Y 2012 Earnings Call

Company Participants

- Eduardo Noronha, Chief Operating Officer
- Wilson Olivieri, Chief Financial Officer and Inverstor Relation Officer

Other Participants

- Josh Milberg, Analyst
- Unidentified Participant

Presentation

Operator

Good morning, ladies and gentlemen and thank you for waiting. Welcome to Qualicorp's Conference Call to Discuss the Results of the Fourth Quarter 2012. We have with us today, Mr. Eduardo Noronha, COO; Mr. Wilson Olivieri, CFO and IRO; and Mrs. Natalia Lacava, the Superintendent of Investor Relations.

This event will be recorded. All participants will be in listen-only mode during the company's presentation, after which we will begin the question-and-answer session when further instructions will be given. (Operator Instructions)

I will now turn the floor over to Mr. Wilson Olivieri, who will begin the conference call. Mr. Olivieri, you may proceed.

Thank you very much. First of all, I would like to thank you all for being here with us on this call. We appreciate your continuous support. In addition to the members that the operator mentioned that are here with us Junior [ph] is also joining this call today, so he will be available for the Q&A session as well.

And I would like actually to start with Eduardo Noronha, which is our new COO that some of you already met, to give his preliminary introduction. Eduardo, please.

Eduardo Noronha {BIO 15227354 <GO>}

Thanks, Wilson. Good morning, everyone. Thank you all for being here with us today. I will start by talking about some operational and financial highlights and Wilson, our CFO and IRO will show in the details our 2012 results.

Our total portfolio of the beneficiaries grew 14.4% year-on-year in 2012. It represents 4.4 million lives. In Affinity segment, we grew 24.9% year-on-year and the health portfolio grew 32.2% year-on-year. In Corporate and all other segments we grew 8.5% year-on-year to 2.6 million lives approximately. Our total consolidated net revenues grew about 35% in the first quarter and 35% in 2012 reaching R$920.7 million. Our consolidated adjusted EBITDA grew 34% [ph] in the fourth quarter and 26.5% in 2012 to R$317.9 million.

We closed 2012 with an adjusted net profit of about R$70 million, which represents 18% year-on-year growth. In the fourth quarter 2012, adjusted net profit reached R$7.9 million, which compared with R$16.2 million in the fourth quarter 2011. Wilson will show you in detail our results in 2012 in fourth quarter. Wilson, please.

Operator

Thank you, Eduardo. So, I would assume that some of you have the presentation that we share through the Internet, so we kindly request if we could please move to page number four. Page number four basically highlights the main indicators that Eduardo mentioned, and I think we will go over each one of those lines in a little bit more detail during this presentation.

The only point that is in this page that I would like to emphasize that we will not show in the next pages are on the leverage side. So if you look at the last schedule on this page, where you see the net debt ratio as a percentage of equity, you would have seen that it increased from 0.04 times in 2011 to 0.32 times. Or even if you look at that net debt as a percentage of the adjusted last 12 months EBITDA went up from 0.3 to 1.4 times.

Basically the highlight here is even with the acquisitions that we made in the third quarter last year and the debentures that we have on our balance sheet we still have a very low leverage side for the profile of Qualicorp as a company.

In page number five, if you could please read it with me, basically we want to show the growth of the number of lives, and as you can see, and as Eduardo mentioned, we reached approximately 4.4 million lives by the end of 2012, and if you look at the last two years, '11 and '12, we are having a total growth of around 21% on a compounded basis. And to your right-hand side, you will see it has not changed much. We have about 60%, 40% relationship considering number of lives in corporate and others, mostly due to the TPA business that carries about 1.4 million lives, and affinity representing 40% of the 4.4 million lives.

