

Operator:

Good morning, ladies and gentlemen, and thank you for holding. Welcome to Qualicorp's conference call to discuss the results of the 1Q19. We have with us today Mrs. Grace Tourinho, the CFO and IRO; and Mr. Pedro Henrique Rocha Nocetti, IR Manager.

This event is being broadcast live via webcast and may be accessed through Qualicorp's website at www.qualicorp.com.br/ir, where the presentation is also available.

We would like to inform you that this event is being recorded and all participants will be in a listen-only mode during the Company's presentation. Ensuing this, we will go on to the question and answer session, when further instructions will be given. Should any participant require assistance during the conference call, please press *0 to reach the operator.

I now turn the floor over to Mrs. Tourinho. You may proceed, ma'am.

Grace Tourinho:

Thank you. Good morning to all of you, and thank you very much for your presence at our conference call for the 1Q19.

I would like to begin by, first of all, thanking the strong participation and approval of our shareholders at the General and Extraordinary Assembly. We have overcome this stage and the challenge of dissemination in the 1Q of the new SAP system that we concluded today, and we are going to fully devote ourselves to achieving efficiencies and a better capital structure in the Company.

It is important to highlight the adoption of the IFRS 16 and the IFRIC 23 this quarter. It came into effect January 1, 2019. Only the IFRS 16 had impact on the Company, altering the accounting of expenses with lease that are now treated as lease, and thus, we recognize the results for this effect in PP&E with the counterpart and liabilities, and future impact of amortization in the results instead of in expenses.

Nevertheless, for purposes of comparability with previous results, the Company has preferred to add this effect of amortization to the EBITDA because this was what we used to do. The EBITDA that we disseminate to the market.

This EBITDA is very similar to the previous EBITDA exactly because we have made this additional adjustment. It is complicated, but the idea of the Company was to continue to be able to compare what happened previously without any impact for you.

Additionally, in this press release, we represent the numbers of the 2018 as if we had already adopted the IFRS 16 standard to facilitate your understanding in comparative basis and minimizing the impacts of the mandatory nature of this accounting standard.

In this quarter, the highlight is the strong EBITDA margin and cash generation. We ended the quarter with net cash of almost R\$21 million, a result that once again comes from the management of resources and operating enhancements.

I underscore here the rapid evolution of digital sales that presently represent more than 40% of the total sales in the Company. When we speak about digital sales, it is very important to understand that this is an enhancement not only because it reduces costs, there has been great acceptance, and also because of the quality and the trust and the control that it allows us in this system when it comes to in-house checking to ensure that this new life entering the Company is a good life.

Before I give the floor to Pedro, I would like to highlight the awards that the customer service area of the Company received. Last quarter, I also referred to some of the awards that we received. This is something recurrent luckily enough, and Qualicorp in April received a highlight award for the resolution. The ranking, acknowledged as the company that most resolves the problems of the consumer. Qualicorp was recognized as the second company that most trains its employees throughout the country through the training course of the National Secretariat of Consumers, SENACON. This is of the utmost importance to us, because it shows the importance that we assign to our clients and how hard we work to generate value for them.

I would now like to give the floor to Pedro, our IR Manager.

Pedro Henrique Rocha Nocetti:

Good morning to all of you. Good morning, Grace. Thank you very much. We are going to begin with slide number four. We have an improvement in the churn, even when compared year-on-year in absolute figures and as a percentage of our base. We have recurrently observed an improvement in our churn.

This is the result of our work for retention, of having more products in our portfolio and a closer relationship with the client, enabling us to reduce cancellations, not only on the part of customers who requested it, and also customers who can no longer pay. In this case, we have been able to reduce churn significantly, and this is reduced in the base of the members of the Company and in bad debt, as Grace will refer to further ahead.

If we analyze growth, as we see a growth in the annual comparison, a growth due to the recurrent sales when we compare year-on-year, and also a growth because of the possibility that we had in the 1Q of adding two new portfolios to our base.

It is important to highlight that this did not involve any CAPEX. It is a movement through which Qualicorp at present is able to bring in new clients, new portfolios without having to buy them in the market. And this is a benefit for the Company, and one of the qualities of our operation that allows us to carry out this movement. Although these are not recurring movements, they do add value to the base of members of the Company.

With this, Qualicorp entered the 1Q19 with more than 24,000 lives, more than double vis-à-vis the 1Q18.

Evidently, the business does have a certain seasonality. The 1H of every year tends to be an easier semester when it comes to cancellations. That is why it tends to be better. And there is a great expectation regarding the 2H of every year.

