

**Conference Call Transcript**  
**1Q25 Results**  
**Quali (QUAL3 BZ)**  
**May 15, 2025**



**Operator:**

Good morning, ladies and gentlemen, and thank you for waiting. Welcome to Quali's 1Q25 earnings webcast. Joining us today are Mr. Mauricio Lopes, CEO, Mr. Eder Grande, CFO and IRO, and Mr. Eduardo Garcia, IR Superintendent.

Some statements in this webcast may be projections or relate to future expectations. Such forward-looking statements are subject to known and unknown risks and uncertainties that may lead to results that differ materially from what was expected.

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We would like to inform you that this event is being recorded and participants will be on listen-only mode during the Company's presentation, after which we will hold a questions and answer session, when further instructions will be given.

I would like to turn the floor over to Mr. Mauricio Lopes, who will begin the presentation. Mr. Lopes, please proceed.

**Mauricio Lopes:**

Good morning, everyone. It's a pleasure to be here with you in another of our earnings conference calls. I would like to thank all of our colleagues for being here, our commercial partners and our investors for accompanying the work we have been doing.

If we start on the slides about our highlights, what we are trying to show is the consistency of our strategy since we joined the Company. We have been focusing on the same goals to deleverage the Company, show a firm capacity to generate cash.

This quarter, we generated R\$142 million in free cash flow, deleveraging the Company, reaching 1.34x, and this is very close to what we consider an ideal leverage level for the long-term. We improved our adjusted EBITDA minus CAC margin by 4.5 p.p., and we continue focused on having an adequate product portfolio to our consumers.

Our consumers want more stable and more dynamic products with affordable pricing so that they can make the most of our distribution and our unique footprint throughout the whole national territory, and our technical ability to be in touch with operators, entities, brokers, customers and so on.

We continue focused on this agenda. We launched another 2 operators with exclusivity, 66 new products, and the result of our pricing, product design, customer adherence and the incentives throughout the whole chain have been bringing us great underwriting results.

The relationship with operators has been shown to be quite promising. They are very happy with what we are delivering to them, so much so that we got relevant discounts in recent quarters. This quarter, we got yet more discounts to some of the products.

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So, while the market is achieving a trend of high adjustments, and that also happens to our legacy products, but in our new products, we are getting even better pricing than in recent quarters, and that's due to this hard work, structured work that we have been doing to get good acceptance, good underwriting and a well-designed portfolio.

In parallel, we also see a trend for organic churn that is positive. We are reaching 9% organic churn this quarter with the exception of a cancellation of a contract that was not profitable. In the rest of the portfolio, we see better churn and that's because we can now offer alternative products to customers. Customers sometimes are connected to older products and they might choose to migrate to a new product, and we have a good portfolio to offer to them and to have good retention rates. That's also due to the restructuring that we have been having internally focused on retention, and that's 100% done in-house.

We have been trying to offer products that are a good fit to the reality of our customers. So, these customers that might think about leaving our Company, find something that is good for them here with us. So, we have been very consistent in our priorities since the first day of our turnaround process, focusing on cash generation, deleveraging the Company, operational efficiency, redesign of our product portfolio. Focusing on reducing organic churn and a well-balanced portfolio for customers, operators and brokers. So, we have been doing that consistently. These are our highlights so that we can get started.

And now I would like to turn the floor over to Eder, who will give you further details about our performance, and I will be back at the end for the Q&A session. Thank you.

**Eder Grande:**

Thank you, Mauricio. Good morning, everyone. So, I will start by talking about our managed portfolio. We closed the quarter with 592 thousand lives. The 1Q is seasonally weaker. We have holidays, which impacts our sales process, and of course, we need to highlight that the market is quite competitive with aggressive prices, and it's hard to make things end.

But our strategy of growth with sustainability is a differential, and we firmly believe in that. Organic churn closed at 9%, the lowest level since 2020. And this is a result of this hard work that started 18 months ago focusing on acceptance, reducing MLR, and this is also the result of lower readjustments.

