# Y 2021 Earnings Call

# **Company Participants**

- Ana Paula de Medeiros Carracedo, Chief Compliance, Risk and Audit Officer
- Bruno Blatt, Chief Executive Officer
- Elton Carluci, Vice President, Sales, Innovation and New Businesses
- Frederido de Aguiar Oldani, Chief Financial Officer, Investor Relations Officer

# **Other Participants**

- Eugenia Tedde Cavalheiro, Analyst
- Gustavo Tiseo, Analyst
- Mauricio Cepeda, Analyst
- Renan Prata, Analyst

#### Presentation

### **Operator**

Good afternoon, ladies and gentlemen, and thank you for holding. Welcome to the Quali webcast to discuss the fourth quarter 2021 results. Present with us today are Mr. Bruno Blatt, the company's CEO; Fred Oldani, Chief Financial and Investor Relations Officer; Elton Carluci, Vice President for Commercial Innovation and New Businesses; Pablo Meneses, Vice President for Operations and Relationship; and Ms. Ana Paula Carracedo, Chief Compliance, Audit, and Risk Officer.

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We would like to inform you that this event is being recorded and participants will be in listen-only mode during the company presentation. Ensuing this we will go on to the question-and-answer session.

I would like to turn the floor over to Mr. Bruno Blatt, who will begin the presentation.

## **Bruno Blatt** {BIO 21352052 <GO>}

Good day to all of you who are accompanying our Quali earnings result call. For me these moments of presentation of our figures and performance are not merely a routine for a

listed company. For me this is a deep moment of reflection of a company which during these two years has been growing with quality, respecting its collaborators and embracing FX with a daily posture and all of its actions.

It's no surprise for you the moments that we are living through impacting the lives of people. I cannot speak only about results. In the final account, we are a company that cares for the health of people, the families who have put their trust in us. Well we truly regret losing them when they are unable to pay for their plans. This crisis that despite having 107 operators in our portfolio and the largest offer for Brazilians in 2021 had a high level of cancellations.

Along with this, we have the EDV and the increase in the interest rate of course these are factors that have impacted our results and well I would like to share with you the feelings that go beyond financial results, cancelations for us represent not only numbers, they represent families, people and each cancelation this survey deeply since I took office in November of 2019, we opened 69 new operators to enable our customers to have more choices and to offer quality.

Health care for the Brazilians at Quali, all clients are important. We don't give up on anybody and not giving up on everybody as a mantra that we repeat in our daily work in. In this cycle of a little more than two years, we have had several changes in the company. We have created a team of excellence, a committed team focused on the goal of being the largest and best company in the sector in the country.

A team that is active to deliver our goal and every day we become a company focused on data and technology. The high interest rates, the economic issues, the squeeze and the purchasing power of Brazilian companies are hampering the advance of our companies, we could have advanced more.

But we should celebrate the important results of the changes that have been made. I will give you some examples. We have changed the sales level in 2021. We had 514 new lives added in the year to our affinity sector, a growth of 56.4% vis-a-vis the previous year. As we had mentioned, we maintained the sales at 45,000 or 40,000 new lives every day and we went beyond this beyond the affinity health side, we had a growth of 36% and the SME segment become the largest broker in this segment.

We did all of this in the commercial part. Well we also distributed BRL750 million to our shareholders buyback of shares and much more. For shareholders who believe in this company and this expressive return was done. While we undertook an enormous cultural operational and digital change at Quali. There were several investments and we will detail these further ahead.

We also worked with all of the deliveries and achievements that I have mentioned and there were many. We obtain these results because we work very arduously because we're constantly pursuing goals. This is how we manage Quali as leaders everything that we have done here will generate value for the company and its shareholders in the long-term. This is what I believe when we look at the long-term. I look at this year and I say our

expectation is to maintain the new level of sales achieved in 2021, an achievement for Quali. And we hope to have a normalized level of churn to go back to our normal activities after these two atypical years.

