

## Y 2015 Earnings Call

### Company Participants

- Grace Goncalves Tourinho, Chief Financial Officer
- Mauricio Ceschin, Chief Executive Officer
- Natalia Lacava, Investor Relations Superintendent

### Other Participants

- Rodrigo Gastim, Analyst

### Presentation

#### Operator

Good morning, ladies and gentlemen, and thank you for waiting. Welcome to Qualicorp's Conference Call to discuss the results of the Fourth Quarter and Year of 2015. We have with us today Mr. Mauricio Ceschin, the CEO; Ms. Grace Tourinho, the CFO, COO and IRO; and Ms. Natalia Lacava, the Investor Relations, Superintendent. This event will be recorded and participants will be in listen-only mode during the company's presentation. After which, we will begin the question-and-answer session, when further instructions will be given. (Operator Instruction)

I will now turn the floor over to Ms. Lacava, who will start the conference call. Ms. Lacava, you may proceed.

#### **Natalia Lacava** {BIO 17175216 <GO>}

Thank you everyone for once again participating in our conference call. I'll turn the floor over to Grace, who will make the initial remarks, and then I'll take over to give more details in our numbers. Grace, please?

#### **Grace Goncalves Tourinho** {BIO 17244138 <GO>}

Hi, good morning everyone and thank you for your attendance. It is essential to highlight the challenging year we had in 2015, which made us search for (inaudible) to compensate a new (inaudible) impact to try to (inaudible) results from -- in the beginning of the year. The key initiatives (inaudible) the last quarter of the year were, first, tax gaining, corporate restructure and third, the (inaudible) customer care.

With the tax gaining, a performance at (inaudible) consultants, which allowed us to achieve greater efficient in these following areas. Let's start talking a lead about the 2015 impact, so going to impact the results that is just released today. We performed the payment of

insurance sector of Qualicorp Corretora and Qualicorp Administradora generated a consolidated (inaudible) of BRL13.8 million in 2015 in the net revenue, a reduction of the stock option cost due to a new interpretation of the low -- (inaudible) 1,973 [ph] released in 2014, as active since January [ph] 2015.

In the (inaudible) for expense related to the (inaudible) of BRL9.4 million. The first one was the higher bond deduction of the last five years. (inaudible) don't expand for example. The (inaudible) depreciation of fixed assets to the amount total of 700,000. Before I start talk about 2016 fact, it's important to mention that we are going to have this same benefit that we achieved in 2015 regarding that (inaudible) a lower amount mainly due to the capital reductions relied on October of last year.

So now moving to 2016 part. We highlight that we transferred three companies to (inaudible) that was (inaudible) Qualicorp (inaudible) health club -- administrator. All of these transfer allow us a 3% direct reduction in the (inaudible) tax rate and 1% additional related to the paid several tax reduction. So in the end (inaudible) 5% to 1% of -- in this company. Later real estate of BRL24.8 million in 2016.

We transferred (inaudible) in January 2016 from Qualicorp SA that is the old company to Qualicorp Corretora, corporational company, which allow us (inaudible) benefit of BRL11.5 million in 2016. We have revealed all of our acquisitions in the weekend highlight in the (inaudible) could view and the client relationship goodwill. At the time of the acquisition, the goodwill regarding the client relationship was not deductible.

But after the publication of low number 12,973 from 2014, the company saw that could have used the (inaudible) good will. So in this case, we are going to (Technical Difficulty) in March 2016 in the income tax line around BRL150 million, out of each 90% [ph] came from (inaudible) leveraged by us. (inaudible) 2016 in the (inaudible) March 2018.

It's also important to inform that on March 31st [ph], 2016, the normal restriction was published, which made insurance (inaudible) and able to be compared with the aforementioned situations. So Qualicorp (inaudible) of 9.25% with capital reductions, which compared to 4.65% (inaudible). These two made normal tax increased BRL46 [ph] million. We currently evaluate in the best way to optimize the impact of the potential client deductions.

Moving to corporate restructuring. We have full implementation of a new consolidated structure in the group, (inaudible) eliminating four [ph] company that should be completed during the first (inaudible) of this year. So the customer care, we implemented an option plan in the customer service area in order to enhance satisfaction in redemption level. And operational (inaudible) 90% [ph] of the call retention received by the consultant and 4% retention (inaudible) in 2015 [ph], when we compare with 2014, generate sales of BRL2.4 million.

