

Y 2020 Earnings Call

Company Participants

- Jorge Pinheiro, Chief Executive Officer & Director
- Mauricio Fernandes Teixeira, Chief Financial Officer and Investors Relations

Other Participants

- Gustavo Schroden, Analyst
- Gustavo Tiseo, Analyst
- Vinicius Ribeiro, Analyst
- William Barranjard, Analyst
- Yan Cesquim, Analyst

Presentation

Operator

Good morning. Welcome everyone to Hapvida's Fourth Quarter 2020 Earnings Conference Call. Joining us today are Mr. Jorge Pinheiro, CEO; Mauricio Teixeira, Financial VP & Investors Relations Director; and Guilherme Nahuz, Investor Relations Director and Sustainability Director. 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. Then, there will be a Q&A session for investors and analysts when further instructions will be given. (Operator Instructions) Today's live webcast may be accessed through the Internet address at www.hapvida.com.br/ir.

Before proceeding, let me mention that forward-looking statements that maybe made during this conference call are based on the beliefs and assumptions of Hapvida's management and on information currently available to the company. They involve risks, uncertainties and assumptions because they relate to future events, and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Hapvida and could cause results to differ materially from those expressed in such forward-looking statements.

For those of you who are watching via webcast, the slide deck that you see on your screen will not be changed automatically, you must use the navigation keys that you see below the slide deck.

Now I'll turn the conference over to Mr. Jorge, who will begin the conference. Mr. Jorge, you have the floor.

Jorge Pinheiro {BIO 20560013 <GO>}

Good morning, everyone, and thank you so much for joining us in our earnings conference call. It is with great satisfaction and a feeling of accomplishment that we released Hapvida's fourth quarter 2020 and year-to-date earnings to the market.

So sliding on Slide 2, I'll give you an overview of the main highlights of 2020. We are extremely grateful for -- in such challenging times been able to provide our members throughout the five regions of the country, all the care and support that they needed. With the COVID-19 pandemic, we worked together to save lives, families and histories. The year of 2020 was very difficult for all of us, with irreparable losses for many Brazilian families. We made everything we could to go through this pandemic in the best possible way, making sure our members would have access to whatever they needed. We equipped ourselves to better face this pandemic. We invested hard in protection, drugs, equipment and logistics. We resized our service network opening hundreds of new beds. We hired more professionals. And now I take the opportunity to thank once again all the healthcare professionals in the front line, and also all of those working behind the scenes who emits so much uncertainty, moved on with a lot of courage and selflessness, we are very, very grateful to all of you.

We conducted studies and we found more efficient approaches to treat this disease. We quickly made available a new telemedicine platform that was 100% developed in-house to serve our members who had COVID-19 symptoms. Today, we are conducting around 7,000 televisits a month. And finally, we were very transparent when communicating with our company's audiences, telling them about our main actions taken through internal newsletters and announcements to the market into the society with daily notices being published in our social network. We worked restlessly, because here at Hapvida, we have a largest commitment, which is a noble commitment to life.

Now Slide number 3 please. We learned a lot from this pandemic, but we kept on growing. Our investments and physical structure totaled over BRL233 million with 235,000 square meters of physical infrastructure built or renovated. We closed the year with a total of 464 care units among hospitals, ERs, clinics and diagnostic units. With the closing of the Sao Jose and Medical transactions, we added 12 care units, including three hospitals. In addition to that, we now have 12 hospitals in different phases, some of them are still under planning phase, and others are in an advanced stage of construction. We closed the quarter with 3,240 beds, an addition of 605 beds compared to the same period of 2019. This quarter, we made 764 beds available for COVID-19 patients. However, with the second wave of the pandemic in several regions of the country, we added 1,497 beds in the first quarter of 2021.