We know that this will be perceived as of the first quarter of this year. Additionally, all of this with solid foundations as part of our growth strategy. We will continue the transformation of quality with multi-products and multiple channels, several channels such as Vivo, which Elton will speak about and Quali insurance. This shows us we're on the right path carrying out deliveries.

So what is happening today does not reflect our financial results nor the structural changes we have implemented in the company. This is other conviction. So do trust us, we know the path, we know where we are getting to, and we will get there and we are concerned with the situation of violence the world in the world which makes us very saddened and we also have difficulties in our country, but we can celebrate the concrete actions in terms of Quali.

We who live in private initiative have to work on our sensibility to understand the problems that surround us and contribute to a more just, more humane, more cooperative and more efficient world. We want an environment of peace, while we work with company, that will be ever more better, no more pessimism. This is a grand enterprise that was born with people with hope and we have to work together.

Thank you very much for your attention, for your confidence. Let us continue on together. We know the path, we know the challenges, and under challenge we produce ever more.

I would now like to give the floor to our team.

#### Ana Paula de Medeiros Carracedo

Thank you, Bruno. Good day to all of you. I think most of you do not know me. I'm Ana Paula Carracedo, Compliance, Risk and Audit Director at Qualicorp. I have 20 years of experience in the Votorantim Group, where I was responsible for compliance. At the end of 2020, I accepted the challenge of joining Quali and I saw the transformation into a statutory company. What I would like to underscore here is the importance of this topic for the present day management.

My reach is to work in five different areas. The first is compliance and integrity, risk management, internal auditing and ESG. These areas have undergone a broad reformulation and I would like to share with you our main items in the 2020 agenda.

When we speak about compliance, we set up the pillars, we reviewed and brought the policies at Quali with a vision geared towards ESG and our stakeholders. We also set forth clear policies about sponsorship donations. We set up an FX community and created an area for the prevention of fraud and others.

We also activated our security operation center to work with cyber security 24/7. This allows us to be calmer in terms of privacy. We created policies concluding our plan when it comes to the treatment of personal data. As you know, personal data are critical items for company and we devote a great deal of energy and attention to comply with the legislation.

In risk management, we have a very experienced person with more than 10 years of work and we're analyzing the risks inherent to supplementary health care. In terms of internal audit, the main change was an adjustment in our methodology, systemic test, looking at a 100% of our key processes and we are classifying what in fact could be critical and merits the attention of our management.

And finally in ESG we structured the area along with the integrity program. We have mapped all of these strategic issues created a materiality matrix in the company to have an integrated report and we aligned all of the key points based on the UN SDG models.

Our goal here is to have the Quali way of being an active and new model to relate with our different stakeholders based on FX, value generation, and sustainability. It is a pleasure to be here with you and I'm at your entire disposal.

# **Elton Carluci** {BIO 21743831 <GO>}

Good morning to everybody. Thank you, Bruno, thank you, Ana. This is Elton Carluci. Once again good morning to everybody. This is Elton speaking. It is a pleasure to be with you in another Quali earnings result call. I would now like to speak about the fourth quarter '21 and consequently the close of the entire exercise. Now, before I go to the numbers, I would like to very briefly refer to the important deliveries we carried out in 2021.

And I would like to begin speaking about our pillar for the orientation of customers where the company has practically redefine the entire service and relationship strategy, reinforcing with the operations team that outlook of transforming quality into a customercentric company and where we would like to leverage the investments that we receive an infrastructure and systems.

We have also contracted some specialized consultancies. We ended up replacing our BPO supplier. We carried out enhancements in the contracts and payment models, thus enabling us to align this and satisfy our customers. We also have a significant change. We have implemented an operational management system called COPC customer operation performance center and we already observed significant improvements in the customer journey.

