

Qualicorp S.A.

1Q17 Earnings Release



Qualicorp S.A. BOVESPA:QUAL3

**Shares Outstanding
(04/30/2017)**
282,373,588 shares

**Free Float
(04/30/2017)**
236,056,267 shares (83.6%)

**Cash and Cash Equivalents
(03/31/2017)**
R\$688.1 million

Investor Relations
Grace Tourinho
IRO
Natalia Lacava
IR

Phone: +55 (11) 3191 3829
ri@qualicorp.com.br
www.qualicorp.com.br

Conference Calls
May, 12th 2017
(Friday)

Portuguese
Time: 11:00 am EST Brasilia
Phone: +55 11 3127 4971
Code: 29285528

English
Time: 11:00 am Brasilia
10:00 EST Simultaneous
Translation
Phone: +1 516 300 1066
Code: 51046456

São Paulo, May 11st, 2017. QUALICORP S.A (BM&FBOVESPA: QUAL3), one of the leading full-service healthcare benefits trader, administrator and health management services provider in Brazil, announces its consolidated 1Q17 and fiscal year 2017 results. The operating and financial data are presented on a consolidated basis in Reais ("BRL" or "R\$"), in accordance with Corporate Law and regulations of "Comissão de Valores Mobiliários" – CVM (the Brazilian SEC).

FINANCIAL AND OPERATING HIGHLIGHTS

- ✓ Our total portfolio of beneficiaries reached 4.5 million lives q/q, out of which 1.8 million in the Affinity Medical Care portfolio and 2.8 million in Corporate and Others. In Affinity Medical Care, which represents 92% of our revenue, we observed a stable lives number y/y and q/q, both under 2%, even with the challenging macroeconomic scenario.
- ✓ The 1Q17 consolidated Net Revenue reached R\$507.1 million, 11.5% higher y/y. In the sequential comparison, there was 1.6% decrease due to lower sales in Affinity, and lower revenue on SME and TPA segments.
- ✓ Our consolidated Adjusted EBITDA grew 26.0% y/y reaching R\$237.2 million, which represents a strong margin growth to 46.8%. Comparing to 4Q16, the 18.3% growth reflected our operational efforts to contain commercial and administrative expenses, moreover initiatives regarding Bad Debts reduction.
- ✓ We closed 1Q17 with R\$264.2 million operating cash flow, driven by a strong operating result combined with positive working capital variation. After CAPEX, the cash flow generation reached R\$238.9 million, 85% higher than 4Q16.

MAIN INDICATORS (R\$MM)

Consolidated Income Statement - (R\$ MM)	1Q17	1Q16	% Change 1Q17/1Q16	4Q16	% Change 1Q17/4Q16
Net Revenues	507.1	454.8	11.5%	515.5	-1.6%
Total Expenses (Ex-Depreciation and amortization)	(292.2)	(283.0)	3.3%	(337.1)	-13.3%
Adjustments to EBITDA	22.4	16.5	35.7%	22.2	1.1%
Adjusted EBITDA	237.3	188.3	26.0%	200.6	18.3%
Adjusted EBITDA Margin	46.8%	41.4%	538bps	38.9%	788bps
Net Income (Loss)	111.5	198.3	-43.8%	78.4	42.2%
Balance Sheet	1Q17	2016	Var. 1Q17/2016		
Equity	2,186.3	2,067.8	5.7%		
Net Debt ⁽¹⁾	216.8	439.0	-50.6%		
Other	1Q17	2016	Var. 1Q17/2016		
Net Debt / Equity	0.10x	0.21x	-53.3%		
Net Debt / Adjusted EBITDA LTM	0.26x	0.56x	-53.5%		

(¹) Includes acquisition payables recognized as "other payables". It does not include the investment retained as a guaranteed asset in the direct subsidiary Qualicorp Administradora de Benefícios S.A., and in the indirect subsidiaries Aliança Administradora de Benefícios de Saúde S.A and Clube de Saúde Administradora de Benefícios Ltda., according to the 33rd normative instruction by the ANS, from October 5, 2009.



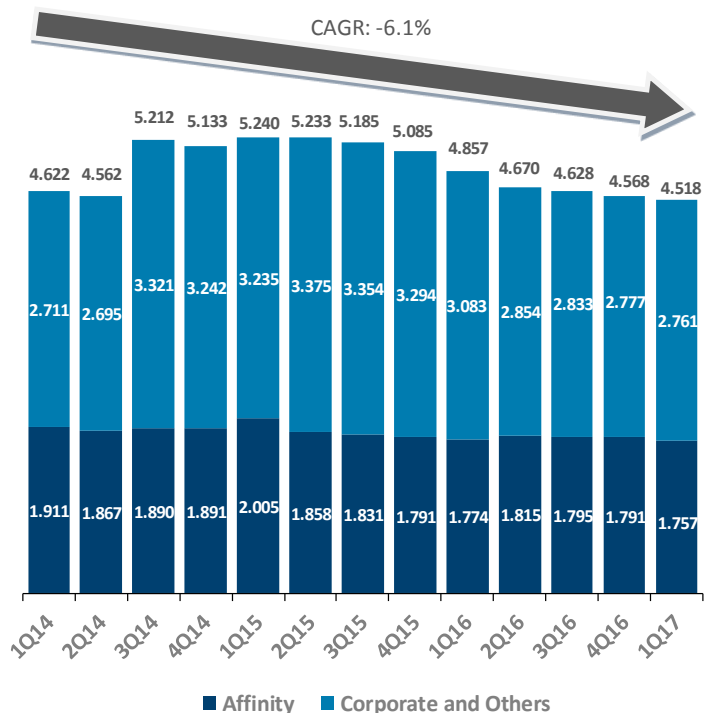
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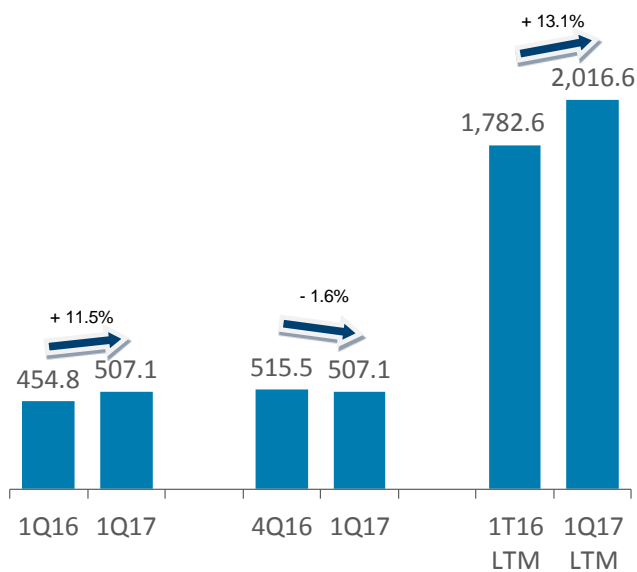