On Slide 4, we're going to talk about our inorganic front that is expansion through acquisitions. We announced eight new transactions in 2020, with the purchasing of the Sao Jose Group in the city of Sao Jose dos Campos country side of Sao Paulo, Promed Group in Belo Horizonte, Hospital Nossa Senhora Aparecida and customer portfolios from Samedh and Plamheg in Goias. In addition to the acquisition of the Santa Filomena Group in Rio Claro country side of the state of Sao Paulo. And finally, in November, we announced the acquisition of Premium Saude with a portfolio of around 125,000

members concentrated in the cities of Belo Horizonte and Montes Claros, state of Minas Gerais in Brasilia Federal District. We also innovated to accelerate our verticalization process with new hiring arrangements such as the lease of the Sinha Junqueira Hospital in Ribeirao Preto and part of the Mario Palmerio Hospital in Uberaba country side of the state of Minas Gerais.

About the status of the acquisitions, on the right hand side of the slide, you can see that we're moving on with the integration of the recently acquired assets. We finished incorporating the operators and care assistance units of the America Group in less than one year. The second stage of integration of the Sao Francisco Group is following the original timeline, with the systems deployment stage started in the last month of February. Another two acquired companies will start being consolidated in the first quarter of 2020 started, so Medical and the Sao Jose Group, so they now enter the pipeline of the integration process and the synergy capture starting from day one. We continue focused on preparing these assets so that they can become major regional platforms for organic and inorganic growth.

Now moving on to Slide 5, about the financial numbers. We're very happy with Hapvida's performance throughout the year of 2020, and particularly in the fourth quarter of 2020. We had 271,000 net members added in the fourth quarter alone, overcoming 6.7 million customers in health and dental plans. Throughout the year, we added 344,000 members, achieving BRL8.6 billion in annual net revenue, up 51.8% year-over-year. Cash MLR in the fourth quarter was 59.5%, a great result, since in the fourth quarter we had additional costs coming from the new operations of new care units, a higher level of MLR of the acquired companies, and also with elective procedures and COVID-19 admissions happening at the same time.

On the other hand, we were very efficient in the management of the sales expenses that achieved 7.4% and administrative expenses achieving 9.1%. Thus, we increased our EBITDA by 63.8%, achieving BRL2 billion a year. The net revenue of the company in the quarter achieved BRL2.3 billion, up 27.3% as compared to the same quarter of the previous years, considering the contribution of our acquisitions. And our EBITDA grew by 15.2% achieving BRL431.8 million in the fourth quarter of 2020.

In addition to this expansion, we also grew in innovation and intelligence, with changes of our operating side mark in the year of 2020. For example, we renewed our brand. We saw the need of adopting a new corporate brand to make sure we would have even more recognition and performance in our business. We also changed our purpose, which is now to provide access to high quality healthcare to our people. So this is our focus, to give our best, to support people, with a high quality healthcare that they deserve.

We also opened our operating technical center in the city of Recife, Pernambuco. The first installation with this type of technology outside Europe with the ability to process up to 5 million tests a month. The center in Recife will replace 18 regional technical centers and will process about 95% of the lab tests, increasing even more our verticalization level. We implanted Octopus, an artificial intelligence platform that assesses medical requests, and therefore, the previous authorization process has higher quality, higher efficiency and higher speed. We launched our new telemedicine platform developed in-house, which as

FINAL

I mentioned in the beginning of my speech. We expanded our digital experience, having for the first time, online commercial conventions to energize our sales and after sales team. We launched a new digital platform making it easier for people to hire healthcare plans in a direct and safe way. In the fourth quarter, we also created the Digital and Innovation, vice-presidency position, in order to increase the speed and strengthen our new innovation pillar continuing as a pioneer in the creation, use and enhancing of new technologies.

In 2020, we published our first Annual Sustainability Report following the directives of the Global Reporting Initiative, the first and more widely used methodology to produce reports in Brazil and around the world. Hapvida was inserted in the FTSE4Good, one of the most important sustainability international indexes composed of companies that shows strong ESG practices. To reinforce the concern and care we have with our employees, we are happy to announce the new Executive VP for People, Management and Diversity position.

