

Q1 2021 Earnings Call

Company Participants

- Jorge Fontoura Pinheiro Koren de Lima, Chief Executive Officer
- Mauricio Fernandes Teixeira, Chief Financial Officer and Investors Relation Director

Other Participants

- Gustavo Miele
- Gustavo Tiseo
- Mauricio Cepeda
- Ricardo Boitati
- Samuel Alves
- Vinicius Ribeiro

Presentation

Operator

Good morning. Welcome everyone to Hapvida First Quarter 2021 earnings conference call.

Joining us today, we have Mr. Jorge Pinheiro, CEO; Mauricio Teixeira; Chief Financial and Investor Relations Director; and Guilherme Nahuz, Investor Relations Director.

We would like to inform you that this event is being recorded and all participants will be in a listen-only mode during the company's presentation. After Hapvida's remarks, there will be a question-and-answer session for investors and analysts, when further instructions will be given. (Operator Instructions).

Today's live webcast may be accessed through the internet address at ri.hapvida.com.br/en/.

Before proceeding, let me mention that forward-looking statements made during this conference are based on beliefs and assumptions of Hapvida's Management and on information currently available to the Company. They involve risks and uncertainties and assumptions, because they relate to future events and therefore, depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions, and other operating factors could also affect the future results of Hapvida and could cause results to differ materially from those expressed in such forward-looking statements.

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For those of you, who are listening to us on the webcast, the presentation will not move from one slide to another automatically, so you can control the slides with the keys below the slides.

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

Jorge Fontoura Pinheiro Koren de Lima {BIO 22175271 <GO>}

Good morning everyone. And thank you once again for participating in our conference call. It is with great joy that we present to the market Hapvida's first quarter 2021 results.

So, let's start on Slide Number 2. Here, I'll give you an overview of the main highlights of the first months of 2021. The first quarter of 2021 was a period in which our operational discipline and the strong execution of our teams were at the front -- forefront. We're very happy to deliver a quarter with growth in revenue growth in membership and an income as well as a reasonable MLR considering the challenging environment we're going through. The beginning of 2021 was marked by the worsening of the pandemic here in Brazil with new strains or variants of the virus that are more aggressive than the previous ones and that reached a greater number of people. Therefore, our health care units have been impacted with a greater volume of COVID-19-related in related visits and admissions.

The results that we are now sharing show all of Hapvida's expertise and resilience as well as the strength of our business model. We have made strong investments in protection, reinforcing our infrastructure, purchasing materials, drugs, and investing in logistics. We were very quick to rescale our own care network in order to meet this rise in demand adding over 800 beds since the beginning of the year. This flexibility is one of the strengths that we have in our business model.

And once again, all of our medical teams involved in fighting this pandemic have been amazing warriors. I would like to like to take the opportunity to thank once again everyone, who have been working in the front line as well as all of those, who are working in the back office and who are facing so many uncertainties every day, but continue moving forwards. Hapvida is very, very thankful to you. We would not have achieved this performance without the unconditional commitment of our 36,000 employees and 30,000 healthcare professionals, who work with us. Thank you and congratulations on such a spectacular work.

Let's now look at our financial highlights for the first quarter of 2021 that you can see on Slide Number 3. Net revenue was BRL2.3 billion, up 11.8% year-over-year boosted by the addition of 477,000 healthcare and dental members and by the increase in average tickets. Even with a strong impact of COVID-19-related care, the non-suspension of the elective procedures and with the consolidation of over a million lives of the acquired companies that we're operating with an MLR that was at a much higher level than ours, our cash MLR was quite reasonable at 61.1%. We're very happy about this performance. Our sales expenses were 6.2% of the revenue and our administrative expenses, excluding

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depreciation and amortization, were 10% of the revenue. These are also very favorable rates. As a result, our EBITDA achieved BRL466.8 million in the quarter, keeping a level above 20%.

Now moving on to Slide Number 4, we close the quarter with a total of 457 care units, including hospitals, ERs, clinics and diagnostic units. Also, we now have eight hospitals in different stages of construction. Some of them still in the design phase, others in an advanced stage of construction. We closed the quarter with 3,876 beds that is 1,122 beds more than the same period in the previous year. This quarter, we made 1,567 beds available for COVID-19 therapy alone, an increase in 803 beds, compared to the fourth quarter of 2020. And this was the result of the bed expansion conducted because of the pandemic. We continue engaged in finding the ideal size of our own care network, which enables us to achieve medical expenses verticalization gains.