The key (inaudible) implementation of the new order (inaudible) workflow and customer feedback that aligns. Also we implemented on the online -- (inaudible) change of

(inaudible) and the simplification of the Qualicorp (inaudible) to a portfolio of the operator. The annual reduction of this total product was BRL5.3 million.

Finally, there (inaudible) operation improvement in management opportunities in (inaudible) search of company's efficient. Overall, this (inaudible) should contributed EBITDA expansion, cash flow increase and a higher dividend capacity distribution for shareholders. Thank you (inaudible) everybody.

I'm going to pass through to Natalia.

**Natalia Lacava** {BIO 17175216 <GO>}

Okay. So let's move on after all very well introduction (inaudible) -- now, let's move on to the numbers. I'll start with the slide number three, where we talk about our main indicators. So we are -- I want to highlight our EBITDA performance. We had our full year consolidated EBITDA increasing almost 20% year-over-year. We considered to be a very healthy performance considering all the challenge that we face throughout this year reminding everyone that we've had exit of Potencial, due to the anti-trust decision. We've had the Unimed Paulista process which also led to some losses in line and order cancellations and even though we were able to increase our EBITDA by almost 19% [ph], our margins reached 39% consolidated and 41% excluding CRC. Above our initial expectations that we shared with you guys over the past month, we were talking about 40% excluding CRC, were reached 41.

So, we believe that this was a very challenging year that we were able to manage all the challenges and still reach a very, very strong results. Another thing that I wanted to show attention, that we will have more details going the other slide, is the cash flow generation. We reached a record cash flow of BRL110 million, after CapEx, which opened the space for continued payment of dividends, continued delivering, you know, return back to shareholders. We are distributing again 100% of our dividend in 2016. So it's -- the cash flows supporting us to keep on with this strategy.

Moving to slide number four, where we talk about our portfolio. Here want to give more attention to our Medical Care lines, where both of our revenue comes from. In the fourth quarter, we reached record levels of sales, mostly joint by a very assertive strategy of (inaudible) that had been rebuilt our plans and were doubted solution in the market, because of the Unimed Paulista process.

So they were in the market without any alternative, and we were the ones who offered you know one of the most successful alternatives program. Together with that, we also had more incentives to the distribution channel which helped reaching this record sales throughout the quarter.

The other thing is the cancellations of churn, which was influenced by the cancellation of Unimed Paulista that contributed with 44,000 wide. But it's worth mentioning that the process of Unimed Paulista we were able to retain 72.4% of the lives, so more than we

exactly initially last quarter, I remember sharing with you around 70%. So in the end of the process, we reached 72.4 and more than 75% of the revenue.

So because the ticket was higher, we were able to lose only 25% of what we had in the cash [ph]. This was the best performance that company has ever achieved in process similar to debt, when a portfolio is cancelled. And we attribute that to a very good work -- team work, (inaudible) in a very short period of time and offering you know the (inaudible) to our clients, which grew that Qualicorp has a very unique model with very high capillarity [ph] with alternative, with a very diversified portfolio and we were unable to offer -- to have an alternative for everyone, who wanted to keep it planned.

Out of the lights that we migrated, we retained 92% [ph] went to Unimed FESP, the federation of Unimed and 8% has chosen all the solutions in our portfolio to other projects and for these guys around 10,000 people the process was (inaudible) sales process meaning that we paid commissions and we also received commissions.

So again, just to say it to you guys that the entire process not only helping us to learn more and to be prepared, but also show to us that the diversification of products that we have in our portfolio, pertaining a very special place in the market and we are definitely you know one of the leaders in our same solutions to our clients.

If we were to exclude this extra-ordinary cancellations, our net adds would be slightly positive in the year and in the quarter, which again showed the resilience of our business model. In our -- in a year like 2015, keeping the portfolio flattish with the scenario that we are leaving here economically shows that we have a very attractive profit, very resilient profits that people makes as much as much they can keep [ph].