On page number six, we will see a breakdown of all of this quarter and total year as well as '11 of all of our business lines. So, you see the affinity health lives on the left-hand side, the affinity new products, then we also show how many lives we had in the other four segments of the business. I think it is important to highlight here that the number of beneficiaries has grown 14.4% year-over-year compared to 2012, and totaling a net increase of almost 550,000 lives for this year. If we compare to the third quarter of '12, our portfolio of beneficiaries increased approximately 41,000 beneficiaries. And again, especially on the growth year over year we have to consider the few acquisitions we made, Padrao and Alianca, which we will look at a little closer on the next slide.

The net addition of approximately 550,000 beneficiaries that I mentioned to the portfolio in 2012, when you compare it to 2011, it was a result mostly of 342,000 lives in the affinity segment, which represented about 62% of the total growth, and about 260,000 lives of net increase in the corporate and other segments, representing almost 38% of the growth, and again including the acquisitions we made in both affinity and corporate.

Our portfolio beneficiaries on the affinity segment as you can see on the schedule grew by almost 25% versus last year, especially due to combinations of a growth of 32% in the health products, and if we compare to the last quarter, it would show a growth that is a little growth, little one is 1%, and an 8.3% year over year in new products.

That actually reduced on the fourth quarter compared to the third quarter by 5.5%, and mostly due to a higher churn level on the insurance product that if you remember somewhere in the middle of last year, we have engaged on a deal with CAASP that added more than 200,000 lives in insurance. That was a very low ticket product, and some of those lives have churned on us from CAASP recently. So it affects the number of lives, but it does not affect much in terms of revenue.

Our portfolio of beneficiaries in the corporate and other segments, as you can see on the spreadsheet, grew by 8.5% when compared to last year, and 2.3% when you compare it to last quarter, especially due to our corporate portfolio that grew 23.3% as you can see in this quarter versus last year.

And we did have a growth on the small and medium enterprise portfolio, which was about 20% versus prior year, but we did face a reduction when you compare to the prior quarter of about 10% due to a field in small and medium enterprises that churned with us. Our head management segment as this fiscal year grew by 18% versus last year, and approximately 2% when you compare to the previous quarter.

If you could please move to page number seven, there we will take a closer look at our net revenues performance and as you can see on the slide, our consolidated operating net revenue reached about almost R$260 million in the fourth quarter '12, which represented an increase of almost 35% versus last year.

And if you look at that number in a total year basis, for your third to the left right-hand column, we will see it reached almost R$930 million of net revenues, bringing an increase of more than 35% on that line, when you compare it to 2011.

And here for Brazilian standards, 2013 will be a very interesting year because we will be able to say that Qualicorp has surpassed the line of R$1 billion of net revenues. So, we will become what we could call a R$1 billion company in 2013.

The net revenues growth on the affinity segment for the fourth quarter was mostly supported by the addition of new beneficiaries organically speaking and also by the acquisition of Padrao and Alianca.

Just so you can have an idea, Padrao and Alianca have contributed to more than R$26 million in revenues in this period. The net revenue growth in the corporate and other segments reached almost R$90 million in 2012, representing a growth of 48%, so it is a fairly interesting size of growth with R$21.3 million in the fourth quarter that would represent growth on a year-on-year basis of almost 23%.

This growth was supported not only by an increase in the number of customers, organically speaking by also by an additional value added product that we have sold to our customers.

In the third quarter of '12, our net revenues reflected the closing of two large contracts bringing the one-time revenue that did not receive in the fourth quarter. So, you do see a reduction on that line and the fourth quarter compared to the third, but that does not mean the fourth quarter of growth that actually means that the third was very high due to these two new corporates.

Going to page number eight, looking at closer detail on our cost of services. As you can see our recurring operating expenses increased by 32.9% in the fourth quarter and compared to the fourth quarter last year and this increase year-over-year came mostly as a result of investment efforts that we have to make in the business, in order to support the future growth and mostly due to significant increase in bad debt expenses caused by worsening of the macroeconomic scenario, which we will see shortly in more detail. We believe that it was mostly due to the high indebtedness level of the population.

