

Q1 2020 Earnings Call

Company Participants

- Bruno Cals de Oliveira, Chief Financial Officer & Investors Relation Director
- Guilherme Nahuz, Investor Relations Director
- Jorge Fontoura Pinheiro Koren de Lima, Chief Executive Officer & Director

Other Participants

- Fred Mendez
- Gustavo Miele
- Mauricio Cepeda
- Samuel Campos Alves

Presentation

Operator

Good morning. Welcome everyone to Hapvida's First Quarter 2020 Results Conference Call. Joining us here today we have Mr.Jorge Pinheiro, CEO; Mr.Bruno Cals, CFO; and Guilherme Nahuz, Investor Relations 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. After Hapvida's remarks, there will be a question-and-answer session for investors and analysts only, when further instructions will be given. (Operator Instructions) Today's live webcast may be accessed through the internet address www.hapvida.com.br/ir.

Before proceeding, let me mention that forward looking statements 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.

Now I'll turn the conference over to Mr.Jorge, who will begin the presentation. Mr.Jorge, you may begin your conference.

Jorge Fontoura Pinheiro Koren de Lima {BIO 22082846 <GO>}

Hello. Thank you very much. Good morning, and thank you very much for participating in our conference call. It is a great pleasure to present to our shareholders and to the market in general Hapvida's first quarter 2020 earnings release. We're very satisfied with the

FINAL

results we got this quarter. We have achieved a spectacular financial and operating results. And once again, we have taken the company to an unprecedented level in different spheres.

Our consolidated revenues were over BRL2 billion this semester, a 65% growth. Around BRL660 million came from the recent acquisitions of the So Francisco Group, the Amrica Group, and RN Sade. It's important to mention that these acquired companies had a loss ratio around 70% and 75% before the acquisitions. So if we look at only the acquired companies, our loss ratio was of 64.3% this quarter. That is a 5-percentage point decrease and only one-fourth of operations with Hapvida. And although their loss ratios were higher than Hapvida's, our consolidated ex-SUS MLR is completely under control. So acquisitions included our MLR is 57.9%, which is almost the same as what we got last quarter.

With administrative and selling expenses under control, we had an EBITDA increase of over 55%. We've also kept the same growth pace of healthcare and dental members, even in adverse market conditions. So we have added 6.4 million customers in the quarter. Our market share went from 5.1% in the first quarter of '19 to 7.4% in the first quarter of 2020. That is a 2.3 percentage points in market share gain in 12 months. In dental, we went from 6.6% to 9.6% in 12 months, so a 3-percentage point gain in market share.

We're going through a very difficult moment because of the coronavirus pandemic in Brazil and around the world. This has certainly been a relevant event around the world with the loss of many lives and significant impacts on society as a whole. Hapvida's system, as one of the largest HMOs in Brazil, has an important active and direct role in facing this pandemic. We have been quite transparent with all of our company's audiences. For example, for investors, we have public -- have been publishing market notices quite often, informing them about all of the mitigation actions that we have taken to face the crisis and other updates about potential impact on our businesses.

For the society in general, since the beginning of the pandemic, we have been publishing daily newsletters about our operations. For customers, we have been sending them educational materials, and we have started a process of virtual visit to all our corporate clients. We have been highly praised for that. So to all the teams involved in these different fronts of communication, I'd like to say thank you very much.

Brazil is a country of continental dimensions. Some regions have been hit faster and worse than others. Since Hapvida operates throughout the whole country, we have regions that have been strongly affected already while others are still to face the most difficult period of this battle. But we're not letting our guard down.

In our -- in the opening of our last earnings conference call on March 26, I said that the current pandemic was a self-limited event, and as any other epidemiological event, it would have a beginning, a middle and an end, and that it would be over in a few months. Well, we are already seeing signs -- the early signs that this is happening in some of the regions where we operate. We are very optimistic about these signs, though still incipient

that the curve may be on a downward slope. And that's why we have started internal discussions on demobilization plans for some locations.