I would like to highlight three important indicators with very important enhancements in the operation. First, the first call resolution that was at a 69% level at the beginning of 2021. We ended the year with 83% of resolution and the first contact in the voice channels and 92% in the digital channel. The second indicator that is very important is the customer satisfaction with our service that has evolved.

The average for the year 2020 was 24.6%. Presently, at the close of December, we reached 74% an expressive and significant improvement. Third, our internal level of SLA. That is to say promises to our customers within the term set forth. We were able to reach 98%, which is a very important figure a benchmark as other companies work with 95%, which means we are above the market standard and our team CX and UX continue to work with procurement that will impact the company throughout 2022.

Another very important pillar is people and culture. We have evolved considerably in terms of alignment of the interest of our associates. We have expanded our diversity and inclusion program. Women represent 68% of the company and 59% are in leadership positions. And we have also included non white people that is to say black people, brown and indigenous people that represent 36% of the Quali's.

Now in the IT and data area. We carried out an important change, especially in data and analytics. We have been supporting the company considerably in the process of transformation, so that we can be a data-driven company. We concluded the development of all the important proprietary systems, which includes sales, management and processing. All of this we call Quali set of systems.

And of course besides the models for cancellation and an intelligent platform to offer plans that we have already begun to use in our retention models. We continue to invest in the loyalty of our commercial partners. We have strengthened our relationship program with our brokers and we have a significant expansion in the average number of lives sold by consultant. Our brokers are here to stay and this of course is a success.

I would also like to underscore some acquisitions such as the Grupo Elo and Escale, which have been helping us a great deal in generating leads at default and ahead of new channels. We have had important deliveries throughout 2021 besides our own stores and shopping, digital channels, important partnership with Vivo, Inter, SmartFit, Orthopride, Sincor among others allowing us access to millions of prospects for all of our channels. What we would like to highlight is our marketplace QualiSeguros with significant rises this was built during 2021 and in 2021 our e-commerce version for affinity plans with a journey that has been completely redesigned, allowing a better purchase journey for our customers who buy from our site.

But Bruno has already highlighted this, but 2021 was a year of a strong expansion for regional programs. We have reached 100 operators in our portfolio, a mark, and a 1,000 products are available covering all the regions and price categories practically. There is a product for each different region. All of these actions and a few more that I will not highlight because of our time constraints will doubtlessly contribute so that the year 2022 can have a superior performance.

Now to dwell on the numbers at the close of the year to speak about sales of cancelation. We begin with sales, as you can observe, we ended the fourth quarter '21 with a 131 lives sold in affinity health lives. This represents vis-a-vis the last year, a growth of 71% in fact showing that the company has definitely changed its level of gross adds.

We should now have to work with seasonality. The fourth quarter of course will have seasonality, but when we look at the curve, this is a level, which without a doubt is here to stay. I would like to anticipate something that will appear in the Q&A. We haven't seen a significant change in the sales to these customers, in percentage terms, we are compatible with the previous quarter.

There has been no alteration in these figures and this is an important indicator. In the SME front, we have already made comments, but we had a growth of 36% vis-a-vis the fourth quarter '20 our strategy to enhance loyalty remains unchanged.

We have customers who are from companies, they can sold their affinity health lives and they continue receiving offers for SME at the moment of the cancelation. This is important and will continue on. Now changing topics. A very brief view of our churn before Fred takes on the presentation.

Although this is a topic that we frequently share in past calls. I would like to highlight once again that the year 2021 was a typical. We had a combination of an annual readjustment and what happened in 2020, that was 37% increase for our customers. This continues to have an impact on our cancellation rate. And although we can observe an improvement in the fourth quarter compared to the third quarter.

For the year '21, there was a reduction of a little more than 11%, but the pro forma continues to be negative. And this is an important indicator that we would like to anticipate. There was an improvement in the sales month after month. And well this continues to impact and contribute to the performance in the fourth quarter.

