

## Q1 2020 Earnings Call

### Company Participants

- Carlos Alberto Iwata Marinelli, Chief Executive Officer & Member of Board of Executive Directors
- Fernando Leao, Chief Financial Officer

### Other Participants

- Alexandre Falcao
- Fred Mendes
- Joseph Giordano
- Samuel Alves
- Thiago Macruz
- Tobias Stingelin
- Vinicius Ribeiro

### Presentation

#### Operator

Good morning, and thank you for holding. Welcome to the Group of Fleury conference call referring to the results of the first quarter 2020. We have with us today Mr.Carlos Marinelli, the CEO; and Mr.Fernando Leao, the CFO and IRO. We would like to inform you that this event is being recorded, and that all participants will be in a listen-only mode during the company presentation. And doing this we will go on to the question-and-answer session when further instructions will be given. (Operator Instructions)

This event is also being broadcast simultaneously by Internet via webcast and can be accessed at the address [www.fleury.com.br/ri](http://www.fleury.com.br/ri) where the respective presentation is also available. The slide selection can be changed at your convenience. The replay of this event will be available soon after closing.

We would like to remind you that the webcast participants can record their questions for the Fleury Group through the website. Before proceeding, we would like to clarify that forward-looking statements made during this conference call referring to the Group of Fleury business outlook, projections, operational and financial goals are based on the beliefs and premises of the company management, as well as on information currently available to the company. These forward-looking statements are no guarantee of performance as they involve risks, uncertainties and premises as they refer to future events and therefore depend on circumstances that may or may not occur. Investors and analysts should understand that general conditions, sector conditions and other

operational factors could affect the results of the Fleury Group and lead to results that differ materially from those expressed in the statement.

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

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

The COVID-19 pandemic made healthcare become the most important word in Brazil and in the world. The disease gave rise to a crisis that goes beyond the medical issues and has economic and social impacts that are incalculable. Health care went on from being an individual issue to becoming a collective concern. Nothing is more aspirational today in society and will continue to be for a long time.

As one of the leading healthcare companies in Brazil, Grupo of Fleury's routine was affected by this crisis as we're dealing with an unknown and unexpected enemy. Our essence is what gave us the answer with employee engagement, customer confidence, knowledge development and acceleration of digital projects.

In the early days of the crisis, we focused on preparing for this long battle. And to face this challenge, first of all, we had to care for our team, made up of more than 10,000 employees and 2,500 doctors. We quickly put the employees of the back office into a remote work scheme. In parallel, we reinforced our security protocols and we were one of the first signatories of the movement #donotlayoff, which guarantees the maintenance of these jobs until the end of May.

As a reference group in health care, we quickly assumed the role of guiding society on how to deal with COVID-19. We prepared our call center that began to operate 100% digitally via WhatsApp. We started a broad campaign on our social networks. Our physicians gave dozens of interviews to the main media outlets to bring quality information to the population. In the Fleury bank signature, We Care, You Trust goes much beyond being a slogan. It represents who, in fact, we are. In our laboratories, physicians and scientists developed in record time a quality test for the new Coronavirus, launched in mid-February.

As the world was already facing severe drops in the supply chain, we chose not to make tests available in our Patient Service Centers. They were made available at cost in 30 partner hospitals to ensure that patients with more severe symptoms could access these tests. The decision ensured that there were no disruptions and that Fleury would be able to deliver these precious results in 48 hours.

The combination, science plus social impact, has guided many other actions of the Fleury Group since the crisis broke out. We entered a partnership with Bradesco Seguros, Coca-Cola, Coca Cola Femsa, the Sao Paulo State Department and the Butantan Institute to process almost 26,000 tests and cleared the queue at the Butantan Institute. We integrated a team with Ibope, Instituto Semeia, the University of Sao Paulo and the Federal University of Sao Paulo to map the presence of the coronavirus in S?o Paulo. By

knowing who has been infected and where this study will bring valuable conclusions for the resumption of economy.

Along with the Sirio-Libanes Hospital, we created Telecorona Solidario, a call center available for low-income neighborhood residents so that they can clarify doubts with volunteer physicians through an online platform. In our view, COVID-19 is a turning point for the medical and health care sector in Brazil.

The digital revolution has definitely come to health care. We have already begun to experience what happened in the financial sector in the past, radically changing the use of services. Applications for prevention control and health care information will become part of what we have on our mobile phones, as what happened with apps from banks, retailers and food delivery that are so prevalent today.

For the Fleury Group, which has been investing in digital transformation for more than two years, we believe that we will be very well adapted to this new reality. It's not just our digital strategy that is ready, COVID-19 led us to further accelerate the development of scalable products and services which we announced in 2019. And we proved that we have the speed to bring these solutions to market. Our vision, technology and execution capacity shows that Fleury is ready to organize, defrag and integrate the health care market in the country, whatever the scenario.