I am still referring to very preliminary data, but they do indicate net additions of lives, more entries and cancellations and, once again no additional addition of portfolio in April. Simply, an item in terms of PPA and corporate, we did have a loss of sales in the annual comparison. Nevertheless, when we compare this with the month of December, we had an increase of lives, thanks to the good performance of the corporate portfolio and SME.

We go on to slide number five to speak about net revenues. We have a reduction in the sequential, as well as year-on-year comparison. This is an important point that I would like to highlight, we had the entry of 31,000 lives into our portfolio with little impact on revenues for the quarter. This happened at the end of the quarter. Therefore, the 1Q19 has an average base of members that is lower when compared to previous quarters. And precisely because of this, we have a revenue for affinity that is lower when compared to previous quarters.

We go on to slide number six to speak about cost. Observe that gross margin has very little variation in this comparison. Very generally, we have been able to maintain gross margin at approximately 81% despite the very challenging scenario for the growth of revenues.

Now, ladies and gentlemen, this is due to our in-house work that has enabled us to reduce expenses with third-party services, expenses with royalties. And this is a legacy for the Company, something that will remain unchanged to maintain a recurrent gross margin, but also allows us the possibility of improving this through time.

Simply a detail, where expenses with personnel that you see in the comparison with the previous quarter, a great part of this is a one-off event related to expenses with health plans in the 1Q19, and also other expenses of release of employees and a reduction in expenses with personnel in the coming quarter.

We go on to slide number seven, administrative expenses. You can observe a drop of approximately 3.3% in the comparison with December, and an increase in the year-on-year comparison. This is due to an increase in amortization, also due to higher expenses with personnel where we include the rescissions that we had in the 1Q19 that will enable us savings in the coming quarters.

In this slide on administrative expenses, it is important to give you an expense on the IFRS 16, which is the new line item that you observe in this table. It is expenses with leases. As we mentioned, these are now treated as lease and is no longer part of occupancy expenses; that is to say telephony, electrical energy and much more.

Going forward, you will see this line of amortizations and expenses with lease without great variation. What you do observe compared to 2018 is a return of present value adjustment in this line item.

I am now going to speak about our selling expenses before returning the floor to Grace. You can observe in amortization an increase in the annual as well as sequential comparison. This reflects an increase in the award for new sales. This is a movement that began in March of 2018.

Since last year, we offered this additional information of what would happen if we dealt with commission based on competency as we did last year. Was this the case? This would represent R\$16 million in the 1Q19, R\$15 million for the 1Q18, and R\$18 million for the 4Q18.

When you observe the sales campaign line item, there is a sequential reduction, and this refers to the new movement of the Company of gearing the efforts of our campaigns to what is directly linked to the sales. That is to say, we carry out campaigns where expenses only occur when the sale takes place.

These travel campaigns and the other campaigns that we were holding will continue to exist, but the greater focus of the selling campaign will be a sale linked to a new sale, and the impact of this investment will be seen in the amortization line item.

Before I return the floor to Grace, it is important to reinforce that we do not have contingencies for selling. Our focus is to grow, grow the sales and invest in whatever is necessary to ensure that our portfolio of clients will grow.

We began this campaign in March of 2018. We are constantly making necessary adjustments, and you can be sure that we are going to invest to once again grow. This will represent more commercial expenses that will enable us to increase our base and bring in more revenues. And we are going to make some necessary adjustments in operating expenses to achieve this.

I now give the floor to Grace, who will speak about other highlights.

Grace Tourinho:

Referring to bad debt, this is the accumulation of several initiatives carried out by the Company because of what we had in the 1H18. That is when we began to work strongly on this. We do have new products so that we could have a change in this, something that will help us in churn, as Pedro said, but also to help those customers who were unable to pay.

We want to ensure that our customers do have the ability to pay, and our bad debt has improved significantly. What you can expect for the coming periods is a very significant recovery. Simply for you to recall, in the 4Q18 we were able to recover R\$7.2 million. We have now been able to recover R\$5.8 million, which is above the 1Q18, which was R\$5.3 million.

And what I am underscoring here is that, thanks to all of the works that we have carried out in-house in the Company, we will have a better situation in term of bad debt.

The only thing you can expect is to have a reduction of bad debt stocks that we are recovering. Of course, we have focused on this to continue having high figures of recovery, but this becomes over because of the difficulties of recovery, or because we offer greater discounts.