Our retention process is also doing really well, incurred in a very good product portfolio that has been improving quarter after quarter. So, our churn expectations from now on continue to be very positive. The total churn closed at 12.5%, considering that contract, which was at a loss. And the focus of our Company is to generate cash. So, it does not make sense for us to fight for an unprofitable portfolio.

Revenue dropped 3.6% quarter-on-quarter and 4.8% year-over-year, and that's due to a smaller customer base. CAC this quarter was below comparable periods because of a lower sales level, and here, I would also like to highlight that we will continue to be diligent in capital allocation, but always looking into investment opportunities. We have been considering all of the opportunities that might make sense for the Company. And if we have to invest more, we will do that. But of course, always with great diligence.

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Our EBITDA margin improved by 4.5 p.p. quarter-on-quarter, putting the Company in a comfortable position to resume growth. Fixed income, we closed with an expense over revenue ratio below last quarters at 29.2%, and about the 4Q related to the 1Q24, we had a one-off event back in the 1Q24. So, if we exclude that, we would have very similar numbers. And the variable expenses also improved compared to last quarter, but they are still above the 1Q24, and that's because of an increase in lawsuits and the challenge that we have related to delinquency.

Now, the positive point is that when it comes to lawsuits, the number of monthly lawsuits has been decreasing. It's already below the average we got in the second half of 2024, but still at a high level. We expect to be able to bear the fruit of a lower number of lawsuits from now on, but this should take a few quarters to be reflected on our results.

Once again, the high of our quarter was cash generation. We achieved R\$142 million in cash, reaching approximately R\$1 billion this quarter, continuing with our deleveraging process that we started in recent quarters. So, we now have a 1.34x net debt over adjusted EBITDA ratio, which is quite healthy. We are well-structured to resume growth when it comes to capital positioning and leverage.

Now I would like to turn the floor back to Mauricio for some final remarks.

**Mauricio Lopes:**

As I said in the beginning, last year, we launched 138 new products. And now in the 1Q alone, we launched 66 new products with 2 exclusive operators. We firmly believe here in our management that the fact that we have exclusivity of distribution will enable us to have a better underwriting process, and that is positive for customers and operators.

So, we are working really hard to get these exclusive contracts. It's really hard, but it's possible. So, we get yet another 2 now being included in our product deck. And in parallel, just an interesting highlight that I would like to give you is that we continue improving our operations. Our deck of operational efficiency needs to be accompanied with improved services.

When we look at *Reclame Aqui* website, the operator with the greatest rating there is Qualicorp. We had that rating in the past, but we lost space in that agenda for some time. But now we were working really hard or service, customer service is working hard, so we were able to gain momentum in that agenda.

So, we have a more robust product portfolio, higher quality of customer service, better service to brokers and to operators as well. We have been working really hard on all of that.

Those were the highlights that we wanted to share with you. We wanted to be brief and straightforward like in recent quarters. And now we are available should you have any questions.

**Gustavo Tiseo, Bank of America:**

Good morning. Thank you for taking my questions. I have 2 questions here on my side. The first is about the positive cash flow that we saw this quarter. We want to understand about your take on investments in this channel. Do you expect to resume growth in the coming quarters, or do you expect the cash flow to be at the same levels?

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And now, this industry has been quite positive in terms of MLR. So, we always wonder about your revenue because sometimes, when people see a lower MLR or worse MLR, they change their revenue. Do you see any opportunity to grow here in this line now that the operators are doing better in terms of MLR? Thank you.

**Mauricio Lopes:**

Thank you for your question, Tiseo. Let me make a comment here. This is the most important point in our view. We have a cash position of over R\$1 billion, R\$1.065 billion, if I am not mistaken.

The temptation to have a heavy CAC or not having high-quality technical underwriting to protect consumers in the long run is high. We could autonomously just increase our CAC considering the cash we have and the cash generation we have been reaching quarter after quarter, and go back to a situation we already faced in the past, but we do not believe this is the right way to go.

And this is a question we ask ourselves every single day. Should we increase the CAC in order to have a higher sales volume, but that will probably not be a healthy level for customers and operators?

So, what we want is a good cash position with well-balanced use of capital, with aligned interests for consumers, operators and brokers, and that's going to lead us to a good underwriting and high retention to reduce MLR and improve TPV for all of the chains, and increase all of the links in the chain. So an increased TPV means increased profitability.