A cancelation due to default that of course continues to exert pressure in the fourth quarter. It cause a significant pressure on cancelation. Very well. This is all I am now at your disposal for Q&A.

And I would now like to give the floor to Fred who will continue on with you.

## Frederido de Aguiar Oldani

Thank you, Elton. And good day to all of you. I begin on slide 26 to speak about the quarter highlights and the close of the year 2021.

Perhaps it is worthwhile reinforcing what was mentioned by Bruno Blatt. The cash that we destined to the year 2021 for a return to shareholders BRL750 million in terms of payout for dividends and share repurchase a substantial volume. If you compare this with the present day market cap of the company and it shows you how the figures of the company have been resilient during the last two years under our management.

Now going to the results. I would like to speak about our lives portfolio. We ended with 1.17 million lives of growth of 56% vis-a-vis the previous year. These figures perhaps are not the most relevant to explain the company results, but they began to show the results of

the new product offers. Here you see all of the dental products, pharma products and others showing you that we have been able to add value for our customers based on the offer of these new products. Now this still is not relevant in the company results, but it is very aligned with our strategy of making our company a multi-product, multi-channel company.

Now the hospital segment, which is the most important 96% of our revenues come here. We had the addition of 8,100 lives benefited by the portfolio of Elo besides the portfolio of lives that we acquired from Unimed-Natal counterbalancing the negative effects that we had from the churn out as mentioned in our portfolio. So we were able to show a slight growth in our portfolio in the fourth quarter.

For the year, a slight contraction 22,000 lives approximately and this has already been fully remarked during the previous presentations. Now the main causes for that relate to an atypical churn and all the scenario of the year 2021 where we had two readjustments and the re-composition of the 2020 readjustment that was divided into 12 instalments during the entire year. Now this created a atypical churn scenario, a bit of an outlier compared to what we see historically.

Despite this, it is worthwhile underscoring the additions, not only for the fourth quarter, but for the entire year. We went beyond 15,000 new lives, which represents an average of 43 lives a months, compared to what we had in the year 2020, a significant improvement and quite aligned with the indications given off by the management since the beginning of last year. We stated that we intended to stop at 43 or 45 lives a month, which is something we were able to deliver throughout the year after the incredible work done by Elton and the commercial team.

Now, the performance of revenues, a slight growth in the fourth quarter, 1.2%, and for the year this growth was up 3.5%. Still of course below our potential, but it is always important to have some sort of growth. BRL1.5 billion of EBITDA, BRL260 million for the fourth quarter. And in the next slide, I will speak about this in greater detail. Net revenues, net income BRL366 million in the fourth quarter totaling BRL365 million for the entire year. A slight reduction compared to 2020 and BRL50 million for the fourth quarter we will also speak about the reasons underlying this performance.

Net debt 1.5 and we ended the year of net debt-EBITDA of 1.45 times always within the range that we set forth, which is 1 times or 1.5 times of leverage throughout the year. And finally the cash flow. After the investments and before the M&As, we reached BRL315 million for the year, showing you that despite these substantial investments carried out in the commercial part to acquire customers, we still have a very sound and robust cash generation showing you the resiliency of our business.

We go on to the next slide to speak about the performance of the quarter. Well it is worthwhile mentioning that the management reviewed the EBITDA report method, we are now adopting a simpler adjusted EBITDA, making adjustments only for non-recurrent events during the quarter.

Our previous system had several adjustments, adjustments that makes sense to understand the performance of the business, but our opinion at present is that these adjustments no longer appropriately reflects the performance of the company and that is why we will continue to report all of the line items and exactly the same way.

We have not reduced anything in the disclosure. The same line items are there. Those who want to consult our spreadsheet will see that the same data and the same opening is still there, enabling you to have a very good analysis. However, the management believes that there should be a simpler adjustment pointing out non-recurrent impacts. This makes it easier to analyze present day results, especially because of the changes in our commercial policy which have changed and had confusion to the analysis of amortization.

