

Here on the slide 19, are some highlights in ESG, it is highly important for Odontoprev's business model.

Starting off with the classification or ranking and in the corporate ESG performance prime by the ISS from the U.S. and we have also published another annual edition of the Sustainability Report.

On the bottom, in a pioneer initiative of the Company, an international multinational institution called Sea Shepherd, the company's been sponsoring a pioneer project in Brazil, along the coast of Brazil, mapping the methodology developed with the Oceanographic Institute of the University of Sao Paulo about all of the waste found.

On our last slide, 20, we have an agenda of investor relations events not only in Brazil, but also in Latin America, Europe and the U.S.

So those were our initial comments and now we are open to answer your questions. That starts now. Thank you very much, everyone.

Q&A SESSION:

Felipe Amancio, Itaú BBA:

Hi, everyone. Good morning. Thank you for taking my question.

In this quarter, we saw dental ratios getting close to the pre-pandemic era - not only in corporate,

but also individuals. But it is taking longer for SME, could you give us some flavor about why SME takes longer to get back to normal? And when that happens, what should we expect? Should we expect normalization of consolidated DLR?

Another question is: how should we consider the impacts of the normalization of DLR to the ticket? Should we consider a higher ticket moving forward because of that? Thank you.

Rodrigo Bacellar:

Good morning, Felipe. How are you? Rodrigo speaking. Thank you for your question.

About the DLR, as Pacheco mentioned, and you saw that in the three charts, we have a scenario that is back to normal.

Since the beginning in the corporate segment and individuals as well, we like that, we want our members to use the products so they can see value in it.

And in SME, I believe that a part of that new level that you are seeing is a result of one of our strategies to segment SMEs, so we have different ranges or brackets. So according to the ANS, it goes from three members to 199 members.

Currently, we have three specific groups in that range of three to 199 members. So that goes into coverage, pricing, in addition to an effort to sell, as you mentioned, in selling Bradesco. We are connected to health care and that explains a part of that SME showing that.

It would be rare to imagine that a corporate went back to normal in its loss ratio, individuals as well and for some mysterious reason, SME did not. So it is very much related to the strategy that we have in segmentation that goes to cover coverage and connect it in selling with the health plan.

Now I will hand over to Pacheco, but I believe that we have to look at that as a sales effort. In general, we see the market back to normal in the clinics and in our day to day. When you go out, when you are out and about, you see people. It seems like a more stable scenario, post-pandemic scenario. Pacheco

José Roberto Pacheco:

Thank you, Rodrigo. Thank you, Felipe, for your question.

I believe that a correct understanding of the DLR is fundamental, so we can understand how that is connected to the average ticket.

Specifically in the corporate segment, that accounts for 60% of our revenues, and the highest DLR that we have been seeing after the 1Q20, and now it is back to the pre-historical levels or pre-pandemic historical levels.

And will bring on a more balanced conversation in corporate customers to recover the using the benefit and that translates into a ticket that if in the first quarter's post-pandemic that was negative in corporate, now it can become positive and that is for 2022, 2023, moving forward and it is essential to recover revenues.

Felipe, you also mentioned something interesting that is SME. That is a very specific market segment, as Rodrigo mentioned. It even has the potential of becoming bigger and it employs more people than the other big corporate accounts.

The challenge, though, is distribution. We have the privilege of having the Bradesco Dental brand as our main brand, dominant brand, in distributing to SMEs, and it gives us pricing power.

That translates not only into a two-digit robust growth in the first line, in the top line in SMEs, but also with superior profitability compared to our portfolio.

Once again, we are very optimistic about SME, and the Bradesco Dental brand is a decisive factor in that.

All things considered, the consolidated DLR of the Company is on the right path to be more competitive than the pre-pandemic scenario, the 45, 46%. And will potentially take a while for us to see that we will see DLR lower than the pre-pandemic period in a while.

We have to consider that there is a new product mix in the SME plans and individual plans and banked individual plans are growing expressively, and that is essential for the expectations to return and generate cash for the Company.

Felipe Amancio:

Ok, thank you for your answers.

Pedro Lima, *BTG Pactual*:

Good morning, Pacheco. Good morning to the team. On our side, we have two questions.

The first one is a follow up from Felipe's question about a lower DLR, especially in SME and individuals. I would like to know what actually influences that. Is that consumer profile, is that the ticket and such as consumers using the network less?