All of these efforts resulted in us being recognized by the Institutional Investor 2020 among other things. This is the largest and more respected market ranking -- market capital ranking in the world. And Hapvida received several awards in the healthcare industry in Latin America. We were chosen as the most innovative Insurance and Healthcare Plan, and one of the 100 most innovative companies in Brazil, receiving the Whow! Innovation Plan in 2020. In the recent Conarec Award, we were awarded as the Best Relationship Company in the healthcare industry. This shows our intelligence in the relationship and engagement with the customers in this market.

Another important step that we took, and it's worth mentioning is what you can see on Slide 6. On February 27, we announced to the market a transaction that involves the potential business combination between Hapvida and Notre Dame Intermedica Group, GNDI. I'd like to tell you how excited we are here at our company for the privilege of taking part in this historical movement of the private healthcare industry in Brazil, with the combination of business of such magnitude. This can transform healthcare in the country.

We might be able to expand and democratize to the whole country our purpose of existence which has always been to provide high quality healthcare to our people. This 42 years of experience that Hapvida has, plus the 53 years of GNDI, will be the foundation of a very promising future for the company that maybe formed, with the possibility of combining experiences, knowledge, exceptional people, and being able to join all this wealth in order to intensify the possibility of offering more affordable with higher quality products to the Brazilian population. We are now approving -- waiting for the approval of the shareholders of both companies in their extraordinary general assemblies that will take place on March 29, 2021, simultaneously, and the operation should also be submitted for approval by the regulatory organs.

So I'd like to close my speech by saying that we're very proud of our employees and our accomplishments in the year of 2020. We are committed to continue in making sure our members have access to high quality healthcare even in such a challenging phase of the pandemic that is still hitting us. Differently from the first wave in which the national private

FINAL

healthcare regulator, ANS, determined all elective procedures be suspended and the comp -- I mean, the pandemic achieved the country in a heterogeneous way.

Now the COVID-19 cases have been growing strongly in many cities at the same time. So we have the suspension of surgical procedures only in some regions by -- determined by the state healthcare departments. Right now, we have around 20% to 30% more beds available for COVID-19 patients than we had in the first wave of the pandemic last year. However, even with this increasing volume of COVID-19 related procedures, including high complexity ones, Hapvida with its very expensive own network and it's verticalized and integrated model, through a lot of innovation and technology enables us to absorb these specific increases without major impacts.

Our country has been seen historical numbers of this disease in recent days. Some cities, however are already leaving the second wave behind, such as Manaus, with the advance and vaccination we are hopeful that we won't have to face a third wave. We continue firm, engaged and restless to provide the services that our members deserve. You can keep on counting on us in 2021.

Having said that, I'd like to welcome Mauricio Teixeira, our new Financial VP and -- Financial and Investors Relations VP, who's here to strengthen our company. He is going to give you further details about our quarterly numbers, and then, we're going to open for questions. Welcome. Mauricio. Thank you. You have the floor.

Mauricio Fernandes Teixeira {BIO 19758664 <GO>}

Thank you, Jorge. Good morning everyone. It's a pleasure and a great satisfaction to be here sharing Hapvida's earnings with you for the first time. So if I move on to Slide 7, we can see that the number of healthcare plan members at the end of the year grew by 6.6% as compared to the same period of the previous year. This was boosted by the entrance of 75,000 members from Medical, 53,000 from the Sao Jose Group, and 44,000 from RN Saude. In addition to that, we had an organic growth of 61,000 members in the companies that were already part of the group since the end of 2019. On the left hand side of this page, you can see the history evolution of the members in healthcare and dental plans since 2017. For healthcare, we had 19% growth of CAGR, and in dental, 27.4%.