BENEFICIARIES (MM)

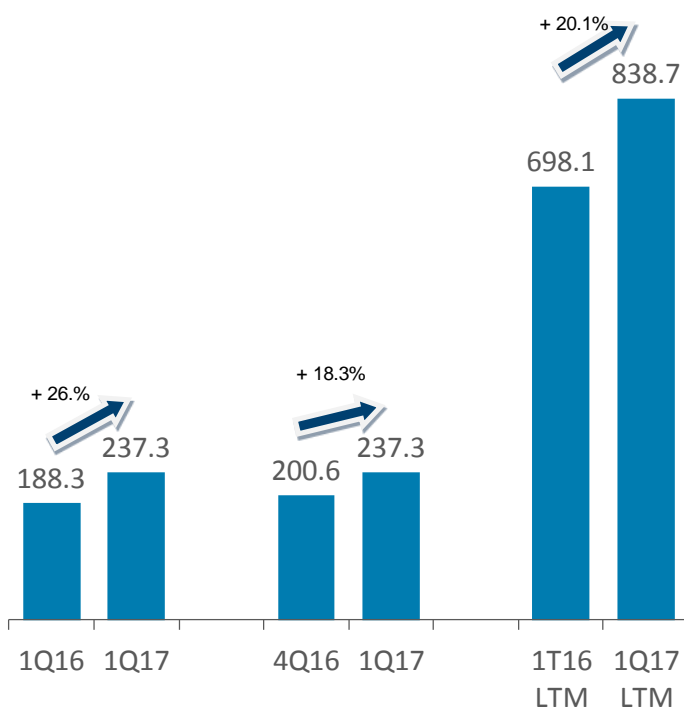
CAGR: -6.1%



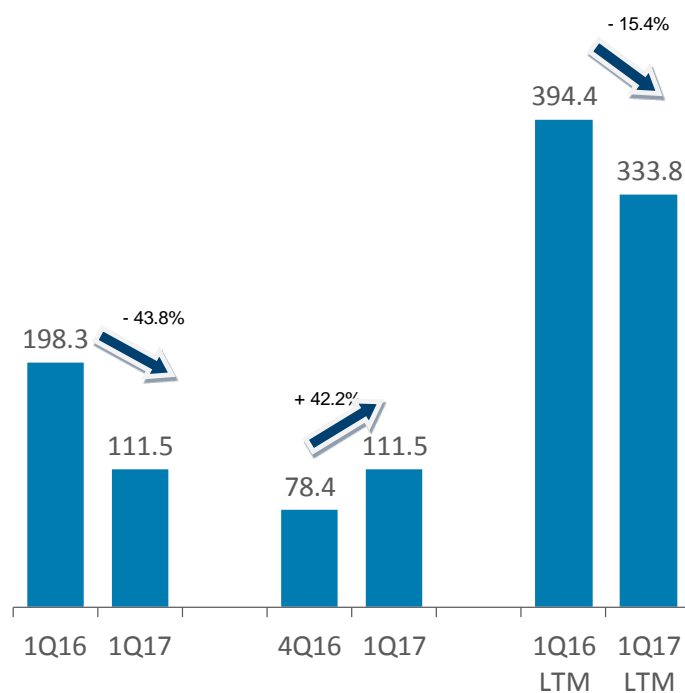
NET REVENUES (R\$ MM)



ADJUSTED EBITDA (R\$ MM)



NET INCOME (R\$ MM)



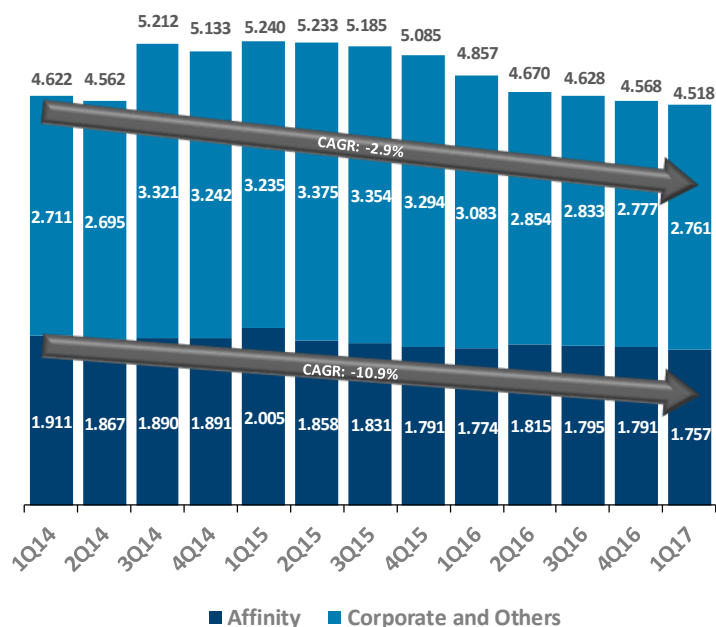
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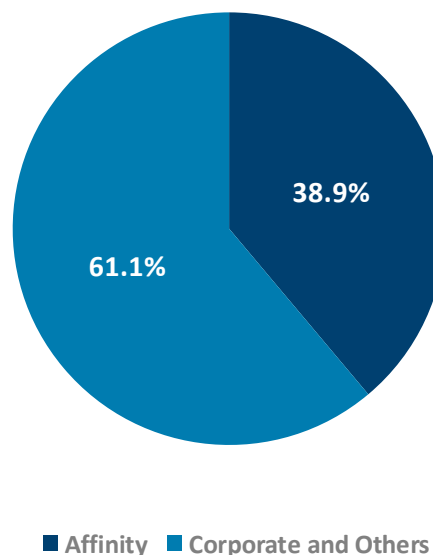


1 | Beneficiaries

BENEFICIARIES (MM)



BENEFICIARIES PORTFOLIO QUARTER BREAKDOWN



Total Portfolio

The total number of beneficiaries reached 4.5 million lives in the end of the quarter, which represents a 7.0% y/y drop (-1.1% q/q). Regarding the annual drop, the corporate contract reduction stands out once again (-46.3% y/y). Out of the 4.5 million beneficiaries, 1.8 million are in the Affinity segment and 2.8 million in the Corporate and Others segment.

Affinity Portfolio

Medical Care

Our Affinity Medical Care portfolio ended 1Q17 with 1.3 million lives, which represents stability q/q and y/y and taking into account a portfolio acquisition of 26,7k lives in the 4Q16. This performance reflects our proven resilient business model, on which we were able to control churn as of a qualified and diversified products, even with the recurring readjustments above inflation.

Other products

The Other products portfolio, in the Affinity segment, closed 1Q17 with 406.9k lives, a result virtually flat when compared to 1Q16 (-0.5%). Regarding 4Q16, we observed a 3.4% drop, reflected by the challenging macro environment.

