

## Q3 2019 Earnings Call

### Company Participants

- Carlos Alberto Iwata Marinelli, Chief Executive Officer
- Fernando Augusto Rodrigues Leao, Chief Financial, Investor Relations and Legal Officer
- Unidentified Speaker

### Other Participants

- Emerson Sousa Vieira, Analyst
- Fred Mendes, Analyst
- Gustavo Piras Oliveira, Analyst
- Joseph Giordano, Analyst
- Tobias Stingelin, Analyst

### Presentation

#### Operator

Good morning and thank you for holding. At this point, we would like to welcome you to the Fleury Group, referring to the Results of Third Quarter '19. We have with us today Mr. Carlos Marinelli, the CEO; Mr Fernando Leao, the CFO, IRO and Legal Officer. We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the company presentation. Ensuing this, we will go on for questions and answers where further instructions will be given. (Operator Instructions)

This event is also being broadcast simultaneously through webcast and can be accessed at the address [www.fleury.com.br/ir](http://www.fleury.com.br/ir), where the respective presentation can be found. You can watch the slides at your own convenience. The replay of the event will be available soon after closing. We would like to remind participants of the webcast, they can post their questions through the website.

Before proceeding, we would like to clarify that forward-looking statements made during the conference call, referring to the business outlook, projections, operation and financial goals are based on beliefs and premises of the management as well as on information currently available to the Fleury Group. These forward-looking statements are no guarantees of performance as they involve risks, uncertainties and premises and therefore refer to events that may or may not occur. Investors and analysts should understand that general conditions, sector conditions and other operating factors could affect the future results of the Fleury Group and lead to results that differ materially from such statements.

We would now like to give the floor to Mr. Carlos Marinelli, who will begin the presentation. You may proceed, sir.

## **Carlos Alberto Iwata Marinelli** {BIO 18884059 <GO>}

Good morning. And I would like to start off by thanking all of you for your presence at our conference results for the third quarter '19. We continue to enhance our brand portfolio. We have observed an organic growth of our service units this quarter and we have reached the highest level in the last four quarters, presenting a growth of 8.7%. This result reinforces our belief in the assertive strategy medically and in terms of right to our culture of efficiency and excellent management.

It is important to highlight that this growth of pace despite the timid resumption of the economy, it is true that the recent figures of evolution and the generation of formal employment leave us quite optimistic, showing there is still a trend that has been accumulated since 2012. In the evolution of our business platform and health we have not come to a standstill.

We are building, testing and implementing technologies and services to guarantee our move forward toward more integrated solutions, where the diagnostic sector is a key part of care, treatment and personalized and precision medicine. The foundation necessary to guarantee a robust service platform, continue to be a priority of investment for an environment to activate data intelligence, service and agile workflows.

We'll now go on to the presentation on Slide number 3, where we show you the main financial highlights for the third quarter. I would like to underscore that for purposes of comparison, the figures do not present the IFRS 16 effect.

Gross revenue had a growth of 10.8% totaling BRL818 million. We highlight that this increase among others was impacted by an acceleration in the growth of the Fleury brand with an expansion of 6.7% in the quarter. This is the third consecutive quarter in which we have an enhancement in the brand growth. Cancellations represented 1.4% of gross revenue and remained stable vis-a-vis the same period the previous year. The EBITDA reached the BRL196 million with a growth of 8.2%. EBITDA margin reached 26%. Net income attained BRL96 million [ph], presenting a growth of 4.9%. Operating cash flow totaled BRL213 million with an expansion of 22.6%. Return on invested capital without goodwill reached 38%.

We now go on to Slide number 4, where we show you the operational highlights for the quarter. Upon the close of the third quarter '19, the net promoter score of our brands reached 77.7%, therefore vis-a-vis the previous year and maintaining that high level of differentiation for which our services are recognized and preferred. In October, we celebrated a contract for the acquisition of the Diagmax Group in Recife that will be under assessment by the antitrust agency. Before conclusion the Diagmax Group acts mainly in diagnosis through images through fixed service units in the metropolitan region of Recife in the state of Pernambuco.