In April 2021, we opened a new hospital in Maceio with urgency care, emergency care for adults, children, and obstetrics care in addition to an imaging diagnostic unit. Our investments in infrastructure have been seeking consolidation, increasing the offer of healthcare services with larger and more complex units. In the inorganic front, we concluded in February the transfer of members from Samedh and Plamheg portfolios. Both of them located in Goias. And now we have added about 30,000 customers to our portfolio that are now part of Hapvida.

Another important step that should be mentioned as on Slide Number 5, with the advance of another stage and the business combination between Hapvida and GNDI, on March 29, 2021, the general shareholders meeting happened and the shareholders of both companies approved the operation. This was a historical moment for the Brazilian healthcare industry. The possibility of providing people high -- with high quality healthcare at affordable prices as very consistent with the times we're going through, and this will continue to be the purpose that will guide this combined company. The operations is still waiting for regulatory approval.

On Slide Number 6, we talk about innovation and ESG. Innovation is considered a very important topic here at Hapvida and we believe this can be a tool to transform society and that's why Maida.Health, Hapvida system health tag is sponsoring a artificial intelligence research center at the Federal University of Ceara. The goal of the center is to develop projects in healthcare involving, Internet of Things, big data, and digital transformation focused on diagnostics, prevention, and therapy, all of that at a low cost. Now our telemedicine platform that has now a facial recognition is conducting over 85,000 appointments a month, just so you have an idea of the size this number accounts for about three times the number of appointments conducted in our greatest infrastructure, physical infrastructure unit, which is hospital Antonio Prudente located here in the City of Fortaleza.

Now when it comes to sustainability, we've been advancing. We have made some public commitment together efforts and so that we can put in practice, respect and inclusion, and diversity promotion. Our strategic plan of sustainability here at Hapvida is now prioritizing the strategic plans and defining sustainability indicators. In the following weeks, we will release our annual sustainability report for 2020; and we have lots of news

to share with you in this report. We believe Hapvida is just in the beginning of this journey, and we are sure that the advancement in the ESG agenda is key for the sustainability of our business.

And in April, we concluded successfully our second offer, our follow-on offer. Proceeds of about BRL2 billion were added to the cash of our Company, and they will be invested in strengthening our own care units and those of the recently acquired companies. We continue focused on acquisitions and we believe in the consolidation of the Brazilian market. We have a robust pipeline of assets being studied.

Most of the proceeds of the follow one will be invested in new acquisitions. Another important fact is that the consolidated numbers of COVID-19-related care and admission have been showing a downward trend as a you'll see later on. In addition to that, with the vaccination campaigns running here in Brazil, we're hopeful that there won't be a third wave hitting us here in Brazil. We continue firm engaged and restless to provide the best service that our members deserve. And I'm sure that our company is strengthened and prepared to make the most of the opportunities that may arise in the future.

Having said that, I would now like to turn the floor over to our CFO and Investors Relations Director, Mauricio Teixeira, who's going to give you further details about our quarter's -- quarter results. And then we'll have a Q&A session. Thank you very much.

Mauricio Fernandes Teixeira {BIO 19758664 <GO>}

Thank you, Jorge. Good morning, everyone.

On Slide Number 7, we can see that the number of healthcare members had a 5.5% growth, compared to the same period of the previous year's boosted by the addition of 76,000 members coming from medical and 52,000 coming from the Sao Jose Group. We also concluded the transfer of the member portfolio from the Samedh and Plamheg operators adding 30,000 lives to our own portfolio. Also there's been an organic growth of 61,000 members of the Hapvida operator plus America and a reduction of 14,000 from the San Francisco and RN acquired companies.

The number of dental plan members grew by 9.9% compared to the same period of the previous year. Organically, there's been an increase in a 135,000 lives in individual plans and 143,000 lives in group plans. We have also included members that that had dental coverage, but that were only considered as healthcare members, because we had sold this product as a combo at the time. Also, we now have customers with service provision contracts with a fixed price table. As a result, we have added 144,000 lives to our membership. We can also see the evolution in the average number of members in every quarter and we use these numbers to calculate our average ticket.