Corporate and Others Total Portfolio

Our total portfolio of beneficiaries in the Corporate and Others segment decreased 10.4% y/y in 1Q17, mainly due to corporate contracts reduction. In the sequential comparison, this portfolio remains stable.

❑ Corporate

The Corporate segment decreased 46.3% y/y in 1Q17, reaching 494.5k lives, mainly due to the non-renewal of large contracts along 2016. However, some of these contracts, had a very low margin contribution, reflecting minor EBITDA performance impact. In the sequential comparison, we observed a slight growth of 1.1%.

❑ SME

The SME segment shows 2.2% decrease (-619 lives) when compared to 1Q16, mainly due to non-renewal of some contracts. In the sequential comparison, the portfolio expanded 6.0%, registering a 1.5k lives growth.

❑ TPA

The Self-management portfolio, which consolidates Qualicorp TPA and CRC/Gama lives has reached 2.2 million lives by the end of 1Q17, +5.1% y/y and -1.0% q/q. While the annual growth reflects the expansion of the evolution contracts project, the sequential drop is due to discharges in companies with current contracts.

❑ Health Management

In Health Management portfolio, the 4.3k lives volume is solid in relation to the prior quarter. The 35.5% annual decrease was due to clients exit.

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1.1 Portfolio of lives evolution

Portfolio	1Q17	1Q16	% Change 1Q17/1Q16	4Q16	% Change 1Q17/4Q16
Affinity Health Lives					
Total Portfolio (BOP)	1,369,676	1,365,460	0.3%	1,371,555	-0.1%
(+) Gross Adds	84,629	98,656	-14.2%	93,536	-9.5%
(-) Churn	(104,675)	(98,479)	6.3%	(122,157)	-14.3%
(+) Portfolio Acquisition	-	-	N.A.	26,742	N.A.
New Lives Added (net)	(20,046)	177	-11425.4%	(1,879)	966.8%
Total Portfolio (EOP)	1,349,630	1,365,637	-1.2%	1,369,676	-1.5%
Affinity Other Products Lives					
Total Portfolio (BOP)	421,321	425,312	-0.9%	423,328	-0.5%
New Lives Added (net)	(14,424)	(16,545)	-12.8%	(2,007)	618.7%
Total Portfolio (EOP)	406,897	408,767	-0.5%	421,321	-3.4%
Affinity Portfolio	1,756,527	1,774,404	-1.0%	1,790,997	-1.9%
Corporate	494,538	921,202	-46.3%	489,237	1.1%
TPA	2,235,055	2,126,731	5.1%	2,257,561	-1.0%
Small/Medium Enterprises	27,261	27,880	-2.2%	25,714	6.0%
Health Management	4,322	6,699	-35.5%	4,322	0.0%
Corporate and Others Portfolio	2,761,176	3,082,512	-10.4%	2,776,834	-0.6%
Total Portfolio	4,517,703	4,856,916	-7.0%	4,567,831	-1.1%

In the Affinity segment, which represents 91.5% of our revenues in 1Q17 (90.9% in 4Q16 and 90.6% in 1Q16), we reached 84.6k gross additions. The decrease in gross adds reflects the business seasonality, also this quarter was commercially shorter due to some events which prejudiced sales flow, as the late carnival holidays and summer vacations. This decrease in sales volume, impacted sales recognition and reflects lower commercial expenses, due to fewer commissions and variable compensation for sales.

Regarding churn level, we had 104.7k cancellations in 1Q17, which represents a 14.3% decrease q/q and 6% growth y/y, even with the challenging macroeconomic scenario. Going through the sequential raise, which reflects not only the business seasonality, but also the Company's efforts to retain its clients, seeking for alternatives to maintain the clients in the base and in healthy conditions, without compromising the portfolio.

It is important to highlight that, regarding better operating efficiency and financial result, it is more valuable for the Company to keep lives on its existing portfolio and keep Churn under control, while new sales constitute larger turnover risk and cause additional commercial costs in the commercialization period.

Therefore, our portfolio in Medical Care Affinity segment had 1.349k lives in the end of 1Q17, 1% lower q/q and y/y.

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2 | Operating Net Revenues

Net Revenues (R\$ MM)	1Q17	1Q16	% Change 1Q17/1Q16	4Q16	% Change 1Q17/4Q16
Affinity	464.2	412.1	12.6%	468.5	-0.9%
% on Total Net Revenues	91.5%	90.6%	92bps	90.9%	65bps
Corporate and Other	42.9	42.7	0.5%	46.9	-8.6%
% on Total Net Revenues	8.5%	9.4%	-92bps	9.1%	-65bps
Total Consolidated	507.1	454.8	11.5%	515.5	-1.6%

Our total Net Revenues grew 11.5% in 1Q17 y/y, reaching R\$507.1 million. Regarding 4Q16, there was a 1.6% decrease.

The Affinity segment contributed with R\$464.2 million in 1Q17 (+12.6% y/y and -0.9% q/q). When analyzing the annual growth, there must be taken into account: (i) 22.1% price readjustment; (ii) product mix (affected by the retention strategy through alternative products); (iii) service tax reduction, due to three companies that were transferred to the city of Barueri in February 2016 and (iv) PIS-COFINS rate increase over gross revenue from brokerage which started in June 2016. Even with all these challenges, we were able to report once again a double digit revenue growth, which proves the Company's efforts to find business strategies able to compensate those effects. Regarding 4Q16, there was a minor decrease, mainly due to the 9.5% drop in gross additions and the mix of products sold, with a greater Clube de Saúde participation, which not only reduced our lives base but also reduced brokerage revenue.

The Net Revenue from the Corporate and Others Segment reached R\$42.9 million in 1Q17, remaining stable y/y and 8.6% lower q/q, due to lives drop in TPA which reduced revenues on this segment.

The Group gross revenue tax rate (ISS, PIS and COFINS) reached 8.2% in 1Q17 (versus 7.9% in 1Q16 and 7.8% in 4Q16) due to fiscal events widely discussed in previous quarters, as the three companies that were transferred to the city of the Barueri and the increase in the PIS-COFINS tax rate on the gross revenue of the brokerage firm.