Ever since the 3Q, we have been changing some campaigns, and we have been a bit more flexible with some products that we thought had such a good MLR that they deserved a bit more volume of production.

But being very straightforward and honest with you, we are not going to place a huge volume of cash to work if we do not see these requirements met, channel alignment, focus on underwriting and focus on the long-term. We are not going to fall into this trap again. And this is a heated discussion that we have here with our Board of Directors and our partners, and we are very confident about that.

The very long-term view is that and our shareholders are feeling very reassured about the track we are on, because if you can have 2 cycles of low readjustment and low MLR, you have great customer satisfaction and great customer retention. So, we are going to keep on focusing on that. We are not going to burn cash like we did in the past. And I know this is a strong term to burn cash, but I just wanted to be very graphic with you. We do not want to sell just for the sake of selling.

And now, about your second question, about MLR versus readjustment and compensation, we have an interesting level of compensation right now above 18% take rate. Part of the contracts signed last year put part of the commission at stake, and we think this is the right way to go.

The operators who own the product and we do the distribution, and we think that alignment between the parties is key. And we think that because of this alignment, we may have some

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positive surprises in our compensation, considering that we are leaving behind a very high level of MLR.

So we see a trend for improvement in the long run. So, I just wanted to emphasize that. We have a high temptation of increasing CAC and doing things that have taken us to a difficult situation in the past, and we do not want to do that again. We will continue with great discipline in capital allocation and underwriting policies that will prioritize customers in the long run.

**Felipe Amancio, Itaú BBA:**

Good morning. I have 2 questions here on my side. The first is about fixed expenses. We saw yet another quarter with a reduction of recurring fixed expenses consecutively. So, do you see any possibilities to improve this line? Or do you think this is going to be recurring from now on?

And now my second question is about contingencies for judicial expenses. Can you share your take on this? Do you expect to have a lower level of lawsuits for the rest of the year? Or do you think that this can get worse from now on? Thank you.

**Eder Grande:**

The expectations about financial expenses is that they will reduce throughout time. We have R\$1.9 billion in gross debt. We have important significant amortizations in June. Almost 50% of the debt will be amortized. And so, we expect these expenses to be reduced.

Fixed expenses have been stable, and this is a mindset that we have had for some time now. Expenses has become a topic that we discuss continuously. We have new projects under our radar and some adjustments to be made, and throughout the 2H25, we expect to see some new movements happening, like systems migration, changes in some of our business lines. But yes, we do see opportunities and we will keep on obsessive when it comes to expense reduction.

About judicial expenses, the number of lawsuits being filed has been decreasing especially when compared to the 2H24. But we still have a high stock of lawsuits. So, while we are not able to reduce that number, we will still see a high level of expenses. In the 2Q and 3Q, we do not expect to see a reduction in our contingency expenses, but starting in 4Q or early 2026, we believe that is possible.

And we also have internal initiatives to deal with that log, so we expect to see a more significant reduction in the number of lawsuits and also in contingencies in the second half of the year.

**Mauricio Lopes:**

And once again, this is the flywheel. If you can reduce friction with customers with lower readjustments, you also reduce the number of lawsuits. And since we have seen a reduction in MLR, we have also been able to reduce the number of new lawsuits. The major of lawsuits was because of unilateral cancellations that happened in 2024. So, a set operators, though small, they were quite relevant, and they made a wrong technical decision from our perspective, but it was a unilateral decision by the operators, and we just had to accept that because they own the product.

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We are not the owners of the product. We just distribute the products that belong to the operators, and they decided to go for that unilateral cancellation. So, we only had to accept that and find the best possible solution to our customers with the products we had available at the time.

This led to strong court ordered access with very high churn, but we think that the answer here is to have lower MLR, and that's going to calm things down. So, we now see a lower number of new lawsuits being filed. But this is a Brazilian judicial cycle, which is quite long and not short, but we are working diligently to reduce this in the best possible way.