So before we start discussing our results, I'd like to emphasize some important points that show how Hapvida has been facing the pandemic and how it has impacted us. So let's go to Slide number 2 of the presentation.

We have surpassed the mark of BRL17 million used in fighting COVID-19. That includes the purchasing of personal protective equipment. All of our units are supplied with PPE, Personal Protective Equipment, to protect customers, physicians, nurses, as well as frontline and support personnel. All of our units are supplied with materials and medication to make sure that our customers get the treatments they need. We have also invested in equipment like ventilators, and we're still expanding the number of hospital beds. In the recent days, we have surpassed the number of 3,000 beds, including 854 ICU beds. And there's more equipment coming, so this number may be expanded if need be.

We have concentrated our resources in maintaining the safety and health of our customers, employees, physicians and nurses. Our focus is on providing reliable services to our customers, and we believe that we have been very successful in doing this. Since we have our own hospital network and other on-service units, we have been able to follow the demands and needs of each location from up close. We have been relocating our healthcare teams to the places where the incidence of COVID-19 is higher. We've been witnesses in a national movement against the lay-offs of employees. And not only have we not fired, but we have actually hired more than 1,400 hospital support staff like nurses and stretcher bearers for temporary vacancies as well as approximately 150 physicians.

We are currently providing over 2,000 telemedicine virtual visits a day, either via telephone or video. It's actually a complete visit, and physicians may even give out a prescription or order other tests at the end of the visit. This is a win-win situation that brings benefits to patients, physicians and the healthcare system as a whole since it reduces everyone's exposure to the virus and also decreases the flow of patients in urgency and emergency units. Telemedicine also brings additional benefits, bringing specialist physicians closer to members located in more remote areas. This number, a virtual visit today is already higher than the number of in-person visits

in our largest hospital in Fortaleza, Hospital Antonio Prudente. That is amazing. We firmly believe that telemedicine will be a part of the future of Brazilian Medicine, with impacts on the modeling of our company's future expansions. Our COVID-19 treatment protocols have been enhanced, which has contributed to our medical efficiency. We believe that the early treatment of symptoms of our members has been presenting extremely positive results. When there is a medical prescription for the use of chloroquine, assessed by the physician on a case-by-case basis, and aware of the shortage of this product in the market, Hapvida members are receiving this medication for free through a donation made by Ana Lima Foundation, our social arm.

FINAL

Bloomberg Transcript

FINAL

We have also been watching the movements to loosen the shelter-in-place and social distancing measures in every state where we operate. We know that going back to work is something that will require special attention from all of us. The World Health Organization has recommended that COVID-19 tests be made to all employees that have to return to their work physically first. And in order to make sure we have this safe return to work, we have just created a mass testing product tested -- targeted at our corporate customers, and the test can then be conducted at their companies or at our units. This is another proof of our ability to innovate, to be flexible and agile.

Finally, the fruit of a collaborative work in different areas of the company, we have launched a new sales website that is 100% digital and has user experience as its main concern. In the current shelter-in-place scenario, this new system will make it possible that users buy healthcare plans without leaving their homes. And this is also going to bring us more safety and help us control the churn and cancellation rates, reducing frauds and improving the quality of our sales. Having said that, in the first quarter of 2020, we have taken over the RN Sade Group based in Uberaba, the State of Minas Gerais. It was incorporated into our results in January 2020 after meeting all the precedent conditions.

The last months were also dedicated to the continuous expansion of our operations with the delivery of a brand-new hospital in Mossoro, state of Rio Grande do Norte with a complete urgency and emergency services unit as well as adult, neonatal and pediatric ICUs. And we continue with the execution of the integration plans for the So Francisco and America Groups. We're very optimistic with the execution of such integration plans, and we are certain that we're going to achieve operating and administrative synergies much faster than originally expected. We have also focused on planning the integration of our recent acquisitions. The operator named Medical based in Limeira State, of So Paulo and the portfolio of customers of Plamed based in Aracaju, state of Sergipe, but they both still pend some regulatory approvals.