On Slide Number 8, you can see the monthly average ticket for healthcare and dental plans. The healthcare average ticket grew by 6.8% compared to the first quarter of 2020, mainly boosted by new sales, readjustments of existing contracts and the addition of members coming from Medical and Sao Jose Group that have a higher average ticket.

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Now for dental, the average ticket had a drop of 0.7% compared to the same period of the previous year, because of a lower average ticket of all operators with the exception of San Francisco, which had 1.6% growth compared to the first quarter of 2020. On Slide 9, we can see net revenue that grew by 11.8% in the first quarter of 2020 compared to the same period of last year, 2020.

We had 318,000 lives being added to our membership in healthcare and dental; and an increase in the average ticket of healthcare, reflects of the readjustments in prices and no sales. And there's also the revenue of the acquisitions consolidated in 2020, BRL45.7 million from medical and BRL46.1 million from the San Jose Group. And the acquisitions consolidated in the first quarter of 2021 with 13.6 thousand lives from Samedh and 15.5 thousand lives from Plamheg.

On Slide 10, we'll talk about the COVID-19 scenario for the pandemic -- for the Company since the beginning of the pandemic. We're able to -- thus, we want to be able to explain the MLR numbers. When the WHO declared COVID-19 as a global healthcare emergency, all the elective procedures were suspended. This fact added to social distancing measures led to a drop in medical care services demand in the period. So, all of the volume caused by COVID-19 in our healthcare units during the pandemic was offset by the suspension of the elective procedures. However, with the advance of the pandemic in the end of 2020, we were able to see a significant increase in the number of admissions in the first quarter of 2021. And we reached a peak in mid March with a high number of daily admissions that was 32% above the previous peak that led to a higher demand in healthcare services that were already at a historical level of usage before the pandemic, because of the government flexibilization and the non-suspension of elective procedures.

On Slide Number 11, you can see a breakdown of our MLR. Cash MLR, the first quarter of 2021 was 61.6%, a 5.3 percentage points increase especially due to the second wave with an impact of BRL85 million. Also, we had an impact of the higher level of the MLR acquired companies, that led this number upward. And that's going to be seen until we conclude the integration plans and reduced MLR to our own levels. We had a total MLR of 65.5% in the first quarter of 2021, a 3.9 percentage points increase year-over-year. There was a reduction of the SUS provisions and IBNR reversion due to the elective procedures that were suspended in our accredited network because of the second wave of the pandemic. We still have great operational efficiency with our project to manage MLR and we were able to increase our verticalization with 1.9 percentage point increase in the volume of services provided in our own network in the first quarter, when compared to 2020.

On Slide 12, you can see a breakdown of the SUS reimbursement provision. In the first quarter of 2021, ANS capped the process to regularize the flow of invoices, the net impact was BRL71 million on claims. And although there was a new lot of notices issued and an increase in the historical level of charges. The in -- the notice provision had more reversions than constitutions in the quarter because of the faster invoicing process.

On Slide 13, you can see the percentage of representativeness in SUS reimbursements that has been dropping compared to the total claims of the company. We use the number

of notices and the quarter to which it refers, and this drop shows the results of the projects we have implemented to reduce our claims.

On Slide 14, you can see our operational expenses that have a reduction compared to the first quarter of 2020. Selling expenses was a 6.2% of revenue in the first quarter this year, a 1.2 percentage points drop compared to the first quarter of 2020. The reduction happened because of operational leverage and the lower level of delinquency, which had a reduction of BRL12.4 million in the allowance for loan losses.

And we increased the average term of contracts. One month for individual plans and two months for corporate plans with a positive impact of BRL10.5 million. In addition, the recently acquired companies have a lower selling expenses level than Hapvida's. The administrative expenses level was of 10% of revenue in the first quarter of 2021 at the same level of the first quarter of 2020.

On Slide 15, you can see our EBITDA numbers that were aligned this quarter with the levels that we achieved in the first quarter of 2020. This is aligned with our strategic goal although we were hardly hit by the pandemic. Net income ex value added totaled about BRL300 million this quarter, a 14% increase compared to 2020. This was mainly due to the maintenance of our EBITDA, even in this scenario that was hardly hit by the pandemic, a lower level of net income, and also a reduction of income taxes.

The last slide, Slide 16, you can see our cash flow. Free cash flow generation ex-acquisitions was BRL343 million this quarter, a BRL62 million reduction compared to last year that was mainly due to a CapEx of BRL134 million invested in the expansion of our own network infrastructure.