FINAL

Bloomberg Transcript

FINAL

This acquisition will allow the Fleury Group to expand its presence strategically in the region, increasing its capillarity to 17 service units and strengthening its exam portfolio, expanding our share relevantly in terms of diagnosis per image. This acquisition is aligned with our strategy of increasing our presence in markets with an economic growth that is above average, with a great potential of carrying out strategic partnerships to guarantee care coordination and a full service portfolio. I would also like to highlight that this quarter, we began the consolidation of results of 31 surface units of the Lafe brand recently acquired in Rio de Janeiro as part of the integration. In August, we began to process the exams of all of the service units at our own technical area in Rio de Janeiro, significantly enhancing the quality of this process in the Lafe brand and guaranteeing a significant evolution of results in this operation.

At the beginning of November, we will conclude the integration of all of the back office and front-office in terms of operation. We understand that the integration of systems and promises form a very important part of our business and it enables us to obtain high quality and efficiency levels. With this integration, 100% of our operations will be on the [ph]sole system, presenting the same accuracy of image diagnosis at all regions, and we will also have real-time access to all the information for those that have service units, even more importantly, we will guarantee the integration of information of the Lafe clients, through our data lake and an integral connection with our digital strategy for intelligence in terms of our data.

For the strategic pillar, our personalized and precision medicine, we have taken perhaps the most important step in terms of the supply of services. Previously, the consultations were carried out only in the city of Sao Paulo. Presently, we are offering this in the cities of Porto Alegre and Salvador. Genetic counseling is one more element of our health platform with a view to better understand the clinical position of our patients and the risk of developing hereditary diseases and the potential of transmitting these genetic conditions to future generations.

All of this within a continuous care continuum with our team of geneticists offering consultancy, pre and post-exam through physicians, patients and partners. The creation of a genetic database and its use is one of the solutions, the genomic solutions of the Fleury Group and our strategic card to leverage our health platform in a future scenario, where precision and personalized medicine will not only bring benefits to patients, but also more cost effective clinical outcomes.

Also connected to our platform through [ph]SanteCorp we inaugurated the first of a series of shared site for primary care. This solution aligns convenience, geographic distribution and high solid action of clients already present at the a+ units in Sao Paulo benefiting the user who is seeking a solution for health without the high cost of complex structure. This structure has three exclusive rules that are totally dedicated to triage, clinical care and medications for the SanteCorp clients. This model places the customer at the center of care delivering high efficiency for low complexity care situations that are more frequent day after day. All of this integrated care that is continued and coordinated is always based on the analysis of timely data and the history of patient, and brings into reality that great potential to change the relationship model between patient and the value change of health.

FINAL

Finally, I would like to mention the awards that were received by the company throughout the third quarter, showing the strength of the company in the execution of excellency. We won the price, the best in this [ph]tough market organized by InfoMoney in partnership with the Ibmecc and Economatica in the Health category. We were also acknowledged by the award Empresas Mais of O Estado de São Paulo Journal, and we have achieved a second place in the category of corporate governance for publicly listed company on the second place in the Health sector. Besides this, we were in the first position in the Best Place to Work of Infojobs.

I would now like to give the floor to Fernando, who will continue on with the presentation of results. I am at your disposal for questions at the end.

### **Fernando Augusto Rodrigues Leao** {BIO 20171823 <GO>}

Thank you Carlos, and good day to all of you. We continue on with the presentation on Slide number 5, where we show you the performance of growth revenue in a consolidated way. The growth revenue in the quarter increased 10.8% attaining BRL818 million. The service units had an increase of 11.7% with an increase in share of 83% to 85% of the growth revenue for the Group.

B2B operations grew 5.9% in the quarter, representing 15% of the consolidated revenues. In the nine months, the amount of growth was 8.8% with an expansion of 9.1% in the service units and 7.2% in the B2B operations. In Slide number 6, we see in greater detail the growth of the brand portfolio. The graph, to the left shows you the total graph of 11.7% in Patient Service Centers, 8.7% in organic growth.

The Fleury brand expanded 6.7% and presenting for the third consecutive quarter on improvement in this growth. This performance reflects the mix of internal actions on language, a strengthening of the medical relationship and an improvement in the conversion of setting up exams. Besides this, we have observed a stabilization in the number of beneficiaries with access to the premium market.

