

Q3 2021 Earnings Call

Company Participants

- Bruno Blatt, Chief Executive Officer
- Elton Hugo Carluci, Sales Innovation and New Business
- Frederico de Aguiar Oldani, Chief Financial Officer and IRO
- QUALI3
- Unidentified Speaker

Other Participants

- Gustavo Tasso
- Joseph Giordano
- Leandro Bastos
- Mauricio Cepeda
- Vinicius Ribeiro

Presentation

Operator

Hey. Good afternoon, ladies and gentlemen, and thank you for holding. At this time, we would like to welcome you to the Quarterly Conference Call to discuss the Results for the Third Quarter '21. We have with us Mr.Bruno Blatt, the CEO; Mr.Frederico Oldani, the CFO and IRO; Elton Carluci, Sales Innovation, and New Business; and Pablo Meneses, Relationship.

Now, we have forward-looking statements that are subject to known and unknown risks and uncertainties that may lead to these forward-looking statements not to materialize or be different from what we are stating. This event is being broadcast simultaneously via webcast and may be accessed through Qualicorp website www.qualicorp.com.br/ir where the presentation is also available.

This event is being recorded, and all participants will be in listen-only mode during the company presentation. Ensuing this, we will give you further instructions to participate. We now give the floor to Mr.Bruno Blatt. You may proceed.

Bruno Blatt {BIO 21352052 <GO>}

Hello to everybody. Once again, we are here to speak about the results, the challenges, and the roads that we have gone through for our company to comply with its mission of being the largest and most complete health platform in Brazil.

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I would like to set the context. I have spoken about the sanitary crisis of our history and so many other crises were in Brazil. And as a leader of this company, I don't join the lines of the pessimists or those that are naive and close their eyes to the problems that we face every day. We are a country with an enormous potential and we have several different types of species, but recently we saw the growing unemployment and inflation that is attacking us day after day. And in Quali, we live in this country and we have to combat this reality while we carry out a deep transformation in the company.

In the last quarter, we had a level of cancellation of plans that is something unheard of in the last two years. Once again caused by the effects of the pandemic, and we had a historical cancellation at the moment of price readjustment. It went somewhat beyond the inflation of this year. We had applied 15% adjustment referring to the year 2020, and 7% of recomposition, and 8% of readjustment this year.

Now this readjustment was geared to be the lowest readjustment possible, because of the situation that we face. And this is one of our important roles. In this atypical context, we had a reduction of 2% in our Affinity portfolio vis-a-vis the previous quarter. This is because we have focused on speeding up sales and gaining market share. Were it not for this, we would have leveraged these losses.

We are open to the context. We had expressive cancellations, but on the other hand, we had a sales record of new plans, 151 new health lives added to the portfolio with a growth of 14%, which is also a record vis-a-vis the second quarter and much higher than the sales last year. So, we have surpassed our goal of reaching monthly sales of 40,000 to 50,000 lives every year.

As we anticipated, we did have a recovery in result. We reached an EBITDA margin of 42.2% this quarter, representing an increase of 330 basis points quarter-on-quarter. We are a team that is very connected with our business and with what happens outside of the business. We have all of the mechanisms to seek healthy levels for quality margins. We are connected to the expansion of our business. We have a long-term focus, but we also look upon their short-term.

Now, the good news doesn't stop here. We, in October, created the Qualistore, our chain of physical stores. We began with eight stores in the metropolitan areas of Sao Paulo and Rio in shopping malls. These are stores to offer necessary support to consumers who want to change their plan or who need support.

Our partners can also use the facilities of these new stores to service their clients. And we have more news. Yesterday, we announced the launch of Qualiseguros, an online platform to sell a broad array of insurance products. It works with the marketplace and this is part of the quality strategy of offering products beyond its core business. We can offer ever more security, care, and protection to our clients.

The Quali marketplace confirms its strategy of becoming a multi-product and multi-channel company. And it shows our commitment to service clients in different moments of their lives. This week, we also concluded the acquisition of the Elo Group with 52

Bloomberg Transcript

additional thousand lives with Bradesco, Sa?de, Amil, Unimed, and others. We will continue to be attentive in terms of our strategic planning and organic growth in the short term.

