

Conference Call Transcript
1Q23 Results
Quali (QUAL3 BZ)
May 11, 2023



Operator:

Good morning, ladies and gentlemen, and thank you for holding. Welcome to Quali to discuss the results of the 1Q23.

Today, we have with us Mr. Elton Carluci, the Company's CEO; Mr. Carlos Vasques, the IR Officer and the CFO, Mr. Eduardo Oliveira, Director; and Mr. Franco Abelardo, IR Superintendent.

Some forward-looking statements made in this webcast can be projections or statements on future expectations. These forward-looking statements are subject to known and unknown risks and uncertainties that can lead results to differ materially from those expressed.

This event is also being broadcast simultaneously over the Internet and can be accessed at the address ri.qualicorp.com.br, where the respective presentation is also available.

We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the Company's presentation. Ensuing this, we will go on to the Q&A session, when further instructions will be provided.

I would now like to turn the floor over to Mr. Elton Carluci who will begin the presentation. You may proceed, sir.

Elton Carluci:

Good morning. Hello, everybody. It's always a pleasure to be with you at another call for Qualicorp. Today, I would like to begin speaking about what is happening with the supplementary health sector in Brazil and how we are facing the challenges of this scenario.

According to recent data published by the ANS, in 2022, we had a historical level of claims and of course, operational impact. And we are in an environment that continues to be highly challenging.

In this context, in the Company's management, we have acted in a very strategic and conservative fashion, especially when it comes to the short-term capital allocation, and the results that we attained in the 1Q simply confirm that this strategy was correct.

We have worked significantly on reducing expenses. We have enhanced the Company's working capital. We have rationalized some investments. And this is the way that we have been able to generate R\$ 140 million in free cash flow, the best of the last 8 quarters. And as a result, this reduced our net debt by approximately 5%. Of course, all of this is connected with our credit rating for our debentures.

Recently, this was reaffirmed as AAA, which shows the financial soundness of the Company despite the highly challenging environment as the one we are navigating through recently. Besides the issue of governance in the last assembly held on April 28, our shareholders approved some important points, once again, reinforcing our governance, and we approved the

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payout of R\$ 22 million in dividends that have been scheduled to be paid until December of this year.

To speak about the operational aspects of the Company, which I would like to underscore. Of course, we face some challenges on the part of beneficiaries. And this is due to the reduction in sales, especially because of the limitation of offer of some products and the levels of cancellation that remains stable. But once again, the sales were quite challenging, and we did not attain the performance we desired in our portfolio.

The take rates were somewhat lower than what we are used to working with compared to our historical levels due to the high level of claims in the sector. Despite all of this, we work towards offsetting the impact of these factors. We had an increase in the average ticket, which aided and embedded the Company to maintain relatively stable revenues in the 1Q.

If you look at our adjusted EBITDA, it reached R\$ 210 million with a modest contraction when we look at the 4Q22, showing once again the efficacy of our cost control and control of expenses vis-à-vis the fixed costs of the Company.

In the operational context, still, I would like to highlight a very important topic for Brazil. Quali has been working arduously with partners in the detection and prevention of fraud. Operationally, this is an extremely relevant issue for the sector. And as all of you are aware and as has been disclosed by the press, it has had an impact on the claim levels of operators.

Qualicorp, as the largest administrator benefits in the country, will continue to act very strongly to reduce the fraud in the system. We have been working broadly in this area in all of the Company systems, following up with artificial intelligence to reduce and prevent this highly relevant topic, which is fraud.

Commercially, I would like to underscore the following. We have renewed our agreement with the Ministry of Justice to offer a health plan to public servants, and we received an award for the brand that was relaunched in the Company.

Another very important topic is not only the cost reduction, but also the enhancement and the importance of digital channels and the role that they have played in the Company. We have increased the use of the digital channels and because of this, we have decided to terminate our activities in the physical stores. This not only correlates the cost issues, but also to the relevance of the digital channels in the Company, which also contributes towards reducing fixed costs.