Another important impact on the brand performance was a better mix of exams carried out along with an expressive increase of revenues with genomic exams. The Rio de Janeiro brands increased 21.1%, 8.2% of this increase was organic. The organic performance presented reflects the entrance of new plans, as well as the expansion of offer for diagnosis through images in the Rio de Janeiro brand. This quarter we consolidated the Lafa brand into our results. With the closing of the acquisition that took place in May of this year, we consolidated four months of their results in the a+ brand São Paulo, the expansion was 19.9% of revenues arising mostly from growth concentrated in the units inaugurated between 2017 and 2018. That is still in an initial stage of maturity. The regional brands that takes into account operations in the South, Northeast and Federal District had a growth of 4.4%, an important part of this increase is due to the brands IRN in Natal and a+ in Recife that had a two-digit growth in their revenues. In the graph to the right, we show you the performance of our brand portfolio for the nine months.

FINAL

In Slide number 7, we highlight the cancellations and net revenue. In the graph to the left we observed a cancellation indicator, showing that we have maintained a high level of efficiency, reaching 1.4% for the quarter and for the nine months of the year. To the right of the slide, we see a growth of 10.6% of net revenues in the quarter totaling BRL755.7 million, an 8.7% of increase for the nine months of the year. In the next slide, we will present the main financial indicators and I would like to highlight that in January of 2019, we adopted the IFRS 16 leasing with the goal of having better comparability among period, we will show the indicators in the next slide without the IFRS 16 effect.

Now if you need further details on the impact of IFRS 16, please look at our financial statements or the earnings release. In Slide number 8 to the left, we highlight the evolution of cost in the quarter. We had an increase of 12.4% representing a loss vis-a-vis costs and net revenues of 130 basis points. The cost with direct material and exam intermediation grew 23.8% with a loss in terms of net revenue of 120 basis points. This effect in this line is related to the mix of exams carried out in the quarter with a reduction in the share of the automation inspection that has a higher margin and the increase of share of specialized sections and hospitals. The specialized section had as main fields genomic exam. The cost with personnel and medical services and occupation presented an improvement in efficiency mitigating the effects that I have just mentioned.

Medical services and occupation once again has that improvement in the efficiency. To the right of the slide, we present our operational expenses. This quarter we obtained, an increase of 7.2% with a gain vis-a-vis the expenses and net revenue of 34 basis points. What can also be observed in this slide is the evolution for the nine months of the year in terms of costs and expenses. In Slide number 9, in the graph to the left, we observe that EBITDA obtained BRL196.5 million in the quarter with a profit of 8.2%. The EBITDA margin reached 26%, a retraction of 58 basis points vis-a-vis the third quarter '18. As explained in the previous slide, the pressure on the EBITDA margin arises from the cost of services rendered partially mitigated by the gain in efficiency and operating expenses.

Additionally, the inclusion of the Lafe brand and the results of the quarter has also contributed for -- to the pressure observed in the EBITDA margin. If we exclude the effects of the Lafe brand, the pressure on the EBITDA margin would be 21 basis points vis-a-vis the third quarter '18 and the margin would reach 26.4% in the quarter. In the graph, to the right we show you the accumulated comparison of EBITDA, excluding the non-recurring events that occurred in the second quarter '19, we reached BRL583.8 million with a growth of 6.9%, and a margin of 26.7%. In Slide number 10, we show you the graph to the left with net income during the period, reaching BRL94.8 million, a growth of 4.9% vis-a-vis the same period of 2018.

The net margin was 12.5% compared to 13.2% in the third quarter 2018. To the right we show you the accumulated comparison of net income, excluding the effects that are not recurrent. We reached BRL281.9 million, a growth of 3.1% and a net margin of 12.9%. In Slide number 11, to the left, we show you the operating cash flow graph recording BRL212.8 million in the quarter, an increase of 22.6%. The conversion to operating cash into EBITDA reached 108.3%. This quarter the average term of receivables reached 66 days, a reduction of two days vis-a-vis the third quarter '18 with a positive impact on accounts receivable. To the right of the slide, we present to you the capex for the quarter

FINAL

that totaled BRL40.40 million, a reduction of 58.4%, when compared to the third quarter of 2018. This reduction happens mainly in the new units, the expansion of the offering existing units and technical areas due to the decrease of investments with the opening of new units.

I would like to inform you that in October, we inaugurated a new unit of the a+ brands in Sao Paulo in Moema with approximately 680 square meters of service area. This new unit has a complete diagnosis area including magnetic resonance. The company have inaugurated 54 units, as part of this expansion plan in number equivalent of 74% of the lower point of our guidance until 2021.