The first major result of this digital transformation is telemedicine. This topic was debated for years but crashed against regulatory issues. Now this modality has been regulated while the pandemic lasts. But this is a path of no return. In a country of continental dimensions like Brazil with tremendous difficulties in displacement, why not use the technologies available and thus bring physicians closer to patients? Of course, we need to take all the necessary precautions such as the development of our own protocols and the use of electronic medical records, but there is no denying that telemedicine guarantees patients and physicians more access and the possibility of health monitoring.

As soon as telemedicine was approved, we launched Cuidar Digital, a solution that safely and effectively connects physicians and patients in the social isolation context. Within a month, we added more than 2,000 registered physicians coming from 24 Brazilian states, several of them where the Fleury Group is not physically present. We add on average 300 consultations and appointments every day. And among the physicians who have adhered to the solution, engagement is growing and reaches more than 3.5 consultations per physician. The potential of this market, which is incipient in Brazil, is enormous.

Besides launching new products such as Cuidar Digital, Fleury has put its agility to create new services for this low-touch economy. We bring together technology and physical distance with a high level of service and efficiency. These demand characteristics are here to stay.

In our Investor Day held in December 2019, we presented the first steps of our health care platform model through Santecorp, a care coordination company acquired in 2018. With 1 million lives in the portfolio today, Santecorp recently put into operation a complete

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health care management application. We have 65,000 lives initially contracted through the app. Users have access to telemedicine and chatbot clinics and services. This is another innovation that can be replicated and scaled quickly in other Santecorp client companies.

Santecorp's growth process also has a physical expansion arm. We opened a primary care medical clinic with six patient service centers, one from the A Plan and one from Fleury, all in Sao Paulo. If on the one hand, social isolation impacted the movement of our units, on the other hand, it generated intense services in clients' home and launched us in the intense of innovation to prepare ourselves for this new service.

We began to offer imaging exams that are available in the Fleury a+ labs, Felipe Mattoso brands in six Brazilian states. Overall, these services grew by 21% in the first quarter vis-a-vis the same quarter in 2019 and further accelerated its growth based on social isolation measures.

It takes a strong relationship of trust for a patient to open their doors to receive a health care professional especially during a pandemic. Campana ate Voce, presented to the market in December 2019, is the first 100% digital lab in Brazil and it started operating in March. The response has been encouraging. The number of visits has increased fivefold in 1 month. It is the first online-to-offline initiative in diagnostic medicine. The interaction between the client and laboratory for scheduling and monitoring is completely digital through an app. The collection of clinical analysis test is performed at the client's home or wherever it is more convenient without the use of a patient service center.

The concept of low-contact economy and high use of technology has been incorporated into the day-to-day life of low-service units. In March, we began drive-thru service for the RT-PCR and serology testing for the COVID-19 diagnosis. The patient can do the exam without having to get out of the car. This service is available in 19 units. And in less than two months of operation, the daily volume of exams was multiplied by 10. This put to test our resilience, agility, execution capacity and vision of the future, all of this while we care for employees, exercise our social role as a benchmark company in health care and preserve our financial strength. We are prepared to face current adversities, whichever the scenario, by leading the process of digital transformation and health care sector.

In this new low-contact economy, we have the chance to build the future of medical excellence, which will be personalized, integrated in a large scale.

**Fernando Leao** {BIO 20171823 <GO>}

Thank you, Carlos. Good day to all, and this is Fernando Leao. I'm going to go to the presentation to present the financial results for the first quarter.

On Slide number 8, we show you the consolidated gross revenue for the group. In the quarter, the growth was 1.7%, amounting to BRL770 million. In the Patient Service Centers, we had an increase of 1.5% (sic) [1.1%], representing 84% of gross revenues because of the COVID pandemic. Because of urban mobility and social distancing, we had a

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postergation of the elective medical cases. The second fortnight of March showed a growing reduction of demand at the patient service centers with an impact on the company's results.

The B2B operations grew by 4.8% in the quarter and remained stable at 16% of the consolidated revenue. The growth shows an increase of gross revenue per exam that expanded 6.5% during the period and a large number of RT-PCR exams for COVID-19. It is the partner hospitals that have the largest average ticket and the reference laboratories.

On Slide number 9. With the goal of isolating the COVID-19 effects on gross revenue and to understand the effect of demand, we compare periods until March 13 of the first quarter 2019 and the first quarter 2020. In this analysis, only with real data, the growth of patient service centers reached 16.3%. 10.1% was organic, with a highlight for Sao Paulo and Fleury with a growth of 8.4%.

The month of March is the most relevant for the first quarter of 2020. Because of the carnival holidays that took place in the last week of February, the gross -- the expectation was to have strong growth but this did not happen because of the sudden change of scenario.

In Slide number 10, we see that the impact of reduction in demand in the second fortnight of March led to a total growth of 16.8% to a total growth of 1.1% and a reduction of 4.7% in organic operations. We remind you that our acquisitions include Lafe Brand, CPC, Diagmax and Inlab, and the consolidation of these companies began in the third and fourth quarter of 2019.