So we truly should congratulate ourselves in this field. We have done a very good work that will, of course, continue on, but this bad debt could reach to around R\$5 million, very similar to the figures we have presented this quarter.

We now go on to our slide number ten, financial income. In the comparison with the quarters of 2018, there is a slight improvement in the results because of a higher financial income, thanks to a greater cash volume applied. This is a period where we generate cash without carrying out any payments of dividends or interest on debt or profit sharing for our employees. All the cash, therefore, is applied in the best way possible to give us this financial income.

In terms of the financial expenses, there is truly nothing to say. We have had a drop, there has been a drop with the previous periods. Once again, there is a small effect because of the IFRS 16 that we are accounting for with the adjustment at present value of expenses with lease.

We now go to slide number 11 to speak about the EBITDA. We have a relative stability in the annual and sequential comparison. Notwithstanding this, there is a consistent improvement in margins throughout the last 12 months. This improvement, despite the challenges, referred to an increase in revenues.

When it comes to revenues and our sales, we are doing everything. We have a new campaign in the market that will begin in June where we are going to carry out a significant campaign that will bring in high numbers of new lives.

Basically, this campaign has a very strong meaning, not only to bring in new lives, but also ensure that everything is done through the digital means. Our intention is to increase our percentage of digital sales in the Company, and the award will be greater if the brokers are able to carry out these digital sales for the Company.

Despite this challenge that we will try to attenuate going forward, we are going to have to make some adjustments in our processes and a digital transformation that has been undertaken step-by-step. We continue to maintain our focus on the client, and I can say that nowadays we are serving them in a more expeditious and efficient way.

The Company maintains its pursuit to control costs, once again, because we cannot expect to have easy sales. And this will enable us to obtain what we have not obtained in revenues, and allows the Company to be prepared so that when we do have the sales increase, it will be very probable, or almost certain that we will be able to increase our costs because of the new efficiency that has been generated in the Company.

We go on to slide number 12, of net income. If we compare it with the 1Q18, there is a drop in the increase of amortization and a worsening in the effective rate of taxes that stood at 37.4% in the 1Q18. Once again, this is a challenge that we are going to try to address as quickly as possible.

We now go on to slide number 13. We speak about CAPEX and indebtedness at the end of the 1Q. As net cash, we have more than R\$20 million, and our short-term debt basically refers to debentures that we have with Itaú and Santander Bank.

We are working on renewing these debentures in an anticipated fashion to take advantage of this good moment of cash and a reduction of interest rates.

It is important to reinforce that the Company is paying today R\$185 million of dividends referring to the 2018 exercise. The Company has also disimbursed in April profit sharing for managers and associates that should alter the cash position at the end of the 2Q19.

The cash flow after the CAPEX was positive at R\$241 million for the quarter because of an improvement in working capital accounts and less investments in PP&E, which means that we are continuing on with the restructuring of the Company, a process that began years ago and needs to continue on. This will deliver value to our shareholders, both in the short and the long term.

With this, I would like to thank you very much for your attention and open the floor for questions and answers.

Marco Calvi, Itaú:

Good morning. I have two questions from our side. First of all, you truly gave us a good explanation on your two new lives portfolios. We would like to understand the economics of these portfolios, what is the ticket, and if the management fee is similar to what you have in the rest of your Affinity portfolio.

The second question is on royalties. There is a significant drop in the absolute value paid in royalties. How much room do you still have for the payment of royalties? These are our two questions, and thank you for taking them.

Pedro Henrique Rocha Nocetti:

Good morning, Marco, and thank you for the questions. I will speak about the portfolio. We do have two new associations that have opted for our portfolio. This did not involve any CAPEX, and these associations are in the main region where we are active, São Paulo and Rio de Janeiro.

When you look at the average ticket of the Company, presently, taking into account our inventory, it is around R\$788. Because this is historical for the Company, for the lives that we have here, lives that have been here more than five or six years. When we think about the ticket of new members, it is a lower ticket, it is about R\$450. For the incoming portfolios, the ticket is closer to that entry ticket, which means that my revenues will be somewhat below the average revenues of our portfolio. There are no great changes in our compensation structure when it comes to the administration fee and the brokerage fee.

An important point, this is an opportunity that we have been following up on the market, and despite the fact that we treat them as a disclaimer saying that they are not recurrent, they are not part of our monthly projection, but we can invoice more during the year 2019.

I give the floor to Grace to speak about royalties.

Grace Tourinho:

Thank you for the question. We are still working on this in the Company. The results that we can show you will not be as high as those that we have already achieved, for timely reasons. We are

presently undergoing a sales campaign that we are holding, and we have an in-house strategy to try to preserve this.