On Slide 8, you can see the evolution of our average ticket. In the fourth quarter of 2020, we are considering only readjustments of that quarter, leaving aside any recoupment readjustments from May to September 2020. So for healthcare, the average ticket grew by 5.8% as compared to the fourth quarter of 2019, specially boosted by the new sales and contract readjustments. The dental average ticket grew 0.5% compared to the fourth quarter of 2019, with a drop of 5.3% in individual and corporate plans.

Moving on to Slide 9. We can see that the net revenue in the fourth quarter of 2020 grew by 27.3% as compared to the fourth quarter of 2019. This was impacted by the revenue of the acquired companies totaling BRL319 million, as well as organic growth in the number of sales in BRL155 million with the revenue recognition of the readjustments that had been retained in 2020. This amount will be charged in 12 instalments throughout 2021, as

Bloomberg Transcript

defined by ANS, but they refer to the year of 2020. We achieved BRL8.6 billion in net revenues in 2020, 51.8% growth.

On Slide 10, we can see our MLR rates. Cash MLR in the fourth quarter of 2020 was 59.5%, with an increase of 2.7 percentage points compared to the same quarter in 2019, and this is due to a higher level of MLR of the acquired companies, Sao Francisco, America, Medical and Sao Jose, as well as to the conduction of elective procedures and COVID-19 admissions at the same time. However, in spite of all of these factors, we were able to close the year with this indicator one percentage points better than in 2019 due to all of our MLR management initiatives and the suspension of elective procedures in the second and third quarters of 2020.

The total MLR was 66.5% in the fourth quarter, a 4.7 percentage point increase against the fourth quarter of 2019. This is mainly due to the greater SUS reimbursement provisions. Total MLR in the year was 60.9%, an increase of 0.5 percentage points compared to 2019, and this is due to sales reimbursements and higher MLR of the acquired companies. Throughout 2021, we will continue implementing our integration plans so as to bring the MLR levels of the acquired companies to levels that are closer to Hapvida's.

On Slide 11, you can see how the SUS reimbursement flow works. Due to the pandemic, some procedures were suspended, and therefore, there were no new invoices in the second and third quarters of 2020. However, in the fourth quarter, ANS started issuing new invoices with net impact of -- about BRL5.6 million in the provisions. In the fourth quarter, we received two new batches of the claims notices, and because of this history of invoices sent by ANS, we had more restitutions of claims notices with a net profit of BRL16 million. So the expectation is that, ANS has now regularized the flow of issuing new GRUs and that this process will go back to normal from now on without the expectation of major oscillations in this flow from now on.

On Slide 12, you can see the relevance of the SUS reimbursement has been dropping as compared to the total MLR of the Company. We used the value of the claim notices divided by the quarterly MLR numbers. And you can see that this drop was caused by the initiatives to reduce MLR coming from SUS or the public healthcare system.

On Slide 13, you can see our operational expenses that had significant reduction in the quarter and throughout the year of 2020. Our selling expenses was 7.4% in the fourth quarter of 2020 and 7.8% in the year of 2020, 8.8 percentage point reduction and 1.4 percentage point reduction respectively as compared to the same periods of the previous year. This can be justified by the operational leverage with higher revenue in the period in loss of representativeness [ph] in some accounts. In addition to that, the recently acquired companies operate with selling expenses that are lower than Hapvida's.

Administrative expenses were 9.1% in the fourth quarter of 2020 and 9.6% for 2020, a 1.5 percentage point and 0.6 percentage point reduction as compared to the same periods of the previous year. So this shows the scale gains of the company.

FINAL

On Slide 14, you can see BRL431.8 million EBITDA in 2020 and over -- in the fourth quarter, and over BRL2 billion in 2020 significant growth thus compared to the previous year. EBITDA margin for the fourth quarter was 19%, and for 2020, 23.6%, a 2.4% reduction in the fourth quarter, but a growth of more than 1 percentage point for the year of 2020. Net income BRL94 million in the fourth quarter of 2020, and 700 -- and more than BRL700 million in 2020. If we exclude non-cash amortization and value-added of the acquired company, we had BRL281 million in net income in the fourth quarter and BRL1.3 billion in 2020. This represents an annual growth of 41.8%.