In the graph, you can observe in detail the performance compared to the other brands. The effects of restrictions imposed by COVID-19 had a material impact on all regions and brands, leading the company to reorganize its diagnostic services and closing down temporarily 100 units and reducing the schedules for service. These adjustments are made so that we can be available for our customers, maintaining secure and complete service.

On the other hand, we have intensified mobile services to collect clinical analysis at home in all of our markets. This has a great potential especially at present. In the first quarter 2020, these services increased by 21%. In the a+ brand in Sao Paulo, the increase was 73%. In the Fleury brand, besides the mobile services, the infusion of medication and day clinic in orthopedics continue to grow despite the restrictions. There is a growing search for these services as an alternative for people who need the service outside of hospitals especially for chronic patients.

We go on to Slide 11, where we will speak about cancellations and net revenue. Cancellations reached 1.2% for the quarter. We had a growth of 1.9% of net revenues, totaling BRL713.9 million.

In the next slide, we will present our main financial indicators differently from what we had reported until the last quarter of 2019. Beginning in this first quarter 2020, all the figures

are based on IFRS 16 for lease. The figures are on the same base of comparison.

In Slide number 12, we show you the evolution of costs and expenses. As mentioned, the company was prepared for a strong level of growth as March is normally the semester with the greatest growth. We had an increase of 10.3% in costs. And to the right, you see an increase of 9.7% in operating expenses. Based on this, what is important is that some of the costs are fixed and the sudden drop in demand was significant for the period. We have worked on several fronts to reduce costs and expenses, renegotiating contracts especially those that refer to the new levels of demand. And we are reorganizing everything to reduce expenses, focusing on what is strictly necessary.

We go on to Slide 13, where EBITDA reached BRL195.9 million for the quarter, a reduction of 16.7% and a margin of 27.4%. EBITDA, excluding the IFRS 16 effects and considering the cost of lease, reached BRL153.9 million, a reduction of 21.7% and a margin of 21.6%.

In Slide 14, net income reached 58.7% (sic) [BRL58.7 million], a reduction of 36.6% vis-a-vis the same period in '19. And once again, the net margin was 8.2% vis-a-vis 13.2%.

In Slide 15, we show you our operating cash flow that recorded BRL131.3 million in the quarter, an increase of 20% because of an improvement in working capital. The main effects are due to the variation in accounts receivable with an improvement of 2 days, reaching 65 days. Conversion of operating cash into EBITDA reached 40% compared to the last year. Approximately 75% of our accounts receivable are concentrated on 10 of our most important accounts. The rest are diluted, and these people have a share of less than 2%. We have BRL54 million in receivables, and 80% are -- still have a balance due. To the right, you'll see the CapEx that totaled BRL40.7 million in the first quarter, a reduction of 15.3% relating to investments, the opening of new units and the exchange of equipment.

Even with a sound cash position, we're trying to reestablish an even more robust position preventively. So we carried out a raising of BRL150 million in March. In April, we had the first issuance of commercial promissory notes in the amount of BRL400 million that you still do not see in the figures of this quarter. Leverage remained at low levels with a 1.1 net debt-EBITDA ratio. We postponed the payment of dividends referring to 2019 for December 15, 2020. These are preventive measures so that the company can go through this period with a robust cash position to be able to fulfill any needs. ROIC without goodwill reached 42% in the first quarter. When we exclude goodwill, return on invested capital has a positive result especially when it comes from the new companies. To the right, we show you the evolution of the NPS, with a high level, we reached 76.9%. Thank you very much.

We will now go on to the question-and-answer session.

## Questions And Answers

### Operator

(Question And Answer)

(Operator Instructions) Our first question comes from Joseph Giordano from JPMorgan.

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

Good morning to all of you and thank you for taking my question. I hope that everything is doing well with you. My question refers to COVID-19. I would like to understand the demand curve that began in April. I know that there has been an improvement, but this continues to be rather impactful. What is your outlook? And when will the demand go back to normalcy? And what is it that you foresee for the year 2021? If we eliminate the year 2020 from the accounts, will you have more normal figures? Would you continue to see a growth in operations, a growth of single digit, and we will only have 2020 as an outlier?

And my other question refers to your new initiatives. We see a very agile company with a great deal of novelties for the market. If you could explain how this could change the face, the image of the company going forward, your relationship with stakeholders, the company, the beneficiaries of health plans and with the rest of the health chain.

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

Good morning, Joseph. This is Carlos Marinelli, and thank you for your question. I hope that you and your family are safe and well. As was mentioned, we're facing a situation that has been deteriorating in the last two, two-and-a-half weeks of the first quarter of 2020. March was a month where we used to have a significant concentration of revenues given that January is the month of vacations or return to school. Now this year, we had carnival in February. And therefore, March would be a full month without holidays, without any interruption.