We are working on this. You will be able to see some positive results when it comes to this line item, but what we have achieved in royalties was in 2018. I think this was our great achievement, after March of 2018. That is why in the comparison between March 2019 and March 2018, you see everything that we were able to achieve since April and going forward.

This great difference between the quarter in 2018 and the quarter in 2019 was precisely because we had a delay. We could have begun working in this in September of 2017, but we began to add value in April of 2018. Our negotiations took place only in June.

We do have work to do, but not that much, as you can see, if you compare this with a very good period of September and December. We will continue to work in this line item.

Marco Calvi:

Thank you for your response.

Olivia Petronilho, JPMorgan:

Good morning, and thank you for taking my questions. In truth, I have two questions. First of all, the downgrade that you are planning for this year for the 2Q or 3Q, I see that you are making efforts to bring in more accessible health plans. What is your expectation for the period of renewal compared to last year? Can we expect an increase in the number of downgrades? And what will happen with your churn?

And the second question refers to the restructuring mentioned by Grace. The Company has been undergoing restructuring for some time. What is pending to complete this process? And what can we expect in term of payouts for the period?

Pedro Henrique Rocha Nocetti:

Olivia, I would like to begin speaking about the downgrade, and Grace will speak about the restructuring. The initiative that we took up last year gave us excellent results. The difference that we had in churn was a marked difference. We were able to preserve a great number of lives from one year to the other, improving our performance between 2017 and 2018.

What we are doing in 2019 is enhance that process, and enhance means to be more assertive in our offer, and also work as close as possible to the clients, especially those clients that we can see are at greater risk of canceling their health plan. So we are working on this enhancement, and as of May and June, our clients will begin to receive our offers, and we do expect to improve the performance of the downgrade.

Additionally to this, from one year to the other we have had an increase in our diversity of products in key regions, where we had detected difficulties in previous years and where we have a greater range of offers.

We are quite able now to go through this cycle of price readjustment in a better situation vis-à-vis 2018. This does not mean that we are sitting and waiting. Although we have more products than we had one year ago, we are entering into more negotiations, and perhaps there will be new possibilities to offer to the clients until the month of June.

I now give the floor to Grace to speak about the restructuring.

Grace Tourinho:

As we are undergoing restructuring, the goal is to conclude before the end of the year, December 31, the consolidation of our brokerage as part of the holding. Now this is the main aim. And once again, we hope this will happen before December. We are complying with all the legal terms, and I believe this should happen between October and November. We do not have that much more time, and we have to speed up to ensure this materializes.

When it comes to dividends, this Company is strong when it comes to generating cash. We are going to make this movement and, if possible, continue paying, making payouts, despite the legal amount, which is 25%.

We have, in the last four years, been paying out 100% of the dividends, and this is a practice that is traditional for the Company and it is our intention to continue on this way. There is no reason to change. The focus, nevertheless, at present is to be able to incorporate the brokerage into the holding.

Olívia Petronilho:

Thank you.

Mariana Hernandez, Credit Suisse:

Good morning. Thank you, Pedro and Grace. My question is a follow-up of the first that we heard. In the press release, you mentioned that the health plans represent less than the sales that you had in 2018. Is it because you added on two new portfolios that you have a higher ticket? Is this the reason why you have a different ticket this quarter?

Pedro Henrique Rocha Nocetti:

Thank you, Mariana. What has happened is that the ticket has fallen because of the entry of new portfolios. We have not had a great loss of lives in Clube de Saúde, the Health Club. The pace of sales at the Health Club continues to be very good.

There could be drop in sales as we work with more new products. As Grace mentioned, we are going to begin with a more aggressive campaign between May and June, a campaign that will motivate digital sales. What could happen is that we will enhance our production in products that are not in the Health Club but that gear to average income. But the Health Club, once again, has not disappeared. It is very alive.

Grace Tourinho:

To add to what Pedro said, there seems to have been a drop, but, once again, it is very active and it is at the same levels as before. And we could have a new field of sales with one of our great partners. This is happening at present and is helping us to recover our more positive sales.

Mariana Hernandez:

Thank you very much. That was my question.

Guilherme Palhares, BTG Pactual:

Good morning, and thank you for taking my question. You spoke about the sales promotion for the coming period, and you have focused a great deal on digital sales. In terms of economics, are we going to continue seeing what we have seen at the present? What is the turnout of all of this, if you could explain this further, please?