Moving to slide number six, where we talk about our net revenues. I'm not going to all demand [ph], because we have all the details here but the full-year growth was 16% and the quarter growth was 14%. So here I want to spend time just talking about the fact that - I want to remind everyone that we reached those levels of growth even with the exit of potential that we would like to sell. So we lost that revenue, even with the (inaudible) of some portfolio like you mean that (inaudible) even with all both the challenges we are still able to grow revenues by 16%.

So, for us this shows the resilience of our business. Moreover that keeps on growing with so many challenges throughout the year. We were able to keep saying (Technical Difficulty) within a very high level reflecting also the distribution (inaudible) that we have together with a lot of alternatives to our clients, they attend a lot of the preparation, schemes to not only the higher income price but also the lower income price and really, we have a very different product.

So I think the net revenue reflects that.

Moving to the next slide number seven, where we'll talk about the cost of services. Here, I want to highlight the gross margin. We increase the gross margin almost 70 bps year-over-year and almost 50 bps quarter-over-quarter. Here I wanted to remind everyone

that there were some extra-ordinary expense related to layoff. We also spent more money on retention sales and retention things. So we had more patience to treat clients that were calling to cancel and these has increased our cost by around BRL1.5 million, the layoff has called BRL1.3 million, but we did not adjust anything here.

So it's all the extraordinary expenses and even though we were able to build gross margin. So this shows, you know that we have -- we were able to take advantage of lot of opportunities to reduce cost in order to compensate these extra expenditures.

Another thing I want to call attention is the (inaudible) as everybody know a new system to support better our operations and this naturally requires a better support from our infrastructure team. So in the third-party services, we see -- we still see a double digit growth due to the support we need from our infrastructure. It's normal that doing the process of implementation of a new system. We normally need more support and the benefits come you know a couple of months later. So we are leaving in this process. And 2016 should be a year of a lot of implementations of system.

Moving to slide number eight, where we talk about administrative expenses. Here we have -- reminding everyone, that in 2014, we had a lot of extraordinary expenses and we were telling everyone this will not happen again, this will not happen again. I think for the full year of 2015, we were able to (inaudible) everyone that this were really extra-ordinary expenses. This year, I can't remember (Technical Difficulty). During the quarter, this highlights that we have 5 million expenses related to the Unimed Paulistana process. For the full year, the impact was BRL6 million. It comes from medical center and expenses related to mailing that we send through letters, to all the proposal process defects cause 5 million actually [ph] in the quarter.

Besides that, Grace has mentioned in the beginning of this call, all the fiscal worksheet has performed and for that, we expanded BRL1.6 million with lawyers and consultants to work you know with that fiscal and restructuring. But even without that, our administrative expenses sales 19% quarter-over-quarter and for the full year, it fell 1%. So we are very pleased to announce that we were able to control our adding expenses. And this is our recurring process we do day by day and we will keep you know searching for more, more opportunities in this line.

Moving to the next page, we'll talk about selling expense. Here, selling expenses grew 13% in the full year and 25% quarter-over-quarter. There are some important things that I wanted to share with you here. The first one is that during the fourth quarter, we not only sold records -- we not only had record sales, but we also had impact from the light from Unimed Paulistana, who decided to migrate (inaudible) and we paid commissions for that.

So, I'm not (inaudible) fact that Unimed Paulistana has its higher than our normal sales ticket. So the fact that there was a huge impact from Paulistana during this quarter increased our average ticket for our sales average ticket and has called the higher commission expenses. But don't forget also to analyze our revenues, because we also had higher one-time fee revenue also because of higher sales ticket.

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As I mentioned again, -- mentioned, there were 10,000 lives, who were retained in other [ph] project in the process of Unimed Paulistana. Aside from that, we also increased the incentive in our third-party channel through more campaigns, more accumulations [ph], more prizes that has proven to be very efficient as you can see in our sales performance.

And lastly, but not least, worth mentioning the focus on our NPV. So our commercial team is 100% focused on bringing clients that have a higher contribution margin and is also reflecting our -- in our commissions, because if you sell a higher ticket, you pay more. But on the other side, you have a better margin, a better retention rate and a better -- a longer-term better results.