In Slide number 12 in the graph to the left, the ROIC without goodwill reached 38% adjusted for non-recurring events that happened in the second quarter 2019 and the effects of the acquisition of the Lafe brand, the result was 39.7%. To the right we show you the evolution of net promoter score reaching 77.7%. Finally on Slide number 13, we include the events that have already been confirmed with the market for the coming months. We would now like to offer the floor for questions-and-answers.

Thank you very much for your attention.

## Questions And Answers

### Operator

Thank you. (Operator Instructions) The first question is from Mr. Joseph from JPMorgan. You may proceed, sir.

#### Q - Joseph Giordano {BIO 17751061 <GO>}

Good morning to all of you and thank you for taking my question. The first question refers to Lafe, Fernando referred to the impact of consolidating Lafe. I would like to ask you, when you expect that Lafe will operate in an alliance fashion in the Rio de Janeiro operations, when the margin will become more normalized? The second question refers to your new avenues of growth. How much does the genomic are representing our brand portfolio that has given a good push for the Fleury brand? And secondly how these new initiative led by SanteCorp and others has contributed to the revenues of the Company? Thank you.

#### A - Carlos Alberto Iwata Marinelli {BIO 18884059 <GO>}

This is Carlos Marinelli and I would like to answer your questions and speak more about our genomic initiative and then Fernando will refer to what is happening with Lafe. When it comes to the issue of genomic, we have an enormous pressure of seeing how the market responds to our genomics solutions. This is a business unit with a very rapid growth nowadays. In 2019, it represents 2% of the revenues of the Group. Once again, all concentrated on genomics and we have fast growth. The greatest challenge in this area are the effects that we have mentioned that impacts on gross margin, it is a highly

specialized section that requires a great deal of investment, equipment, but also specialized people.

And therefore it is natural that as we're focused on genomics and growth at this point we have greater pressure on the gross margin, but this is the goal precisely. The goal is to become leaders in genomics throughout Brazil, as we already are and to continue to grow this market. We're convinced that this is a market that will add to the traditional diagnostic medicine and it will enhance the outcome for patients in the future connected to our health platform. It will help us in terms of information, how to use information and we will have an ever more greater participation in the light of the patients, especially in the long term. This is something we will continue to invest and at present it has had an impact on our gross revenue, but everything is under control and of course we are working hard on efficiency, so that this can become an ever important part of the Company. In terms of SanteCorp were inaugurated the first unit in the share site, it was working in another way. The purely SanteCorp shared site and there will be other inaugurations in the coming months. It is an initiative that we're also focusing on because of the growth. SanteCorp is an operation with a dynamics that is from others. It is highly connected. It has the ability of generating strong business and we see the enormous attraction on the part of several of our customers and the health area companies that offer with post-payment also desire these services.

And the leverage of the platform will be very strong and soon we will announce another inauguration in terms of the shared site. This is still a small operation, it's marginal in our business, but it has that characteristics, the isolated revenues of SanteCorp, one thing, but the impact and the future impact on the Company's growth will become decisive in our business. Therefore, we continue to focus on growth in genomics as well as in the part of SanteCorp and we firmly believe that these are strategic initiative. They are pillars of our growth strategy for our platform and we believe that they will obtain maturity very quickly showing our capacity to leverage growth.

#### **A - Fernando Augusto Rodrigues Leao** {BIO 20171823 <GO>}

This is Fernando. Regarding Lafe, we have two main factors in terms of integration. The first is to have in-house exam that will be processed by the technical area. This already happened in the third quarter. And secondly, the elimination of systems that will happen now at the beginning of November. In the third quarter, we continue to have costs that relate to the Lafe modules (inaudible) where they work with outsourced services, we're still carrying these expenses and these expenses were partially mitigated in the last month. This is something that will no longer appear in the fourth quarter and we will be different in the fourth quarter will be a full integration into our systems. We hope that this effect -- this carry effect have costs Lafe will be lower compared to the third quarter and that we will enter the first quarter of 2020 with an operation that is much more similar to what we have in terms of margins.

#### **Q - Joseph Giordano** {BIO 17751061 <GO>}

Thank you very much. Carlos and Fernando. Have a good day.

#### **Operator**

Our next question is from Thiago Macruz from Itau BBA, you may proceed, sir.