Now I'd like to give the floor to Bruno Cals, our CFO; and Guilherme Nahuz, IR Director, who are going to give you further details about our quarterly numbers. And then, we'll move on to our Q&A session. Thank you very much.

Bruno Cals de Oliveira {BIO 18472117 <GO>}

Thank you, Jorge. Good morning, everyone. Okay. So let's start with Slide number 3. Here, you can see the main financial and operating highlights of the first quarter of 2020. In the slide, you can see Hapvida's number, including the recent acquisitions that is So Francisco Group, America Group and also RN Sade Group. The first quarter numbers and the 2019 numbers that you see on this slide are already following the IFRS 16 accounting standards.

In the first quarter of 2020, our net revenue had a 65.4% growth compared to the first quarter of '19 driven by the organic and inorganic growth of our company. An important highlight of the quarter was Hapvida's MLR without acquisitions. The cash flow loss ratio dropped from 55.3% in the first quarter of '19 to 53.3% in the first quarter of 2020, one of the best and lowest rates of our history. Now MLR excluding SUS reimbursement, had an improvement of 1.6 percentage points, achieving 55.4% in the quarter.

Bloomberg Transcript

FINAL

As Jorge said, considering that the loss ratio of the companies that we acquired were around 10 percentage points above Hapvida's loss ratio, we're very happy with this performance that was only possible because of the efficiency gains related to the claim management and health promotion projects. And we have also been integrating successfully the recently acquired companies. We have also been able to internalize a high percentage of procedures, tests, visits, surgeries and hospitalizations to our own network and 1.3 percentage points. And with a good management of our administrative and selling expenses, we have had an EBITDA growth of 55.7%, achieving BRL464 million -- BRL467.8 million in the first quarter of 2020.

Now on Slide number 4, you can see the permanent investment that we make in our own network. At the end of the first quarter of 2020, we have added 13 hospitals, 22 walk-in units, 119 clinics, and 7 of those coming from RN Sade, and 93 diagnostic units. And those numbers include the brand-new hospital in Mossoro, state of Rio Grande do Norte. So at the end of the quarter, we had 39 hospitals, 42 walk-in units and 194 clinics as well as 177 diagnostic units. Thus, our structure is made easy to our members that have access to high-quality services.

In terms of the number of beds, in the presentation, you see 2,754 hospital beds, but that was the number on March 31. But we are making a lot of effort to fight this pandemic, and so the current total is already 3,090 beds, including 854 hospital beds today.

Now I'd like to give the floor to Guilherme Nahuz, our Investor Relations Director, who's going to give you further details about these results.

Guilherme Nahuz {BIO 21255437 <GO>}

Thank you, Bruno. Thank you, Jorge, and good morning, everyone. Now let's go to Slide number 5, where you can see our membership portfolio, healthcare portfolio. So as we said, we've had a 50% increase in the absolute number of lives added and our market share went from 5.1% to 7.4% in 12 months. That is a spectacular performance. The market has not grown during this period. Actually, the growth was of 0.5% in the last 12 months. And our organic growth was of 12.6%, so more than 5 times the growth of the market as a whole.

On the right-hand side of the slide, the upper right-hand side, you can see the number of individual members. This has been impacted by this new hiring format aimed to reduce churn, reduce fraud and increase the duration of these processes -- of this contract, sorry. And in lower part of the slide, on the right-hand side, you can see the number of the corporate healthcare members, which have been impacted by the market conditions in the North and Northeast regions.

The next Slide, number 6, you can see the number of the dental members. We've had 73% increase, an organic increase of 11.8%, which is already very strong. Our market share grew by 3 percentage points in 12 months, and it's achieving 10% of market share. And the market also grew, it grew 6.3% in the last 12 months. So our growth was twice as fast as the market growth.