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3 | Operating Expenses

Cost summary (R\$ MM)	1Q17	1Q16	% Change 1Q17/1Q16	4Q16	% Change 1Q17/4Q16
Cost of Services	(126.8)	(114.3)	10.9%	(134.0)	-5.4%
Total Costs of Services	(126.8)	(114.3)	10.9%	(134.0)	-5.4%
Total Adm. Expenses	(121.6)	(115.3)	5.4%	(129.0)	-5.8%
Total Selling Expenses	(71.5)	(80.6)	-11.3%	(79.6)	-10.2%
Bad Debt (Uncollectible Receivables)	(27.2)	(30.1)	-9.6%	(45.2)	-39.9%
Other Operating Income (Expenses)	(3.3)	1.3	-360.8%	(1.7)	93.0%
Total Operating Expenses	(223.6)	(224.7)	-0.5%	(255.6)	-12.5%
Total Consolidated	(350.4)	(339.1)	3.3%	(389.6)	-10.1%
(+) One Time Expenses (a)	7.1	3.7	91.7%	7.4	-4.5%
Total Consolidated Recurring	(343.3)	(335.4)	2.4%	(382.2)	-10.2%

a) Refers to Stock option expenses.

Our consolidated recurring Operating Expenses decreased 10.2% q/q, showing once again the Company's ability to leverage its administrative and commercial expenses performing the necessary adjustments related to staff, in order to adapt to a more challenging environment.

When we consolidate personnel expenses, which involve both cost and expenses line, we achieved a 9.5% reduction q/q and increased only 1.6% y/y. It should be noted that severance impacted on R\$7.5 million in the quarter. If there were no severance expenses, personnel expenses would be R\$78.2 million, down 17.5% q/q and 7.3% y/y.

Its important to notice the bad debts losses improvement, which drop 9.6% y/y. (39.9% vs. 4Q16), demonstrating the Company's continuous evolution in its ability to control delinquency and recover loans to its clients. Considering that most adjustments in the portfolio were held in July, it is natural that due to seasonality, delinquency reflects increases in the second half every year, with a relief from the third quarter after the price adjustments (1Q17), when we also see greater stability in the customer base. Also worth of note is the internal effort to guarantee the portfolio health, which starts with a more qualified sale, evolves to closer customer services, offering options besides cancellation, which has contributed on delinquency mitigation.

From May 10th, 2017 on, Normative Resolution 412/2016 becomes effective, which obligates the Company to, immediately cancel plan, when requested by the client. Thus, as of March, the Company has already started to immediately cancel these customers requests, which caused a reduction effect on revenue, but also partially reduces expenses, whenever we obtain the adjustment from the operators, contributing to reduce bad debts.

In the annual comparison, while revenue grew 11.5%, we had only a 2.4% increase in recurring expenses, which allowed us to greatly expand operating margins.

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3.1. Cost of Services

Cost of Services (R\$ MM)	1Q17	1Q16	% Change 1Q17/1Q16	4Q16	% Change 1Q17/4Q16
Personnel expenses	(41.7)	(37.0)	12.6%	(44.5)	-6.3%
Third Party Services	(22.7)	(21.9)	3.6%	(25.5)	-11.1%
Occupancy expenses	(2.9)	(3.7)	-19.8%	(2.7)	10.3%
Royalties (a)	(50.5)	(42.3)	19.3%	(52.0)	-3.0%
Others (b)	(9.0)	(9.5)	-4.6%	(9.3)	-3.3%
Total Consolidated	(126.8)	(114.3)	10.9%	(134.0)	-5.4%
Gross Margin	75.0%	74.9%	14bps	74.0%	99bps

a) Refers to expenses related to financial 'pass through' incurred in agreements signed with professional associations for the contracting and selling of affinity plans (called royalties).

b) Refers mainly to lawsuits, mailing expenses and annual membership fees paid by the Company to associations, unions and councils on behalf of the beneficiaries / members of the professional associations, paid by the Company for associations, unions and councils to which the beneficiaries are affiliated.

The consolidated Cost of Services reached R\$126.8 million in 1Q17 (+10.9% y/y and 5.4% q/q). Thus, we achieved 75.0% gross margin, which represents a growth when compared to both periods.

We highlighted on the previews item the Company's efforts to adjust the staff, in order to adapt to a more challenging environment. Thus, the 6.3% sequential reduction in Personnel expenses line, does not fully reflects the savings that will be obtained, given that there were expenses with terminations in the quarter. On the annual comparison, regarding the 12.6% increase, we should take into account the payroll increase due to CRC/Gama project expansion hiring. If we were to exclude CRC/Gamma effect, we would have 2.0% decrease y/y.

Regarding Third Party services expenses, the 3.6% growth observed in y/y is a result of higher expenses volume with back office subcontracted. However when compared with 4Q16 there is a 11.1% reduction, mainly due to telemarketing process improvements.

In the Occupancy expenses line if we consider all of its costs, administrative and commercial lines, we will have obtained a 10.7% saving y/y, almost flat q/q.

The 19.3% royalties increase y/y was reflected by July 2016 readjustments, and the 3.0% q/q drop is aligned with the net revenue decrease.

Finally, the slight decrease in other's line (-4.6% y/y and -3.3% q/q) is explained by lower legal agreements volume, which can be considered seasonal, since this first quarter of the year had the interference of festivities and holidays.

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3.2. Administrative Expenses

Administrative expenses (R\$ MM)	1Q17	1Q16	% Change 1Q17/1Q16	4Q16	% Change 1Q17/4Q16
Personnel expenses	(29.9)	(29.9)	0.3%	(37.6)	-20.4%
Third Party services	(18.9)	(15.0)	26.3%	(22.5)	-16.0%
Occupancy expenses	(4.1)	(4.1)	-0.4%	(4.1)	0.2%
Depreciation and amortization	(58.2)	(56.1)	3.7%	(52.6)	10.7%
Others	(10.5)	(10.3)	1.9%	(12.3)	-14.6%
Total Consolidated	(121.6)	(115.3)	5.4%	(129.0)	-5.8%
(+) Stock Options Expenses	7.1	3.7	91.7%	7.4	-4.5%
Total Recurring Adm. Expenses	(114.5)	(111.6)	2.6%	(121.6)	-5.8%
Recurring Adm. Expenses/ Net Revenue %	22.6%	24.5%	-196bps	23.6%	-101bps

Our recurring Administrative expenses presented a slight increase of 2.6% y/y, but a 5.8% q/q drop, reaching R\$114.5 million in 1Q17. Also, is worth to note the evolution related to net revenue, closing the quarter at 22.6%, almost 2 p.p. lower than 1Q16.

In the Personnel line, this quarter, if we were to exclude the Stock Option expenses amortization effect, there was a drop of 13.1% y/y (24.7% q/q). As previously mentioned, the Company applied the staff readjustment in 1Q17, thus, considering severance expenses, the impacts will be absorbed along 2017. Regarding administrative expenses, we also have adjustments in the executives board that allowed the reduction of remuneration paid to the managers.

In Third Party expenses we observed a 26.3% y/y increase, related to support systems for CRC/Gama new projects expansion mainly in IT and telemarketing. In the sequential comparison, the 16% decrease is mostly due to telemarketing savings.

Regarding Occupancy, there was no significant variation related to administrative expenses.

Lastly, the 14.6% q/q decrease in Others line is due to lower legal actions volumes.