To speak about fixed costs, and before I turn over the floor, we are going to continue to devote ourselves to the control of costs with great discipline in our capital. This will enable us to better face the present economic situation of the market. Additionally, we are always seeking levers to add value for the medium and long term, reinforcing our competitive edge, acting with our partners, working with new products.

New companies can develop products and increase the penetration of HMOs in Brazil, of course, acting towards a better sustainability for the sector, alongside with our partners. And we will continue on in that front as we normally do and as we have done in the last years. I would like to thank all of you for the continuous confidence and support of all of you, and we reaffirm

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Our commitment towards transparency and a quest for excellence in the management of Qualicorp.

I am going to give the floor to Carlos Vasques, and will be back during the Q&A session. Carlos Vasques, you have the floor.

Carlos Vasques:

Good morning, everybody, and thank you, Elton. Let's speak a bit about the Company results and some points already reflect the strategic priorities for 2023, of course, at different stages. We are going to begin speaking about the 1Q23 results.

I highlight the free cash flow totaling R\$140.4 million with a growth q/q of 20.3% in y/y of 15%, 6x the cash flow of the same quarter in 2022. And I think this already goes back to what Elton mentioned at the end of his presentation, we have concluded the live portfolio with 961.5 affinity health lives 4.3% less q/q. This ended up with a revenue of R\$ 457 million for the quarter, 0.9% q/q and 8.9% lower than the 1Q22.

The adjusted EBITDA ended up at R\$ 210.3 million, a margin of 46% once again, a reflection of our base. And this is the level we are going to continue working on to defend ourselves and contribute ever more to this item. These figures have taken us to a net debt of R\$ 1.4 billion, a net debt that is 1.59x our adjusted EBITDA within the guidance that we agreed on with our debentures.

We go on to the next slide where I would like to highlight the work of controlling costs and expenses that the Company has been carrying out. When we look at the q/q, we have COGS, which is the first line item, R\$ 215.9 million. Q/q, there was a reduction, but we do have the one-off adjustments of the 4Q. When we look at this, recurrently, we have 1.7% drop of COGS and SG&A q/q, and -0.9% y/y.

This is the second or third quarter where we have presented reductions in this line item. And of course, we are on that path for austerity and efficiency in the allocation of our resources.

We have the EBITDA, which we already mentioned. If we look at D&A and the financial results, they pressured our net revenue. D&A reflects the amortization of previous investments and the financial result in this environment of high interest rates, also pressuring our financial results, offset partially, of course, by the reduction of taxes with a net income of R\$ 16.7 million.

So D&A and the financial results with a greater impact on our results. And we are going to work on the line items where it is possible to do that and improve this while the interest rates continue to be very high, pressuring our results.

In the following slide, we go on to the cash flow, and this has been one of our main goals in this moment of difficult types in the market. This is one of the most stable things that we have undergone as Elton mentioned in the first part of the call, we had a good conversion of EBITDA. We had R\$ 205 million adjustments and working capital once again positive, R\$ 28.8 million, not as high as in the last quarter but reflecting our efforts to enhance the control in that specific line item.

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As the EBITDA conversion has been positive, I also highlight the commissions. We see an enhancement in our mechanisms for follow-up and pricing of our products, which has enabled us to better rationalize with efficiency and intelligence. Now commissions and cash are a reflection of that. We also have the taxes paid as something that you can check in the balance with greater detail, you will see that we had a drop of 30% to 20% after some actions adopted in terms of efficiency in this line item.

CAPEX R\$ 13.9 million remaining at similar levels that we had in the past, resulting with a free cash flow of R\$ 140.4 before the financial results and dividends. That is to say before capital holders and credit, 20% above q/q and sixfold higher y/y. We are very attentive to all of these points. We continue to seek enhancing our processes and methods. Elton also referred to fraud, which is extremely difficult, and we are seeking a good path for the sector and the Company is seeking enhancement in its different fronts of action to have an impact on the different line items of our cash flow and income statement through time.