FINAL

So our commercial department has been very assertive and working really well with good pricing strategies that have not affected our business margins negatively. And we'd like to emphasize the opportunity that we had with the America Group and RN Sade. They brought relevant healthcare portfolios, but still a low dental penetration. So we think we have an opportunity to work on this base in the next months -- in the coming months.

In Slide number 7, you can see the evolution of the average monthly ticket. First of the healthcare portfolio, we have here highlight of the RN tickets, which are -- which have a higher value. On the right-hand side, you can see the average ticket per company. And some hiring modalities are not going to have any price readjustments in the next few months, but that is for some specific conditions only. However, this is going to be put in place starting this month, so it has not affected the numbers of the first quarter.

Now in terms of the small and medium businesses, the readjustment rates for small and medium businesses that will be in force after the suspension period have already been published by HMOs. Our readjustment will be of 8.8%, which is 3 to 4 percentage points lower than our main competitors. And that's not only something that is true for this year. Our readjustment rates have been lower than our competitors at the same level of 3 to 4 percentage points in past years as well.

In Slide number 9, you can see the average ticket of our dental portfolio -- actually Slide number 8. So on the right-hand side, you can see the average ticket per company. Hapvida has had a decrease of 2.8% ex-acquisitions and that's mainly because of groups such as Mais Odonto Urgente, which offers urgent treatment for dental cases and that has a lower-value ticket.

Now in Slide number 9, you can see our company's net revenues. Jorge and Bruno have talked about this already including our organic and inorganic growth, so I have nothing to add to this slide.

Now in Slide number 10, this is a very relevant slide for the quarter. You can see the total healthcare costs, medical costs ex-acquisitions, so not including the three acquisitions we've been talking about. Our medical costs have been great. Our MLR has been the best in history, a 1.6 -percentage point improvement. And the ex-SUS MLR was of 55.4%. So yes, once again, 1.6 percentage points better than last year including depreciation, amortization, and IBNR provision. And the total MLR was of 60.3, impacted by the reimbursement. As you can see on the table, BLR69.8 million against BLR9.3 million in the first quarter of '19, so BLR60 million above the numbers of the first quarter of '19. But 60.3% is an excellent level for our company and we're very happy with those results.

Now in Slide 11, you can see the medical costs of the companies acquired only. As Jorge said, this is the main highlight of the quarter and shows the beauty of a verticalized model and the strength of Hapvida's model with a great reduction of our MLR very quickly. We worked with those companies only a few months and you can see the great evolution of the MLR.

FINAL

The pre-acquisition operations had a loss ratio around 70% and 75%, so over 10 percentage points higher. And this is now -- this performance is fruit of many integration actions that have been put in place. We have started with centralized and direct purchasing of equipment and medication. We have also put in place efforts for physicians loyalty with the So Francisco Group. We still have to work with the Americas and the RN Group. We have also started centralized in medical procedures and you can see also some gains coming from administrative synergies.

Now in the next Slide number 12, you can see MLR and medical costs for the Hapvida Group, including the acquisitions. We have brought assets with loss ratios that were much higher than ours and when you see the combined numbers, you see that we are at very healthy numbers right here. Now the cash medical cost had an increase of 0.5 percentage point, so BRL660 million of contribution to the revenue coming from these new assets. And this has an impact on our cash MLR of only 0.5 percentage points with operations that had 10 to 15 percentage points of MLR higher than ours. So this is probably the greatest highlight of the quarter that shows the ability to replicate our business model in diverse assets, because we're talking here about different management models from ours and also different geographies, which is really important and makes us really proud.

Now on Slide number 13, you can see SUS reimbursement. SUS or S-U-S, the Brazilian Public Healthcare System. There has been a great increase compared to the first quarter of '19, but it's actually already a reduction compared to the fourth quarter of '19, which was the peak of SUS reimbursements we said previously. So it's already going down. We had a new ABI number 80 in March, and the agency has been generating GRU. So these ABIs have evolved to collection and you must have a provision for that. And we also have interest rates and fines that are charged from the time the ABI is sent, which was BRL27 million this quarter.