On the last slide, you can see our cash flow ex acquisitions BRL431 million in the fourth quarter, and in the year of 2020, the free cash flow ex acquisitions was of BRL1,513 million, that represents 52.3% growth as compared to 2019 because of higher EBITDA and the maintenance of strong cash conversion. This was almost enough to support all of the acquisitions made in 2020. We continue firm with our purpose to offer high quality healthcare to our people and to generate value to our shareholders.

We are now open for questions. Thank you very much.

Questions And Answers

Operator

Thank you. We shall now begin our Q&A session for investors and analysts only. (Operator Instructions) Our first question is from Yan Cesquim from BTG Pactual.

Q - Yan Cesquim

Good morning, Jorge, Mauricio, Guilherme, and everyone. I have two questions about the status of the COVID-19 impact on your network right now. First, can you give us some ballpark number about COVID-19 impact on the company's MLR for the fourth quarter of 2020?

Now next question, can you also give us more details about the frequency status in the fourth quarter of 2021? I think you're very clear in the information you shared with us. We know that the pandemic intensified in the end of 2020, but as you said in some locations, the second wave of the pandemic has already been left behind, and there are other locations in which elective procedures are being postponed yet once again. So can you please tell me how these movements are related and how they're going to impact you in the first quarter of 2021? Do you see a similar trend similar to what we saw in the end of last year or what can you predict? Thank you very much.

A - Jorge Pinheiro {BIO 20560013 <GO>}

Thank you for your question. Well, let me try and give you a general overview. I think we are a privileged player, because we understand the behavior of this disease throughout the country. I think, we are the only operator with our own network throughout the country, I mean, in all five Brazilian regions. We have our own network, including

hospitals, and we see a different behavior in the second wave as compared to the first wave.

The pandemic hit the cities and regions at different times during the first wave and did not even affect certain regions like in the South region of Brazil that was not as hardly hit as the Northeast or North regions. So at the time, ANS determined that all elective procedures had to be suspended. So elective visits, elective procedures, elective surgeries, all of that was suspended and that determination helped the results of the companies in the third quarter. The companies were therefore able to prepare and face the first wave of the pandemic, but the regions were affected at different times. Some cities were more hardly hit at first and others later.

Now the second wave has different challenges. The first challenge is understanding that this new strain of the virus that apparently comes from the North of Brazil is more contagious and it affects more severely younger people. Also, it hit all regions of Brazil in an even manner, differently from the first wave that hit different regions at different times.

What is the good news? Well, since Manaus and since we are a leader in healthcare plan in the North of Brazil and Manaus was the first city to be hit by this wave in the fourth quarter, then once again, with our own network, we were able to serve our members in spite of all the difficulties we had there. We made huge efforts and we were able to serve all of our members in our own network and nothing was lacking there. But this also helped us to develop a metrics now and then knowing exactly how many beds we would need in terms of ICU and regular beds thinking about what happened in Manaus and projecting those to the rest of the country we prepared, so that, if the same happened in other regions where we operate, we would be ready to fully face those events. And that's exactly what we did.

We prepared early on, we purchased more equipment since the second wave requires -- I mean, has a higher level of admissions, so we purchased equipment and drugs, and we prepared our premises to be able to face this second wave, which as I said, is hitting the whole country in a more homogeneous manner. Our own network has been able to serve our members with good quality, since its quite extends, and we were already prepared for the second wave. And differently from this first wave, right now, we are only performing -- I mean, we have only suspended elective surgeries. Now elective visits and elective tests are being done normally.

Now another interesting point that I'd like to emphasize is that, we see that in certain locations, the second wave seems to be being left behind and we're going back to baseline levels. Some important cities such as Goiania, Fortaleza and Salvador are already seeing slower increase of new cases. That happens also in Sao Paulo, Recife, and some other locations.