With this, we would like to conclude the presentation of our finances, and we are at your disposal for Q&A

Gustavo Tiseo, Bank of America:

Good morning. Thank you for taking my question. I would like to explore 2 points. First, in terms of margin that you remarked on in the presentation, you are attempting to come closer to those 46%. I would like to understand if this would be possible. And what it means impacting the cost, because you might lose some of your operational leverage with the beneficiaries, which is your strategy to maintain margin?

My second question refers to SG&A, which was positive, better than the market expected. But I would like to understand if there was a one-off effect, something that happened in the past or if we could expect a strong amount for coming quarters. We still do not have the impact of interest rates, but they will come. Thank you for taking my question.

Elton Carluci:

I am going to begin here. Vasques will also answer the question. To address the operational leverage in a very challenging environment, I had already remarked on this in the introduction. I can state that the Company has just begun the work. We are working with what was at hand in the short term, carrying out some operational enhancements. This is an enormous front of efficiency in the Company, especially in terms of the digitization of services. We still have a very low penetration index that has evolved, but it continues to be low.

I will give you an indicator: the use of app went from something marginal to 16%, 17%. This is one of the good demand for the Company. And this brings about greater efficiency and cost optimization. The digital fronts will have a much greater participation in the coming months. We have a very aggressive growth and objective until the end of the year.

We were awaiting the confirmations. We measure touch points with customers to, in fact, understand if this is what we want to do, the level of satisfaction of channels to speed up our initiatives. And we are doing this with the security that, yes, our customers are being well serviced through digital channels. There's an enormous front that will advance.

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Besides other fronts throughout the year, we should be able to see an improvement in the Company's fixed costs, basically due to better service and the use of technology. We are not doing anything that will compromise the satisfaction of our customers. Quite the contrary, we want to enhance this by using technology. Everything we have invested during the years has become ever more tangible.

In the last 2.5 years, the Company has made relevant investments and we will now capture the synergies of this process. We are quite optimistic with the figures, and we are going to act on some areas that have been mapped. We need to review some agreements, of course, it is somewhat more complex, but we are acting strongly in this line because we believe in it, it is a moment for the sector to do this, everybody working arduously. And very soon in the coming quarters, you will be able to observe an enhancement in our claims and a better take rate in the midterm.

As we have done our homework, we have accelerated the technological front, working with Cosan in the long term, the benefit for the Company will be very important.

Regarding cash, I will turn the floor over to Carlos Vasques, to help me.

Carlos Vasques:

To add to the question, the second part of your question, the cash flow, if there was a one-off event, I think this is pertinent. Your doubt is well founded. You do observe the variation of working capital and the cash flow is positive.

This is not a design that, in our understanding, will be recurring in terms of magnitude because that would give us a neutral cash flow. We are working with some recoveries from the past. Basically, if you look at a longer period, the variation in working capital will come ever-closer to being neutral and the moving average will be where we imagine that it should be. If nothing atypical happens, this is the work that we are doing day after day.

On the other hand, if this line it tends towards becoming more neutral, we do foresee opportunities in all of the line items of cash flow that we can work on. In any scenario where we will have a neutral working capital, we will have more work fronts in other line items to offset this situation.

Gustavo Tiseo:

Thank you for your answers.

Ricardo Boiati, Safra Bank:

Good morning. My first question refers to the Company's growth strategy. If you could perhaps expand on this, I understand your focus on cash, which is very clear. And of course, you are focusing on cash generation to offer growth. But in the long term, what do we see in the market? We see companies being more passive in terms of growth. Will you concentrate on more profitable products? Is there room to expand your partnerships. Of course, you have already announced your agreement with the Ministry of Justice. And so, which is your mindset in this

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topic, and how are you projecting the Qualicorp's top line in the long term? Which will be the drivers or levers to get there to position the Company for the long run.