Interest and fines related to SUS reimbursement were accounted for in the claim itself up until the third quarter of 2019. But now it's part of the financial expenses, because of the relevance and the magnitude of this action point since the fourth quarter of '19. So the first quarter of 2020 is not a good indication of the new level. I do believe that the normal level will be of approximately BRL2 per life per month. So this is the run rate of the SUS reimbursement once we are able to normalize the level and ABI number 80, which was received in March this year, is for services provided in the fourth quarter of 2018. So we still have 12 months of 2019 in stock, and we've had this small reduction of SUS reimbursement stock only.

Now in Slide number 14, you can see selling and administrative expenses, selling expenses on the left-hand side and administrative expenses on the right-hand side. You can see that the SG&A expenses are completely under control. Both have shown gains. The only difference here compared to previous quarters is that because of an increase in depreciation and amortization, which are non-cash items that were impacting the administrative expenses, we're now going to show this number without depreciation and amortization, okay? So only administrative expenses here from now on.

Now on Slides 15 and 16 and 17, I have nothing particularly important to add. So we can now go to our Q&A session.

Bloomberg Transcript

Questions And Answers

Operator

(Question And Answer)

(Operator Instructions) Our first question is by Gustavo Miele from Ita BBA.

Q - Gustavo Miele {BIO 21077665 <GO>}

Good morning, George, Bruno, and Nahuz. Thank you so much for your presentation. I hope you're all safe and well. Now I have two questions. The first one is about a point that was the greatest highlight of the quarter, the reduction in the MLR of the acquired companies. So have we seen most of the reduction happening this quarter? Or you think that there will still be a reduction in the next quarters, not only in terms of the loss ratio but also operating efficiencies and selling and administrative expenses as well? That's my first question.

Now the second question is about the organic growth in tickets. The numbers you presented were a bit better than expected but it shows just a small downward curve compared to the last quarter of '19. So do you think that there will be a change in the dynamics when you add new lives? Do you think this also impacted the ticket growth this quarter? Thank you very much.

A - Jorge Fontoura Pinheiro Koren de Lima {BIO 22082846 <GO>}

Hi, Gustavo, thank you so much for your question. This is Jorge speaking. So about your first question, I'd like to remind you that whenever -- I mean when we announced the acquisition of the So Francisco Group and the Americas Group, our expectations were that we would do the complete integration process and capture all the synergies in four years for the So Francisco Group and 30 months for the Americas Group. We worked really hard in the planning phase. We worked on all fronts, people, systems, processes, the commercial area as well, and as soon as the operations were authorized, we enhanced anything we could without any systems migration. And indeed, these two companies have not had their systems completely integrated into ours yet. So all of the gains that we mapped to take place in three to four years will be seen much earlier. I'd say that we'd be able to see that in half that time, give or take a little bit. And indeed, we have already seen many gains but there is still a lot that we can gain from the synergies of these groups.

We have hospital protocols, surgery standardization in our systems, authorization systems, pricing systems for high-cost users. There are hundreds of cost synergies that will be implemented and only when those companies have our systems in place. So we have captured part of the synergies only and I think that all synergies will only be captured when we have full integration of those acquired companies and the impact is going to be much more relevant. So there's a lot to come but most of the gains will come from systems integration.

FINAL

In terms of administrative expenses, it's pretty similar. We've been able to cut some expenses in some areas, but other areas will only be fully integrated once our system is in place. And we might have to pay for consultancy services, for example, when doing these integrations. We have hired consultancy to revise commercial platforms, and other consultancies for people, organizational of future. So considering that these are all relevant transactions, we had to hire consultancies to have higher quality of these integration processes. But in the short term, this means higher administrative expenses. After our system is implemented in all the groups, there will be more gains coming.

