

Q3 2021 Earnings Call

Company Participants

- Jean Tsutsui, President
- Jose Antonio de Almeida Filippo, Executive Director of Finance and Investor Relations

Other Participants

- Eugenia Cavalheiro
- Mauricio Cepeda
- Samuel Alves

Presentation

Operator

Good morning, ladies and gentlemen and thank you for holding. Welcome to the Grupo Fleury Webinar to discuss the results for the third quarter 2021. Today we have with us Jean Tsutsui, the CEO and Jose de Filippo, the CFO and IRO. We would like to inform you that this event is being recorded and has simultaneous translation into English. During the event, all participants will be in listen-only mode. And suing this we will go on to the Q&A session when further instructions will be given.

Before proceeding, we would like to state that forward-looking statements made during this conference call referring to the Grupo Fleury business outlook, operational and financial goals are based on the beliefs and assumptions of the company management as well as on information currently available to the company. These forward-looking statements are no guarantees of performance and they involve risks, uncertainties and premises and depend on circumstances that may or may not occur. Sectoral conditions, operational factors, and others could impact the future results of Grupo Fleury and lead to results that differ materially from those expressed in the forward-looking statements.

I would now like to give the floor to Jean Tsutsui. You may proceed, ma'am.

Jean Tsutsui

Hey, good day to all of you. Welcome to the earnings release for the Grupo Fleury for the third quarter 2021. For the second consecutive quarter, the Fleury Group registered a gross revenue record reaching R\$1.1 billion in the third quarter. This is a double-digit growth on any comparison base, an expansion of 17.3% compared to the same period 2020 and 10% vis-a-vis the second quarter '21. In the first nine months of the year, the growth in gross revenue was 39.4% compared to the same period in 2020. In Slide 3, you will be able to observe this. If we compare this to the pre-pandemic period, the Grupo

Fleury had a growth of 29.6% compared to the first nine months of 2019, the group grew on all of its fronts from diagnostics to the new links in the chain. We are growing and profitably so the recurring EBITDA.

Once again. For the second consecutive quarter, Grupo Fleury registered record in gross revenue reaching R\$1.1 billion in the third quarter '21. This is a double-digit growth on any comparison basis, an expansion of 17% compared to the same period in 2020 and 10% vis-a-vis the second quarter '21. In the first nine months of the year, the growth in gross revenue was 39.4% compared to the same period in 2020. As you can see in the highlights of Slide 3, it is noteworthy that compared to the pre-pandemic period Grupo Fleury had a growth of 29.6% compared to the first nine months of 2019. The group grew on all of its funds from diagnostics to the new links and their chain. We are growing and profitably so. Recurring EBITDA for the quarter reached R\$300 million, a margin of 29.2%. And in the year, we reached R\$835 million, a margin of 29.3%, an increase of 287 base points vis-a-vis the same period in 2020.

Adjusted net income for the quarter reached R\$104 million and for the nine-months R\$309 million, a result the 163% higher than in the same period 2020. These results demonstrate our financial discipline in a scenario of greater stability when compared to the previous year significantly affected by the COVID-19 pandemic in-line with our goal of accelerating growth both organically and through acquisitions.

A few days ago, we announced the acquisition of the Laboratorio Marcelo Magalhaes, a reference in diagnostics in Pernambuco, you can see on Slide 4. With this acquisition, which is waiting approval by the CADE, we will strengthen our presence in the sState and increase our capilarity to 21 patient service centers in the metropolitan region of Recife, where the company has clinical analysis and imaging tests through the a+ Medicina Diagnostica and Diagmax.

In the quarter, we also concluded the acquisition of Pretti and Bioclinico laboratories, two traditional brands in the Espirito Santo market, adding 40 patient service centers in the region of the Great Victoria. Our ambition to build a complete health care system that will accompany the patient throughout their healthcare journey, has been consolidated with relevant movements such as the integration of Clinica Vita and Orthopedics. We see how this journey already happens. We offer our clients consultations at the Vita clinic, full diagnostic exams at the Fleury units, a treatment with rehab in the Vita Care, surgeries and orthopedic procedures carried out in Day Clinics, besides the follow-up services of the patients with a focus on integrated services.