The second question, if you could speak about your expectation regarding the default, I think this was missing, and we would like to see the level and the normalization of what is happening there. Thank you.

Elton Carluci:

I will begin and, as in the previous case, Vasques will help me here. Thank you for the question. I am going to be referring to growth. We do have homework to carry out in the short term. We have addressed this, and this is the main Company goal for the very short term. But we have not forgotten to look at the middle and long run. This is a very challenging moment in terms of distribution because we do have product limitations.

Everybody knows what happens with the claims. Part of this is structural and other part is due to the economic situation. There is no single response, but everybody is working towards adjusting rates, addressing the issues applying the right corrections if there was a technical issue in terms of price, this has been a trust and should lead to stability.

On the other hand, we are always discussing products. I think we have never spoken so much about products as we have done now. I have been in the sector for 20 years, and I have led some strategic discussions that do include products. There's a norms debate on some of our products if we can reduce the cost, if we can create a better product, think better about the cost effectiveness of the network, prioritize products with co-participation.

There's a very broad discussion on reinvestment, how to rationalize the process and how this can operate with a product in a more effective way, so that we can have a new product cycle in the sector. We are the largest manager and distributor of these products in Brazil, and we should come out at the other end with better product alternatives.

We have 100 operators in our portfolio at present. And what we need alongside with our partners is drop specific products to fill in the gaps. And this is the discussion at present. Of course, we always speak about opportunities portfolio. We have discussions with entities. I do not want to promise anything or offer guidance, but we do have the wholesale and the retail front where we can bring in new customers for the Company and we have people focused on looking at these opportunities of small entities throughout Brazil to speed up this front throughout this year.

So everything is on the discussion table and we are addressing this in the short term, but also devoting an important part of our agenda, not only as management or Board of the Company to see how we can resume growth and how to resume growth in a sustainable way with a healthy cash generation.

None of our products will stop being a priority. We want to be as efficient as possible and of course, work on the cost line item so that all of our products can be profitable. There is no product that is a priority. We are seeking the best and most efficient location strategy in terms of our CAC, COCG and SG&A and COGS in the Company. We are working with these 2 line items in the long term. Without a doubt, we will be able to make all of the products in the Company profitable regardless of their ticket. And this is part of the challenge of growing.

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I would like to ask Franco Abelardo for help he's in front of me, and perhaps he can answer the question.

Franco Abelardo:

Good morning, Boiati. Good morning to everybody. To address the question there are 3 important points here. We have a certain seasonality in terms of this. When you look at the 1Q, it's usually higher than the 4Q seasonally.

Y/y, the nominal variation was quite small. As a percentage of revenue, it increases. Why? Because PDD is linked to the premium. And we are suffering pressure in our take rate and all of the variable expenses and the line of commissions and transfers that we have end up increasing as a percentage of the revenue because they are linked to the premium and not the revenue and this is important.

We have not seen any exacerbation in the default levels in the delayed payment levels. The levels are quite stable. So this default rate affects our variable expenses. The goal, as Vasques mentioned, is to be able to offset that pressure with a reduction of the expenses that are more variable or semi-variable and that we can manage better. We have reduced expenses nominally in the last quarter.

Ricardo Boiati:

Thank you.

Mauricio Cepeda, Credit Suisse:

Good morning. Thank you for taking my questions. My questions are more geared to the commercial area, the products per se. On the one hand, you have to prioritize presentable products, which means that the products will have a higher ticket. And on the other hand, we observed that we are at a moment of downgrading the system, not only because of the ticket but because of a network restriction to control the spot cases, cases of abuse. Therefore, what happens with your positioning in this sense. Do you have to opt for a more expensive product? Are these the products that will be offered going forward, our products that are more verticalized.