The consolidation of Padrao and Alianca in the fourth quarter results has also contributed to an increase in our expenses because they were not as good in the fourth quarter of last year, if you compare to both.

During the fourth quarter '12, we also recognized a R$25.4 million that we consider to be onetime expenses. As a matter of fact, I will actually have to move to page number nine -- I am sorry, I did not want to do that -- when we look at the administrative expenses, our current administrative expenses have increased by 28.2% on a year-over-year basis, when you compare the fourth quarter and we compare to the last year it is 6% versus the last quarter, mainly due to the company's organic growth and the consolidation of Padrao and Alianca.

I would like to anticipate a few questions that I believe may be raised, especially on the line called personnel expenses. As you can see the actual growth on the fourth quarter versus third quarter '12 was 21%, and there are a few reasons to that. So the first thing I would like to cover is if we look at the line called one time administrative expenses, that is on note A, you will see that for the R$8.2 million of the fourth quarter '12 is all related to personnel expenses. The third quarter'12 out of the R$5.7 million that is R$3.5 million related to personnel expenses.

So, if we were to net out the personnel expenses of the onetime adjustments, we would not have seen such a growth and one of the main reasons is we included on the R$24.2 million in personnel expenses of the fourth quarter '12, we had some expenses related to the resignation of the CEO last year and mostly coming from the stock option program payout and the hiring bonus that was originally being amortized for a four-year term that had to be fully anticipated due to that resignation.

And there is also on that line, a full effect of the Alianca incorporation, that if you compare to the third quarter we only have a little less than two-third of the quarter affected, because the acquisition was actually performed in August 8th, as most of you would know.

We would also see an effect of a salary adjustments for as now mostly in Brazil salaries have to be adjusted every 12 months, so the adjustment for the employees of one of our companies called Qualicorp Administradora that affected client was happened in August and so therefore, fourth quarter had a full effect of that salary adjustments compared to two-third of that effect on the fourth quarter last year, sorry were in the third quarter.

So, having said that, this is what we have to explained the majority of these guys[ph] on the administrative expenses. So, moving to page number ten, on the selling expenses, as you can see our recurring selling expenses increased by 13.5%, showing here some leverage if you compare to a top line growth versus last year of 35%.

And this was basically due to the results from the expenses we incurred in collections of sales and marketing campaign.

And as you can see here, one point that I would like to highlight on the third-party commission, we see growth versus last year and versus last quarter that is a little higher than the other and the main reason for that growth was that when we incorporated Alianca figures, we did have to accommodate the commission levels to the accrual basis that we work on to be in compliance with CPC and IFRS. So we did have an effect of accumulative effect on the R$14.7 million in the fourth quarter that would actually belong to the third quarter. So that's why we have seen a high increase on that line.

If we compare on a quarterly basis, the increase in the commercial structure to support our geographic expansion was also reflected on that number. We have mitigated, as you can see, on the publicity and advertising line a fair amount of the growth, so if we look at the third quarter, we have invested approximately R$9 million in publicity and advertising, and we have brought down to R$2.4 million in the fourth quarter and that decision was made internally here mostly to mitigate the growth that we already knew was going to happen on our net debt account.

So, talking about net debt, we are going to page number 11, and as you can see we experienced a fairly significant growth in the fourth quarter '12 versus fourth quarter '11, approximately 83% growth on that timeframe. If we compare it only with the last year of the prior quarter we saw a growth of about 30% on our net debt expenses.

And one of the reasons why that happened, aside the fact that as you all may know we had a higher than average price adjustment in July, which averages about 11% for the first-time double-digit rates for the last three years. Aside that fact, the Alianca and Padrao acquisitions also contributed to approximately R$3.7 million of that growth, and if you were to look at the R$3.7 million as a percentage of the net revenue they generated you will be seeing a 14% net debt accrual on the P&L, which actually deleveraged a little bit of the consolidated margin.