In the third quarter of '21, the Group's progress in new links in the chain and in Saude iD, our health platform represented a revenue growth of 541% compared to the third quarter '20 and 110% compared to the second quarter '21, with a share of 7.8% of growth revenue. If we consider that this diversification movement began to be intensified nearly a year-ago, the growth potential that lies ahead is evident. During this period, clinical analysis tests after COVID had an expansion of 9.1% compared to the third quarter '20 and 7.9% compared to the second quarter '21. Imaging had an even stronger growth, 16.8% and 12.6% compared to the third quarter of '20 and the second quarter of '21.

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Additionally, for the first time, we recorded a higher volume than in the pre-pandemic period, an expansion of 10% vis-a-vis the third quarter '19.

It is important to highlight the continuous expansion in precision medicine. The genomics area showed a revenue growth of 43.5% in the third quarter '21 vis-vis the same period last year. Regarding the COVID-19 test, the third quarter showed a consistent decrease in the share of the group's revenue. 400,000 exams were performed in the period, equivalent to 6% of gross revenue, the lowest rate since we started offering this service. The growth in revenue from elective exams reflects the lower reliance on COVID-19 exams.

We also accelerated the expansion of mobile attention in the third quarter. This service had a growth for the sixth consecutive quarter reaching 7.3% of total invoicing for the group. We continue to remain confident that the recent changes in client behavior, such as desire for client's home service are here to stay. We believe that healthcare must be integrated, preventive and hybrid, bringing together physical and digital offerings. We also believe that the best thing for the patient and for the sustainability of the system is that low complexity healthcare needs be addressed outside hospitals. That is why we are so confident in the potential of healthtech Saude iD. In just over a year, through our health care platform, we carried out more than 720,000 medical teleconsultations, making the Group one of the largest providers of this type of service in the country. The platform started as a B2B2C service with 25 million potential clients. Recently after pilot testing and investing in user experience, we upgraded the marketplace to B2C as you can on Slide 7.

Now in order to meet the needs of the target audience, clients of classes C and D, without access to a healthcare plan, the platform is starting to offer medical teleconsultations and test at competitive prices. Additionally, in the third quarter '21, Saude iD expanded its offer of surgeries, reaching almost 50 types of procedures, performed in partnership with hospitals and day hospitals. We have six institutions: BR surgery, Day Clinic Fleury, SP Plus, Rede Opty, Rede Opera and Bupa Clinic.

Another potential expansion front of our platform is the recent partnership with AMIGOapp, a reference in digital services. The more than 20 thousand physicians registered in AMIGOapp will have access to a system that offers access to tools such as telemedicine, electronic medical records and test monitor for 4,000 registered physicians. The partnership's thesis is to leverage the strengths of both players, generating ever more value for the medical community and patients.

And to provide more autonomy to the patients and make their journey ever more digital, the Grupo Fleury signed a partnership with IBM in September. Using artificial intelligence and automation technologies, the project will develop a new experience for clients in the different service channels, including the creation of a virtual service agent, in addition to supporting the business expansion with the offer of new services and cloud native services. The search for agility in service meets the demand of an increasingly digitally engaged public and scales up the self-service option for the entire Group's customer base.

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In addition to innovation through partnerships, we have intensified our efforts in research and development. As a result, over the course of this year, we developed 204 new products and made methodology changes in another 106. An important example in this field was the launch of the post COVID check up in the third quarter '21. The new product includes test to diagnose residual changes in the respiratory, cardiovascular, neurological and other systems. Estimates show that 20% of the patients who contract the disease have some type of sequel. All of these initiatives make the group a leader in innovation in the sector. And with this, we seek to increase the client's satisfaction and loyalty and reinforce Grupo Fleury as the preferred destination for healthcare solutions.