The second question is about CapEx. We saw higher CapEx levels in this quarter and there is a line of others that brings that up related to revenues. I would like to know if you can give us more flavor in that. Thank you. Good morning.

José Roberto Pacheco:

Hi, Pedro. Great points. Allow me to start with the second one, CapEx.

It is basically technology. You have seen that, since 2020, Odontoprev practically doubled its investment and once again, mainly focused on technology.

There are many reasons for that. The growth of digitization of processes, the number of robots in the Company is much higher than previous years. Today, we have less employees compared to previous years. So, technology is absolutely critical for the business, it is part of Odontoprev's DNA.

So you should expect levels of approximately R\$7080 million a year. That is the amount of CapEx that we have been seeing.

About your first question about DLR and specifically for the SME plans. In fact, once again, that is a segment that highly interests us. It brings in the pricing power of the distribution channel.

Bradesco Dental brand accounts for over 80% of the amount and the flow of new customers into that profile. And it has different behavior, in fact.

It has an important relationship with the Bradesco organization, not only in the service overall, or in dental, but many times connected to health plans and the bank relationship, the relationship that the bank has with small entrepreneurs.

We are very happy with the results we have had so far. And this addressable market has a very important strategic importance for the Company.

Pedro Lima:

Ok. Thank you, Pacheco.

Leandro Bastos, Citi:

Good morning, Rodrigo and Pacheco. Thank you for taking my question.

I would like to address inflation. First of all, in DLR. Today, when you consider your cost per procedure, we know that inflation is everywhere and in medical products as well.

So, today, how much does the procedure cost increase compared to pre-pandemic levels, if it is already capturing higher inflation or if there is still something that will happen in that sense?

Because if the DLR comes back, I do not know if the impact of inflation of the cost, would that be a challenge moving forward? I would like to hear something about that.

And your G&A. You have some agendas on productivity and even been dropping as a percentage of revenues. But what do you see as the inflationary impact with the levers to offset those effects?

That is it. Thank you.

Rodrigo Bacellar:

Thank you, Leandro. Good morning.

I am going to start off with G&A. There are a number of projects and Pacheco mentioned the robots.

Just to give you another number, when you talked about structure, as soon as we incorporated the OdontoSystem with all their employees, we had almost 2,300 employees. 2,250. And now we have 1,700.

Considering all the synergy systems and having a well done integration, we have a good track record in acquisitions around 11, 12 in its history. Using these new teams and taking advantage of what each of them have to offer.

We went down to 1,750 in personnel. Then, you go into the efficiency topic that Pacheco already mentioned.

About the sales commission, you mentioned it dropped a little. That has to do with the mix mainly, and I will comment on that later.

But what we are seeing is that retail is not fully recovered in dental plan sales, compared to pre-pandemic levels.

The only quarter that we dropped in members was in the second in 2020, because the stores were closed. But in relation to the sales percentage over revenues, it is mainly related to product mix than actually special terms or conditions.

And inflation, what you are seeing today is already a reality, and DLR is already considering our ability to price about the negotiation with our dentist network.

As those levels have been normalized since the beginning of the year, that is already the level in that wrestling, I would say, that we have between the person who is hiring, the person who is being hired, that is already organized.

Pacheco, would you like to add?

José Roberto Pacheco:

Leandro mentioned something fundamental, which is understanding cost versus price, that we have been seeing in recent years.

The fact is that we had deflation. We had lower costs, and that translated into lower tickets.

As we just mentioned, the DLR of corporate has been going up. So the frequency is going up, and it is normal for that to come back.

That said, then we think about tickets. So the higher DLR of corporate and that transition of 22, 23, that is basic. So, DLR in corporations already went back to historical records.

What is the next step to see the balance of the contract and we have a commercial relationship with the great part of the corporate clients in the long term. It is natural to have the ticket going back to the normal levels. That, for the next quarters, is once again a very important factor to determine revenues.

Once again, if the revenue variation was shy in the past years based on volume, it will no longer be, given the fact that we will have the expectation of additional volumes.

But also, there is the traditional pricing power in the corporate segment and it is natural that that should come back with the frequency coming back to normal in using the benefits.

Rodrigo Bacellar:

Let me go back to SG&A, Pacheco.