Even excluding the acquisition we would have Qualicorp's organic net debt, an around 8.8%, which is about 50 basis points lower than the total, but still very high, and the highest we have experienced in recent times.

So, that is definitely the main focus of the company leveraging down most of what we have seen recently, and the biggest part of that is due to the macroeconomic scenario with a level of indebtedness of the Brazilian population, which is expected to be back to normal standards. But the only question here is we have not seen an economy in the country that has set a base target for that to come back.

We too have put a lot of effort to mitigate those increases, and we have listed here four of those main efforts. Some of them are stimulating our customers and our new customers to use the direct tax accounting, on the bank accounts, which formally creates less churn and less delinquency. We are also finalizing an evaluation of sending some of our debt payers to the blacklist, which in Brazil is a very sensitive strategy, so we will be very cautious in implementing that strategy.

We do have an even more aggressive approach to retain our customers and our basis than we have historically and we hired already a couple of collection agencies that are specialized in increasing collection terms, so in order to mitigate some of these effects that we see on our balance sheet.

If you could please turn to page number 12, we have on the other operating income and expenses line, some recurring expenses in the fourth quarter that were actually totaled R$1 million and mostly due to the constitution of provision to the accrual for contingencies that we had to make during the fourth quarter.

We accounted in the fourth quarter for an almost R$17 million - R$16.5 to be more specific of non-recurring expenses, that were mostly related to three main items. Item number one, the impairment of the practice solution portfolio, which we have already mentioned previously on this call, which is R$11.4 million.

We did have to write-off a tax credit. As some of you may know, the Qualicorp Group is composed of six different legal entities. In one of these legal entities we have accumulated losses on our balance sheet, that according to the IFRS and the CPC line could not be amortized because they were not with us for more than three years, so we had to write it off, there was a R$4.7 million in write-off and we do have a small write-off of less than R$1 million, referring to fixed assets from acquisition.

Moving to page number 13, we see some details on our financial income and expenses. And as you can see, the financial income here is mostly coming from two different sources. As usual, the interest on financial investments, on the cash that we keep on our balance sheet, and interest on payments and half in the least figures that generate alternatives and interest on these late payments.

The financial expenses are based on the current debentures that we have with Bradesco, since the Carlyle acquisition in 2010 that had a five-year term. An interesting idea to highlighted despite the reduction that we had experienced on the interest rates in Brazil as a whole, we call Selic rates, our financial revenues still increased by 31.4%, but the increase came mostly from the monetary adjustment reversal that we had on the call option of prices.

So, just to give you a perspective, as I mentioned to you, we wrote off about R$11 million on the asset side, and because we do have a putting call reserve for the remaining 30% of the company that amount had to be adjusted as well, and that reverts positively into R$4.3 million to us that we accounted from this line.

On the financial expenses, I think it is important to highlight the recognition of an R$19.3 million of our recall, the monetary adjustments on the call option and the debt related to Alianca acquisition.

As we have mentioned with some of you in some of the calls you participated, the fact that we have acquired Alianca on an open evaluation, meaning it would be 9.5 times of the 2013 EBITDA, that means we will have to revisit that accounting every quarter, and depending on the discount rates we consider on the calculation of the net present value, or sometimes if we have an excess on the EBITDA that might be different, we will have to debit or credit P&L, depending on the performance of that balance.

So, this was the first time we did that, so, therefore, R$19.3 million accounted for equivalent of a five months adjustment, not only for the quarter, because we did not have that adjustment in the third quarter this year.

Moving to page number 14, we have a close look on our cash generation capacity, or EBITDA numbers, if you will, as you can see, our consolidated adjusted EBITDA number has grown by 34% compared to last year, reaching almost an 85% for the quarter in the fourth quarter.

We have reached, in 2012, R$318 million of EBITDA, representing a margin of 26.5% -- sorry representing growth of 26.5% when you compare with last year, even considering the high level of net debt we have experienced for this period.