While having said that as part of this methodology, our EBITDA margin is approximately 15% for the fourth quarter and for the entire year the figures were quite similar. Adjusted EBITDA in the fourth quarter in the annual comparison had a growth of 15.3% and a significant expansion in EBITDA margin.

In the fourth quarter of last year we had some important effects in the fourth quarter of '20 especially due to the recomposition revenues default. These were figures that were somewhat more difficult to analyze. Now the figures of the fourth quarter '21 are simpler in terms of the analysis and they reflect in a very coherent way the results that the company is delivering in the short-term. We go to the lines below the EBITDA. It is worthwhile making some comments on our financial results. The financial result was quite impacted due to two effects in the fourth quarter.

The first is the update of the purchase options. The company at present has 75% stake in these companies and they have the option of acquiring the remaining 25%. Now the accounting rules demand that we annually revisit these assumptions based on performance.

In both cases the conditions are set forth based on the effective EBITDA of future years and we revise these assumptions every year. And because of this, we have to make adjustments upwards or downwards in the fourth quarter. We have acknowledged 22 million of additional value compared to purchase options because of the improvement in performance we observed in these two operation.

And it's important to explain this in this disclosure, it's not something normal to the operation. It's an additional value for the cost of M&A, the enhancement of performance in the companies and they have to be acknowledged and financial results because of accounting practices.

And this explains almost half of what we had in terms of financial expenses in the fourth quarter. We also had the impact of the interest rate. We began the year at 2% and ended the year with almost two digits in terms of interest rates also generating a significant increase in the financial cost, as our debts are 100% pegged to the CDI variation.

We go on to the next slide to speak about the cash flow for the quarter. We had a cash flow of 89 million for the quarter totaling 405 million for the year 2021 with a CapEx of 90.3 million for the entire year. And it is worthwhile highlighting that we had important investments in IT throughout the year. We invested heavily to improved our technology platform. I believe Elton did mention some of the enhancements made during the year.

Now this CapEx has a level that is higher than we intend to have in 2022. So it is one of the highest CapExs, but it reflects the priorities of the company to invest in digitizing the company in data as these are the main company priorities.

With this we generated 315 million in cash and the cash burn was practically for that entire value and acquisitions carried out throughout the year and acquisitions carried out in 2020 paid in 2021. Now, our cash flow with this after the M&As stood at practically zero now give the relevant payout that we did to shareholders.

This was financed with debt. During the year, we added 800 million in net debt throughout the year. As part of the strategy that we have already mentioned at the beginning of last year of taking the company leverage close to 1.5 net debt EBITDA ratio. And if we look at the figures of the year, what we forecast for the year 2021 was very close to what we had anticipated.

With this I would like to end the comments on the performance of the fourth quarter of the year and I would like to offer the floor for the Q&A session where we're all at your disposal to clarify any doubt that you may have. Thank you.

### **Questions And Answers**

# Operator

Thank you. We will now go on to the question-and-answer session. (Operator Instructions) Our first question is from Gustavo Tiseo from Bank of America. You may proceed sir.

## **Q - Gustavo Tiseo** {BIO 21421350 <GO>}

Good morning. Thank you for taking my questions. We have two at our end. The first understand the dynamic of competitiveness, which has been the reaction of the antitrust company the CADE. Has there been a reaction and have you gained the space that you expected. And, secondly, if you could give us some color in terms of the number of lives on the platform you worked with Telefonica Viva. And of course which is a result of the addition of these new platforms? Thank you.