And finally, I think that the beauty and the strength of our model as the most verticalized operator in the world is that it enables us to absorb these increases in MLR and claims frequency. In the fourth quarter, there was a 1,200,000 new lives coming into our portfolio due to the acquisitions as compared to the fourth quarter of 2019, and the MLRs were

going from 70% to 90% in those acquired companies. And although the fourth quarter was more challenging because of a higher volume of COVID-19 cases, and with the addition of 1,200,000 new lives with an MLR of 70% to 90%, we were able to have a fourth quarter with a cash MLR at historical levels. So this means that we are integrating the acquired companies very quickly in our own network can provide us with a certain buffer to any significant fluctuations in the frequency.

FINAL

Q - Yan Cesquim

Thank you.

Operator

Our next question is by William Barranjar from Credit Suisse.

Q - William Barranjar

Good morning everyone. Hi Jorge, Mauricio, and Guilherme. Thank you for your time. I have two quick questions. The first one, what is your view on the commercial forecasts from now on in terms of the organic growth? And the second one is about amortization. How should you think about this from now on -- should we think about this from now on?

A - Jorge Pinheiro {BIO 20560013 <GO>}

Well, thank you very much for your question. The fourth quarter was encouraging in terms of organic growth. For 2021, I can predict a few different scenarios. My first one, some cities started facing the second wave earlier, and we are now able to forecast the intensity of this wave in many other cities in the country, including those that are at the peak of the wave, we can forecast how long this is going to take. So we believe and expect that with the vaccination process that is ongoing, we think that in the second quarter, we will see an acceleration of the vaccination process. So I believe, we are going to see a strong recovery of the economy, and this may help us greatly, especially in the second quarter of 2021.

Now having a more optimistic scenario in mind like that, I think, that we can keep on our historical levels of growth. Brazilian people desire a healthcare plan more than ever now for obvious reasons, and I think, this is going to be capped in the future. So we expect historic levels of organic growth that has always been quite significant for us.

Now if we consider a more challenging scenario in which we have to face this pandemic for a longer period of time and if the economy does not recover as we expect, our company will continue gaining market share as we saw in other challenging times that we went through in the past. So regardless of what scenario comes true, we are prepared to either gain market share or increase the penetration of healthcare plans in Brazil. The recent economic crisis removed 3 million members from the private healthcare market. These people went into the public healthcare market, and I'm sure, they're eager to come back into the private healthcare market. And an economic recovery will definitely bring us with a growth in terms of number of lives.

Now regarding your second question about our perspective on amortization from now on, yes, thank you for your question. We'll see amortization in the next three to four years at higher levels, because of the acquisition of the Sao Francisco Group, a large acquisition, that's why we usually show you our ex-value added profits. This was a large acquisition and the amortization is already happening. So we will see approximately, you know for the Sao Francisco Group, only about 100 million in amortization per quarter, not to mention other acquisitions that we may make.

Q - William Barranjard

Okay. Thank you very much.

Operator

Our next question is by Vinicius Ribeiro from UBS.

Q - Vinicius Ribeiro {BIO 19720178 <GO>}

Good morning, everyone. Thank you for taking my question. I hope you're all safe and well. So my first question is related to a previous question, can you tell me about the commercial dynamic your member base -- I'd like to understand how this dynamic is related to the legacy operations, the pricing competition dynamics? Now about the acquired companies, can you give us an update of more verticalized product in the new locations with investments in infrastructure that you made in recent months? Now -- the accounting numbers were clear, now is there any initiative been implemented to decrease your exposure? Can you tell us about the type of initiatives that are being implemented and what we can expect to see to reduce this metric even further? Thank you very much.

A - Jorge Pinheiro {BIO 20560013 <GO>}

Hi, Vinicius. Thank you very much. We couldn't hear you well, but your first question then was about commercial strategies for Hapvida and acquired companies, is that right?