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3.3. Selling Expenses

Selling Expenses (R\$ MM)	1Q17	1Q16	% Change 1Q17/1Q16	4Q16	% Change 1Q17/4Q16
Personnel expenses	(14.2)	(17.5)	-19.3%	(12.7)	11.3%
Third Party services	(3.0)	(3.7)	-17.0%	(2.5)	21.4%
Occupancy expenses	(1.7)	(2.0)	-15.4%	(1.9)	-13.9%
Sales campaign	(9.6)	(15.9)	-39.7%	(11.3)	-15.5%
Sponsorships	(1.6)	(1.9)	-16.3%	(2.3)	-31.2%
Third-party commission	(34.7)	(31.1)	11.6%	(35.7)	-2.8%
Publicity and advertising	(4.2)	(5.4)	-23.1%	(8.0)	-48.0%
Others (a)	(2.6)	(3.1)	-16.4%	(5.0)	-49.1%
Total Consolidated	(71.5)	(80.6)	-11.3%	(79.6)	-10.2%
Selling/Net Revenue %	14.1%	17.7%	-362bps	15.4%	-135bps

Our consolidated Selling Expenses decreased 11.3% y/y in 1Q17 (-10.2% q/q) reaching R\$71.5 million. Consequently, we observed a significant dilution of selling expenses as percentage of net revenues, improving our results in 3.6 p.p. y/y and 1.3 p.p. q/q. The performance reflects the constant effort to rationalize our resources, seeking for efficient and assertive commercial strategies regarding timing and format.

Regarding personnel expenses in 1Q17, which decreased 19.3% y/y, mainly due to personnel downsizing in internal sales throughout 2016, as well as variable remuneration reduction due to lower sales volume. In the sequential comparison, the 11.3% drop is explained by severance expenses related to staff reduction.

In the third-party services line, the oscillations are relatively high, but not relevant in absolute terms and are related to hiring and occasional terminations of consulting and telemarketing services.

Regarding sales campaigns, the Company continues its efforts to contain these expenses in 1Q17, resulting in a 39.7% y/y reduction and 15.5% q/q. The same policy was applied to marketing expenses, sponsorships and other expenses, focused in attracting customers via online media (leads), which continues to generate a material expenses reduction and proved to be a winning strategy. In this line, as known, expenses and investments are discretionary and fluctuate according to the future sales growth strategy. Thus, we may be able to observe increases in these activities on the following quarters.

Finally, in the third-party commissions line, the 11.6% y/y increase was reflected by payments related to new portfolios in latest quarters which were not part of the portfolio in 1Q16.

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3.4. Bad Debt (Uncollectible Receivables)

Bad Debt (R\$ MM)	1Q17	1Q16	% Change 1Q17/1Q16	4Q16	% Change 1Q17/4Q16
Bad Debt/Uncollectible Receivables	(27.2)	(30.1)	-9.6%	(45.2)	-39.9%
% Net Revenue	5.4%	6.6%	-125bps	8.8%	-342bps

Our Bad Debt expenses, reached R\$27.2 million in 1Q17, representing 5.4% of our net revenue, lower when compared with 6.6% in 1Q16 and 8.8 in 4Q16. Usually, Bad Debt expenses have a seasonal decline in the first half of every year, due to lower reflect of the price adjustment applied in second half of the previous year. In addition, it is worth mentioning the efforts to contain delinquency, from campaigns with closer customer services which aims for different alternatives not only to ensure portfolio health, but also to offer options beyond cancellation.

Breakdown	1Q17	1Q16	% Change 1Q17/1Q16	4Q16	% Change 1Q17/4Q16
PCI	(31.3)	(33.8)	-7.3%	(49.2)	-36.3%
Recuperação de Perdas	4.2	3.7	11.2%	4.0	4.6%

The past due credit recovery contributed positively with R\$4.2 million during 1Q17, higher than R\$3.7 million in 1Q16 and R\$4.0 million in 4Q16.

It is important to mention that the positive result in recoveries has remained material due to the continuous strategies to recover credits. In this quarter, we carried on several campaigns to solve customer issues, including inactive FGTS tax (Service Guarantee Fund) released benefit, as well as offering discounts for debts payment. Thereby, it was possible not only to contain losses but also to improve recovery.

3.5. Other Operating Income / (Expense)

Other Operating Income/Expenses (R\$ M)	1Q17	1Q16	% Change 1Q17/1Q16	4Q16	% Change 1Q17/4Q16
Expenses related to contingencies	(3.9)	0.6	-736.1%	3.4	-215.4%
Impairment	0.6	(1.3)	-145.1%	(1.4)	-141.2%
Operational Losses	(0.2)	4.3	-105.5%	(7.6)	-96.9%
Other income (expenses)	0.30	(2.4)	-112.8%	3.9	-92.2%
Total Consolidated	(3.3)	1.3	-360.8%	(1.7)	93.0%

In 4Q17, our Other Operating Income/Expenses reached -R\$3.3 million vs. +R\$1.3 million in 1Q16 and -R\$1.7 million in 4Q16.

Even tough the overall expense is under control with R\$ 3.3 million, it is important to detail the breakdown of this line, which includes (i) contingencies of -R\$3.9 million due to processes related to labor, civil and regulatory suits, whose probability of loss has changed from possible to probable; (ii) operating gains (losses), regarding invoice reconciliation which had a positive effect in 1Q17 and a negative one in both 1Q17 and 4Q16; (iii) other income (expenses), which specially in 4Q16 had a strong positive effect and related to lawsuits gain related to the unconstitutionality of certain taxes collection.

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4 | Financial Income (expenses)

Financial Income (Expenses) (R\$MM)	1Q17	1Q16	% Change 1Q17/1Q16	4Q16	% Change 1Q17/4Q16
Financial income					
Income from short-term investments	17.7	15.8	12.2%	20.0	-11.4%
Interest and fine on late payment of health plans	15.3	12.8	19.5%	14.7	3.9%
Other income	6.3	3.3	91.0%	6.6	-4.9%
Total	39.4	31.9	23.3%	41.4	-4.9%
Financial expenses					
Debentures Interest	(21.0)	(19.6)	7.4%	(21.2)	-0.7%
Monetary adjustment from acquisition payables	(8.5)	(7.5)	14.3%	(8.2)	3.5%
Other financial expenses	(11.1)	(15.3)	-27.3%	(19.1)	-41.9%
Total	(40.6)	(42.3)	-3.9%	(48.5)	-16.2%
Total Consolidated	(1.2)	(10.3)	-87.9%	(7.1)	-82.4%

The Company's Financial Income results comes from two main sources: interest on financial investments and interest and penalties on late premiums payments from beneficiaries.