The beginning of this pandemic especially the last fortnight of March have been very important for us given the profile of our customers in these sectors where we work; premium, intermediate and high. And we remind you that the forecast was of a quarantine of two, two-and-a-half weeks for the pandemic. Because of this, our customers complied with the quarantine and we saw this reduction. And this includes the physicians working with the patients. They couldn't work at their offices. So we had this reduction in the first quarter.

When we look at the figures of April and May, what we see is a growth in demand for our services. What is happening? We're still very far from what would be our normal budget, normal activities. Besides the COVID exams, well, these are important in the results that we're doing. But we're working a great deal on these tests. But what we observed week-after-week is a growth.

This week, there was a complication in the state of Sao Paulo. In the newspaper, this was printed as well as in the magazine EXAME, the need for diagnosis for the oncological part. It has been estimated that 65,000 people have not been diagnosed with cancer especially during April. We know that this diagnosis has to take place and it will. We have to think not only of the oncological part but also cardiological and metabolic syndromes,

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women's health and other areas. The need for diagnosis, the need for health care should not stop because of COVID-19. And for several of these health conditions, people have to take care. They have to remain healthy precisely because this will boost their immunity if faced with COVID-19.

Now the trajectory that we observe, therefore, is a growth in demand, a resumption of demand but far from a normal trajectory. Now it's very difficult to forecast anything at present in Brazil. We're still faced with a situation in several capitals, where the situation is different. In Sao Luis do Maranhao, our operation is not very large, but there is a lockdown. In Porto Alegre in the south, they're getting ready to resume their economy. In Sao Paulo, we still have a great deal of circulation of people. And an interesting movement at our patient centers in Rio de Janeiro has a more complicated situation.

In terms of futurology, and this is an exercise in looking towards the future, we don't think that 2021 will have a different growth from what we had expected since 2019. There is that gap in growth definitely in 2020 because of everything that we are facing especially if we're not able to fully resume demand in 2020. We truly do not know if this will happen or not, but once we have an effective and well-established treatment and an effective vaccine, there's no reason why 2021 should not have the historical trajectory that we have always had.

When it comes to your question about new initiatives, indeed, the company, for more than two years, has been working intensively on what we call the digital transition. Now this transition is something that had happened in finance and urban mobility in the retail sector and several other areas but not in the health care segment. It happened very incipiently in the health care segment. Because of the pandemic, we have made great strides here especially in terms of the regulation of telemedicine. Telemedicine is here to stay. Digitalization of health care is here to stay. In the future, COVID-19 will be recalled as something that completely turns or changes everything, a turning point.

We had already been working digitally for more than two years. We implemented an area for digital products. We acquired Santecorp at the end of 2018. We developed our health platform within Santecorp. And we began working on what we call digital assets. Once they have been scaled up, they deliver excellent health care that is customized and they do this in broad scale. We know that there is this turning point in the use of technology and health care. And we're not only ready, but we're also putting this in practice. 18% of all of the scheduled services that we carried out at the patient care centers have a digital check-in. Patients can do all of the red tape before coming to the patient service to reduce interaction.

We also developed a drive-through idea to collect exams with low contact. We're bringing together the convenience for customers, technology, highly developed technology and the low contact that preserves the welfare of individuals, customers and employees at this point in time. And to think about changes, I don't know if anything is going to change. Things have already changed, and I think we have been leaders in this change.

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



Thank you. Thank you very much, Carlos.

## Operator

The next question comes from Tobias from Citibank.

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

Good morning. Carlos and Fernando Leao, I hope that you are both well. Congratulations for your initiatives. A very short question. The idea is to gradually resume operations and you have made a very good use of technology, but you also had significant organic growth.

Now, what is your perception? What is going to happen with a market with smaller players, regional players that will not be capitalized in the coming months? Can they help you grow your market share? Or do you believe that you will have to carry out other types of more comfortable transactions? Thank you.

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

Tobias, thank you for the question. And I hope that you and your family are well. Regarding your question, we truly are undergoing a health care and a human crisis at present. And definitely, the great priority now is life and social isolation. Although social isolation hampers the economy, I think it has had some positive results. We're able to maintain the disease curves even in a city like Sao Paulo, where we see a high number of service and intensity of people going out but everything under control.

All of the measures that we have adopted of social distancing in the last two months, isolation, all of this, of course, has a price for the economy in the future. And we see this in demand at present, and we're going to see this in the companies going forward.

What we did initially was to act intensively to bring liquidity for the company. We carried out a fundraising of BRL550 million. We have postponed some of our investments. And we have drawn up some curves and scenarios to see how the epidemic will affect our business. We're very well prepared in terms of cash even for the worst scenario, which is not what we see as part of our present-day figures. We have a demand curve that is a bit lower than the worst scenario that we have drawn up.

What is going to happen in the market? The diagnostic market in Brazil is very fragmented. There are many minor players. And we ourselves, for many years, have consolidated the market because of our market share and because of our price position. We have access to capital. We were able to work with a fundraising. We will be able to go through this pandemic and come out of it with new initiatives in terms of technology and our operational cash.