**Q - Emerson Sousa Vieira {BIO 20347724 <GO>}**

Good morning to all of you. So this is Emerson. Thank you for taking my question. The first question is the following. You mentioned on improvement in the premium market and some in-house measures that you have taken to improve the relationship with physicians and doctors. Could you give us more details on the ramp-up of these initiatives? What will this represents for the penetration of the Company and how will this help other issues in the Company? Thank you.

**A - Unidentified Speaker**

Thank you Emerson for your question. We do have several initiatives and we have perhaps dozen initiatives and we you have specific projects to work on the Fleury brand with this. As we mentioned, there are dozens of initiatives, each of which contributes towards the relationship with doctors, consultancy with doctors, bringing customers closer. And we have initiatives such as the intensification of integration. We do have projects that are being intensified by specialty, allowing greater comfort to the requesting physician in terms of the reading of the diagnosis of their patients. We're saving a great deal of time for the physicians and their offices who are conveying information, communication and generating greater knowledge regarding their patients or customers.

In terms of our specialized units, in a short while we're going to be launching a revitalization of the pediatrics area with new personnel in our children's area, and of course this represents a great deal of comfort for the parents of these children. We have also invested heavily in our relationship with the attrition. We have a very effective relationship. Infancy is a specialty that demands a rapid communication, comfort when it comes to the parents and this has been enhanced significantly, simply to mention one more. This way we worked in the field of technology on [ph]Sirius , this was very successful. We have 200 physicians in Sao Paulo learning more about our technological evolution and the size is three, we have dozens of initiatives, each of which is building higher penetration into the market for the Fleury Group. And as we can, when it comes to our increase in market share in this market segment. Thank you.

**Q - Emerson Sousa Vieira {BIO 20347724 <GO>}**

Thank you very much.

**Operator**

The next question is from Mr. Gustavo Oliveira from UBS. You may proceed, Mr Oliveira.

**Q - Gustavo Piras Oliveira {BIO 15129435 <GO>}**

Good morning to all of you and thank you for taking my question. I would like to go back to the question about the genomic processes and gain an understanding of how you're thinking about this business and the impact it has had on your gross revenue? Two questions, in the short term, especially, your contribution margin in this product is negative presently, therefore, I don't truly understand what is happening perhaps it is a process of



a problem with pricing or because it doesn't have a great scale and this will not happen in one or two years when we think about the rollout? The second question refers to what you're thinking about this project as part of your health platform? It's very easy to convince that this product will continue to grow with a negative margin and if you project the gross margin going forward, will this truly continue to grow with this negative impact? And which will be the impact on the total platform? Which are the data that you will collect and the addition services that you will offer?

**A - Carlos Alberto Iwata Marinelli** {BIO 18884059 <GO>}

Thank you for your question. This is Carlos. First of all, I would like to clarify something. The margin of genomics is positive, it is not negative. We have a practice within the company with all of our brands and businesses. We compete for quality. We compete for differentiation and not based on price. We're working with prices that are sometimes when compared to other genomic services in the market are steeper and we work with state of the art technology in terms of genomics. This does not mean that we have a negative impact. The impact that you see in the gross revenue relates to a mix that goes much beyond genomics. Genomics should reach 2% of the total of revenue for the year. But this is not a mature service so far. What is going to happen, we're going to grow in the specialized exams from other areas and other specialties that have higher prices as well as higher costs that will be diluted through time as we leverage the volume. So we want to be an incontestable leader in terms of diagnosis and we have to have these new test. And we have to pay the penalty for introducing these new tests. The costs are higher. There is little dilution initially, but rapidly we add these tests to clinical practice and this will dilute our cost and enable us to improve our prices. So the impact doesn't come only from genomics, it is only one component. Genomics does have a positive margin, as well as other areas. And we're still with the margins that are above A plus. We don't work with negative margins. What ends up happening is that as time goes by, we will be able to size this properly. And we also have the issue of mix hospitals and others. We have brands and prices that are different from the Fleury brand, for example, and it has that impact as part of our general calculation.

**Q - Gustavo Piras Oliveira** {BIO 15129435 <GO>}

Thank you carlos, that was made very clear. Now a followup on my second question, referred to -- which is your outlook for the year 2020? Will you attain greater stability in brands? Or will the growth of other brands also have an impact? Evidently, you will gain more scale in terms of genomics, what will be the balance in the year 2020?