We're now open for questions.

Questions And Answers

Operator

(Question And Answer)

Thank you. The floor is now open for questions from investors and analysts. (Operator Instructions) Our first question comes from Vinicius Ribeiro, UBS. Vinicius, you have the floor.

Q - Vinicius Ribeiro {BIO 19720178 <GO>}

Good morning, everyone. Thank you for taking my question. I would like to explore two points. First, the competitive dynamics for the coming quarters, removing macro scenario, what are the competitive trends that you see in each region? Do you expect a significant change compared to previous quarters? Now when it comes to individual plans, what are the initiatives that you're planning to take in order to mitigate the readjustments impacts that will probably be negative? Considering that the competitors are also under pressure.

Now, a question more about the results, I would like to explore Jorge's comment in the beginning of the call about the operational flexibility.

We see many players in the health care industry is working strong. Do you think that the COVID-19 demand has impacted your operations? Do you think that your business model helped you to deal with that demand, helped you more than the competitors? I would like to understand your business model and the potential synergies of the merger as well.

A - Jorge Fontoura Pinheiro Koren de Lima {BIO 22175271 <GO>}

Hello, Vinicius, thank you for your question. These are all great questions. Now, talking about competition. We see that the Brazilian market is increasingly consolidated. In the past, we had over a thousand operators in the market; and today, we have around 600 operators in the market, and we think that we will have stronger operators in the future, in this more mature market. So today, we see a very competitive environment especially in the hospital area, more than the operators area.

There are operators that are more aggressive in a specific regions only, but we questioned the sustainability of these players that are more aggressively -- they are more aggressive locally. But we are very confident about our business model to deal with all of that. Once again, with our solid and robust results that we have shared with you, the pandemic numbers are quite impactful in the first quarter as you saw in the chart. But considering that we have over 1.2 million [ph] lives with a higher MLR to our portfolio in a very short time and with the effects of the pandemic, it was our business model that enabled us to have this stability and a very small variation in our MLR. So that gives us a very strong commercial power that will enable us to grow organically and will enable us to be competitive.

And what we want is to provide the population with high quality health care, but thinking about the affordability as well for families and companies and I believe that after this first quarter is over and after the second wave of the pandemic is over, which many -- what's impacted the market because many companies are closed and not hiring new people, but we had a spectacular growth in the fourth quarter last year and we were in those team the growth in the country. So considering our competitiveness and our business model, we believe, will continue gaining share organically.

Now, talking about our operational flexibility that reflects the strategic decisions, that we've been making, for a long time now. Our company has our own network units in all the strategic regions for us, and that gives us a lot of agility. We have an amazing expertise enhance that enable us to allocate resources to hire people, and to have a very well-designed logistics operations. And all this agility makes us more independent. We don't need third-party resources, we only need those resources and recently acquired companies that are still maturing, which is quite natural. And this is something that has a greater impact on the numbers, but considering that we have our own network that can still be expended enables us to mitigate or to buffer impacts of the changes in care volume. So we are very confident that we have great chances of continuing gaining market share considering the strengths of our products.

Q - Vinicius Ribeiro {BIO 19720178 <GO>}

Thank you so much, Jorge, for your answer. I will now give the chance of our colleagues asking questions. Thank you so much.

Operator

Our next question is by Ricardo Boitati from Bank of Safra.

Q - Ricardo Boitati

Well, one of the questions I had was about your expectations about the readjustments or price increases in individual plans. When will this happen? Or is this readjustment negative and how will this impact the company? So that's my first question. Now the second question about the future M&As or future acquisitions. I would like to know whether you see some type of asset inflation to acquire operators or hospitals, for example, because of the greater competition in the market right now. Do you see any type of inflation for possible acquisition of assets? So these are my two questions. Thank you very much.

A - Jorge Fontoura Pinheiro Koren de Lima {BIO 22175271 <GO>}

Thank you for your questions. So now about the individual plans. This topic has been addressed by our company here. This is something that we were already planning for the year. We did not have any expectations in terms of price composition, because of the decision that ANS made last year to suspend elective procedures. Now, if there is no readjustment this year, next year, this is going to be offset. But our company has a great cash position and we have business model that enables us to absorb any cost variation much better than the rest of the market. I think this is not a major concern for us. However, I understand that for smaller operators, the smaller HMOs, this can be a great challenge and last capitalized players will suffer much more for sure.