But not all in the market have this capacity. And inevitably, because of this, we will remain in the market acting as we have always acted. We perhaps may capture greater market share from companies that will not be able to go through this moment in a wholesome

way or perhaps they will have to opt for solutions of doing a transaction to join a larger group. Inevitably, what we expect for the market is greater consolidation.

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

Thank you very much. I have another question, if you wish. The demand accelerated very quickly at the end of March, but you make adjustments. Can you give us an idea of what you were able to do to make adjustments for the coming quarters? And what happened to your cost structure, your variable costs? Were you able to change them rapidly?

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

Tobias, as you mentioned and as was said in the financial explanation, we were in a trajectory and we were prepared for the best quarter in the company and then to continue on with growth. In a company that has a large portion of fixed cost, we're speaking about people, and we adhere to the #donotlayoff movement. We had a view of having a linear reduction in the company 25% in the salary of all the workers and this includes the board, the managers, except the digital area of the company and the exam processing because these areas have a higher demand.

Additionally to this, we began four weeks ago an intense readjustment of all of our contracts for areas that were no longer using, for example, 97% of our staff is at home office, so some of those costs are being avoided at present. And the negotiation with the owners of buildings that we have leased, and we have successfully concluded the review in more than 70% of these lease businesses.

And we have several other initiatives, not only thinking about this moment but for 2020 and going forward. We have a project in the company that predicts some corporate areas will never return, the model that we had implemented some years ago, and that enabled us to significantly reduce our corporate costs. It is a shared service model. This can be expanded in the company. It will reduce our costs, bring us greater efficiency and, of course, preserve workers that will stop working at home office and begin working in what we call home working.

The perception that we have is one of social responsibility. We have a large volume of employees. We want to maintain the work of these professionals. They're qualified health professionals. And we think that they will be very important, not only now but also post pandemic. They will take all of these services to our customers in the future. And this also applies to our physicians, where we're preserving their compensation during the pandemic. And we have a model so that they can remain calm and preserve their work until the end of the year.

As I mentioned previously, we have to be highly inventive, and technology will aid us to do this. Our mobile services are growing. Our employees that were working at the Patient Service Centers are now working in these mobile services. We're also working with Cuidar Digital. These are assets that we're leveraging, and they're helping us to continue with our service.

And as a health care company, we have to understand that health care goes beyond COVID-19. It is the priority now, it is society's priority, but cardiovascular diseases are the ones with highest mortality in Brazil. We also have diseases due to the aging of population. And we can't only focus on COVID-19. COVID-19 is a priority, but we don't want to have a time bomb for other serious health disorders among the population.

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

Thank you. Thank you very much. Have a good day.

**Operator**

The next question comes from Fred Mendes from Bradesco.

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

Hey, good day to all of you. I hope you are all well and I have two questions. The first, when we look at the Fleury Brand, it had a very strong trend quarter-on-quarter. It had relevant increase. I would like to understand the impact that there has been on genomics the growth and what happened pre-COVID? This is the first question.

The second question, we have seen that elective surgeries have been postponed, and a large part of these will have to come back. Now in terms of diagnosis, I don't know if I can say this. I imagine that the exams have also been postponed because of COVID, and I don't know if they will all come back. What is happening at present so that we can understand what will happen with the resumption?

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

Fred, this is Fernando Leao. Thank you for your question. I'm going to begin responding in terms of genomics. We reported some figures for the quarter. And we had a strong growth, somewhat below what we had reported, but it was strong considering the context. 40% of the revenues from genomics are in the Fleury brand. If we look at the growth of the Fleury brand until the 13th of March, where we had a strong growth of 18%, I would say that it's between 1.5 and 2 percentage points of this growth that are coming from genomics.

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

Very good.

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

Fred, this is Carlos Marinelli. I hope that you are well, as well as your family. Now, in terms of your question, the resumption of elective surgeries and diagnosis. Well, this is definitely something that we cannot understand how it will happen. What we see in the hospitals that we work with is that elective surgeries have returned. Several hospitals have special protocols to resume and elective -- surgeries and we're helping with these carrying out the PCR test for all of those that are admitted into hospitals regardless of their symptoms.

## Operator

The next question comes from Thiago Macruz from Itau.

### Q - Thiago Macruz {BIO 16404924 <GO>}

Good morning and good day. When we look at your results in the last years, you opened up new stores and worked very well with fixed costs. Now there was a change in the market with the digitizing and services at home. Now in the next three to five years, what is going to happen? Perhaps we will go through a scenario of rationalizing assets, closing down some of your services.

The second question, you have done very well with Campana and Casa. You're ahead of the competition because you offer these home services. Now how can you maintain the perception of quality in this scenario? The experience offered by a+ and Fleury at the patient service center, isn't this important for the perception of end consumers? How can you maintain this when you're offering home services?

These are my two questions, and I hope all of you are well.