My second question also relating to the product. We understand that SMEs have become a competitor of the affinity line in the last few months. And of course, options could go one way or the other. We see that the SMEs are also being pressured by adjustments as well as the affinity products. So what is going to happen with this competition between both and what is happening in the mindset of beneficiaries to make a decision for one or the other groups?

Elton Carluci:

To speak about products. because the question was quite broad, this is the main challenge of the sector, and it's an issue of growth when we speak about prioritizing the product. There is a market for everybody, and we follow up on the sector dynamic. And when we speak about enhancing the ticket, we also improved the mix. And we continue to sell all of the products. We

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are looking for a strategy to leverage and maximize cash generation. And we cannot only speak about the product strategy without speaking about our homework of being ever more efficient.

No other company has the scale that we have attained. We need to carry out micro adjustments detail the product in a specific area, which will be the incentives and the motivation to operate with it so that it can be profitable. And this is an important discussion. We have been addressing this and selling all of the products. There isn't one priority in detriment of another product. We are focusing on the characteristics.

Historically, we look at the figures of the sector. We can detect growth trends for the ticket and for the product based on the macro situation of the country. And we have to be ready to act on all of the products. So we do have a very complex strategy, but we will continue on with all of the products.

What we have been observing, you see the difficulty of the growth adds that are at a low level. We have a restriction in terms of product supply. But when we say this, it is very specific audience. As I mentioned in some calls, we have the issue of students. We are trying to understand the level of claims to make the products available.

Once again, we had a significant contribution in our distribution. And by removing the product, you cannot trust the problem because another product in SMEs will be sold through another contract. So we are trying to understand which would be the best way to address and resolve this issue for adequate use of the product, enabling it to be sustainable in the long term.

These discussions, of course, are taking longer than they normally would because of the context. It's because of the macro context of the sector and the affinity products vis-à-vis SME. Quali is now disputing the leadership of this product in Brazil with the main operators.

We began with a very small base, but it was something specific in the Company's distribution. And nowadays, it is a product that is there. It is one of the top 3 products with an operator at present. I think it's here to stay.

Regarding the mindset of our beneficiaries and important data is that 100% of individual persons in Brazil will have a company, even though you have a family group, there is a limitation for this. And of course, the affinity market will always coexist with the SMEs. There is still an incentive for when you do have a company in the family group, you can eventually purchase an SME. And the readjustments are very similar.

So the market is heading towards an adjustment. And in the last 2 years, we have carried out some work to position the Company to distribute this product and to complement our portfolio. There is that assumption for individual persons. And the challenge now is to become leaders, perhaps not the first, but the second or the third among our partners and have a full portfolio of products for the customer. Our concept of using the platform regardless of the period in one slide, but we have to have the right supply. And this is how we have been acting and working.

Mauricio Cepeda:

Thank you very much, Elton.

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Leandro Bastos Citibank:

Good morning. We have 2 questions at our end. The first about the take rate. You mentioned that there is a pressure, but you have not mentioned the average level you are operating with vis-à-vis your historical level. Is there an outlook for improvement or not?

The second question, we observed that your investment is dropping, but your sales have also had a reduction. This could be due to your sales mix. Is there the effect of the sales mix in this figure? And speaking about comparable products, how can you rationalize your commissions, your deferment strategy? How is it that you are working on this front? Thank you very much.

Carlos Vasques:

Leandro, I will try to dissipate your doubt. About the first part, the take rate, this is an important number that we follow up on. I cannot open up the number completely, but we are going through a moment of very high claims. The Company has triggers for variable commissions because of this new scenario. And of course, this does have an impact on the Company.

We are working towards amortizing this in-house, and the fraud activities, once again, are very important, and they are all part of the management of our present-day level of claims and reimbursements. We have gone to the website of FenaSaude to understand the real magnitude of this problem.

So this is a situation due to the present moment, perhaps further ahead when we have a more balanced situation, we will have the triggers to rebuild our take rate. For the time being, we have some partner operators that have been using these triggers in these more difficult moments.