So, we do believe that growing 34% on a year-over-year basis, or 36.5% comparing the full year versus last year, we do understand this is an interesting level of growth for a company that is experiencing the debt line.

The incorporation of Alianca and Padrao contributed to R$7.4 million out of this number. It is important to mention that if you calculate R$7.4 million as a percentage of the net revenue generated, you will see margins coming from acquisitions around 28%, which do comprise a lot of adjustments that came through due to the acquisition, so it did deleverage a little bit our total margin, so that is not expected to happen again for 2013, but it did affect our margin for the full year 2012.

As you can see here, our EBITDA margin in the fourth quarter '12 reached almost 33% margin, which is pretty flat when compared to the same quarter last year, then we showed a reduction of almost 2.4 percentage points when compared to the prior quarter, mostly coming from the increase in net debt.

Page number 15, I would like to share with you a little bit our thoughts on adjusted earnings. So as you can see in the fourth quarter '12 we recognized the R$19.3 million expenses that I mentioned to you, so that is the reason why you see a R$7.9 million adjusted earnings for the fourth quarter.

If we were to adjust that amount, and I have to be very candid to you, there were a lot of discussion internally if we should or we should not adjust deducting for R$3 million, because this is a non-cash item, but at the end of the day, we decide not to adjust it, but to keep it in line with the strategy we used in 2012. We keep reducing as much as possible our adjustments to the results.

But if we were to decide to adjust that, the 7.9 would be approximately 37.4 meaning that the growth in reais would be 68% compared to 2012. Once we have considered those expenses of our numbers, we still show that a growth of 18.2%, on a year-over-year basis, but yes, we will see a reduction when compared to prior quarters of more than 50% due to that adjustment.

In page number 16, we give you a little bit more flavor on our CapEx investment, and as you can see here, total 2012 CapEx has closed at R$49.5 million, pretty much in line with the numbers we have shared with you.

It is important to mention that on this specific CapEx investment, the majority of these investments is related to IT and as discussed in some calls, we have outsourced all of our capacities in terms of IT, not only on developing our new platform, but also in terms of outsourcing our infrastructure.

So, we have started that process in the second half of last year and we should continue with this process for the first half of this year and consistently what we sharing with you due to those challenges, we still expect about R$50 million investments for the next couple of years in IT. So we can finish the development of our new operational systems.

Finally, go to the last page. We give you a quick look of our capital structure and I think the most important point to highlight here is that our net debt increased from R$70 million to almost R$450 million and there are two main reasons for that.

Number one, the payments we have made for the two acquisitions in the third quarter, that we wrote a check in the total of R$280 million and we also added to that the effects of the Alianca acquisition, that are actually due to the IFRS and CPC requirements, we are actually accounting as an accounts payable considering the putting call situation for a 100% of that company that we had in 2017. Altogether explains why our net debt increased to such high numbers.

So having said that, I think this covered what I would like to show the results. I would like to open now for the questions-and-answers session.

Questions And Answers

Operator

Thank you, sir. We will now start question-and-answer session. (Operator Instructions) And our first question comes from Milberg.

Q - Josh Milberg {BIO 2004065 <GO>}

Thanks for the call, everyone. My first question is on bad debt. Wilson, on the Portuguese call, you mentioned that 7.5% is a reasonable expectation for the average level in 2013. I was just hoping you could give a little more color on your level of conviction on that and also just give us some perspective on what that outlook assumes, for how much you need to increase affinity price in July of this year?

Operator

Okay, Josh. Thank you very much for being here with us, thank you for the question as well and also thank you for allowing me to share in this call the same information we shared on the other call.

Well, what I can tell you, and this is not a surprise for most of you, as you all know, 2012 was the most difficult year, the most challenging year that Qualicorp has faced regarding net debt and delinquency rates on the past few years.

So, having said that, and if you look at our closings for 2012, you would have seen that we had a 7.5% net debt accrual, if you will, or delinquency rate as a percentage of net revenue for 2012. So, what we expect at this point in time is that 2013 could be as much as difficult and as much challenging year as we have experienced in 2012.