In financial expenses, the largest contribution once again came from the cost of our debentures, whereas the monetary adjustment from payable acquisitions of R\$8.5 million in 1Q17 mainly reflects the adjustment over 25% which we still have as a call option for Aliança, which must be paid this year.

Other financial expenses, which includes financial operations IOF tax, bank expenses, discounts, among others decreased 27.3% y/y and 41.9% q/q, mainly due to lower IOF tax related to financial operations on the quarter.

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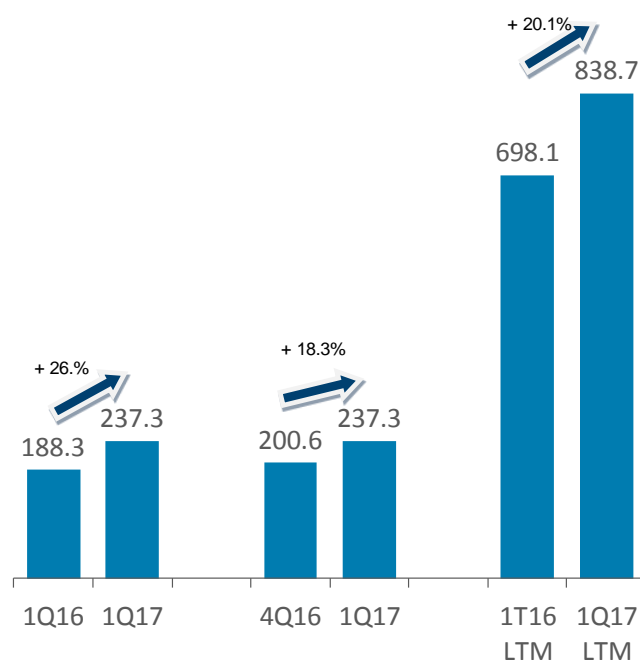


5 | Generation of Operating Cash (EBITDA and Adjusted EBITDA) ^{1,2}

EBITDA and Adjusted EBITDA (R\$ MM)	1Q17	1Q16	% Change 1Q17/1Q16	4Q16	% Change 1Q17/4Q16
Net Income	111.5	198.3	-43.8%	78.4	42.2%
(+) Taxes	44.0	(92.9)	-147.4%	40.4	9.0%
(+) Depreciation and Amortization	58.2	56.1	3.7%	52.6	10.7%
(+) Financial Expense	40.6	42.3	-3.9%	48.5	-16.2%
(-) Financial Income	(39.4)	(31.9)	23.3%	(41.4)	-4.9%
EBITDA	214.9	171.8	25.1%	178.4	20.4%
EBITDA Margin	42.4%	37.8%	460bps	34.6%	776bps
Non-cash Stock Option Plan Expense	7.1	3.7	91.7%	7.4	-4.5%
Interest and fine on late payment of health plans	15.3	12.8	19.5%	14.7	3.9%
Adjusted EBITDA	237.3	188.3	26.0%	200.6	18.3%
Adjusted EBITDA Margin	46.8%	41.4%	538bps	38.9%	788bps

Our consolidated Adjusted EBITDA grew strongly (26.0% y/y), reaching R\$237.3 million in 1Q17 (+18.3 q/q). This performance results from our operational efforts, related to necessary adjustments to reduce costs, administrative and commercial expenses combined with Bad Debts recovery on the period. Our consolidated Adjusted EBITDA margin reached 46.8% in 1Q17 which represents a 538bps increase y/y and 788bps q/q.

ADJUSTED EBITDA (R\$MM) ^{1,2}



- (1) EBITDA and Adjusted EBITDA are presented because management believes that they are significant indicators of financial performance. According to the IFRS, EBITDA and Adjusted EBITDA are not indicators of financial performance and shall not be considered as an alternative to net profit, operational performance, operating cash flow, or as a liquidity indicator.
- (2) EBITDA and Adjusted EBITDA consist of net income before income tax and social contribution, financial income, financial expense, and depreciation and amortization. "Other adjustments" include items such as spending on acquisitions and associations; costs of corporate restructuring and operational provisions for stock option plan; interest and penalties on late fees; and other non-cash adjustments.

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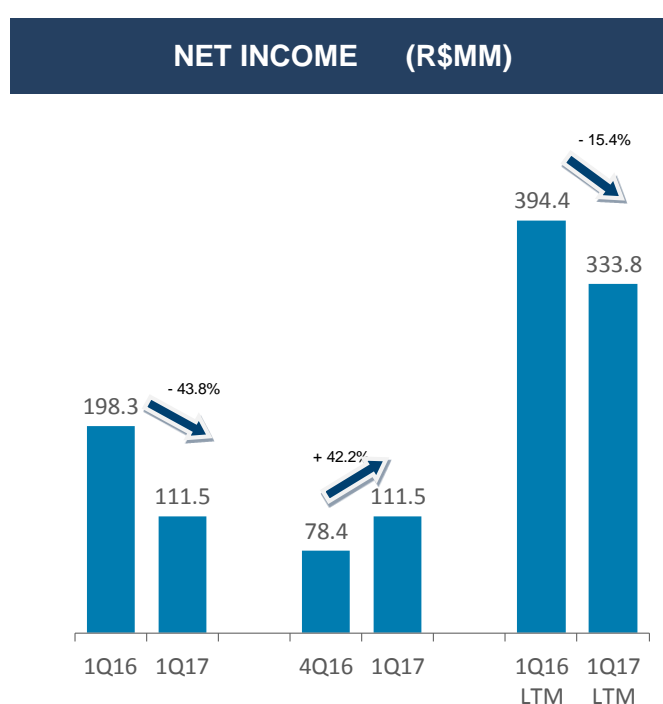
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6 | Net Income (Loss)

Net Income (Loss) (R\$ MM)	1Q17	1Q16	% Change 1Q17/1Q16	4Q16	% Change 1Q17/4Q16
Net Income	111.5	198.3	-43.8%	78.4	42.2%

Our consolidated net income reached R\$111.5 million in 1Q17, which implies a 42.2% q/q increase. The decreased regarding 1Q16 is due to the R\$137.7 million fiscal effects, widely discussed by then. Excluding this impact, we would observe a 84% y/y growth.