Moving to slide number 10, where we talk about bad debt and other expenses. We had a slight increase in function of the economy as everybody already predicted, however, we consider this to be according to normality, we don't believe this is something out of what we expected.

We are still well below the peaks that we had in the past. So we reached in 2012 levels of 89% [ph]. So we are still well below this level. We believe that this is a line that keep under pressure to occupy 2016, I mean, impossible to deny this scenario that we are leaving here in Brazil. So we believe that this should keep under pressure that we don't believe that it won't go back to the levels of 89% [ph]. We still believe that we have design under control.

As you can see, we still have BRL5 million during the quarter in terms of difference, so we were able to retain the recoveries sorry, so we have 5 million of recoveries in that debt, reflection of the process we have started a couple of years ago, sending people to blacklist and using collection agencies. So the full year, the recoveries were almost 20% -- BRL20 million. So this reduces a lot of our increase in bad debt and helps us to become more confident that this our line that is under control.

In the other operating income expenses, I don't think there is anything relevant to mention. We have reversion of contingencies, operating gains, which are natural of our process to review accounts every quarter. So nothing that come out of the normality of those lines.

Moving to slide number 11, where we talk about our financial income. I don't have much to tell here, because all these lines are very familiar to you. With effect that the reduction of cash, reducing the cash position of the company leading to a lower financial revenue and also the fact that the income tax -- the income tax sorry, the interest rate increased due to the economic scenario and this has called our debentures to become more expensive.

Another thing to mention here is that the IOC, the Interest On Capital that we paid, as Grace mentioned, was from the (inaudible) to the holdings. So the holding had net effects that they had to pay BRL5 million and that line is reflecting now our financial expenses.

However, when Grace mentioned about the benefit of 13.8, she is already excluding these extraordinary expenses. So -- but this line is reflected here in our other financial expenses.

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Moving to slide number 12, where we talk about EBITDA. I think I've mentioned already, all this said it is on cost and revenue. But just to highlight that we reached a very strong results in our view. We had you know 39% margin in a year with a lot of challenges that we do not forecast in the beginning. So it was not in our budget that crosses (inaudible) in a lot of cancelation but even though we had reached all our internal targets in terms of EBITDA. We also -- we cannot forget also -- the strategy is to control cost. We implemented a lot of things shared this year. (inaudible) control that we helped us to continue search for better alternatives to reduce costs and also the fact that the good performance on sales keeps this model alive and keeps the company -- keeps the growth of the company.

Moving to slide number 13, where we talk about net income. Here, I think that the number I wanted to tell you is that we reaffirmed what Grace has mentioned in the beginning of this call, the BRL61 million in in profit for the quarter ended 241 for the full year has the impact of almost BRL124 [ph] million in income tax benefit. Coming from the work, it was implemented in the company the fiscal work. We had 13.8 of fiscal benefits [ph] on the IOC. And we have almost BRL10 million of the stock option deductibles.

So we were able to deduct our stock option expenses for tax deposit. Something that we didn't do in the past. And we start doing because of a new regulation that came. So if you -- if you take it -- if you pay attention to our final interest rates for the full year, it came down from 49% in 2014 to 40% in 2015.

So one of the most repeating questions I get from you guys is why your rate so high? Why it's not 34%? And now I think with all these work that we implemented, we are getting close to the most efficient fiscal model reaching between 39.9% of [ph] effectively. There is a lot to do as management, there is things that will come in 2016. So hopefully 2016, we will show even better -- even better interest rate.

Moving to slide number 14, where we talk about CapEx and capital structure. Our CapEx was kind of flat and reflection of all the projects that we are implementing in new system. In the orders line here, part of this expenditure already reflects the PP&E we are going to move to Barueri, in order to have the fiscal benefit to part of this expenses delay [ph] reflected here.

And also in the capital structure, no news here, but just reminding that our net debt increased a lot because of the capital reduction, so it's natural that we will have more leveraged balance, because we distributed a big chunk of cash to our shareholders.

Last but probably the most important slide for you guys, cash flow generation, all these strategies, all these corresponds [ph] the end of the day, the goal is to increase our cash flow generation, increase the return for shareholders and here you have the table that shows our cash flow quarter-by-quarter. In the full year, we have a record BRL570 million cash flow, operating cash flow generation, which after CapEx reached BRL375 million. This opens huge opportunity for us to keep on distributing dividends and keep on build our strategy to increase return for our shareholders.