So therefore, if that happens to be true on a conservative scenario, we will recommend our investors, and we will do the same exercise internally, to assume that the same 7.5% we experienced in 2012 will be repeated in 2013.

Even though we are putting a lot of other efforts in order to mitigate those effects, as I mentioned to you, that drives me to the second question you will have also that effect in net debt, which is the expectations of price adjustments for 2013.

In the Portuguese call, we did not said more than that, and I think that is a very important component of that indicator.

What happened there is that cost -- medical cost in Brazil is still being very much pressured, I would say not only in Brazil that is a phenomenal we are experiencing probably worldwide, but it is not different from the rest of the world. So although we had a few months ago, expectations that our price adjustments could be below the double digit rate, I think that at this point in time we probably do not have any questions anymore that they will surely be above the double-digit rate.

So, should it be 11%, 12% or 13%, that is something that still will depend on a few other factors, but it will definitely be double digits. Having said that, we might have a second half of the year as challenging as the second half of '12 was, so therefore we recommend keeping the accrual for bad debt of our projections in line with 2012.

Q - Josh Milberg {BIO 2004065 <GO>}

So, you are saying that we are going to have another year of double digit increases? Are you expecting that? Because last year you were able to increase prices on a lower rate than what we saw on the corporate plan side, are you expecting that once again you will be able to do better than the corporate?

A - Wilson Olivieri {BIO 17325685 <GO>}

Yeah, to give your perspective if you look at 2012 official numbers now, the medical inflation for corporate customers was about 16.4% for 2012. The size of the average price adjustment we passed through on our portfolio customers was about 11%.

So, to your point, our main challenge and the challenge of our health management team is basically to make sure, I mean, we cannot -- I would love to have like a kind of magic that could just erase all of the medical costs of the system, but we can't, so our challenge is to make sure that we make our prices more adjustable below corporate adjustments.

So, directly answering to your point, we would expect this year corporate price adjustments to be higher than 15%, so therefore, always should be if not 11%, anywhere between 12 and 13 [ph].

Q - Josh Milberg {BIO 2004065 <GO>}

Okay. Thank you very much.

A - Wilson Olivieri {BIO 17325685 <GO>}

Okay. Thank you Josh.

Operator

Thank you. And the next question comes from (inaudible) from Santander.

Q - Unidentified Participant

Okay. Thank you for taking my question. In the Portuguese call you mentioned that churn on the client retention had been a challenge for the company because throughout the year because your news plans have been quite strong. I was just wondering which kind of membership growth rates you could project for this year?

A - Wilson Olivieri {BIO 17325685 <GO>}

Thank you Bruno for being with us. And on that point, I will repeat what I said on the Portuguese call which and I apologize for some of you that probably heard me saying that a few times already, but on the benefit of those that have not, I will repeat that so in 2011, our average gross debt was about 20,000 lives per month. It has [ph] been a growing made from January to December, but average of about 20,000. So, in 2012 our average gross debt went up by 25,000 lives per month, so that is an interesting increase.

Organically speaking for 2013, we are looking at internal targets that should drive us to an average of about 30,000 lives per month for 2013. Assuming that as we will be true and considering the preliminary results we have seen early this year, we are very much on track of reaching that target for this year.

Also considering an equivalent level of churn as we experienced in 2012, we will still see a growth of our portfolio organically speaking end of 2013 versus end of 2012 that would run about 11% or so. If you combine that with the expected price adjustment, you might see top line growth, conservatively speaking, at the low prices level.

Q - Unidentified Participant

Thank you very much.

A - Wilson Olivieri {BIO 17325685 <GO>}

Thank you, Bruno for the question.

Operator

Thank you. Our next question comes from the line of Scott of (inaudible).