7 | Amortization

Amortization	1Q17	1Q16	% Change 1Q17/1Q16	4Q16	% Change 1Q17/4Q16
Amortization Clients Relationship	26.5	26.5	0.0%	26.5	0.0%
Goodwill Amortization	57.4	58.5	-1.9%	57.4	0.0%
Portfolio Amortization	14.6	16.7	-12.5%	13.7	6.6%

Amortization Summary	Income Statement	Fiscal benefit	Amount 1Q17	Tax	Adjustments to net income
Amortization Clients Relationship	Yes	No	26.5	9.0	17.5
Goodwill amortization	No	Yes	57.4	19.5	19.5
Portfolio Amortization	Yes	Yes	14.6	5.0	9.6

Amortization Schedule	2017	2018	2019	2020	2021	2022	2023	2024
Clients Relationship	104.4	95.8	90.6	53.1	0.8	0.8	0.8	0.5
Goodwill	229.0	105.6	5.8	1.0	0.8	0.3	-	-
Portfolio Acquisition	52.0	44.7	27.0	21.8	15.2	2.4	0.9	-

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8 | Capital Expenditures

Capex (R\$ MM)	1Q17	1Q16	% Change 1Q17/1Q16	4Q16	% Change 1Q17/4Q16
Capex in IT	8.5	18.4	-53.8%	8.6	-0.7%
Other Capex	0.2	8.9	-98.1%	0.9	-81.4%
Right Assignment Agreement / Exclusivity	9.4	4.5	109.8%	51.2	-81.6%
TOTAL	18.1	31.9	-43.1%	60.7	-70.1%

Our total IT Capex reached R\$8.5 million in 1Q17, mainly due to operational systems improvements. The fixed assets Capex reached R\$0.2 million and reflects the equipment maintenance of our facilities.

On January 18th, 2017, a non-competition agreement was signed between the Company and a former executive. The contract respective value is being amortized over a period of seventeen months, which coincides with the term of the contract.

9 | Capital Structure

Capital Structure (R\$ MM)	1Q17	4Q16	Var. 4Q16/2015
Current Debt	291.5	276.1	5.6%
Long Term Debt ⁽¹⁾	613.4	613.7	-0.1%
TOTAL	904.9	889.8	1.7%
Cash and cash equivalents ⁽²⁾	688.1	450.9	52.6%
TOTAL NET DEBT	216.8	439.0	-50.6%

(1) Includes acquisition payables

(2) It does not include the investment retained as a guaranteed asset in the direct subsidiary Qualicorp Administradora de Benefícios S.A., and in the indirect subsidiaries Aliança Administradora de Benefícios de Saúde S.A and Clube de Saúde Administradora de Benefícios Ltda., according to the 33rd normative instruction by the ANS, from October 5, 2009

Our Net Debt decreased 50.6% when compared to the end of 2016 mainly due to 1Q17 cash flow generation. It should be recalled that, at the AGO held on April 28th, 2017, the dividends payment of R\$137.3 million was approved related to the second half of 2016, which is expected to occur on May 25th. Regarding debts, the company managed to roll over debentures in November 2016 with due date to 2019. The current debt reflects the 25% Aliança call option.

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10 | Return on Investments

We closed 1Q17 with 45.3% ROIC, showing an increase over the previous quarters, which demonstrate continuous quarterly evolution and reflects the investments carried thought out the years and the Company's efficiency.

Return on Investment	1Q17	4Q16	3Q16	2Q16	1Q16
Invested Capital					
Fixed Asset	2,395,576	2,435,776	2,428,951	2,464,460	2,498,851
Working Capital	(121,806)	(87,620)	(43,604)	(53,857)	(116,240)
TOTAL	2,273,770	2,348,156	2,385,347	2,410,603	2,382,611
(-) Intangible - Goodwill (LBO)	924,767	924,767	924,767	924,767	924,767
(-) Intangible - Client Relationship (LBO)	268,211	287,835	307,459	327,085	346,710
Adjusted Invested Capital	1,080,792	1,135,554	1,153,121	1,158,751	1,111,134
NOPAT					
Adjusted EBITDA	237,272	200,565	201,255	192,223	188,334
EBIT	179,100	148,004	148,603	137,274	132,239
(+) Ammortization	(41,151)	(40,252)	(40,088)	(42,045)	(43,235)
EBIT adjusted	220,251	188,256	188,690	179,319	175,474
(-) taxes (34%)	(74,885)	(64,007)	(64,155)	(60,969)	(59,661)
NOPAT	145,366	124,249	124,536	118,351	115,813
ROIC (12m)	45.3%	42.4%	40.2%	39.6%	38.3%

We closed 1Q17 with a R\$264.2 million operating cash flow, influenced by a strong operational result combined with positive working capital fluctuations. After Capex, the cash generation reached R\$238.9 million. It is important to remember, once again, that the dividend payment approved on the last AGO will be paid in 2Q17. It is also important to mention the debentures renewal carried out in November 2016 with lower spread than the previous one (1.3% vs. 1.6% and 1.35% previously) and the change in the interest payment schedule that will be held every six months in 4Q and 2Q, instead of 1Q and 3Q as before.

The Company remains confident of and expansion of its operating cash flow supported by its organic growth combined with operating improvements.

Cash Flow	1Q17	2016	4Q16	3Q16	2Q16	1Q16
Income adjusted by non-cash effects	253,466	815,530	206,925	220,183	192,542	195,880
Working Capital	37,192	(39,485)	35,636	(32,057)	(9,835)	(33,229)
Interest paid	-	(96,113)	(11,968)	(40,909)	-	(43,236)
Dividends received/paid	(1,145)	(15,617)	(4,822)	(4,178)	(6,617)	-
Income tax and social contribution paid	(25,288)	(118,644)	(40,201)	(30,027)	(24,577)	(23,839)
Cash Flow from Operating Activities	264,225	545,671	185,570	113,012	151,513	95,576
Capex (TI)	(9,605)	(74,927)	(20,376)	(13,848)	(18,095)	(22,608)
PP&E	(370)	(15,990)	(999)	(1,461)	(4,001)	(9,529)
Intangible (M&A + Portfolio + Deals)	(15,387)	(44,678)	(35,374)	(8,216)	(1,088)	-
Cash Flow from Investment Activities	(25,362)	(135,595)	(56,749)	(23,525)	(23,184)	(32,137)
Cash Flow from Operating Activities (-) C	238,863	410,076	128,821	89,487	128,329	63,439
Cash Flow from Financing Activities	-	(320,616)	(165,593)	67,723	(215,767)	(6,979)
Other Investments	(138,760)	(249,889)	520	(132,195)	(118,973)	759
Total Cash Flow	100,103	(160,429)	(36,252)	25,015	(206,411)	57,219

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Forward-looking statements

This release may contain forward-looking statements concerning the business outlook. These statements are based exclusively on the expectations of the management of Qualicorp S.A. regarding the prospects of the business and its continued ability to access capital markets to finance its business plan. These forward-looking statements are highly sensitive to changes in the capital markets, government regulations, competitive pressures, the performance of the industry and the Brazilian economy and other factors, as well as to the risk factors highlighted in documents previously filed by Qualicorp S.A., and therefore are subject to change without prior notice

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Appendix I – Income Statement