# **A - Elton Carluci** {BIO 21743831 <GO>}

Hello, Gustavo. This is Elton. Good morning. Very well. I will, first of all, speak about the CAC, the competitive dynamic. We have spoken about this in-depth in past calls. We have begun to test the level of incentives vis-a-vis sales volume. We made important adjustments, including a long-term alignment, which is very important and alignment of the medium and long-term with our partners. The bonuses at present are paid

considering the first, the third, and the six months. We have percentages that guarantee that the lives will continue with us. And this has already been put in place. In the first quarter, we can already see that this falls within what we had imagined, but of course there is seasonality. The first quarter of sales tends to be lower than the average people take vacations in December and we do have sales in effect in January and February. But there has been no great change. And going forward, it's surgical work, we have to analyze the performance of the product in each different region. This is something the company will do, but we're already operating at a CAC level below what we had planned. It increased. We repositioned the company in terms of gross adds and we are now carefully gauging this. We do not expect a reduction in sales or to have the company returning to what it was in 2020. This is not in our radar based on the company figures. Now, the second point, and should you have a doubt we can return to this, the new platforms. All of this will be launched during this year and perhaps the most important data is not an absolute figure. Every month there has been an increase of two digits compared to what we were selling the previous month on those platforms. We can't give you specific guidance, but in the medium and long term, if we continue on with this dynamic, perhaps our sales share will come from these platforms. This is before what we had imagined, the e-commerce converts double of what it converted in the past already in the first month of operation. So the experience is doing well. It is very dynamic. Everything is operating and there's really nothing in the radar to worry us for the long-term. We're guite satisfied with the results that we have observed from the new channels month after month.

#### **Q - Gustavo Tiseo** {BIO 21421350 <GO>}

Thank you very much, Elton. Thank you for the answers.

## **Operator**

Thank you. (Operator Instructions) The next question is from Renan Prata from Citibank. You may proceed with your question.

## **Q - Renan Prata** {BIO 22185872 <GO>}

Good morning. Thank you for taking my question. And we have two questions. The first, if you could speak about what happened with SulAmerica. If you have a conflict and the sales between SulAmerica and Qualicorp. Of course you remark on what you can remark and, secondly, your working capital. In this quarter it was negative and when will we see a normalization in 2022 which is the tendency of this line item? Thank you.

# A - Frederido de Aguiar Oldani

This is Fred Renan. Let me begin with the acquisition. It is important to mention that Qualicorp is a corporation. We have a very well defined strategy that goes through a transformation to become a multi-product and multi-channel platform to increase the number of products in each different region. Of course working with new operators and different price brackets and perhaps we will extend our distribution to other products beyond health. And we're working with several assumptions. SulAmerica is one of our main partners and we believe that this partnership will remain regardless of the base of ownership of the companies. We're quite sure about this line item. We're following up on what is happening through the official channels of SulAmerica. Of course we have no

information that differs from the market information. Of course, we are assessing depending on what will happen, if this could have some sort of an impact on the company, but the only thing we can do is to wait and see how things will proceed. I don't know if Elton would like to add something regarding SulAmerica and then I will refer to the working capital.

### A - Elton Carluci (BIO 21743831 <GO>)

Fred, I would like to add something. Renan, thank you for the questions. Now to conclude this issue, on our side, we are independent as a distributor of benefits. In the last period we had more than 67 new operators through M&As or in an organic way along with the robust expansion of our commercial partners. And the company will continue with its focus to distribute all the products as we do today. It doesn't matter if SulAmerica is an important partner. We do have other partners that are equally important each in their region and where their product making products accessible for the customers. So nothing will change. This is what we can guarantee on our side. This is a strategy and we continue to reinforce and leverage the sale of all products. And we have more choices for you, more Quali for your life. This is our new motto. The more operators we can bring in and the more makes sense. This is what we will want to have in our portfolio.