Q - Unidentified Participant

Hi, thanks for taking my question. Wilson, could you talk about your customer acquisition cost, how much has it increased above inflation over the last two to three years? What is it now? Is there longer term opportunity for cost improvement? And in the second part of that, you currently have 85% of your sales force external, what will that percentage look like in three years and how will that impact you? Thanks.

A - Wilson Olivieri {BIO 17325685 <GO>}

Scott, thank you very much for being with us and thank you for the question. In terms of cost of acquisitions, as you know, we do have a fair amount of discretionary expenses that we invest in a given year or in a given quarter to speed up certain sales, either regionally or nationally.

So, if you look at the fourth quarter as I mentioned during the call, one of the main components of the cost of acquisition was marketing expenses. So, in the third quarter last year we have invested almost R$9 million in marketing, while in the fourth quarter because we already knew that net debt accrual would be higher than we expected, we cut that down to 2.4 million.

As you can see, we do have a lot of flexibility and a lot of management of some of these discretionary expenses.

Due to the sales expenses line, we also have a fair amount of those expenses that are as discretionary as marketing that refers to premiums we did to our sales sponsorships we decided to make along the year, so they are all very much manageable.

So, the straight answer to your question, I would say our cost of acquisition throughout the last two or three years they have been consistent if you consider that as a percentage of sales, and if you consider them as a nominal amount they have increased as much as our sale has increased.

So we have, in a nutshell, I would say, we have invested the same amount of effort today financially speaking that we had invested a couple of years ago, including sales commission on that.

Q - Unidentified Participant

So, just to be clear, the cost per customer has not changed more than inflation?

A - Wilson Olivieri {BIO 17325685 <GO>}

No, but (inaudible), sorry, what inflation do you mean? General inflation or medical?

Q - Unidentified Participant

The acquisition cost, I guess that has nothing to do with medical inflation, so how much is the increase relative to medical inflation?

A - Wilson Olivieri {BIO 17325685 <GO>}

Well, there is no relationship directly between the medical inflation and the cost of acquisition. The cost of acquisition is more a consequence of the potentially high competition on the market.

What I would say is that cost of acquisitions could be affected very indirectly by the medical inflation is because we did have to increase prices higher than expected, we would probably need a little bit more efforts in terms of marketing and investment to sell at a higher price. But if you consider that as a percentage of sales, as I mentioned to you that should not have changed. That is the better indicator to look at, if you will take my recommendation.

Q - Unidentified Participant

Thank you.

A - Wilson Olivieri {BIO 17325685 <GO>}

And the second question that you asked about the external, strategically speaking, we always plan to keep our internal or self-owned sales force, and the main reason for that is that we will always know how the market behaves, we will not need to learn that of a third-party sales force.

And every time a third-party sales force decides to do anything that is not in our agreement, we can compensate for that with our own sales force. So, strategically speaking, we do believe that the continuation of internal sales force is very important.

You will always see fluctuation between 80% and 85% external, 15% and 20% internal sales force, depending on our decisions, especially in geographic growth.

We start geographic expansion always with third party sales force, and once we believe we have a loss, a critical mass of lives in a given region, then we may start with our internal sales force. That is about the strategy we have behind that indicator.

Q - Unidentified Participant

Okay, thank you.

A - Wilson Olivieri {BIO 17325685 <GO>}

Thank you very much, Scott.

Operator

Thank you. There are no more questions at the present time; I would like to turn the call to Mr. Olivieri for any closing remarks.

A - Wilson Olivieri {BIO 17325685 <GO>}

So on behalf of Eduardo, Junior and the whole IR team, I would like to thank you all very much for being here with us, and if there is anything, as usual, we have not covered, please feel free to contact us, either through the email or through a direct phone call. Thank you all very much. And for the ones who will have an Easter holiday, I wish you all a great Easter, there will be an Easter weekend in Brazil.

Operator

Thank you. This concludes today's conference. You may now disconnect your phone lines. Thank you for participating, and have a nice day.