Regarding the claims, of course, now in terms of the commissions, the analysis you carried out is correct. The commissions are at a level that is higher than we would like. And as was said in the presentation, we have several different stages. We have different levels of commissioning. We are working by serving each different market to see which would be the adequate level of incentives per market, we have some regional peculiarities that will have to be respected, and we understand that this is work that is underway and that we can become more efficient through time, respecting, of course, the payment of commissions.

Franco Abelardo:

Simply to complement what Vasques said about the commission, it's important to recall 2 elements. In the 1Q, we put the information, we had R\$ 11 million from an annual sales campaign that we hold at the Company, and there was a drop this year in the 1Q. Last year, the drop was in the 2Q.

This is an amount that drops, but it is an annual campaign. And our understanding is to decrease this amount to truly understand the cost of CAC per life. And with this adjustment, the nominal cost of CAC remained quite stable vis-à-vis the 4Q. And of course, all of this is positive for us.

Our average ticket for sales and for the portfolio is growing, it's increasing. So when we maintain the CAC stable in proportion to the ticket that we are selling at the CAC will improve. This is part

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of our strategy, and we are focusing on products that have a better profitability. And the result of this is that our average ticket has increased. Its CAC per life over the premium sold and not only the CAC per life.

And when we look at this y/y, there's another relevant point that I would like to remind you of. In the 1Q22, we began to divide the payment of commissions to brokers and installments. At that point, this had a very temporary effect of reducing the CAC per life. Last year, in the 2Q, the CAC was already higher.

And it's important to normalize the CAC, and to do this in the last 12 months to be able to capture all of these nuances and variations of our investment. And we have the commercial team working with Elton and others. They look at the day to day closely. Vasques has become part of the team and has cooperated quite a bit.

It's one of the main metrics in the Company. As Vasques said, we are still not at the point where we would like to be, but we have had huge strides in terms of this indicator.

Leandro Bastos:

Thank you. That was very clear. If you allow me a quick follow-up in the take rate, the pressure that you foresee today is associated to the commissioning. There are no great fluctuations in terms of management. Is this understanding correct?

Elton Carluci:

Yes, it is very correct. The management rate is stable. What is suffering because of the claims, of course, is the commissions, the variable commissions for brokers. And that is why we are reinforcing all of the incentives, cost efficiency and penetration of our channels, levels of service using technology so that in the future, when all of this becomes normalized, we will be able to totally or partially resume the take rate and all the rest will normalize.

Leandro Bastos:

Thank you, that was very clear. Have a good day.

Marcio Osako, Bradesco BBI:

Good morning. Thank you, everybody. We have 2 questions. First, regarding the appetite of the operators. What is the appetite of the larger operators in this context of a worsening of the claims? Is there any risk that these larger operators will restrict the product for some entities or some markets? That's the first question.

The second question, what is happening with the entry of Amil that is once again selling individual plants as announced in Sao Paulo? Perhaps they will do this in other markets. Will there be an impact on the affinity product? And if you can work with individual launches of Intermedica, these are my 2 questions. Thank you.

Elton Carluci:

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I will begin answering the question. Should I forget anything the team will help me. To begin with the appetite for the products, we cannot imagine a scenario where we have no affinity adhering to the portfolio for the main operators. The sector as a whole has suffered because of the increase in the claims. When we look at the averages, it's 10%. Everybody had an increase that was very similar to that. And this is reflected in the readjustments and the discussion of products going forward. Perhaps 2 favorable more rational use.

We should perhaps reinforce the co-participation. There will be a greater difference in the product with and without co-participation and having a leaner portfolio only with co-participation. This is the best performance by far that we have for the claim.