**A - Carlos Alberto Iwata Marinelli** {BIO 18884059 <GO>}

That's an excellent question Gustavo. The main message I would like to give is one of growth. We have a guidance for growth with excellence. Now, what happens with is, one source of growth is to gain new business, to continue do -- doing what we are doing, and to incorporate new tests into our portfolio. And they will be the greater added value test in the future. And once again, they will cause pressure on gross margin. We're focused first of all on growth and secondly, trying to mitigate the effects on our margin. But this is one of the penalties that the leader in the sector has to pay. We're incorporating technology, we're developing techniques for better diagnosis in the market. And perhaps one of the prices for this is to work with a lower margin, but we are going to mitigate the

effects on margins initially, may be higher for the third quarter show some gains. The impact on the margins were lower than in the second quarter. And how all of this evolves depends on how we will grow in the future.

And if we take on vision in the longer term, very good question. In the long term, it is important to underscore that genomics is no longer a promise, it is a reality. And what limits the use of genomic information nowadays is bioinformatics. We have just acquired a new supplier that link to your first question should reduce some of the cost that we have. It is a link to the latest generation sequencer with a very steep investment cost. We're growing a great deal on the genomics platform and we have always mentioned in our interactions, this is an additional share that we will have beyond diagnosis. It opens a new avenue of growth that will compliment what we already have in terms of diagnosis. And that ability that we have of our tracking customers and having customers give us their genetic data has had a very unfortunate response.

And this is complementary to the consultancy that we give in genetics and in the future, this can generate new tests, new analysis, and new outcomes based on the genetic information that we already have in house. As I tend to say we're just scratching the surface of genomics nowadays. What limits us is the part of bioinformatics. we already have sequencing and in Brazil as well as elsewhere, we're working with what is most advanced in terms of bioinformatics to find the right solutions for genomics in the future.

**Q - Gustavo Piras Oliveira** {BIO 15129435 <GO>}

Thank you. Thank you very much Carlos. That was very clear.

**Operator**

(Operator Instructions) Our next question is from Tobias from Citibank. You may proceed, sir.

**Q - Tobias Stingelin** {BIO 18290133 <GO>}

Hey, good morning to all of you. Good morning Carlos. What has happened with your accreditation, you just opened up a new unit? Now what is happening with a accreditation as a whole? Now, this new trend that we see in B2B, these figures seem to make sense until we base ourselves on these going forward and your priorities growth as part of growing you'll have acquisitions, if you could refer to this, that you have mapped anything? If there is anything that is about to happen? Thank you.

**A - Unidentified Speaker**

Tobias, thank you for your question. Let's respond to your questions. We continue to take this accreditation and a very positive news related to accreditation that we had this quarter with results in January. In January, some of the plans left, but we had the entry of new health plans and we began to observe organic growth in the -- in Rio de Janeiro, where we achieve more than 8% also growth and the Lafe group that is with a growth of 23%. Going beyond the growth of our great star in growth and to go back to your question, this unit that has just been inaugurated is a unit for which we had already

FINAL

negotiated some accreditation. It took more than normal to accredit the unit because of regulatory issues. But we're already operating that unit with 70% accreditation. And it is in a using a very positive side. It is in a neighborhood where there already was an a+ unit and the customers add more EMA [ph]. Well, the first unit we opened was a true success.

In terms of acquisition, we do have a pipeline of course. We were fortunate to announce the acquisition of the Diagmax in Recife, is a very important fight for us. It is one of the regions where the GDP is higher than the national average. It is a scale, where it is very hard to compete. But we have found a very organised site. The technical people stand out. And this will enable us to double the size of our operation in Racife. Compared to others, of course, we cannot disseminate this, so we continue to be very active. We have 10 projects that are active at present, and we're highly focused on the part of growth. We have looked upon the market, and we have seen new opportunities coming up again. And once again, we're being very active in terms of this.

**Q - Tobias Stingelin** {BIO 18290133 <GO>}

Thank you. And if you could refer more to what you expect for the Fleury brand and its growth?

**A - Unidentified Speaker**

Well for Fleury brand, we're going to say that it has gone back to growing. We're gaining market share in a very strong way and a consistent way through time. This is a brand that has a high customer satisfaction, a very low customer churn. When you look at this, we have a very low churn of customers.