As part of the strong change that we have fostered in Quali, we have reorganized the brand and visual identity of Quali. We now have a new symbol with two meanings. First, the symbol of partnership. What you see around the circle means union, a common objective. And we work with operators, class entities, and associates so that jointly we can do the best for our clients. The clients are our focus, they are the center of our strategy.

The second meaning is the choice. The spheres also represent our portfolio that grows and is ever more diversified able to cater to all needs. And the color symbolizes our work in consultation, finding the best plan for each and every client. All of this is summarized in our positioning: more choices for you, more Quali in your life. Now, this is manifest that you will see after this conversation, and I do hope you enjoy it.

In the day-to-day of the company, we continue to believe in value. We know that we can work right doing the right things. And our voice is not isolated. It is the voice of a team that is working jointly. The manifest reminds us who we are. To be Quali means to work with attention and mainly with intention to know why we are doing something and for whom. Transparency and commitment in all of our relationships to look upon challenges with a purpose and to be open to change to deliver with quality to get to know our clients, their peculiarities, their needs and to gear our attention to them -- to offer them the very best experience.

Quali means to live the values, empathy, respect, and affection. These are not just words that you'll find in the dictionary. These are etiquette that lead us to truly like people. I entered Quali in the third quarter in 2019. I thank the shareholders and the Board for their confidence and for their choice. A person with an entrepreneur profile who has always generated value in the short term would be the best person to lead the transformations we have implemented in Quali. And all of this is in the head of the owner.

As a legacy, we focus on something perennial, but also on something innovative. We have always built the business generating value and things are not different in Quali. This is the culture in the company. This is our manifest and our values. Since I took on, I continue on with the three pillars: growth or focus on the client, people, and culture. This is something that I repeat endlessly in previous calls. And at this point, I have to put everything in outlook, the resumption of sales, the acceleration of gross adds.

We have a team that should be praised. We more than doubled the sales since last year, and the sales are distributed throughout Brazil. We occupy space through our own teams and have expanded to 23 regional offices we have significantly expanded our brokerage base and we have increased commitment through a program lead to them multi-channel, multi-product.

We have 100% digital sales and we're seeking to operate through other channels and we are not going to stop here. We have proprietary platforms, third-party platforms, we have

squali[ph] that has been helping us to become ever more qualified. With an increase in conversion, it shows us that we did the right thing. We have diversified multi-channels with Medo and several different fronts.

Quali play. We did that. We are -- we have a radio focused on brokers is one of the radios that is most heard through streaming, and has gone beyond 18,000 downloads. We speak about products, campaigns, recognition, so do download this app. We have expanded our products. Quali was stagnated. It did not have a great variety. We had 63 new operators in our portfolio marketplace, which is our Quali insurance. We created that.

Our second pillar is a focus on the client. We have achieved this. We structured our operations and have significantly enhanced our service levels. Our resolution levels. We have achieved the best levels in our history. We have also trim line our service channels the transformation of Quali, which is a company that is data-driven. We have created systems and operational Quali tech system among other tools.

Our third pillar of people and culture is ready. We have several actions that I will not repeat here. But Pablo, our VP spoke about this in the previous call. Several changes in the legal part, compliance, information security in house, besides a very long process reviewing our corporate governance.

Yesterday in the board meeting, we have approved the new policies and internal regimes besides a new code of conduct and ethic and they're all available in our IR site. And they have been approved by the shareholders in the assembly held on the 19th and they represent the framework of the company's governance after long and arduous work with specialized advisors.

To conclude, I need to highlight that each day in which we work, we have energy, competency, and a great deal of love. This is what we need if we believe that we can create a better world and a better country what can we do to do whatever we do as best we can. I would like to thank you for your attention and confidence. And I invite you to watch our video.

(Audio-Video presentation)

Elton Hugo Carluci {BIO 21743831 <GO>}

(Foreign Language) that can multi-channel, which means that now we can count upon a channel that is 100% digital to offer products and services and we are connected with the specific moment of life with our clients. Initially, we count upon a product's negotiated exclusively for this and the savings could reach 40% depending on how we work with this.

This is part of our strategy, there is no product in the marketplace that can be marketed without bringing an advantage to our clients. And very soon we're going to make available other products that are being tested and validated with the support of our data group as we have already mentioned. We're carefully focusing on data before we make any decision on products or offering still towards that path of multi-channels.