## A - Frederido de Aguiar Oldani

Regarding the working capital. This is Fred once again. Now, structurally, the company has negative working capital. I normally receive before I pay and there is no reason or structural change in the dynamic. This is the business. We invoice the customers. We receive from the customers and we pay the operators perhaps three weeks after receiving. So structurally there is no reason to alter this dynamic. Now what happened with working capital during some specific quarters, we may have variations upwards or downwards and invoice from an operator that is late or has been anticipated. These are minor adjustments and considering the large volumes that we transact every month, the order of magnitude is almost 1 billion in terms of premiums of the customers. And we transfer part of this to the operators. So we have 40 million, 50 million going one side or the other. And this ends up impacting the working capital of one quarter or another, but does not change the dynamic of the business. When I look at the quarter, we have to be careful, but with a long-term view of course you should not expect any relevant impact on the working capital because of the company numbers in the medium and long-term. I think this is it.

## **Q - Renan Prata** {BIO 22185872 <GO>}

Thank you. Very clear Fred and Elton. Thank you very much.

## **Operator**

(Operator Instructions) Our next question is from Eugenia Cavalheiro from the JPMorgan. I believe it is.

# Q - Eugenia Tedde Cavalheiro (BIO 20781536 <GO>)

Good morning and thank you for the conference call. I would like to know if you can give us more details in terms of the trends for the first quarter. And what can we expect from your member basis here? You have already spoken about the CAC that should be lower already, which is your vision of this and your EBITDA margin going forward, which is the level that should be normalized after the ups and downs that we observed last year? Thank you.

#### **A - Elton Carluci** {BIO 21743831 <GO>}

Hi, Eugenia. This is Elton. I will answer the first question. I will begin the second question and then give the floor to. Now net adds in the first quarter. Well, first in the gross adds, we hope to have a movement that is very similar to the first quarter of last year. I remind you that this is seasonal. That is why the first quarter tends to be somewhat weaker and then we speed up. We began to carry out the change in the commercial strategy at the end of 2020. So there shouldn't be any surprise. Now to speak about cancelation based on requests. This is dropping. It has been dropping and it is at historical levels of cancelation, pre-confusion that we had a one readjustment on top of another. There was a convergence and cancelation due to default has been improving. But it is still the villain. It is back. We don't give guidance, but based on the delta it has returned. The increase was 50% or more. It had increased based on historical levels and it continues to increase. We have always cancelled. There was seasonality about one-third was debit and twothirds were balanced out because of the situation. We're still not at the level where it should be. What is important is that, we are converging and turning positive. And we can mention a figure, but when we look at the evolution of the quarter, month after month, we begin to see something that is more comfortable with what we have set forth for the planning of the year and the CAC level. I will begin answering this. We're also converging towards the level we had imagined, not that we would return to the previous levels. We always were between the CAC before the commercial aggressiveness. We have moved back a bit halfway and this is what we observed in the first quarter. There is another adjustment. In some regions the adjustment is lower, in others it is higher, but as part of the average, we don't observe anything different from what was conceived. I will give the floor to Fred to speak about the impact of this on our EBITDA margin.

# A - Frederido de Aguiar Oldani

Hello, Eugenia, concerning the EBITDA margins, the information is the cost line plus SG&A. The company has carried out several adjustments during the fourth quarter. Some adjustment also due to severance pay. We're in a comfortable situation at present. Our SG&A plus costs should be 245 million, 250 million per quarter. And we would like to remind you that we are in a inflationary context with two digits and several other pressures increases in salaries, unforeseen readjustments in contracts because of the inflation. But with all of the adjustments I think we have, we can maintain SG&A within those levels for the year 2022. Now in a scenario that we foresee with several readjustments. So it should be 50% of EBITDA. This is a sustainable level. But all of this will depend on the portfolio performance. Perhaps the second semester will be somewhat better depending on what happens with net adds and adjustments during the year. We believe that this will be feasible for coming quarters.

# Operator

(Operator Instructions) The next question is from Mauricio Cepeda from Credit Suisse. You may proceed Mr. Cepeda.