Now about your second questions, about M&As. No, we don't see many operators conducting acquisitions in the market. So in the hospital area, we do see a run for assets, so this is an area that has been more impacted, but this doesn't affect us much. We like to grow by building our own hospitals and we rarely acquire hospital assets available in the market. So we don't see a lot of pressure there. So this is not a concern for us. There are other operators with expertise and know-how, and access to capital. But we also have a know-how for M&A and for this integration. And I don't see many other operators in the market with the same expertise and know-how. So that's not a major concern for us.

Q - Ricardo Boitati

Okay. Thank you very much, Jorge.

Operator

Our next question is by Mauricio Cepeda from Credit Suisse. Mauricio, you have the floor.

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Q - Mauricio Cepeda {BIO 21783651 <GO>}

Hello. This is Mauricio. Thank you so much for your presentation. Now, above the commercial part, companies are now trying to reinforce their plans. Do you think that this cooperative market --

A - Jorge Fontoura Pinheiro Koren de Lima {BIO 22175271 <GO>}

I'm sorry. I'm sorry to interrupt, but we can't hear you well. Maybe, you could speak a bit closer to the microphone so that we can hear you.

Q - Mauricio Cepeda {BIO 21783651 <GO>}

Is it better now?

A - Jorge Fontoura Pinheiro Koren de Lima {BIO 22175271 <GO>}

Yes, much better. Thank you.

Q - Mauricio Cepeda {BIO 21783651 <GO>}

Okay, I think it's a problem on my phone. I will speak a bit louder. So I would like to hear about the commercial environment, if you feel that companies are willing to rethink the health care plan benefits that they provide to employees. And now about individual plans, do you think that the individuals are still affected by the pandemic and they're going after individual plans? What are your perceptions in terms of that? And I also have a question about elective procedures. Is there a backlog from the first quarter that you will need to address in the rest of the year? Thank you.

A - Jorge Fontoura Pinheiro Koren de Lima {BIO 22175271 <GO>}

Okay. Thank you, much better now. About the wish of having a health care plan here in Brazil, that is something that is only growing. We know that Brazilians value health care plans here in Brazil and the second wave of the pandemic was really harsh, but we see clear signs that the second wave is being left behind thankfully and that requires a lot of effort and opening units, we were hiring over 3,000 employees, I don't know exactly what the right number is, but to provide the best service during the pandemic and we did that. We never lacked beds in any of the cities we operate, so since the health care is now -- health care industry is in the limelight, is now part of the everyday lives of Brazilians and actually, everywhere in the world, as the population is increasingly interested in acquiring a health care plan.

Now, with the recovery of the economy, and the decrease in the number of cases, the possibilities to sell a health care plan are greater now. And users are now seeking our products, not only in retail and individual plans, but also in corporate plans. With the reduction in the number of cases, we see a natural trend for sales to happen. We see many business people considering investing and their businesses now, because the vaccination pace is going up and the economy is recovering and COVID impact is decreasing. So I think that the individual channel is probably going to grow.

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And also from the corporate level, we have contracts that have just been signed with major companies, large companies. This happened really strong in the fourth quarter of 2020, some very optimistic when it comes to our organic growth that can be accentuated with the recovery of the economy. Now, about elective procedures, you probably remember that last year, with the first wave of the pandemic, all elective procedures were suspended and that includes appointments, test and surgical admissions that were not then performed. Now the backlog of procedures that happened in the beginning of the epidemic was actually provided in the third and fourth quarter of 2020. Now, ANS has not defined a suspension of the procedures and the operators could make the decisions, they're owned by themselves.

And we decided not to suspend elective appointments, tests, and procedures. However, in March, some health departments suspended elective surgeries only. So we do not have a backlog of medical appointments or of tests, but we do have a small backlog of elective surgeries. But in some of the cities, we have already resumed those elective surgeries. So I'm talking about a very small backlog, much smaller than the backlog that we had after the beginning of the pandemic last year. We are already conducting elective procedures in almost all the cities in Brazil.

Q - Mauricio Cepeda {BIO 21783651 <GO>}

Okay. Thank you very much, Jorge.

Operator

Our next question is by Samuel Alves, BTG Patual.