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We recently launched a project of the stores and shopping malls, the Qualistores that complement our ecosystem, not only for sales, marketing, but also for relationship, offering more options to clients to be able to acquire products and also, perhaps carry out some attention within the stores, something to enhance their journey. We have eight stores in Sao Paulo, already carrying out sales and servicing clients.

Very well, I will now speak about the results, we'll show them very quickly. And I would like everybody to please go to Slide number 4. Number 14, where we can observe the increase in gross adds and sales in the third quarter, where we reached 151,000 health lives in the Affinity Health Lives segment, representing a growth of 14.5% vis-?-vis the second quarter of '21, and a robust growth of 110% vis-?-vis the same period last year.

It's always also important to underscore that in the nine months year-to-date, we are at 52.9% of growth vis-a-vis the same period in 2020. Now, this sequential growth of gross adds in the main business of the company, the Affinity Health Live segment is a result of very strong execution of our strategy that we began in the back to bring together geographic expansion and other actions to have organic growth without, of course, neglecting the M&A and bringing in operators that generate sales immediately.

So, we have brought about 63 new operators to quality, 63 and 10 were added organically. And another important point, in this group, we have 27 that are part of the Unimed group spread out throughout the country. Still, as part of this strategy to leverage growth, we would like to highlight our fidelity program for brokers, which has contributed significantly to the increase in sales.

We see greater engagement on the part of brokers and we have an indicator, which is MBC and it shows that in the group of the brokers that are part of our loyalty group. The performance tends to be better vis-?-vis the average and we measure this every quarter.

Here I would like to show you our portfolio that had a growth of 7% vis-?-vis the second quarter and 27% year-on-year. It's aligned with our strategy. We already mentioned this in previous calls, but I would like to take this opportunity to also carry out sales in this segment generating leads and at the moment, creating loyalty and retention of the client.

Now this quarter, we offer you additional information, which is on Slide 15. It is possible to identify the sales carried out to clients that requested cancellations, but were retained by our sales team. We observe that in the third quarter, we had almost 20,000 lives that were retained, representing 13% of the growth additions.

What is more important is that, besides being more than half of the previous period of readjustment, it is more than what we obtained in the third quarter of 2020. It's also important to underscore and it's a simple calculation of percentages, even if we exclude the retentions from the gross number, we have had an extremely robust growth in gross adds. We highlight this figure. We have received several questions on this indicator after the last call at the IR department, and we thought it would be important to present this to you in this call, to show you how robust our growth has been and in gross adds through this indicator.

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Now to change topics, I would like to speak about the churn, the performance of our Affinity portfolio. This is on the next slide, number 16. And before I comment on performance, I would like to begin by reinforcing what is happening with the situation at large, this was mentioned by Bruno. I will not reiterate everything, but the recomposition of retroactive readjustment and the adjustment of this year has taken us to a readjustment of portfolio that is way beyond our expectations, 37% increase in the monthly payments, of course, because of everything that is part of the price and this is adjusted in a pro-rata way.

Now because of the situation, we had a reduction in the portfolio of 26.8 thousand lives in the first quarter. What we observe is an increase in cancellation because of default. We still have not returned to historical levels and there's a huge correlation between default and readjustment in this country.

It's always important to mention that the gross add performance has helped us to mitigate this impact. If we were at the same sales level as last year, we could identify that we would have had a enormous impact, much greater than the one you see here in the third quarter.

Of course, readjustments, do create this pressure. On the other hand and for the long term, the readjustment and the default that -- moment will end up having its effect attenuated, perhaps more than we had imagined. And we do expect this slowdown, especially when we look forward to the year 2022, where the monthly payment will have a reduction because we no longer have that recomposition factor, it will end at the end of this year.

Very well that is my presentation, I will return during the Q&A. I would now like to give the floor to Fred Oldani. You have the floor, Fred.

Frederico de Aguiar Oldani

Thank you, Elton. A good afternoon to all of you and I would like to mention the highlights on Slide number 18. The Affinity portfolio had a drop of 2.3%, vis-?-vis the previous quarter as has already been mentioned by Bruno and Elton, and the growth of 6.4% vis-a-vis the previous year, and -- especially because of medical and hospital affinity, the main segments of the company.