So with that, I conclude my presentation and I'll turn the floor over to Mauricio Ceschin, our President, who will give his closing remarks. Thank you, everyone.

## **Mauricio Ceschin** {BIO 18750717 <GO>}

Thank you, Natalia. Good morning, everybody. In 2015, we reached our goals. Although we did not hit our target of net adds due mainly to minimal Paulistana (inaudible) cancellations. All financial targets were achieved through last year, cost controls, NPV maximization strategy, focus on retaining valuable customers.

We performed tax work already mentioned by Grace, generating a significant tax savings not only in last year, but also for this year. We managed to increase cash flow while distributing the lack of dividends to our shareholders. And release, we'll distribute once again, 100% of profits in 2016 related to 2015. In one of the most difficult year that the company -- in one of the most difficult years the company due to macro-economic in our industrial environments and also the negative release [ph] all over.

We achieved -- we have achieved record results in EBITDA and cash flow generation, which makes me quite confident that this company has a lot of resilience and it's growth structure to pass in the other economic turbulence. I really see the crisis as a great opportunity not only for the industry, which is creating better cost control tools and affordable alternatives, but as for Qualicorp, who is now much linear and even more prepared.

By (inaudible) tomorrow, we are launching our pilot project Gama Saude [ph] plan that is a new health solution for our employees and their dependents. It's not only -- it's different, because its focus on health maintenance and follow up, instead our own (inaudible) just providing access to a large network of providers to treat diseases when they appear. So it's the new solution for the market that we're attaching now. We are confident that the sectors we re-invent [ph] itself and find an alternative to continue (inaudible).

I've made that there is a lot of demand for health plans. The (inaudible) addressed (inaudible) value. But I still believe that there are opportunities to be exploited and the prices have only speed up this process. I thank you very much. And we're ready for question-and-answers. Okay.

## **Questions And Answers**

### **Operator**

Thank you. We will now begin the question-and-answer session. (Operator Instructions) And the first question will come from Rodrigo Gastim of BTG Pactual. Please go ahead.

### **Q - Rodrigo Gastim** {BIO 19694950 <GO>}

Good morning, everyone. My question relies on delinquency for 2016. I mean you guys have been delivering a very good control of delinquency over the last couple of quarters. I



just wonder how you see delinquency behaving in 2016 with all these macro situation that we are witnessing now in Brazil. That's very much question. Thank you.

**A - Natalia Lacava** {BIO 17175216 <GO>}

Hi, Rodrigo. Thanks for the question. We believe that we will keep this line -- it will be under pressure, I mean, we are living in a difficult environment that requires more attention to that debt. So there is no doubt that this line's [ph] being the pressure. However, we are very confident that we have all the tools to not get this line out of control. In our budget, we forecast for deterioration of 100 bps to 150 bps.

Again, I mean it's -- the scenario is very uncertain, we might not get this perfectly. But we believe that it's not going to be much far from that guidance giving all the clues we have for several experience, the credit buyers that we use and the collection agency that we use. So we think that we have a lot of tools to control this line, but no doubt that it should be anywhere between 100 to 110 [ph] higher year-over-year.

**Q - Rodrigo Gastim** {BIO 19694950 <GO>}

Excellent. That's very clear. Thanks Natalia.

**Operator**

(Operator Instructions) Showing no additional questions. We will conclude the question-and-answer session. I would like to turn the floor back over to Ms. Natalia Lacava, Investor Relations Superintendent.

**A - Mauricio Ceschin** {BIO 18750717 <GO>}

Well, thanks again once again for your participation. As always, the IR team is available for answering any other questions that may raise over the analysis of our results. So me, Gabriel and Natalia we will be available for you guys whenever you need. Thank you once again and have a good day.

**A - Natalia Lacava** {BIO 17175216 <GO>}

Thank you. Good day to everyone.

**A - Grace Goncalves Tourinho** {BIO 17244138 <GO>}

Thank you.

**Operator**

Thank you. Ladies and gentlemen. The conference has concluded. Thank you for attending today's presentation. You may now disconnect your lines.

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