**Yan Cesquim, BTG Pactual:**

Good morning. I have 2 questions on my side. The first is about long-term incentives. You said earlier that you were designing new formats for that. So, can you shed some light into your management compensation design and the KPIs of your incentives programs?

And my second question is about contracts that are not profitable. Do you have other contracts that can increase your churn rate in the short- and medium-terms? Thank you.

**Mauricio Lopes:**

We have approved in our shareholders' meeting this year a long-term incentive plan for the Company. And we have been cascading that in the best possible way. Our people are now more aligned with the long run. And if you look at our shareholders' meeting draft, you will see the approval for that program.

And we think that's key in order to retain the relevant talent that we have here at the Company, and also because we know that we are going through a turnaround process, and in the long run, we need to keep these talents with us, and we need to have the upside and the downside in compensation related to that.

So we aligned that with our Board of Directors. We have agreed on that in our shareholders' meeting, and you can see that in our documents.

About the contracts at a loss, you can look at this from the perspective of our loss or the loss of operators. In the case of the contracts that we lost recently, we were the ones at a loss. The take rates of the contract did not make sense for us, so we relinquished the contract after a long discussion with the operator. And we have other contracts.

And last year, we had the unilateral cancellations because the contracts were bad for the operators. And of course, they discussed that internally trying to protect customers right and try to find a balance for everyone. But sometimes that balance cannot be reached and then the operator decides to go for a unilateral cancellation. That's okay. We accept that as part of the process, and we try to find ways to serve that customer in different ways.

We still have portfolios with very high MLRs. So, what we have been trying to do with the operators is to find new products that are a good fit for these customers, if possible the same operator, but that have a better long-term profitability, with a leaner network of providers and all of that.

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So, in our readjustment cycles, what we have been trying to do with the operators is to give them options. It's an X% readjustment, but we have an alternative product with X minus Y% of readjustment, and we offer that to customers. And we firmly believe in that. We want to keep the customers in the same operator and with their history, all of that with a product that is affordable for them.

Even if they had a high readjustment, we can migrate that customer to a product with a lower ticket. Some operators accept that. Other operators do not have appetite or resilience in the long run, and so they make a different option like we saw last year, and then that leads to a higher number of lawsuits.

**Leandro Bastos, Citi:**

Thank you for taking my questions. I want to talk about 3 points. First, about gross sales. You talked about seasonality in the beginning and also about the competitive landscape with some aggressive prices. So, can you tell us more about the competitive landscape? Is that affinity? Or do you see small and medium enterprises with offers that are more aggressive? I understand that you are being reasonable with your use of the CAC, but do you think that you can improve your 1Q performance? That's the first point.

The second point is about contingencies. As you mentioned, in some cases, you are just the messengers, the distributors of the product. So how do you share the bill related to the lawsuits? And can you tell us about what you expect for readjustments for the remainder of the year? Thank you very much.

**Mauricio Lopes:**

Leandro, about gross sales, of course, we want to increase our sales level. This is not enough. Our commercial team has been working hard to do that. Not only the commercial team, our whole Company breathes sales every day. And I think that we now have a better fit of products and distribution.

The 1Q is always harder, especially when you have too many holidays, and that's what happened to us. So, I cannot give you any guidance, but we are all very encouraged. We think we have a good product deck, and we think that the sales will react gradually in the coming quarters.

We do not want to have too many ups and downs. We want to have a more gradual growth, and we are trying to create campaigns and promotions in order to get there. We do not want any drastic turns upwards or downwards.

About your second question, we have been seeing a confusing retail landscape. In some cases, we see products that are inappropriately priced, and these products become unprofitable in the long run and then the readjustments are high, customers complain, they go to court, and that's a negative cycle.

And in our relationship with the operators, if on our side we understand that this product is inappropriately priced, we are the first to say, "hey, we think that this product is going to lead to

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problems later on, so this is not going to lead to customer satisfaction". But you know retail, you know what it's like. Some people have a greater appetite that we would consider appropriate, and they do that in order to try and increase sales or anything like that. But that's not our goal. Although we see some products that seem to be very cheap, we are going to continue very disciplined in capital allocation.