INCOME STATEMENT (R\$ MM)	1Q17	1Q16	% Change 1Q17/1Q16	4Q16	% Change 1Q17/4Q16
Net Operating Revenue	507.1	454.8	11.5%	515.5	-1.6%
Cost of Services	(126.8)	(114.3)	10.9%	(134.0)	-5.4%
Gross Profit	380.3	340.5	11.7%	381.5	-0.3%
Operating Income (expenses)	(223.6)	(224.7)	-0.5%	(255.6)	-12.5%
Administrative expenses	(121.6)	(115.3)	5.4%	(129.0)	-5.8%
Selling expenses	(71.5)	(80.6)	-11.3%	(79.6)	-10.2%
Losses on uncollectible receivables	(27.2)	(30.1)	-9.6%	(45.2)	-39.9%
Other operating income (expenses), net	(3.3)	1.3	-360.8%	(1.7)	93.0%
Income From Operations Before Financial Income (Expenses)	156.7	115.7	35.4%	125.8	24.5%
Financial income	39.4	31.9	23.3%	41.4	-4.9%
Financial expenses	(40.6)	(42.3)	-3.9%	(48.5)	-16.2%
Income Before Income Tax Social Contribution	155.4	105.4	47.5%	118.8	30.9%
INCOME TAX AND SOCIAL CONTRIBUTION	(44.0)	92.9	-147.4%	(40.4)	9.0%
Current	(35.0)	(19.3)	106.2%	(39.7)	-12.0%
Deferred	(9.0)	112.2	-100.6%	(0.6)	1317.8%
NET (LOSS) INCOME FOR PERIOD	111.5	198.3	-43.8%	78.4	42.2%
Attributable to					
Controlling interest	105.8	194.1	-45.5%	74.0	42.9%
Noncontrolling interest	5.7	4.1	36.9%	4.4	29.2%
Controlling interest	111.5	198.3	-43.8%	78.4	42.2%

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Appendix II – Balance Sheet

ASSETS (R\$ MM)	1Q17	4Q16	% Change. 1Q17/4Q16
CURRENT ASSETS			
Cash and cash equivalents	225.5	125.4	79.9%
Short-term investments	509.7	370.9	37.4%
Trade receivables	195.0	230.9	-15.5%
Other assets	155.7	165.7	-6.0%
Other financial assets	146.7	150.7	-2.6%
Other non-financial assets	8.9	15.0	-40.2%
Total current assets	1,085.8	892.8	21.6%
NONCURRENT ASSETS			
Long-term assets			
Income tax and social contribution	200.7	217.1	-7.6%
Related Parties	2.1	2.5	-13.8%
Other assets	36.4	41.6	-12.6%
Other financial assets	33.0	35.2	-6.3%
Other non financial assets	3.3	6.4	-47.7%
Total long-term assets	239.2	261.2	-8.4%
Investments	0.3	0.3	0.0%
Property, plant and equipment	70.2	73.2	-4.1%
Intangible assets			
Goodwill	1,624.2	1,624.2	0.0%
Others intangible assets	700.9	738.1	-5.0%
Total noncurrent assets	2,634.8	2,697.0	-2.3%
TOTAL ASSETS	3,720.6	3,589.8	3.6%
LIABILITIES & SHAREHOLDERS EQUITY (R\$ MM)			
	1Q17	4Q16	% Change. 1Q17/4Q16
CURRENT LIABILITIES			
Debentures	32.4	11.1	190.4%
Taxes payable	40.9	40.7	0.3%
Technical Reserves	13.0	14.9	-12.6%
Premiums to be transferred	137.7	132.3	4.1%
Financial transfers payable	16.4	15.5	6.2%
Payroll and related taxes	72.0	63.0	14.2%
Transferable prepayments	66.4	54.8	21.3%
Related parties	0.4	1.6	-72.1%
Other payables	125.6	161.4	-22.1%
Granted options on no controlling interest	241.5	233.4	3.5%
Total current liabilities	746.4	728.7	2.4%
NONCURRENT LIABILITIES			
Debentures	606.8	606.4	0.1%
Income tax and social contribution	6.5	6.6	-2.0%
Deferred income tax and social contribution	121.5	129.6	-6.3%
Provision for risks	46.6	43.5	7.3%
Other payables	6.6	7.3	-0.7%
Total noncurrent liabilities	787.9	793.4	-0.7%
EQUITY			
Capital	1,592.8	1,592.8	0.0%
Capital reserves	154.1	147.0	4.8%
Earnings reserves	178.7	178.7	0.0%
Asset v. Accumulated losses	105.8	0.0	N.A.
Asset valuation adjustment	145.0	145.0	0.0%
Total equity majority shareholder	2,176.4	2,063.5	5.5%
Noncontrolling interest in subsidiaries	9.9	4.3	132.9%
Total equity	2,186.3	2,067.8	5.7%
TOTAL LIABILITIES AND EQUITY	3,720.6	3,589.8	3.6%

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Appendix III – Cash Flow Statement

STATEMENTS OF CASH FLOWS (R\$ MM)	1Q17	1Q16	%Change 1Q17/1Q16
CASH FLOW FROM OPERATING ACTIVITIES			
Profit (losses) before income tax and social contribution	155.4	105.4	47.5%
Adjustments	98.0	90.5	8.3%
Depreciation and Amortization	58.2	56.1	3.7%
Impairment	(0.6)	1.3	-145.2%
Result from fixed Assets and Intangibles	0.0	-	N.A.
Stock Option Program	7.1	3.7	91.7%
Financial Expenses	30.2	30.1	0.3%
Provision for Risks	3.2	(0.6)	-612.3%
Adjusted profit (loss)	253.5	195.9	29.4%
Origin Cash provided by operating activities	35.5	(32.5)	-209.4%
Cash provided by operating activities	289.0	163.4	76.9%
Interest paid on debentures	-	(43.2)	-100.0%
Dividends paid to non controlling shareholders	(1.1)	-	0,0%
Income tax and social contribution paid	(25.3)	(23.8)	6.1%
Net cash provided by operating activities	262.6	96.3	172.6%
CASH FLOW FROM INVESTING ACTIVITIES			
Investments in intangible assets	(25.0)	(22.8)	9.6%
Purchase of property, plant and equipment	(0.4)	(9.5)	-96.1%
Financial Investments	(137.1)	-	N.A.
Net cash used in investing activities	(162.5)	(32.3)	402.6%
CASH FLOW FROM FINANCING ACTIVITIES			
Amount paid in loans and financing	-	(5.8)	-100.0%
Buyback - Treasury	-	(12.2)	-100.0%
Amounts paid upon issuance of debentures	-	(300.0)	-100.0%
Amounts received upon issuance of debentures	-	311.0	-100.0%
Cash provided by (used in) financing activities	-	(7.0)	-100.0%
INCREASE IN CASH AND CASH EQUIVALENTS, NET	100.1	57.0	75.5%
Cash and cash equivalents at beginning of period	125.4	285.8	-56.1%
Cash and cash equivalents at end of period	225.5	342.8	-34.2%