Q - Vinicius Ribeiro {BIO 19720178 <GO>}

Yes, that's right, Jorge. Can you give me a breakdown of the dynamics you have in the legacy locations in terms of competition and pricing, and an update about the new locations, whether you're launching more verticalized products after investing in those locations?

A - Jorge Pinheiro {BIO 20560013 <GO>}

Okay. We can hear you better now. So when it comes to growth, I think, it's more of the same. In the fourth quarter, we saw a spread growth coming from retail, sales and corporate sales. Now in a more challenging landscape, if the economy does not recover, I see the possibility of growing in the corporate channels that keep on launching new bids, and it's always an opportunity for us to offer our high quality products to them. Our products are also quite predictable, and this has been attracting more and more customers that come and remain with us for a long period of time.

FINAL

Now if we do have a more optimistic landscape, I believe that we're going to see growth in our retail channel and in the corporate channel, while -- I mean, when the companies start rehiring employees after cutting some of them in the past, we are going to have lower commissions that's going to bring us even more growth. And I see the same dynamic happen in the five regions of Brazil.

For recently acquired companies, once we are able to implement a model that is closer to ours, you know enhancing verticalization, and this is what we've been doing in all acquired companies. In the Midwest, we opened two units in Goiania, we acquired a hospital in Anapolis that is being renovated, we have three hospitals in the state of Sao Paulo in the Center West, several ERs and hospitals were also expanding in the South through organic growth. So once we are able to implement a model that is closer to ours with a more verticalized approach controlling quality and predictability, then I'm sure we can be much more attractive and competitive and therefore gain market share. We've been seeing that in some regions more than others. In agri business states, our operations have been receiving a lot of attention. So I see this opportunities spread out throughout the country.

Now about your second question, you were asking about SUS reimbursement, right. I think there are several factors. We increased our verticalization and we have our own units closer to where our members live and work. So we are expanding access to our own network, and therefore, we can prevent something that is quite common in our industry for all Brazilian operators. So we've been able to reduce that, but we are also actively identifying members that maybe using the public healthcare system or SUS, and we get in touch with them and bring them to our own unit.

And so, SUS reimbursement is not a good deal for us, because we are quite efficient in our own network, providing our members with high quality healthcare, and because of our purchasing power and the volumes of our purchase, we have attractive costs for procedures performed in our own network. And the SUS reimbursement table is based on a compensation. So there is a find [ph] there. So we need to be able to identify these users and we've been doing that and bringing them in-house, and this has had great results.

Q - Vinicius Ribeiro {BIO 19720178 <GO>}

Great, Jorge. That was very clear. Thank you very much.

Operator

Our next question is by Gustavo Tiseo from Bradesco.

Q - Gustavo Tiseo {BIO 21421350 <GO>}

Good morning everyone. Thank you for taking my question, and congratulations on your results. I have two quick questions. One about the increase in the number of lives from the acquired companies. You added 17,000 lives in the last quarter for individual plans. Are you actively selling individual healthcare plans in these new acquired companies? And what may happen with GNDI in the short term, in terms of increase in the individual plans?

Now second question is about the postponed instalments that are being paid in the first quarter of 2021. For the individual plans, the default level is low, is it been hard to charge these instalments from your members? Thank you.

A - Jorge Pinheiro {BIO 20560013 <GO>}

Thank you, Gustavo, for your questions. About individual plans, you know that the individual plan is a very efficient channel for us. We've been selling this type of product for over 30 years now, and throughout this whole time, it's been one of the most profitable channels in our portfolio. However, we must be cautious when selling this type of product. First, because of the full verticalization, we don't sell individual plans if we don't have full control about patient and low medium and high complexity procedure admissions, and we have agreements with our own network and with physicians, and systems, and so on. So we have to be very careful and knowledgeable to develop this product appropriately.