Now about your first question -- I mean, your second question, the average ticket depends on the whole range of products that we sell and also depends on the region we sell. If we're growing in places where the average ticket is lower, then the consolidated average ticket goes down. Nevertheless, this is not going to define margin variations. Margin variations can be preserved. So we do expect that each product can bring the historical market -- historical margins desired for each one of them. But the need to readjust prices in 2020 is not that strong this year compared to last year. We have just achieved the best loss ratio in the history of private health care plan operators in Brazil. This is a number that will hardly be overcome by any other operator. And this gives us room to be more aggressive in pricing, and this can enable us to keep on growing and gaining market share.

Our market share growth was significant in the last 12 months, not only driven by the inorganic growth, but also by the organic growth. We have deep market share while the rest of the market is at a standstill. Guilherme, would you like to add to that or Bruno?

A - Bruno Cals de Oliveira {BIO 18472117 <GO>}

Yes. This is Bruno speaking. There's another aspect that is important, Gustavo, that we're working on, which is the insertion of co-participation. The variables Jorge mentioned are really important in terms of average ticket per product and per region, but we're also working on readjusting values for new customers and in certain co-participation for new sales. That is another important point that will influence the average ticket numbers.

Q - Gustavo Miele {BIO 21077665 <GO>}

Yes. Great detail, Bruno. Thank you. Excellent, Jorge and Bruno. Thank you very much for your answers.

A - Jorge Fontoura Pinheiro Koren de Lima {BIO 22082846 <GO>}

Thank you, Gustavo, for your question.

Operator

Now our next question is by Samuel Alves from BTG Pactual.

Q - Samuel Campos Alves {BIO 18720076 <GO>}

FINAL

Good morning, Jorge, Bruno and Guilherme, I have two questions. The first one is the MLR dynamics in the second quarter. You said that COVID-19 did not affect the results of the first quarter of 2020. So can you tell us about the idleness level in hospitals? And do you think that the MLR may slow down because of that in the second quarter? And what about overdue payments from customers? Do you think that the default rates have been affected?

A - Jorge Fontoura Pinheiro Koren de Lima {BIO 22082846 <GO>}

Thank you for your question. Well, about MLR, let's look at the whole year. Our initial expectations. I mean if you look at the whole year, are kept. We think that the MLR will be stable if, on one hand, we're going to have fewer elective procedures; on the other hand, we're going to have more hospitalizations. And also we'll have to work on the backlog of elective surgeries later. And we have to see the volume of clinical hospitalizations. So there are many variables there

and we have only 20% to 25% of elective procedures happening -- I mean, elective visits happening and the number of elective procedures have dropped dramatically. However, on one hand, we don't have that many procedures. We have more hospitalizations. And through all time, this is going to be diluted so that the MLR rates will be stable throughout the year. We don't think that there will be extreme pressures, but we always have to look at this from a conservative perspective. In the long term, however, we think about stable MLR.

Now we have been praised by our customers for the way we've been dealing with this. We have not noticed higher default rates. That shows that our customers are committed, and they can see how we've been working in an exemplary way to face this pandemic. The State of Amazonas has suffered an acute crisis with the pandemic. And we had specialized personal protective equipment there available at all times. We have provided virtual visits to our customers there. This has been working really well. We have donated medications. It's been really hard for Brazil to acquire certain drugs. And we're working with the philanthropic arm of our company to donate those drugs. So many segments of the economy are not producing, but I think that the users have been respecting the work that we have been doing, and we're very happy to see that the default rates have not been affected. Guilherme, do you have anything to add to that?

A - Bruno Cals de Oliveira {BIO 18472117 <GO>}

Yes, Jorge. This is Bruno speaking. I just want to emphasize that we have historical numbers of received -- receivements, and we have also offered products that have only hospital coverage that are 30% cheaper than the complete product, so that the customers could have a smaller coverage at a smaller price temporarily. And then after the pandemic, things would go back to normal. So this is yet another example of this strict communication effort we've been making with our customers that has helped us a lot in times of crisis like this. And we think that this is another factor that contributed to keeping the default levels that we had before the crisis.

Q - Samuel Campos Alves {BIO 18720076 <GO>}

Bloomberg Transcript

Okay. Thank you very much.