(Technical Difficulty)

## Operator

For the speakers, we could not hear your audio for both of the speakers. Once again for both of the speakers, you may proceed and answer the questions.

Ladies and gentlemen, please hold while the speakers' reconnect. Thank you. You may proceed and answer the questions.

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

Fred, I'm not sure if you were able to listen to my answer. This is Carlos.

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

Carlos, would you like me to repeat the question? We heard the answer for Fred's question and I can repeat my question. If you didn't hear me.

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

I'm sorry. We did not hear it. If you could, please repeat your question.

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

I asked two questions, Carlos. The first refers to the industry's marginal growth. When we assess the last few years, your growth was based on fixed assets on patient service centers. Now, I think there has been a very dynamic change in the sector, a change towards digitizing visiting customers at home. So I'm questioning myself if we can think of

an inverse dynamic where you will rationalize the assets and no longer open patient service centers.

Now, my second question regarding the home service and Campana and Casa. You're ahead of the competition. How is it possible to maintain a perception of quality with the end customer when it's so important the perception that you have at a patient service center, the way they are treated, the people they interact with? These are my two questions. Thank you.

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

Thank you, Thiago Macruz, and we apologize for not hearing your question. Now, in terms of rationalizing assets, I understand that, yes, this is a movement that will end up happening, and we have begun working on this rationalizing of assets. Let's think about the following PSC at present has space where there are many people working on red tape. It is a space dedicated to the back office basically, so what can we imagine in a movement with greater social distancing, where -- for example have a great deal of strength in terms of our image when people have to displace themselves to make exams, such as, CAT scans and others? These people will have to continue to use this diagnostic method, and they will necessarily have to go to the PSCs when they do the clinical analysis at home, we have more space in our PSCs.

As part of a dynamic of social distancing, there will be less exposure of these people to risk. 18% of the people can do their check-in before coming to the PSC. They spend less time at the PSC. They have less interaction with our employees at these units. So mobile services are one more driver for growth for our present day services. We're not only using this driver in the Diagnostics segment, we're also using our PSCs. We have 260 in Brazil as centers that offer primary attention. For example, in Sao Paulo, several of our PSCs are working with primary health with Santecorp.

At this point in time of the pandemic, where we had a great flow of people in the hospitals in Sao Paulo, these PSCs worked as a solution, as a safe option for patients who could look for face-to-face medical attention. So we're better using our assets. We're including new services in our assets and using digital services to get to the home of the customers in a more convenient way and expand our services without having to expand or invest in brick-and-mortar units.

What you asked about the home visits and the perception and quality, I'm going to respond not only from the viewpoint of the service but also from the viewpoint of the test per se. What this pandemic has shown us is that the quality of the test is important. What everybody has received and is hearing here is that they're selling rapid test for COVID-19, that there are myriads of rapid tests for COVID-19 in Brazil, in U.S., in U.K., in Spain.

Now the quality of these rapid tests is terrible, and it leads to false negatives. These false negatives can give you false security when the person in truth is infected. I wanted to mention this to show you that the quality of the diagnosis depends on qualified professionals and on the quality of the test.

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And this is what we have in this 94 years of existence; quality, extremely well-trained staff, established professionals, quality of our equipment, quality of our displacement, the stability of our test and the quality of the reagents we use. We have tested 10 different types of rapid tests and, unfortunately, only one or two were approved in terms of validation. We tested several methodologies, not only the ones that are underway at present but all the material batches that we received were tested and validated as well.

I have no doubt whatsoever that we're going to go through the pandemic and not only concerned about the quality of our services but also the quality of the tests that are carried out with us. And the Fleury Group has that 94-year reputation of quality and excellence.

**Q - Thiago Macruz** {BIO 16404924 <GO>}

Thank you, Carlos. That was very clear.

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

Thank you.

**Operator**

The next question is from Alexandre Falcao from HSBC.

**Q - Alexandre Falcao** {BIO 5515455 <GO>}

A good day to all of you. And once again, I do hope you are all well. Of course, you are well. I would like to speak more about the short and medium-term and then speak about the future. I understand your vision. The #donotlayoff, #naodemita. It seems to be obvious to do this. But if the resumption is not quick, you will have to make some decisions until the end of the year. So what is it that you're thinking in terms of revenue, the revenue position, cash generation to be able to make these decisions until July, August, September or October, when we think there will be a resumption?

And to speak about the longer-term, you have a bet in medicine in health care. How do you think this sector will become organized after this pandemic? In the diagnostic part, will there be a situation where the new normal will be to carry out many more exams, and the collection at the person's home or in doctors' offices and those who have the best network will be the winners? Or if we look even further ahead, a situation where those who have greater capillarity like you, even though you work with different brands, will end up facing an enormous entry barrier? I do understand how you have positioned yourself. But what is your vision of the future? Thank you very much.