### Q - Mauricio Cepeda (BIO 21783651 <GO>)

Thank you. Thank you for taking my questions. We have a few questions, commercial questions. Of course taking advantage of Elton here. What we observed that you have had in the last quarters is an increase in the commission of the brokers and this led to an increase in gross adds. My question is, if you're testing this elasticity, if it would be possible somehow to carry out a balance between the lower values of the past, the higher values at present, and if this would have a negative impact on gross adds in terms of elasticity. You also spoke about the churn. Where have these users migrated to those that request the cancellation or those that are in default. How do they return to the health system, which is the profile of these users. And if you could speak about the tickets, two aspects here. One, if you see a trend of trade down and tickets and as operators are pressured in terms of claims, what do you foresee in terms of readjustment for 2022? Thank you very much.

#### **A - Elton Carluci** {BIO 21743831 <GO>}

Well, this is Elton. I think all the questions are for me. Let's begin therefore speaking about your first point, which is the commissions and the elasticity. If we're testing, yes, we are testing incentive versus sales, of course, and this has an indirect impact not only on sales, but on other factors. We also see if brokers are forcing the sales with the intention of having a conversion and then the customer and some canceling. So we're testing this and the first test reduce the incentives, took away the incentive, we took it away to be in the middle of the road and we expect an impact between 5% or 10% of our record last year. So we of course have a seasonable base. We have to consider seasonality, but part of these sales, whatever we do not sell a part will be perhaps a 30%. That is not part of the cancelation. That would be the early churn. And it helps us in both lines. We're testing these. These are very early data. We change the system in December. We're testing it. And we have another indicator and we will have to make adjustments based on our needs. The entire commercial team is following up on this and the follow-up is per region, per operator. And we get to the point of discussing specific locations in a region, a municipality or a city where this is happening to have a proper measurement. And this is what we're following up on. Now in terms of your second point. The cancellation and where we're heading. Cancellation based on a request is at the level where it should be. It is back. And well we do have people who cancel opt for a more local products, something that is not a niche product or a vertical product. This does happen. There is a part that goes to the SME and we continue to invest in predictive models to improve our performance to get there before to prevent this from happening. Our models are being enhanced. And we are able to capture this before and obtain a conversion. And during the quarters this gap will be ever smaller and we will keep the SME people at home. And in terms of default almost the totality more than 90% based on our survey is going to the sole health system and we confirm this through time, through some tools that we have inhouse that use data to see if they have stated that they have gone to the SUS. And this is what happens with the customers who are in default. There is one or another who will end up buying another project. Some negotiate with us and by one of our products. We have several strategies to retain even customers in default and we can change their ticket by more than 50% if we consider the level of pressure that these customers feel in their

pockets. Now to speak about the tickets and readjustment. The level will be between 13 and 15. This for the affinity health lives. We will have a significant concentration of readjustments in July and we have readjustments of new portfolios that have been negotiated throughout the entire year. Of course, this is a live topic and I can't guarantee that this will be the level for the coming months. But what we want to do will lie within 13% to 15%. So I'm speaking more about the trade down. If you consider continue to see the purchase of cheaper, lower cost products from the viewpoint of sales, my mix remains unchanged. We have one or another change, but we continue to sell the same volumes. I can't say that our sale of vertical products has exploded. It continues as it was in other semesters and the cancellations per request have returned to their present day level. And we're back at the levels before the crisis. We're retaining customers more and we have a greater product offer as well. We have the products in-house now. And default is what I have already commented. This is our main point. It has improved, but it needs further improvements to return to the pre-readjustment levels and pre-recomposition levels.

### Q - Mauricio Cepeda (BIO 21783651 <GO>)

Well, that was very clear. Thank you so much.

### A - Ana Paula de Medeiros Carracedo

Very well. With this we would like to conclude the question-and-answer session. We return the floor to Mr. Bruno Blatt for the closing remarks. You have the floor Mr. Blatt.

#### **A - Bruno Blatt** {BIO 21352052 <GO>}

I would like to close here another results call. Thank you all for attending. We hope to see you at the next call.

# Operator

The Qualicorp conference call ends here. We wish you a very good afternoon.

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