Operator

Next question is by Mauricio Cepeda from Credit Suisse.

Q - Mauricio Cepeda {BIO 21783651 <GO>}

Good morning, Jorge, Bruno and Nahuz, congratulations on Hapvida's results that were actually spectacular. The control of your administrative experience -- expenses was impressive. I have a question about the commercial department. We've had a drop of percentage of commercial expenses, which seems good at first, but can this be kept in the long term? Or is this because the commercial activity has been reduced? And in the long-term -- you have talked about temporary measures to keep customers in the short-term. But looking forward, you have a great cost advantage because of your loss ratio and operators with higher tickets may suffer a little bit because of a decrease in the number of customers. So what are you considering in the long term as something sustainable?

A - Jorge Fontoura Pinheiro Koren de Lima {BIO 22082846 <GO>}

Hi, Mauricio, thank you for your question. History has shown that in situations of economic difficulties like the one we're currently experiencing, companies that provide high-quality products in the right due date with efficiency don't suffer that much. And a more aggressive pricing strategy that is only possible because of the verticalization model and because of other initiatives have made us grow more than the average of the market.

We have grown 5 times more than the rest of the market in an organic way in the last 12 months. And our expectation is to continue expanding more than the rest of the market, so outperforming the market. Right now we have more corporate customers than we had a year ago. It's also true that these companies today have fewer employees because job cuts have been made. Now once the economy recovers, I mean, the country was preparing to a growth moment, and once the economy recovers, we're going to be in a better position because we are still adding corporate customers. And we think that our growth is going to be much cheaper, because the lives are being commissioned right now so we wouldn't have to pay more broker commissions in the future. So we are positioning ourselves strategically, and our business model enables us to grow a lot when the market is growing, bringing a lot of customers from the public healthcare system to the private healthcare systems in times in which the economy is thriving and in times in which the economy is suffering, customers come to us because we are their preferred healthcare operator.

About what Bruno said, about 20 corporate customers have decided to change their product to a hospital coverage product only. So this was actually a proactive movement from our part, because we knew that companies from specific market segments would be suffering. So we decided to offer this to them for 90 to 120 days only. So users of a complete product in Brazil would have a hospital coverage product only temporarily for that period of time of 90 to 120 days tops. Some regions are under lockdown. Others are under shelter-in-place measures and we -- we're offering them with a hospital coverage product and telemedicine only, which is what they can use right now. And after that

period of time of 90 to 120 days, these products will be automatically converted back to the product they had before. So we wanted to help our customers, and that has also been helping the default levels to be kept the same. Anything else to add, Guilherme or Bruno?

A - Guilherme Nahuz {BIO 21255437 <GO>}

Yes, I think we should talk about the selling expenses. This is Guilherme speaking. Yes, in terms of the selling expenses, yes, the sales have dropped, so sales volume has decreased compared to the first quarter of 2019. We would like it to be higher, but we're paying less commission. But as Jorge said, we have outperformed the market in group plans. So with corporate customers that actually pay a lower commission than retail products, so that also affects our selling expenses, rates.

Q - Mauricio Cepeda {BIO 21783651 <GO>}

Great. Thank you very much for your answers.

Operator

Next question by Fred Mendez from Bradesco.

Q - Fred Mendez

Good morning, everyone. Thank you for the call. I have two questions. The first one has already been mentioned but I'd like to have more details about the daily cost of ICU patients with COVID-19. What are your numbers like today? Can you give us an update on that?

Now another question about telemedicine. I was impressed by the number of virtual visits a day. And do you see a relevant impact on MLR caused -- driven by telemedicine? And if not, considering the speed of implementation of telemedicine, do you expect to see benefits of telemedicine on your MLR?