Our net revenue had a growth of 2% vis-a-vis the last quarter and 3.4% vis-a-vis the previous quarter of this year. Adjusted EBITDA reached a drop of 6.2% vis-a-vis last year and an increase of 42% as we had announced in the last call. We did mention that this would happen in the half of the year. We reached 110.4 million 15.1% below the same period last year, 22.3% above the second quarter '21 for net income.

Our net debt reach 1 million -- 1 billion -- 1.58 billion, giving us a leverage of 1.23x adjusted EBITDA. Our cash flow after investments reached BRL67 million, a significant improvement compared to the previous quarter. We had anticipated that this would happen and our return on investment reached 33.3% in the last 12 months.

We go on to Slide 19 to speak about the line items that we deem to be more important for the quarterly results. As everybody has seen, this was a normal quarter as we had anticipated the SG&A and costs that was 260 million in the previous quarter was reduced substantially. We reached 242 million this quarter as we had anticipated.

And with this, we are back to an EBITDA margin very close to the levels that we had in the first semester, 42.2%, which means that the second quarter had several factors, non-recurring factors that ended up having an impact on the quarter. But this quarter was clean, practically without any relevant non-recurring impact. And it once again puts the company at the level of results that we believe are the present-day levels still not but we have the potential to achieve, but at the levels that we deem to be healthy, given the present-day context and the challenges that we observe in the macro scenario.

We go on to Chart number 20 to speak about cash flow. We had a substantial enhancement in cash generation vis-à-vis the second quarter. There were some negative impacts impacting cash generation in the third quarter. We have 67 million still with a negative impact not expected in working capital. We do expect the working capital to increase going forward.

Our turnover should be higher than this quarter, and this is a one-time event until we go back to the higher cash generation levels that are more in accordance with what is usual for us. Working capital should not have a relevant impact. Now the dynamic of our business does not require investments in working capital.

I think that with this, I have spoken about the main results. It was a quarter that was well within normalcy. And with this, I would like to conclude the result presentation for the third quarter, and we would like to show you an additional video before we go on to the Q&A session. Thank you very much.

(Audio-Video Presentation)

Questions And Answers

Operator

Question And Answer

Thank you. We will now go on to the question-and-answer session for investors and analysts. (Operator Instructions) Please wait while we pull for questions. We have a question from Gustavo Tasso from Bank of America. You may proceed, sir.

Q - Gustavo Tasso {BIO 19813706 <GO>}

Hello. Can you hear me?

A - QUALI3

Yes, we can hear you well.

Q - Gustavo Tasso {BIO 19813706 <GO>}

Wonderful. Thank you for taking my question. In truth, I have two very quick ones. First of all, what can we expect for the fourth quarter? Do you have an outlook for the reduction of churn? And can we believe that you will have a sustainable number of beneficiaries added in the quarter?

The second question refers to the retention. We have seen that retention has improved which is positive, but which is a dynamic of your average ticket. A person who had an average ticket of 100 would go to 115. What has changed in this dynamic? Does the person opt for a lower ticket? So the first question is about beneficiaries for the fourth quarter and your dynamic of retention and the tickets, the average tickets. Thank you.

A - Elton Hugo Carluci {BIO 21743831 <GO>}

Gustavo, this is Elton. Good afternoon, and thank you, for the question. Let's speak about gross adds of the portfolio and then we will speak about retention. In the gross line, as we had committed ourselves to doing with that skill showing the bridge and how we would get to the levels that we had already attained, we should go between 40,000 to 50,000, perhaps a little more because of our retention performance. December is a month that always has a minor drop, December and January because it is vacations and much more. This is a month with a performance somewhat below average, but it will be in the range of those averages.

We have stabilized in terms of our share-in sales and we want to execute this as planned. So as January and December are months with a drop, we should remain within these ranges. Now, I see an increase in the request this month. The default, non-payment continues to be a point of attention. We don't give guidance, you know that very well, but we are struggling to have a reduction to be able to present a better figure so that we can stabilize this and go back to growing, but this is somewhat complex.