Q - Samuel Alves {BIO 18720076 <GO>}

Good morning, Jorge, Mauricio, Guilherme, I would like to explore two topics. The first one about your membership base. The number of legal entities is in the company, is it growing? So is the net loss of lives and corporate plans explained by employees being fired? And now, what about the ex-COVID MLR? You said that in this quarter, elective procedures have not been suspended, but the ex-COVID MLR has gone up quite significantly. So I'd like to hear from you, do you think that the MLR of acquired companies have has already been decreased since they were acquired? Thank you very much.

A - Jorge Fontoura Pinheiro Koren de Lima {BIO 22175271 <GO>}

Hi Samuel. Thank you for your questions. The audio was not very good. So I'll try to answer your questions. But if there is anything missing, just please let me know. So about our membership base. The good news is that we don't see any companies dismissing employees right now. They have made headcount adjustments in the beginning of the pandemic, but after that, we haven't seen any other headcount adjustments. I believe that they now have adjusted to the lower volume of the pandemic. So this gives us good expectations that with the vaccination and the slowing of the pandemic we can have a growth when companies start hiring the employees to the same level they had before the first wave of the pandemic.

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So my answer is, companies are no longer dismissing employees and we expect them to start hiring back and please once the economy recovers. Now about the MLR, we have great news, our company has prepared for that. We have a complete team for integrations. Also, our operations area has been reinforced and that was so that we could make multiple integrations at the same time and the results can be clearly seen. With results, that were even better than expected. Yes, we've been able to reduce every costs, medical costs of the acquired companies, of every acquired company.

Just by combining Hapvida, which has around 60% MLR with 2.4 million [ph] lives and adding the 1.2 million lives that came from the acquired companies. This simple combination would lead to a result in MLR of almost 66%. And we delivered 61.1% cash MLR, this is a very dramatic reduction that was due to the customized monitoring of each integration process. And there is still a long way to go, many companies are not mature enough yet with hospitals under construction, with outpatient departments, we haven't yet implemented our system in all of the acquired companies and that requires a lot of technology, protocols and standardization and so on and so forth.

But the package of the acquired companies have had their MLRs reduced. However, we are going to add new companies to our base. We expect to receive the operations in Belo Horizonte with over 300,000 lives of a company with an MLR above 80%. And the same integration process will be implemented. That's the beauty of our work. We want to keep MLR under control. The new assets that are added go through those adjustment process, so that they can achieve an MLR that is closer to our own MLR. But the new acquisitions are coming, and we've been very disciplined to implement this flow.

Q - Samuel Alves {BIO 18720076 <GO>}

Okay. Thank you, Jorge, that was very clear.

Operator

Our next question is by Gustavo from Bradesco.

Q - Gustavo Tiseo {BIO 21421350 <GO>}

Good morning, everyone. Thank you for taking my question. So I actually have two questions. The first question is about cancellations and migrations in the first quarter. Specially focusing on April, the gross ads coming from the acquired companies. Can you please tell me a bit about that, so that we can understand a bit about the future? Now, my second question is about the merger with GNDI. Are you considering short-term partnerships? Or anything else that you can share about that? Thank you very much.

A - Jorge Fontoura Pinheiro Koren de Lima {BIO 22175271 <GO>}

Thank you for your question, Gustavo. Well, the first quarter was aligned with what our company usually presents in the regions where we operate. The pandemic has led to a slowdown, many companies shutting down during this process and this is quite natural. But what we expect is, once the number of cases decreases, we can grow just like we did in the fourth quarter of last year, which was quite impactful. In the first quarter this year,

we had the loss of one large contract. It wasn't actually a loss, but we let this contract go, because their MLR was really high, above a 100%. But we do expect this contract to come back at a more appropriate price.

I think this company is now with an operator that will find it really hard to keep the MLR at an acceptable level, but that was nothing different from what we expected and we're very confident about our growth in the retail and corporate business starting in the second quarter. But now I'll give the floor over to Mauricio to talk about the GNDI merger.

A - Mauricio Fernandes Teixeira {BIO 19758664 <GO>}

Good morning, Gustavo, thank you for your question. So after the approval in the end of March, we started working with (inaudible) and ANS we have opened the previous protocol with (inaudible). And we are about to file the final protocol, we have some regulatory due dates that can be shortened or not, but we're going to monitor that from up close. And at the same time, we are at the final phase of hiring a consultancy company that will help us map all the synergies and the value generation potential that can come from this merger. But of course, we need to wait for (inaudible) approval. With think that we are going to hire this consultancy this week, or next week, we're going to sign the contract. As soon as we have any news, we're going to let you know.