You mentioned the robot, you mentioned the structure. I think we could talk about the digitization

process, where we have the virtual ID for the plan, issuing the payment orders or second payment orders, moving from the older building, going into a new building still in the same city.

There are many things that we have been doing and we continue to do, and many of that is a result of technology enabling us to get to those lower levels.

It is not just one single thing. Many things are playing into that.

Leandro Bastos:

It is very clear. Thank you very much. And good morning to all.

Gustavo Miele, *Goldman Sachs*:

Good morning, Pacheco, Rodrigo. Thank you for the presentation.

I have two quick questions on our side. First of all, I would like to go back to the SME discussion at a different angle, talking about net adds, and not DLR.

The performance stood out. And I would like to understand if the source of that growth is because of the growth of the market, new customers, or do you see any dynamics in market share gain that is relevant in that specific category?

Could you talk about the competition? Do you see that cross-selling in SME with the health care specific players, is that decreasing? Could you talk about the origin of that faster growth in the SME category? That would be great. That is the first question.

The second point, exploring the Bradesco channel and other points that stood out positively, is that an increase of Bradesco's share in the Company?

To understand the economics of that. How does the contribution margin compare to the rest of the portfolio? You already mentioned DLR, but now I would like to understand in SG&A, do you see a way to dilute sales through that channel? Is it already at an efficient level?

Those are the two questions on our side. Thank you very much.

Rodrigo Bacellar:

Gustavo, thank you very much for your question. I am going to start off with the competitive environment, then I will hand over to Pacheco.

About SMEs, you touched on a fundamental point. Just to give you the data: the record sales in SMS sales was in 2014 and then we exceeded that record by 20% last year. This year we will have an interesting performance in SME as well.

We have an interesting growth in SME and with the optimism that Pacheco mentioned two questions ago.

What is that a result of? If we look at the customer base in SME that Bradesco has is huge. You can see information disclosed by Cielo or even themselves.

So Bradesco has an important relationship because they give credit or they have payroll, they have the cards and private label.

We have an increasingly more integrated relationship with Bradesco. We have some meetings with the credit committee and also the sales organization at the insurance company, their insurance division, and all the different verticals and insurance that they have together with the bank operation.

I would say today the game is more harmonious and unified, with more intelligence data on the table to make decisions, and regional superintendents that are doing better than the other, and so on.

It is a way for us to get to that final consumer or customer Bradesco with all that information. And the result that we see from the past two years is that support from the board members that we have here with us and at a second level in operations and sales, stronger integration as well.

We had record growth in the historical SME and now this year we are going to have a very interesting first half. I think I answered your question about net adds and Bradesco's position in that.

In the competitive environment, we heard many times "oh no, corporate, it is hard to compete with insurers that have health plans". But I would like to give you some data, and we always like to say that we are used to that competition. It is not from now.

It got tighter with all the IPOs and all of that capital that came in, but we already had that competitive environment forever. The players names changed, but the environment has existed for a while.

What we see is that the real data in the past 20 quarters in the corporate segment, we were positive in 18 of the last 20 quarters.

So once again, that is not new for us in the competitive environment. It is a challenge and it leads us to consider innovative solutions, new product design and all the different things that we have been doing.

But the concrete data is that 18 quarters of growth and obviously there is tighter competition and you have seen a corporate ticket in the past with a lot of pressure.

Now, what do we see moving forward? We believe that we will see how the dynamic is moving, moving forward.

We have had competition that was merged or acquired and that takes a lot of effort. They are large, important, relevant operations even for Brazil and the market for everyone.

It is not easy. It requires a dynamic and it is challenge in cultural aspects. And a lot of the growth that was taking place. We never stop growing, except for the 2Q20, and even in individuals where we are stronger.

What was happening was the dilution because they were buying many health care operators and being very aggressive in that.

Now, I believe that they have a huge task ahead of them, first decrease because there was acquisitions of 18 or 16 companies, and now to integrate that brings in the dynamics and we believe that there will be a market where we can not forget that there will be growth from acquisitions and strong growth.

And it is a game we know how to play, we have been in the market for 35 years doing that. We see that with good eyes.

In the past 2018 quarters that have been positive for us, I believe that speaks for itself. Pacheco.

José Roberto Pacheco:

Gustavo was mentioning an important aspect about lower acquisition costs when we work with Bradesco Dental in the Bradesco channel. That is a fact.