Pedro Henrique Rocha Nocetti:

Guilherme, let us begin answering your question. We are entering into this campaign between May and June, and we have a slight change in the format through which we were awarding our broker vis-à-vis last year.

To give you an idea, formerly, we would pay this award through a contract. Qualicorp, on the average, at its portfolio has 1.25, 1.3 sales per contract. What we are going to do going forward is to deal with these awards per life, as long as we have a sales contract that comes from the digital platform.

In the main cities, with the operators that we work in São Paulo, we would work with R\$150 per contract. In this new contract, we are going to work with R\$300 or R\$400 per life as long as it comes from the digital platform. A great incentive for our sales channel, and a possibility of a very good remuneration. And we do think this will give thrust to our sales in the 2Q.

It is an incentive for the broker to sell more, to bring in more lives to Company, and to do this in a digital way. If they bring us the paper contracts, the award will be reduced compared to the past. Only with digital means this will add lives to the Company and will enable us to reduce our operating expenses; expenses that are no longer necessary.

I now give the floor to Grace to speak about the restructuring.

Grace Tourinho:

Guilherme, the original idea is to have a certain protection in terms of cash, and this will enable us to take our future steps. It will take us 30 to 40 days to renew our debt, including weekends. And on Monday, we are going to begin to work on this very strongly, perhaps before. We hope to be able to conclude this in the 2Q already.

Guilherme Palhares:

Thank you very much, Grace.

Vinicius Ribeiro, Bradesco:

Good morning, and thank you for taking my question. In truth, there are two. First, a follow-up in terms of your digital sales. If you can give us an idea of how different the economics are? And with the promotion that you are carrying out, do you have a counterpart when it comes to instrumentalising the sale? Can you be more efficient? Can you have a cost reduction? Or does it simply mean you will be more assertive?

And the second question, the administrative effect of your rescission, how much will this represent in savings for the rest of the year?

Pedro Henrique Rocha Nocetti:

Let us begin with the issue of the digital sales. All of this begins by being a safer process, because the platform enables us to cross data. Referring to the clients, this enables us to avoid fraud, we are able to check the eligibility of these clients and the possible plans for the entity or group that they begin to, which means that we speed up the process, we make it safer.

The part that refers to the economics, it involves a reduction in logistic expenses, we are able to avoid expenses with the movement of documents, external activities. There is a reduction of expenses in our acceptance area. We need less people to collect document and feed them into the system. It also involves a lesser number of people in the technical area.

Today, I do not want to refer to future savings because we began this digital sales process only in December, and very generally, in the 1Q it represented 35% of our sales. In this period between April and May, we went beyond 40%, and it is very possible that we will get to June very close to 50% of sales digitally. And the intention is, until the end of the year, to go beyond 80% in digital sales.

As this gains momentum, we will be able to reduce expenses at the Company. I prefer to wait in terms of disclosing the economics until we truly have a good result, and then you will be able to see the reduction in expenses with personnel and third-party services.

To go into the second question that you made, and that Grace will add to, this has already enabled us to reduce the number of people in the 1Q19, and has allowed us to layout more people. This involves the technical area and the acceptance area.

Grace, if you would like to add to this response.

Grace Tourinho:

There were two questions, one of which referred to the severance expenses and how much we will be savings going forward. It is very difficult to speak about this now. The work that we visualize has now been fully completed. The Company began to do this in September, we reviewed our

structure in September of coordinators upwards, and because of the new efficiency that we have implemented in the operation, the use of digital sales and in the service area, what we are still missing is to materialize the sales campaign that is coming on strongly.

We are going to make sure that this transformation will be ever faster. We are going to complete a sale with amounts that are lower than we normally give it if it is a paper sale per person. And through digital sales, the award to brokers will be higher.

We are changing the system somewhat, and the award will be more than double if the contract comes with more lives. All of this is being done to expedite and to generate these savings as a counterpart.

So far, we cannot estimate which will be our savings. This could evolve very rapidly, and we could make these estimates in the coming quarters.

Vinicius Figueiredo:

Thank you very much.

Operator:

Thank you. The question-and-answer session ends here. We would like to return the floor to Mrs. Grace Tourinho for her closing remarks.

Grace Tourinho:

Thank you very much for your participation, for your trust. This is another quarter that we are delivering, and now we are going to begin working strongly to be able to deliver better results.

There is a great deal of interesting things to do in the Company, especially when it comes to restructuring. But also, you know that I love doing this. Thank you very much for your attention, and have a good day.

Operator:

The Qualicorp conference call ends here. Have a good day.

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