A - Bruno Cals de Oliveira {BIO 18472117 <GO>}

Thank you very much for your questions, Fred. Now about the COVID costs, I don't have accurate numbers here but we -- what we've seen is about BRL10,000 for COVID hospitalizations. The number used to be almost BRL9,000, but that increased due to the implementation of new protocols, and new therapeutic options that have increased the survival of these patients. So though the cost has increased, we are more efficient in these hospitalizations. So that includes ICU and outpatient hospitalizations. So clinical hospitalizations for COVID-19 are a bit more expensive than regular clinical hospitalizations.

A - Jorge Fontoura Pinheiro Koren de Lima {BIO 22082846 <GO>}

Now about telemedicine, user satisfaction has been great with the flexibility that we have provided with the distance visits that have enabled physicians to issue prescriptions, to order tests. We have been providing 2,000 visits a day, and customers are indeed very, very satisfied. Sometimes, the user internet's not working well or we may have another

issue -- one issue or another, but it's always related to their -- the technicalities of the system. When it comes to the service itself -- itself, users are very, very satisfied.

And I firmly believe that we can continue to provide telemedicine following these models. We have the cheapest telemedicine in Brazil offering 10,000 visits a month. But the model we had was in which users would go to one of our clinics, one of our hubs to connect to a physician that was located elsewhere, like in a larger city. But now this has changed. That old model also affected customer satisfaction. But now because of the extraordinary license to use telemedicine because of the COVID-19 pandemic, we expect this to be extended to the future.

And if that happens, we see a favorable horizon, and we'll be able to reduce our investments in our own clinics, and we'll also be able to operate in more remote areas. So we're very hopeful about telemedicine. And based on the user experience and the satisfaction they have shown, we think that if we can continue telemedicine in the models we are providing today, we can provide them with higher quality service, we can improve -- increase user satisfaction, reduce costs, medical costs, and indeed a win-win situation. So I'm very hopeful and we do hope that regulators will enable us to continue like that, especially after seeing user satisfaction.

A - Bruno Cals de Oliveira {BIO 18472117 <GO>}

Well, you also asked about whether this has had impacts in the -- on the first quarter of 2020? No. We reinforced the platform with online prescriptions. We've been implementing this platform throughout the month of April, and the number of visits has also increased throughout the month of April. So telemedicine has not impacted the results of the first quarter yet.

Q - Fred Mendez

Okay. Thank you very much, Jorge and Bruno. Now Jorge said that COVID-19 hospitalizations were costing about BRL10,000 and non-COVID would be around BRL8,000. Is that because COVID-19 patients are hospitalized for longer periods of time? Does it make sense?

A - Jorge Fontoura Pinheiro Koren de Lima {BIO 22082846 <GO>}

Yes. Not only that, but also we have more patients in ICUs. So that is a more expensive bed, an ICU bed. That's why COVID patients usually cost a bit more than non-COVID patients.

Q - Fred Mendez

Okay. Thank you very much, Jorge.

A - Jorge Fontoura Pinheiro Koren de Lima {BIO 22082846 <GO>}

Thank you, Fred.

Operator

(Operator Instructions) Well, if there are no further questions. I'd like to turn the floor over to Mr.Jorge for his final remarks. Mr.Jorge?

A - Jorge Fontoura Pinheiro Koren de Lima {BIO 22082846 <GO>}

Thank you very much, everyone, for participating in our earnings conference call. I'd also like to thank all of our employees, we have over 30,000 employees, and all the physicians who work with us. I've been visiting our units, and it is indeed thrilling to see our frontline employees, nurses, physicians providing human-centered care to all of our customers. So I'm touched by their work and I'd like to thank them for that.

We know that there is a lot of anxiety in dealing with people and being exposed to the virus. So I'd like to thank our frontline employees very much for their work. Now I'd also like to thank our investors for their trust. And finally, I'd like to thank our users. I firmly believe that we are closer to the end of this pandemic, and we are committed to providing high-quality human-centered care to all of our customers. Thank you very much for your trust. And I hope that we can face this pandemic and overcome it as soon as possible.

Operator

This closes Hapvida's earnings conference call. Thank you very much for your participation, 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