Q - Gustavo Tiseo {BIO 21421350 <GO>}

Perfect. Thank you very much for your answer.

Operator

Our next question is by Gustavo Miele, Itau BBA.

Q - Gustavo Miele {BIO 21077665 <GO>}

Good morning, Jorge, Mauricio and Nahuz. Thank you for taking my question. I want to talk about two points very briefly. The first one is about the COVID admissions component on your MLR. We see the impact the impact of the number of admissions on your results, but were there also changes in the dynamics of COVID-19 admission costs in the industry? As COVID care now more expensive than it was in the beginning of the pandemic.

Now, my second question is about selling expenses that was one of the highlights of the quarter. In my point of view, the resilient PBB dynamics is something that we've been seen in recent quarters, but you also said that there was a positive impact of the acquired companies. So about the M&As that you have to integrate specially Promed. Do you also forecast a positive impact in the dilution of the selling expenses. So can you please tell us a bit about the assets that are to be included in your P&L? Thank you very much.

A - Jorge Fontoura Pinheiro Koren de Lima {BIO 22175271 <GO>}

Hello, Gustavo, thank you for your question. So about COVID-19 admissions, yes, the new strain not only a facts, younger patients than the first strain -- when we look at the ICU, we saw that the patients affected were usually older patients with overweight or with other

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comorbidities. But now the second wave was different. It affected older patients with more severe disease and it also affected younger patients, even patients without any comorbidities. So, yes, the cost of care is higher. And the length of stay in hospital is also longer.

On the other hand, we have good news, because the results are increasingly better as time goes by, even with the virus being more severe. We are able to deal with that. But, yes, there is an impact on costs because hospitalizations are longer and the cost of care is also higher.

Now about selling expenses, I'll give the floor over to Mauricio to answer that question. But in general, in Belo Horizonte, we have not yet decided which commercial model to use. On the other hand, we have already mapped the possibilities of cross-selling many companies that are our customers could benefit us with a much lower commercial cost.

We provide services to many retail companies in Brazil and different states and major industries as well. But let me give the floor over to Mauricio to talk a bit more about that.

A - Mauricio Fernandes Teixeira {BIO 19758664 <GO>}

So in the first quarter, we saw a drop in delinquency rates. And I think that everyone has been given priority to health care plans, especially during the pandemic and I think this is going to remain in the future because of this memory of the pandemic. So in the list of priority of payments, the health care plan is always at the top of the list. And now for people who do not have access to a private health care plan, with the recovery of the economy, more people will be able to afford this in the future. And our business model aims to provide affordable health care plans, so this is also going to help us with our strategic goals.

Now, about selling expenses and commissions, we're giving greater term -- extended terms of the contracts and our customers usually remain with us now for longer than they used to stay with us in the past. That's great news for our results and for retention. Now about M&A, yes, we want to dilute the selling expenses, commercial and Belo Horizonte is being defined with the entrance of (inaudible). That's the major integration that we had ahead of us. But our history has shown that we are able to reduce the selling expenses of the acquired companies and the consolidated selling expenses, usually decreases as a result.

Q - Gustavo Miele {BIO 21077665 <GO>}

Okay. Thank you, Dr.Jorge and Mauricio.

Operator

Thank you. If there are no further questions, I'd like to turn the floor over to Mr.Jorge for his closing remarks. Mr.Jorge, you have the floor.

A - Jorge Fontoura Pinheiro Koren de Lima {BIO 22175271 <GO>}

I would just like to thank everyone for joining us today, to hear about the results of a quarter that was very intense in our lives. I would like to reinforce once again our commitment with life and commitment to resistant, providing high-quality health care. We are going to work really hard in order to find solutions and achieve our mission of providing care to all of our patients, who have been affected by this terrible disease, that is COVID-19.

I would like to thank our managers for their restless work. They work day in, day out, so that we can fulfill our mission. I would like to thank our partners and our investors for believing in our business. Thank you very much, and I'm always available to you. Have a great day.

Operator

Thank you. This concludes Hapvida's earnings conference call. You may disconnect your line at this time. Have a nice day.

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