Aware of our social role as a company operating in the healthcare sector, since the beginning of COVID-19, Grupo Fleury has mobilized to combat the impacts of the pandemic. Since April 2020, we have participated in over 20 initiatives ranging from the donation of resources, the generation and dissemination of medical knowledge on the disease and personal protective equipment. We would like to thank our 13,000 associates and physicians for another semester of engagement. We are together always with the patient at the center of our decisions and with the unbreakable purpose of offering quality healthcare to an increasing number of Brazilians.

I would now like to give the floor to Jose Filippo, the Executive Director of Finances and IRO, who will continue on with our results. And at the end, I am at your disposal, should you have any questions. Thank you very much.

Jose Antonio de Almeida Filippo {BIO 1726218 <GO>}

Thank you. Jean, and a good morning to all of you. I will continue now with the presentation with the financial results for the third quarter. We begin on Slide 8, where we show you the consolidated gross revenues for the group. They totaled R\$1.1 billion in the quarter with an increase of 17.3% vis-a-vis the third quarter '20 and in advance of 10% vis-a-vis the second quarter '21. The gains recorded show a growth in clinical analysis exams and imaging exams. For the second consecutive quarter, we had an increase 16.8% vis-a-vis the third quarter '20 and 10.6% compared to the third quarter 2019, already operating at levels that are higher than the pre-pandemic levels.

If we go to the next Slide number 9, we can see in greater detail the performance of our brands. The growth revenues of patient service centers had a growth of 8.2% compared to the third quarter '20 and 5.6% vis-a-vis the previous quarter, reaching R\$837.9 million. All of the company brands had a relevant growth, reflecting the strong volume of elective tests carried out during the period. We continue to focus on the expansion of mobile attention in all brands with new logistic routes that had a growth of 0.5% when compared to the third quarter 2020 and continues to be very representative for the group with 7.3% representation of consolidated gross revenue.

In Slide number 10, you see the recurring costs and expenses with a growth of 28.7% in the quarter, reaching R\$722.3 million, equivalent to 64% of net revenues. The main impacts are due in personnel, medical services and also some cost in utilities. In personnel, the growth reflects a number of contracting to be able to service our patient service centers, and the increase of routes and mobile attention, higher cost because of

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medical compensation and exams. In services and utilities, the increase in the quarter reflects the higher cost of attention at our PSCs. Besides a strong value, we always had an impact of logistics, for an incident we had in the third quarter of 2020. If we exclude these affects, the growth with occupation and utility would be 21%.

Regarding the third quarter 2019, the cost with occupancy services and utilities had an increase and this is the base of comparison that is more adequate. Operating expenses had a growth of 58% in the third quarter '21. If we exclude non-recurring effects of R\$12.2 million, referring to expenses due to the cybernetic incident. Now, the organization of the company, the increase of operational cost was of 41%. This effect is due to G&A cost. In the quarter, G&A represented 9.9% of net revenue with an increase of 309 base points compared to the third quarter of 2020. However, if we compare this to the third quarter of 2019, the increase was 540 basis points and this is the more appropriate comparison base.

We go on to Slide 11, where we see that EBITDA reached R\$328 million in the quarter with a reduction of 10.9% vis-?-vis the third quarter '20. And compared to the second quarter '21, the EBITDA margin have an expansion of 400 and some basis points. If we exclude non-recurring effects, we reached R\$300.7 million with a margin of 29.2%. For the nine months of the year, total EBITDA totaled R\$703 million, a growth of 47.2% compared to the same period in the last year. If we exclude non-recurring effects, EBITDA totaled R\$835 million with the growth of 54.9% and a recurring margin of 29.3%.

On Slide 12, the net income in the period reached R\$95 million compared to R\$132 million in the third quarter 2020, a margin of 22%. If we exclude non-recurring effects, adjusted net income totaled R\$308.7 million with a recurring margin of 10%. The net income totaled R\$270 some million with a net margin of 9.8%. If we exclude non-recurring impacts, adjusted net income totaled R\$308.7 million in the nine months of '21 with a margin of 10.8%.