Sometimes they leave and they tend to return. And when we look at the strength of this brand, when the customer has access to a premium brand, they end up using the Fleury brand. It is a brand that stands out in terms of health and it is a brand that is acknowledged due to the customer satisfaction, customers leave, they return and they end up feeling very satisfied. Now, the part of mergers has grown quite a bit. We're very enthusiastic with the outlook of this. We're using our full capacity that we had at the Patient Service Centers. And in terms of the platform, what we have is a very positive ramp up, when we think of the number of doctors accredited, all of these allow us to be very optimistic to intentionally work on our health platform based on the Fleury brand. And once again the possibilities of this platform will transform our future. We will be able to enter new areas with this very strong brand and we will be able to offer other types of services.

**Q - Tobias Stingelin** {BIO 18290133 <GO>}

Thank you. That's excellent, have a good day.

**Operator**

Our next question is from Fred from Bradesco Bank. You may proceed, sir.

Bloomberg Transcript

## Q - Fred Mendes {BIO 17221617 <GO>}

Thank you. I have two questions as well. The first, I would like to refer to the margins and B2B. There has been a slight pressure on this and I would like to know which is the dynamic because of your new contracts? What will happen with us in the future? And what has happened in the company after two of the directors have left, especially in the part of IT that is very relevant when it comes to your data? Thank you.

## A - Carlos Alberto Iwata Marinelli {BIO 18884059 <GO>}

This is Carlos. And I would like to begin. Speaking about the structure and then Fernando will complete the response to your questions. When it comes to the structure, those two directors that ended up leaving the company, the other structures remain untouched and some of them are receiving greater investment. Specifically in the business area, where (inaudible) has taken on the company business. We have strengthened the presence of G&A and in all of the brands, especially the Fleury brand, you can observe the consistent growth that we have delivered in terms of our figures and the efficiency that we have in several of our initiative. And when it comes to strategy and innovation, all of this remains untouched. Once again we are reinforcing the part of innovation and strategy especially to be able to do everything that we have prepared for the future in terms of growth, especially for the Fleury brand and the health business and we're accelerating our investment. You can see this in Fleury Lab. In less than one year, we have had significant deliveries.

When we look at genomics, it has grown significantly and what we have been enhancing processes and services constantly throughout Brazil, carrying out that connection with physicians, with diagnostic services and hospitals. And we're also upgrading the technology. So when it comes to the future, the fact that we no longer have these two Executive Director position, means that our executive team is working tighter than ever before, more strongly and we continue to invest in innovation and marketing. And this has given us greater mobility in terms of our decision, strengthening the first line of (inaudible) once again growth is the focus of the company.

## A - Fernando Augusto Rodrigues Leao {BIO 20171823 <GO>}

This is Fernando when it comes to your question on B2B, very good question because this connectors was a discussion of the gross margin of the company this quarter. The pressure on margins B2B, well, we have already responded to this. Now the B2B business has a very specific dynamic and the pressure on margin that is specific for this quarter relates fully to a growth at a level somewhat lower, to the levels we observed in the two previous quarters. The operation in hospitals grew a little above 4% in the third quarter and for the first nine months of the year the growth is 6%. In the third quarter, we had some specific and very timely issues due to the dynamics of this business and we depend on the performance of each of the hospitals that we have contracted. This is not related to a loss of contract, it's something very specific and once again this is a one-time impact that happened this quarter. It's nothing that will set off a warning, We're very comfortable with the dynamic of the business and this quarter, of course there was that specific pressure.

## Q - Fred Mendes {BIO 17221617 <GO>}

Thank you, Carlos. And thank you Fernando for your responses.

## Operator

(Operator Instructions) As there are no further questions, we now end the question and answer session and return the floor to Mr. Marinelli for his closing remarks. You may proceed, sir.

### A - Carlos Alberto Iwata Marinelli {BIO 18884059 <GO>}

I would like to end the call reinforcing our vision for the growth of the brand portfolio as well as our focus on the development of the health platform. With the growing impact on the makeup of services in the company and being something with high strategic value for competitiveness, I would like to invite you to participate in the 9th Edition of Fleury Investor Day that will be held on December 9th at our headquarter. We're prepared at the event to share more details in terms of our vision for the future of the company and the health sector as part of a model where we have care coordination and closeness with the patient. Thank you and have a good day.

## Operator

The Fleury conference call and here we would like to thank all of you for your participation. Have a good 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.*