And thus, we can only sell individual plans in cities where we have already been able to fully implement all of these premises and verticalization of the services is the premise that requires more time. So we are in an intermediate phase. We are already selling individual plans in some cities, but in others, we're being cautious and will only start selling individual plans once we achieve full verticalization.

Remember, that we currently have 12 hospitals being built in several regions of Brazil, and we want to increase the level of verticalization, where we already operate, and also we want to have a broader product portfolio, including individual plans. And as these hospitals get ready, I think that we can benefit from the growth in the individual channel.

With regard to default. No, our default levels have not been impacted in any of the individual channels, including retail. It's important to emphasize that our members value our product more and more, especially now during the pandemic, and we have been serving our members with high quality and with the right infrastructure, so users really value our product, and therefore, we haven't seen any changes in the default levels for now, including the first quarter of 2021.

Q - Gustavo Tiseo {BIO 21421350 <GO>}

Okay. Thank you, Jorge.

Operator

(Operator Instructions) Next question is from Gustavo Schroden with Goldman Sachs.

Q - Gustavo Schroden {BIO 21633251 <GO>}

Good morning everyone. Thank you for this opportunity. I would like to talk about pricing and re-adjustments or increases. Last year was a bit atypical with restrictions from ANS. What can we expect for 2021? How have the conversations with ANS been? Any expectations for 2021 considering that we're still facing the second wave of the pandemic? Thank you very much.

FINAL

A - Jorge Pinheiro {BIO 20560013 <GO>}

Hi. Thank you for your question. So I think, it's too early to talk about that. We don't have anything very substantial to share with you, but what we can say is that our business model is quite fit to absorb any type of fluctuation. We are able to absorb that much better than any other business model. So in terms of -- when we have high re-adjustments, that's actually good for us, because people migrate from the competition to us, and historically, we've had lower increases than the rest of the industry.

While the market was at 10% increase, we were asking for 7%, or when the market was asking for 20%, we were asking for 14%. So our price increases are usually lower than the rest of the industry, and that's mainly because of our verticalized model and our really hard work on prevention, identifying users that could have acute or high complexity diseases, standardizing procedures, gaining scale, all of that helped us also with the support of technology. This helped us to buffer the medical inflation that we see in the industry in Brazil as a whole.

Q - Gustavo Schroden {BIO 21633251 <GO>}

Okay. Thank you Jorge. Now about depreciation and amortization that you commented on earlier. Just to make sure I understand, we're expecting higher amortization levels because of the acquisitions that were made, and Mauricio said, at least, BRL100 million for the quarter in terms of depreciation and amortization, was that right?

A - Jorge Pinheiro {BIO 20560013 <GO>}

That was at the [ph] level of 2020 for the acquisition of Sao Francisco, and this is going to remain like that for the next four years. And once this amortization finishes, there will be a great impact on our numbers, but you know for the next four years, that's going to be around that level, but that also depends on the new acquisitions that we might make. But for the Sao Francisco amortization level, it's around BRL100 million per quarter for the next four years.

Q - Gustavo Schroden {BIO 21633251 <GO>}

Okay. Thank you.

Operator

Thank you. If there are no further questions, I'd like to turn the floor back to Mr. Jorge for any closing remarks. Mr. Jorge, you have the floor.

A - Jorge Pinheiro {BIO 20560013 <GO>}

So I would like to close this call thanking our partners and investors who believe in our project of providing high quality healthcare at affordable prices to the Brazilian population. Once again, I'd like to thank our employees who have been working really hard with a lot of dedication, and this actually moves me when I see the effort of our amazing team trying to support and care for our members with a lot of courage and strength to save lives day-in and day out. So thank you very much. And also, our

commitment to our customers is always there. You can count on us. We will keep on working really hard to serve you, and I'm sure the better days will come, but until then, you can count on us to face this pandemic. Thank you very much, and have a great day.

Operator

Thank you. This concludes Hapvida's earnings conference call. You may disconnect your lines at this time, and have a nice day.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.

FINAL

Bloomberg Transcript