In terms of retention, how does the dynamic operate? Now this client has called -- has already canceled the plan. We were negotiating with the client. We have changed the entire flow and the ticket is dropping. We have special factors that allow us to reduce the ticket, and the average for the last two months is 22%. So this is our average figure in which it (inaudible), and we see that less than this. The offer will no longer be attractive, and I have mentioned this in another call, 80%, 88% is a financial issue when it comes to cancelations. Now, if there isn't a reduction, the client will not remain, but this is the reduction that we have been giving.

Q - Gustavo Tasso {BIO 19813706 <GO>}

Thank you. Thank you very much. That was very clear. Thank you for the answers. Thank you, Elton.

Operator

Our next question comes from Mauricio Cepeda from Credit Suisse. You may proceed, Mauricio.

Q - Mauricio Cepeda {BIO 21783651 <GO>}

Good afternoon. I am Mauricio Cepeda from Credit Suisse. Thank you for taking my question. You have already explored the topic of churn, but I would like to go back to where you're saying that you have results variable after variable with your sales spirit. Now this is the only remaining variable. I would like to hear from you what you expect given the dynamic of the health market that we observe. What are you expecting in terms of readjustments going forward? If we think about the beginning of 2022, you are aware that the retroactive readjustment will end but which will be the base readjustment. And more important than that, what do you intend to do besides using the present-day retention strategies? Is there any other tactic that you can use to tackle this variable? Thank you.

A - Bruno Blatt {BIO 21352052 <GO>}

Cepeda, this is Bruno Blatt. Thank you for the question. Our expectation for 2022 is a readjustment of 12% to 15%. This would take our churn levels back to what we expect. We remind you that beginning in January, our client begins to have that feeling of the discount they will stop paying the recomposition. This is the first time, it's unheard of, and the QualiCorp client will feel that they are having a discount because they're not paying the recomposition. This year, they paid 1/12 of this. So, we believe in a normalcy in terms of churn. The share in gross adds is at the level that we expect it, we can still leverage this further. It is growing consistently quarter-on-quarter because of our strategy.

Elton, perhaps if you would like to add something?

A - Elton Hugo Carlucci {BIO 21743831 <GO>}

Yes. I would like to add the strategies that we have for churn. We address this permanently in the company. And in the pandemic once again, we put everybody in a meeting room to test what would happen. We had a plan that was ongoing. Then you can imagine the pain, readjustment during a pandemic. This does not go well with your pocket.

So we still have part of the clients that are going to the sole health service and we're monitoring this. This is perhaps the main topic for the company vis-?-vis all areas, sales, churn, the customer area, the loyalty team, and we're using all possible strategies for offerings and modeling and calling the clients. The client call says that he is late. And we have eliminated all the gaps that were possible. So we have few clients canceling. It's very difficult for somebody to pretend they are our client to try to cancel and receive the offer of another product without our knowing this.

So we have closed all of those doors. We have closed the micro issues and macro issues and we're attempting to attenuate this with new offers. We hope that the figures will be better. And cancelations are very cruel and I cannot find a better word. These readjustments are cruel because they truly pressure people in terms of their acquisition

power. But at a given moment, unfortunately, you end up losing these people who have a lost income, but eventually this stabilizes.

We have had a significant reduction. We have people calling to cancel, but now cancelations because of default. This is a very difficult situation, and we're all working to address this problem.

A - Bruno Blatt {BIO 21352052 <GO>}

I would like to reinforce what was said by Elton, 100% of the company presently is devoted to churn, the sales area. We have Elton participating in the churn committee. So 100% of the company, the People and Culture Director, the Marketing Director, the M&A Director, all of these participate in the Churn Committee which is our main challenge at present, and we're addressing to begin to hold on to our gross adds and have a truly organic growth.

Q - Mauricio Cepeda {BIO 21783651 <GO>}

Thank you, Bruno. Thank you for the explanation. Elton, thank you once again.

A - Bruno Blatt {BIO 21352052 <GO>}

Thank you, Cepeda.

Operator

The next question comes from Leandro Bastos from Citibank. You may proceed, Mr.Bastos.

Q - Leandro Bastos {BIO 21416405 <GO>}

Good afternoon. I have a question on working capital that I would like to explore if you could detail which are the main impacts and how it will normalize?