Particularly in the individual plans segment, as we have higher commissions, it is important to note that the Company is changing its sales profile.

15 years ago, it was practically exclusive for retailers and now it is balanced out, pretty much 50/50 in retail channels and bank channels.

The conclusion is direct. The higher banking lowers the levels of commissions by one third in sales of individual plans. That is where we have most of the acquisition cost.

Higher bank bankalization that already exists in SME plans but does not exist in the individual plans, but it is halfway there, that really lowers the levels from 30 to 40 down to 10, 15%, which would be more normal.

That we see not only in the great brokers segment but also the banks, the partners of the Company and shareholders.

Rodrigo Bacellar:

Gustavo, I would like to add something else.

When I talked about the structure of SG&A, just to give you a metric, we had 3.5 members per employee, now we have 4.8.

That is growth of 40% and that shows that in our internal exercise of looking for that efficiency all the time. That is also important data to show that there was an effort.

DLR did drop during the pandemic. Now it is coming back. But we are always working on looking for more efficiency.

Gustavo Miele:

Thank you, Rodrigo and Pacheco. Everything is very clear. Thank you.

Gustavo Tiseo, *Bank of America*:

Good morning, Pacheco and Rodrigo, how are you doing? We also have two questions on our

side.

First of all, you have mentioned this a lot already, but we would like to understand the timing of price increases in corporate. When you talk to them to have that logic that they are going to look back to the last 12 months and then a drop in the short term, but with a higher calculation for next year or given that DLR is already back to 50%, does it make sense to continue to look at a ticket that is going to increase?

The second one is about the OdontoSystem. Based on individual plans, you have been developing a great strategy. So I would like to understand if that is a movement to decrease churn, so someone that was going that was in a higher ticket, going down to a lower ticket because you rolled it out to other OdontoSystem regions.

Or given the difference in target audience, that does not happen in there with the other individual plans.

Rodrigo Bacellar:

Ok, Gustavo, thank you for your question. The first one. I will start off on the OdontoSystem.

We have the rollout and we are still working on that, nothing new there. We are still enrolling dentists and it is like you mentioned, it is a different product. It has excellent quality, but it is the first product to access, different than the Odontoprev brand, which is more premium.

For that, we have to continue to build a different network. After that, like the chicken and the egg, you have to have a customer that is going to use it, but they will use it if they have the network.

That is in parallel to that. And it has been done all over Brazil, slowly. By winning new customers, that will enable us not only to have these entry products and then we can upgrade afterwards, like you mentioned, two robust products with methodology of scheduling and control that we have that is different in OdontoSystem.

What was your first question? Price increases.

As Pacheco mentioned, in the pandemic DLR was very low in the beginning, and I am talking about medical plans mainly, because everything was closed down.

Medical plans would come back even if things were not going to be done, people would do them later. So that is very important.

15% of what we pay for DLR can be postponed. But in an urgency or emergency, if you had an accident and you broke your tooth, it has to be treated immediately.

Orthodontics, you get maintenance once a month. If they stop for four months, they are not going to do that four times in one single month. That will not be recovered.

It is not a time bomb. It has stopped because of the pandemic. "I need a prosthetic, I am going to get that in four months from now". That would happen in medicine. For us, that does not happen.

So, when we had very low DLR in dental, obviously the companies took advantage of that in negotiating to take its rate. They took advantage of that because their revenues were affected,

given the economy in general.

With us, the health plans were benefiting from lower DLR, but now that is over with. As you can see in the frequency and the frequency in health care, life is back to normal.

Moving forward, using the pandemic to negotiate differentiated rates is over because now things are back to normal. Pacheco.

José Roberto Pacheco:

That is the idea. Gustavo brought in an interesting point about the ticket. If it was negative in 2020 and beginning of 2021, now, in the past two quarters, you have seen positive tickets and that is the trend.

It reflects the use in 12 months and it reflects higher DLR in corporate. So the equation is direct.

Actually what we are going to see in corporate is: we are going to see a ticket that does not go down.

Gustavo Tiseo:

Ok, perfect. Thank you. That was clear. Thank you for your answers.

Stella Hong:

The Q&A session is now over. I would like to hand over to Pacheco for his final comments.

José Roberto Pacheco:

I would like to thank everyone for participating in one of our other events and with the first call in the health care segment. Have a great day.

Stella Hong:

Thank you. Good morning to you all.