In the next Slide number 13. The operating cash flow reached R\$255.7 million in the quarter with an increase of 46% reflecting an EBITDA at the lower need for working capital compared to the third quarter '20. In the nine months of 2021, operating cash flow totaled R\$741.4 million, a growth of 97.8% vis-a-vis the same period last year. CapEx for the second semester totaled R\$99.9 million, a growth of a 188.2% because of the expenditure contention that we had in 2020. In the nine months of 2021, CapEx had an increase of 102.8% amounting to R\$228 million.

We go to Slide 14. ROIC without goodwill shows you -- what you see in the slide here, NPS represented 68.7%. We highlight our mobile attention that reached 22.9%. Finally, on Slide 15, we include the events in the market for the coming months with a highlight to Fleury Investor Day 2021 planned for the 13th of December. We would like to already invite all of you to participate in the event.

We will now go on to the question-and-answer session. Thank you very much.

Questions And Answers

Operator

(Question And Answer)

Thank you. We will begin the question-and-answer session. (Operator Instructions) Our first question is from Samuel Alves from BTG Pactual. You may proceed, sir. Can you hear me? (Operator Instructions)

Q - Samuel Alves {BIO 18720076 <GO>}

Can you hear me?

Operator

Yes. You can proceed to your question. Mr.Elvis.

Q - Samuel Alves {BIO 18720076 <GO>}

I do apologize. A good morning. Jean, Filippo, I have two very quick questions. The first refers to your margin. So margin that we saw in the third quarter is still considered to be a COVID margin because of the important activities that you carried out. We're not going to see the same margin repeating itself.

Now, the second question, if you could speak a bit about your CapEx, we see that your organic CapEx has grown quite a bit. We would like to know if you had a onetime effect, or if you are going to be working with a higher CapEx in the coming quarters? Thank you very much.

Operator

Ladies and gentlemen, please hold we will -- in a few instance resume the call with the Fleury Group. Thank you.

Samuel, we do apologize, we had a technical problem. Can you hear me?

Ladies and gentlemen, please hold. The Fleury Group call will resume in a few instance. Thank you.

Thank you. Samuel, I do apologize. We had a technical problem we are resuming. I would like to thank you for your question and we'll once again speak about margin.

A - Jean Tsutsui

We have maintained a significant growth as you were able to observe in the third quarter, a growth of 39% for the year with a growth margin 29.3%. And the expectation is to

maintain this discipline in growth and margin. I do draw your attention to the first quarter of this year, where we were still under the impacts of the end of the year where the cost-cutting measures associated to a very strong resumption of volume due to the pandemic in the second quarter ended up causing a distortion in our margins. Now, this level of margin that you observe now shows you the stability of our operations in terms of number of associates and other cost aspects.

I would like to underscore here that we do have that discipline to continue to grow with the growth in new links that represent 7.8% of our revenues along with Saude iD, where we have a very healthy margin. Our outlook for the coming year is also very positive in this direction. I will now give the floor to Filippo. So that he can speak about the investments. If you could Filippo?

A - Jose Antonio de Almeida Filippo {BIO 1726218 <GO>}

Hey. Good morning, Samuel. You were referring to the CapEx. What we had in this quarter and during the year, our CapEx is associated to the recurrent effects of new units, technical areas, the renewal of equipment maintenance and of course, the digital part because of our health platform and infrastructure. Well, we have observed this year, not only in the quarter, but also previously was expressive when compared to 2020. We had a strategy to cut down on costs implemented in 2020. And in the comparison we see not only a growth, but also a backlog that was generated because of the cost containment that we had last year. And a reference that you could have, would be approximately BRL200 million, this would be a recurrent figure. I don't know if this will be of any help, but we would like to work at that level.

Operator

Our next question is from Eugenia Cavaleiro from JPMorgan. You may proceed now. Can you hear me?

Good morning, Eugenia. Ladies and gentlemen, please hold. Please remain connected. The Group of Fleury event will resume in a few instance.

Again, we do apologize for the technical problem, Eugenia. If you could repeat your question.