About contingencies, we continue doing what is provided for in our contracts. We have the administrator, the HMO and the operator, and the lawsuit, and each have to pay for our own costs.

Something that we have been doing is to proactively structure ourselves to look at the judicial demands that we have for each one of the operators, and then we go and talk to them to try to find the root cause of what is happening.

Is that something related to the clauses? Or is that something related to readjustments, or lack of service because a gap in the network or something like that? So, we have been trying to be proactive in those conversations in order to protect consumers because if consumers are complaining, it's because something bad happened, and maybe the operator is not aware of that, or maybe we are not aware of that.

So when we talk to operators, this becomes something more sustainable. We have been much more proactive recently in doing that. In the set of operators, we have a set of operations with whom we have periodic meetings to discuss the actions, understand consumer demands, and we try to create a defense line to meet the demands of the customers and correct the problems, and of course, make any adjustments we need to the contracts. That's what I can tell you about contingencies.

About contingencies, we see them increasing in the market in recent years. But at our Company, we saw a relevant reduction of new lawsuits since mid-last year. So, we have a long tail, but the flow is smaller than it was in the past. But we still have a relevant log of lawsuits, as Eder mentioned.

**Leandro Bastos:**

Thank you. What about readjustments, average readjustments for the year, what do you expect?

**Mauricio Lopes:**

We have all types of readjustments. We have readjustments that are smaller than from SMEs, especially in portfolios with co-participation, regionalized portfolios. They have very good readjustment levels now. But we also have readjustments for older products that had different pricing, that are going to be quite high.

In any way, operators are becoming more sensitive and trying not to set readjustments that consumers cannot afford, unlike what happened last year in which some operators set really high readjustments after intense negotiation between HMOs and operators, and that consumers could not afford, and they ended up going to court anyway.

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So, we are all trying to be a bit more reasonable and conservative in our readjustment proposals. We are expecting a reasonable drop of MLR in the medium-term. So, we expect customers to continue with us. And 2025 is going to be better than 2024, which was already better than 2023. This is what we are seeing.

**Guilherme, JGP (via webcast):**

About the debt level of the Company and the issuance of a new debenture in June, what is the financing need for the Company? And what measures have you been adopting to address that?

**Eder Grande:**

Thank you for your question, Guilherme. In June, we have a significant amortization that will be made. We will do that payout. And we did a capital raising in the month of May. But our goal is to reduce our gross debt.

So, our cash is above R\$1 billion. It's very high for our operations, so we can decrease that a bit and decrease our gross debt to have lower financial expenses. And then throughout the 2H25, or even early next year, we may think about another capital raising round, but not that strong because our cash generation has been very strong, and we are at a comfortable cash position. So we only have to think about the amortization that we have in June.

So, we want to lower our gross debt, and we think that we can do that easily throughout the year.

**Operator:**

This concludes the question-and-answer session. Now I would like to turn the floor back to Mr. Mauricio Lopes, CEO, for his final remarks.

**Mauricio Lopes:**

Thank you all for joining us. I would like to thank all of our Quali's as well who have been delivering so well. Our Company has been through a major turnaround process. Almost half of our workforce was fired. We now have around 1,500 employees, and they are all highly-engaged. And we are now able to deliver more than we did in the past with twice the number of employees. We have a team that works really hard and has that owner view. So, we are very proud of them, and we continue committed to recreating this health care retail market in Brazil.

We continue with our turnaround process, and we will continue to do so until we believe the market has changed. This has been validated by our shareholders who are well-aligned with the Company in the long run. And we will continue with this flywheel with the right prices, the right product, distributions with the right incentives and right underwriting, which will lead to low levels of readjustments and a low number of lawsuits, good retention, and happy customers.

As I said in our first question of the Q&A session, I emphasize this point, having over R\$1 billion in cash flow may lead us to the temptation of a distribution that is not a good match with this flywheel, but we are not going to do that. We are going to continue with diligent capital allocation and good underwriting process.

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So, thank you all. We will continue focusing on our distribution and turnaround process, and we will talk again next quarter. Thank you all, and have a great day.

**Operator:**

Thank you all for joining us to Quali's 1Q25 Earnings Conference Call. This concludes our meeting.