The difference of with and without participation is enormous. When it comes to the claim of these products. This is a possible solution for the sector, especially when we speak about the conscious use. It has proven to be a highly efficient mechanism in our discussions. So depending on the profile of our target audience, we can think about an option of having only co-participation for a specific profile, if it will help in terms of dynamic.

This is a strategy that we could resort to. And this is the discussion that we have been holding. There's an example that is public. Everybody knows the case of Belo Horizonte that has been working with products exclusively with co-participation, and their claim levels have remained quite stable. Of course, they suffered but suffered less vis-à-vis other products.

This is what we are surveying as part of the plan, and we are trying to drop and suggest something for our partners. And this depends on making some adjustments. We are going to make adjustments in the profile and characteristics and use the mechanisms that have already been foreseen in regulation for the product.

When we speak about the target audience without referring to the operators, what we have seen is a coexistence of products in the market. A coexistence that seems to have worked very well. We have a listed company, which is an example, Hapvida, which has already coexisted with affinity and SME throughout its history, about 8 to 10 years when the affinity plan began. They were pioneers in this. There has been a good coexistence. If the product is positioned correctly, it can coexist with other products. And of course, this is an advantage for the affinity product, and the market will adapt to that. At least this is our vision.

In terms of the entry of one or more players into the segment, if everything is well positioned, all these operators can become complementary and help us not only with SMEs in the long term, but also help us addressing the customers' needs.

Marcio Osako:

A clarification: the more recent sale of the Intermedica interindividual plan, has this had an impact on your affinity product?

Elton Carluci:

These are completely different products with different networks. If you look at the individual products, it's created to address a need and the network has been properly sized to be very

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effective. These products are not even comparable. The affinity products and SME are different products.

What we did observe because of market issues on students, this have an impact on everybody, and also on our products that are more accessible products, and I attribute the impact more to this than to any other factor.

This is the analysis of our commercial team. We are speaking about other factors and not this one, because the products truly are very different.

Marcio Osako:

Thank you very much, Elton.

Estela Strano, JP Morgan:

I would like to speak about your gross adds dynamics thinking about the coming quarters. In this quarter, it was somewhat more impacted because of the strategic changes you mentioned. How should this level behave going forward? And which should be the normalized level if once you implement your strategy and with a focus on higher tickets? Thank you.

Elton Carluci:

We don't observe a significant change. Of course, everybody is trying to improve, enhance things. There are new things that we are launching. But we do not expect to see relevant changes in terms of our figures. We are going to continue to work with the best allocations, of course, prioritizing the products, maintaining the strategy.

What is also impacting the gross adds and may have a greater impact in the future, it will be a positive impact, it will reduce the benefits for the Company, is that the acceptance criteria, our antifraud bar has been raised significantly. And in some operators that have reimbursements, for example, we are returning double of what we use to reimburse. This is good in the long term because we are looking at sustainable growth. And this is what we are going to focus on.

This was implemented during the 1Q, a series of enhancements more towards the end of the 1Q. And of course, this is positive. We have seen antifraud mechanisms heavily using frauds based on the input of our partners who have said these are variables that do constitute fraud.

With this, we have gone back to our systems, adjusted some parameters. We have contracted new sets of data, enhancing evolution, which, of course, is very positive for the long term. And this should offset an eventual improvement in gross adds because, in fact, we are reimbursing more, which will be positive for the Company in the long term in terms of the claims. This is it.

Estela Strano:

Thank you very much. That was very clear.

Operator:

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Conference Call Transcript
1Q23 Results
Quali (QUAL3 BZ)
May 11, 2023



The question-and-answer session has been concluded. We will return the floor to Mr. Elton Carluci for the closing remarks.

Elton Carluci:

Thank you very much for your attendance. Thank you for your instigating questions. We hope to see you at our next conference call for results.

Have a good day. Tomorrow is Friday, so have an excellent weekend. See you at our next call.

Operator:

We would like to thank all of you for your attendance in the results presentation for the 1Q23. The call is concluded. Have an excellent day.

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