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

This is Carlos Marinelli. I hope you and your family are well. Let's see now, when it comes to the structure, people, costs, you are very well aware of our costs, and we know that several of them pertain to professionals. This is an important cost structure in the company. Of course, we have worked with some scenarios. We have worked with

demand reduction scenarios. And as I underscored previously, these curves are not part of the worst scenarios that we true-up, they are above this.

We have seen a resumption week-after-week in the volume of services at our PSCs. People with health issue, of course, may postpone this, but they cannot be eternally postponed. People know that the cost of postponing this is much higher than the benefit of exposing themselves to any type of risk, which is quite low considering all of the protective equipment and the flows that we have organized.

Now when we think about this, we do have to look within our organization and see how it will behave in terms of costs, how it can become more flexible, how it can be redesigned because of the environment that we observe, the level of revenues and future costs. So we're working on this redesign intensively, and we may make readjustments whenever necessary.

When it comes to this redesign, we also have to think about everything we're doing to accelerate things digitally, to adapt ourselves to this world of more convenience and greater low contact. And perhaps this will lead us to having other structures.

I recently answered that we can make investments on variable costs that will enhance the convenience of our services to customers. And to complement the idea of diagnosis in this digital world, I think that diagnosis will play an ever more important role in the digital world and services through telemedicine, our services that do offer several benefits. They maintain social distancing. We're able to transmit knowledge through great distances. There is no need for displacement.

But for some diagnosis to have precise information, the doctors will depend on quality digital tools. We believe that, that partnership between doctors with face-to-face services but resorting to telemedicine in future services and with quality support in terms of exams and perhaps with the possibility of speaking with the doctor that carried out the imaging exams, this will allow for greater connection and generate value for the patients. In this new world of state-of-the-art technology, low contact and high convenience, the diagnosis will be a driver in the work of our physicians.

**Q - Alexandre Falcao** {BIO 5515455 <GO>}

Thank you very much. And from the viewpoint of cost, will this enable you to perhaps obtain new customers to work with new operators and perhaps offer services that the competition is unable to offer, is this the rationale underlying this?

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

Yes, exactly. Well, we have developed in these last two-and-a-half or three years, and in terms of digital tools, puts it at the forefront of the market in general.

Our maturity in the development of these products, the scalability of these products doubtlessly are part of our brand strategy of being at the forefront and leading this digital revolution that has come to the healthcare segment.

Not only that, we can better adapt our processes were already operating in this way, and we're able to reach audiences that formerly depended on the PSCs. This is a new market segment where the return on investment is much higher. I haven't invested in anything in PSC and this could be very interesting.

Now the launch of this new way of relating for diagnosing, the way of relating with doctors with the market, a new way of offering solutions, convenience, digitizing and low contact is something that we have already been doing, we're the leaders and part of our strategy is to continue investing in this.

**Q - Alexandre Falcao** {BIO 5515455 <GO>}

Thank you. Thank you very much.

## Operator

The next question is from Samuel Alves from BTG Pactual.

**Q - Samuel Alves** {BIO 18720076 <GO>}

Hey, good afternoon, Carlos, Fernando and everybody. I have two questions. The first, once again referring to the mobile services that represents 12% of your revenues in this quarter. If you could remark on the margins of these mobile services vis-a-vis your traditional margins?

And my second question refers to test for COVID-19. You had mentioned that these tests were being offered at cost to partner hospitals. Have you maintained this strategy? And in the case of the tests carried out at the PSC, does this also apply? Thank you.

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

Samuel, this is Carlos Marinelli. Once again, I hope you and your family are well. Regarding the margins of our home services, you need to understand that these mobile services, per se, do not exist. There is a larger structure that also depend on the PSCs. And even though we're enhancing our mobile services, our PSCs still exist. The great advantage of mobile services is that we can enhance our ability to carry out services without having to invest on fixed assets. In the present day scenario and after the pandemic, this will be a significant driver. We will be able to service more people and rapidly go back to our normal service levels with the fixed structures that we had, even though we do have that need for social distancing.

Let's imagine that we have a limitation of people that can circulate because of community infections. As we go to clinics and people's homes, and I'm speaking of images and diagnosis, I have already doubled the size of my PSC by the drive-through or home visits. We don't lose our capacity and efficiency when it comes to generating revenues. What is more important is that we have a position and a reputation that allows us to go into people's home. We have a brand that inspires trust. People will open their doors for us at home. This has increased. It didn't happen overnight. Our NPS is leading with almost 90%. Therefore, the satisfaction levels are very high.



When it comes to your question for COVID tests, we began working with all hospitals at cost price. We understood that this was a public health issue, and we have not changed the price for hospitals during this process. We have maintained our price. Now when we work at our PSCs, the price that we charge from customers also includes the service per se. In hospitals, what we do is the processing. Now when we do this at the PSC, the costs are different because we include the service and the processing as well. That is why the price tends to be higher vis-a-vis the price charged from hospitals. And once again, this price has not been changed during this entire period.

**Q - Samuel Alves** {BIO 18720076 <GO>}

Thank you very much Carlos, and have a good week.