A - Frederico de Aguiar Oldani

Hi. This is Fred. Working capital this quarter, we still had a negative effect, mainly because of accounts receivable, and the increase of cancelations because of default.

This quarter, we had to apply the second readjustment. It was one readjustment on top of another and the cancelation by default is somewhat higher causing pressure on accounts receivable this quarter. We hope that this will become more normal beginning in the fourth quarter.

Now, working capital should always be neutral basically and we always have timely issues that impact the generation of working capital. But our business does not demand working capital. So we can look forward and see that this curve will be somewhat positive, someone negative on specific quarters. But it should not have a significant impact on our cash generation.

Q - Leandro Bastos {BIO 21416405 <GO>}

Thank you, Fred. A more specific question. When you have a cancelation or a downgrade or the beneficiary, do they continue to pay the retroactive installment?

A - Unidentified Speaker

We always collect. Even a client who has canceled in December of last year for example still is owing the installments of recomposition for this year until December. We are collecting the recomposition not only of active clients, but also those who canceled. Now, a client that canceled because of default, the possibility of recovering there is lower. But in the past, we created a BRL50 million provision of losses because of the readjustments. And up to the third quarter this year what we estimated is very much in line with what we have in terms of effective losses. Of course, we still have one more quarter to go, but until the third quarter, everything is in line with what we had in 2020.

Q - Leandro Bastos {BIO 21416405 <GO>}

That was very clear. Thank you very much.

Operator

Our next question comes from Vinicius Ribeiro from UBS. You may proceed, Mr.Ribeiro.

Q - Vinicius Ribeiro {BIO 19720178 <GO>}

Good afternoon. Thank you for taking my question. We only have one question. This quarter, we saw an acceleration of gross add and the decrease in the erosion of revenue. When we look at the cash dimension, we think that the commercial part should grow and consumer margins. If you could help us here, which are the line items where we can expect efficiency based on your present cost line items? And which will have to be adjusted?

A - Elton Hugo Carlucci {BIO 21743831 <GO>}

(Foreign Language) Vinicius, and then Fred can help me here. And I'm going to try to be very objective, it goes through cash and amortization. What I can anticipate because this is already in the market, we have disclosed this as part of our campaign, we began to do what we had anticipated and especially after the call and in some opportunities where we spoke to investors in RI, we are gauging the CAC to optimize the ratio of CAC per region per product. This is something we have already begun to do. We have a level of commissions that is lower than those we operated with and a novelty that we launched this month also relates this to loyalty.

We're practically at 100%, perhaps not 100% or 99% of our campaigns consider the customer loyalty, the first, third, and sixth installment. So this is something unheard of, something new that we are doing, working on the customer loyalty. Our commercial team is on the streets acting out on this, and we remind you that we always use the combo strategy. We have more than 100 operators in the country. We are spread out throughout the country, and it's possible to make the customers more profitable by the use of these

combos and this is going to change our cash dynamic going forward and will also change amortization and the levels. I will give the floor to Fred.

The level of present-day amortization does not reflect what you will see going forward, because of the fact that we are associating things. The broker creating a portfolio with a long-run view instead of focusing on month after month. This is a new dynamic. Fred?

A - Frederico de Aguiar Oldani

As Elton mentioned, we have implemented a significant change in the dynamic of commissions. Now to recap, we deployed greater commercial efforts than usual, given the goal that we had of achieving a greater share. Now that we have a greater share, we're beginning to tighten things city-after-city, product-by-product based on the competitiveness of each area. And this will become ever clear beginning in the year 2022, because of the changes that we're implementing in CAC.

An important point that you should keep in mind is that we're not going to return to the 2019 levels of CAC. They don't create a barrier of entry for any segment. It's too easy for any plan manager to come in and go out attacking the client. So the healthy level of CAC are not the levels of 2019, and neither are they at the levels of 2021. We're carefully gauging this to see where we're going to stop, but certainly, it will not be the CAC that we had up to present up to 2021.