Q - Eugenia Cavaleiro {BIO 20781536 <GO>}

Yes, of course, Jean, good morning. I hope you will be able to hear me? In truth I have two questions on my side regarding the number of clients that you have, if we look at the number of their -- well, their tax payers numbers, which has been the increase since 2019, and if you observe a slightly different trend compared to '19 and '20? Thank you very much.

A - Jose Antonio de Almeida Filippo {BIO 1726218 <GO>}

Thank you, Eugenia. Yes, we were able to hear your questions. Thank you for the questions. There is a trend to have clients who did not carry out all of their assessments

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last year and who are now doing regular exams this year. In truth, we're not calling this a repressed demand. These are chronic patients or patients who should carry out regular assessments and did not do so.

Now this is a trend that we observe and by we observe is, by following up on the data for the societies of oncology and others. And they show that several patients stop doing their follow-up and of course, this has an implication it exacerbates the clinical situation of several of these patients.

Secondly, the figures that refer to the new clients very generally there has been an increase in the number of beneficiaries of health. The increase has been 1.7 million new beneficiaries of complementary health. This does not translate directly into our service, but this is an important trend that we should follow up on. Another important aspect is to increase the awareness of people in terms of the need to care for your health. This is a topic that has been ever more discussed.

During the COVID pandemic, patients with chronic diseases had a higher mortality. This was debated and disseminated broadly. So we need to enhance awareness and we see that there will be a greater search for medical care. And some line items in mobile services. For example, we see an increase of new clients that did not use our brands. And very generally, we have had a growth in market share with the brands that already exist and through our acquisitions and through the launch of new products and services as we have observed.

Operator

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

Q - Mauricio Cepeda {BIO 21783651 <GO>}

Can you hear me?

Operator

Yes, we can hear you. You may proceed.

Q - Mauricio Cepeda {BIO 21783651 <GO>}

Thank you, Jean. And thank you for taking my question. I do have several questions here and I will try to be very brief. First of all, I would like to explore with you what you have just mentioned in terms of your options for growth and diversification. What is it that is motivating all of this once again? And let's speak a bit about profitability and compare this to the pre-pandemic indices with the pandemic despite the fact that we had several new businesses. Have you had an increase in scale compared to 2019, if you base yourself on more diagnostic business? We also see that you had a strong growth in revenues, perhaps not compared to 2020, but compare to 2019 in terms of imaging you have mentioned that perhaps that what we have is a repressed demand in terms of follow-up exams. So this abnormally high demand of the pandemic seems to be over.

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And what I would like to gain an understanding of is your base of assets. What is happening to it since the beginning of the pandemic? Thank you very much.

A - Jean Tsutsui

Thank you for the questions Mauricio Cepeda. I will begin to answer them and then give the floor to Filippo to speak about the issue of profitability regarding the Marcelo Magalhaes, this was a strategic acquisition for us. We do have quite a bit of activity and Pernambuco state, where we have had growth. And I remind you that in Pernambuco, we act a great deal with diagnostics, especially clinical analysis. And last year, we acquired Diagmax, which has a focus on imaging. This is a traditional brand. It is 64 years old. It is a benchmark in clinical analysis and Pernambuco, and we're still awaiting, the approval of that target. But with this acquisition, we will have a very strong position in diagnostics.

And the doubt that you may have regarding the amount that was paid a mature operation, a well-established operation for clinical analysis tends to have a very high margin and Marcelo Magalhaes has a differentiated margin and we do see the opportunity for synergy as we have field of technical analysis where we're going to seek synergy with our suppliers or synergy with the operations that we already have in terms of the processing of clinical analysis and their (inaudible). And we do have that vision of integrating services to have an integrated turning for the client in the clinical and imaging part.

Operator

Ladies and gentlemen, please hold the Fleury Group event, we'll return in a few instance.

Ladies and gentlemen, we would like to apologize for the technical problems. And at this point, we will conclude the call for the Fleury Group. We would like to thank all of you for your participation.

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