## Operator

The next question is from Vinicius Ribeiro from UBS.

**Q - Vinicius Ribeiro** {BIO 19720178 <GO>}

Thank you for taking my question. I hope you are all well. Two very quick questions. The first, if you could give us an idea of the format of your demand curve. In April, you said that you had the worst part of your demand and then there was a recovery. And which has been the behavior in the last few weeks? Is it a stable curve?

And the second question refers to the long term and strategies. What we're going to see is a lack of access to the private health system because of the loss of employment, but you have that capacity of creating scalable solutions. Perhaps you could have an impact on this sector. Which will be the makeup of your results going forward, presuming that the premium services will suffer from the economic deterioration and the services will perhaps offer you less margin? Which is your thought process at present when it comes to the decision-making process?

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

Vinicius, thank you for your question, and I hope you are well. When it comes to the demand curve and its format, what we observed was an intense drop in the last fortnight of March and a continuous recovery after that. Now this recovery has sped up week after week. It did so quite a bit in the last weeks of April. And the acceleration is somewhat slower now. The fact is, is that we're still very far from our normal curve, but we continue to speed up.

When it comes to this new market, what we have observed, and I have been in the company for 15 years and in the last six years as the company's CEO, when you have a loss of access to health plans by people, the people that first of all lose this access is at the base of the pyramid. They have the basic health plans. They have no choice. They go to the, yes, U.S.

Our public is the premium public, and they have revenue, savings that enable them to opt for private health still with a variety of products, which means that the high intermediate

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and premium audience that we service is more resilient in times of crisis. Not only that, we understand our contribution, so we bring solutions like Santecorp, which is a health care platform. The only aim is to help you take this medicine of excellence and that is personalized in broad scale.

Santecorp is not a fee-for-service. We are able to service everybody. We have almost 1 million lives that we're servicing in Santecorp with this model. When you have that many drivers, Santecorp with a platform, the diagnostic part and the reputation that we have, these new service models of low-contact, high-digitation and convenience, we're able to put all of this at the service of the resumption of economy. And then we can discuss new models to maintain the system and offer services with a higher level of quality and a higher cost level, of course.

**Q - Vinicius Ribeiro** {BIO 19720178 <GO>}

Thank you. Let me see if I fully understood this. You believe therefore that there will be a migration for out of pocket in your demand or that your premium base of health care beneficiaries will no longer have to do a downgrade?

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

Well, what I said was that what we feel with greater intensity is the low-income segment. The other groups still are choosing private health plans. They have the resiliency to do this, and they don't want to do the downgrade initially. And even if they have to do the downgrade, we have several brands and we will be able to continue working with this public.

From past experience and situations of exception, we know that as soon as they are able to once again have premium services, they will migrate in that direction. We see several people seeking out the Fleury brand because of its reputation, its excellence, because of the reputation of its doctors and the health plan. And of course, this includes our other brands.

**Q - Vinicius Ribeiro** {BIO 19720178 <GO>}

Thank you. Thank you very much and please I hope everybody is well.

**Operator**

(Operator Instructions) As we have no further questions, we will return the floor to Mr.Carlos Marinelli for his closing remarks.

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

I would like to thank all of you for participating in our conference call that was somewhat longer than normal. But because of everything that we have observed and undergone, this is fully justifiable. And first of all, we want to be very transparent with you. We depend on the company governance. And we want to show you everything that has been done in this extremely different scenario.

First of all, we have that human crisis, the life of people. And this was our choice when we set forth priorities. The priority is the safety of our customers, employees and doctors that work with us to transmit our knowledge through our tests, to help people who are directly impacted but also their relatives and societies as a whole. We have several social initiatives that are underway at present linked to our tests as well as to technology and solidarity programs.

Now this is a crisis that will deeply test our ability to making adjustments. We have worked intensively from home office, not physically integrated but integrated through our work. We have preserved the safety of our employees at our PSCs, in our hospitals and in our processing centers. And we have all made adjustments and adapted, and this allows us to be ever closer to our customers. This ability to adapt makes me very proud of the company and the professionals that are transmitting this knowledge and this excellence in health to all of our customers and to all of our doctors.

The message, therefore, is that, above all, the message is of resiliency, of hope and a message that we are doing what is necessary, we are adapting. And although we will come out from the crisis very different, doubtlessly, we will be apt to take technology, convenience and the necessary adjustments to this new low-contact economy of the future. And we're open, of course, to talking with you, and this through the IR and myself personally.

And please join us in our conference calls, breakfasts, live breakfasts. We're extremely interested in making all of you very calm about what is going through in the company. We do this with great transparency, reinforcing safety and with a focus on the sustainability going forward.

Once again, thank you very much for your presence. And we will meet again virtually or face-to-face perhaps in the future and very soon. Thank you again, and have a very good weekend.

## Operator

The Group of Fleury conference call ends here. We would like to thank all of you for your participation. Have a good afternoon.

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