The levels of 2022, you can expect a much lower CAC, and we're monitoring this based on the portfolio performance when we're working with each of our objectives, one by one. Market share for example, we can lift the pressure a bit. Now, if we see the sales are dropping, we will press on the accelerator and our strategy is very clear to defend market share and have a relevant share in the new health lives along with a normalized churn, which we believe will happen in the year 2020. We will go back to the historical levels of readjustment. A large part of our portfolio has that feeling that we haven't had a readjustment and this is a scenario that will enable us to resume growth in an organic way. Migrating to net adds, organic growth scenario or a lower CAC, 850 perhaps depends on how you do your calculations in the last quarter.

Q - Vinicius Ribeiro {BIO 19720178 <GO>}

Well, thank you, Elton and Fred. Now, if you allow me a follow-up question. Simply to see if I understood this properly, your marginal CAC will tend to be lower. But you do have the recognition, the out counting recognition that will impact your statement in the coming years, will we have a margin pressure coming from commercial expenses? And if there's something that would offset this higher commercial expenses or should we simply expect the continuity of this pressure.

A - Frederico de Aguiar Oldani

Now, when you look at the present-day levels, I'm budgeting less and I'm spending in cash. Now, the normalized level will not be the 120. I'm not going to migrate to a level of BRL120 million that I'm spending in cash. I'm going to converge to something over BRL50 million, which is what I spend nowadays. Now, with this new strategy of deferment, we're

going to have a difficult cash analysis and it will be difficult to analyze competition. And what I'm going to anticipate is that it will take you three or four quarters to truly be able to see where we will stabilize in cash and in terms of deferment, this is a strategy that commercially makes a great deal of sense for us by only doing this. We will have significant savings in CAC besides the reduction, but unfortunately, it will cause a bit of confusion in the numbers, confusion in cash and amortization beginning in 2020.

Q - Vinicius Ribeiro {BIO 19720178 <GO>}

Thank you, Fred. That's perfect. Thank you very much.

Operator

Our next question comes from Joseph Giordano from J.P. Morgan. You may proceed.

Q - Joseph Giordano {BIO 20154008 <GO>}

Good afternoon, and thank you for taking my question. I would like to explore the growth of gross adds that was quite strong. And if you're comfortable with the present-day levels, now how will the new acquisitions and partnerships, how have they contributed to this increase in gross adds? Is it through your geographic footprint because you did have a significant expansion? Thank you.

A - Elton Hugo Carluci {BIO 21743831 <GO>}

Joseph, this is Elton. I will answer your question and others will add to it. The new acquisitions are performing as expected. We added more than 30 operators. These are regional operators. And when we look at those average gross adds, it's almost 50,000 rounding up. And this is the effect that we have in terms of loyalty now.

Lt's imagine that we are at the level of the previous quarter where we were speaking of 48,000, we have already achieved that. We have consolidated at a new level and before we had planned. So we're in that level of 45,000 to 48,000 new lives and we had 5,000 lives acquired. This is already happening in gross adds.

When I look at the regions that came with the M&A, I can guarantee that the M&A has indeed made its contribution and this is the present-day level. Everything is in accordance to what we had planned. We have a growth in sales and all of the regions, practically in all of the regions of the country when I look at the year 2020, if we choose an area. Well, in some of them, we have more than doubled our sales. We have site that we did not have because of the M&A.

There is an additional gain that we're not considering, because it will have to go into that gauging that we will have for CAC, and the defense of our share and sales perhaps in a specific region. This will change somewhat because we're working with legacy systems, we're bringing them into our new system, and this has not happened yet. When this will happen, we will leverage everything. We have a network of 50,000. There is an overlay, but we're always greater than the companies acquired. So we're going to take that product to people that did not have it in its portfolio, and this will begin in the coming year

and of course, this will aid and abet a reduction that we can have in one side or another. So this is what we are observing here presently.

Operator

Ladies and gentlemen, the Q&A session ends here. I would like to return the floor to Mr. Bruno Blatt for the closing remarks.

A - Bruno Blatt {BIO 21352052 <GO>}

I would like to thank all of you for your presence. State that we are still with a great deal of enthusiasm, because of the changes that we have implemented in that company. Enthusiastic with everything that we have been able to put in place this year, even during a very prolonged pandemic and despite the crisis, the company has a renewed spirit and we're ready to face whatever we will have going forward. Thank you for participating in our third quarter '21 earnings release. Thank you very much, and have a good day.

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