

Q1 2022 Earnings Call

Company Participants

- Jeane Tsutsui, Chief Executive Officer
- Jose Antonio de Almeida Filippo, Chief Financial and Investor Relations Officer
- Unidentified Speaker

Other Participants

- Fred Mendes
- Gustavo Miele
- Mauricio Cepeda
- Ricardo Boiati
- Vinicius Figueiredo
- Vinicius Ribeiro
- Yan Cesquim

Presentation

Operator

Good morning, everybody. I would like to welcome you to the Grupo Fleury Results Conference Call for the First Quarter '22. We have with us today Ms. Jeane Tsutsui, the Company CEO; Jose Filippo, the CFO and IR Officer; and Renato Braun, IR Director. I would like to inform you that this event is being recorded and we are making available simultaneous translation into English. We will initially present the company results and ensuing this, we will go on to the question-and-answer session. At the end of that session, Ms. Tsutsui will offer her closing remarks. All of the figures mentioned here are compared to the same period in 2021 except when specified otherwise and they have been rounded to the closest thousands.

Before proceeding, we would like to clarify that this presentation may have some forward-looking statements now, they do not only refer to historic data, but they refer to the desires and expectations of the company. The words, believes, plans, estimates, projects, desires, and similar words would like to identify forward-looking statements that involve known and unknown risks. And of course this will include uncertainties that are not impacted to the competitiveness of prices and services. Among certainties, we have the services and the market transactions of the company competitors, regulatory approval, changes in the mix of services offered as well as other risks that are described in the company reports.

I would now like to turn the floor over to Ms.Tsutsui, who will begin the presentation. You have the floor.

Jeane Tsutsui {BIO 19695005 <GO>}

Good morning to all of you. First of all, I would like to thank you for your presentation here. Before highlighting the results of the first quarter '22, I would like to speak about our strategy in a broader way. We continue to build an integrated healthcare ecosystem. For those who accompanied our presentation in March you have already had contact with slides number 3, and 4, and we'll acknowledge them. Slide 3 shows how diagnostic medicine permeates the health journey of our patients. They offer diagnostic medicine, and at the top of the graph with our brands and the health journey appear below beginning with prevention checkup services, vaccination services and genomics. We then go on to primary care, our telemedicine service and clinical consultations. We then have consultations in medical specialties that we call secondary care and finally tertiary care, which are the low-complexity surgeries carried out in outpatient centers.

The Fleury Group has been acting with different services in all of these stages and the patient's health journey is complemented with diagnostic medicine, offering support to the physicians at all stages of care. It is with this integrated strategy that we focus on the three avenues of growth for the Fleury Group that you see on Slide number 4, diagnostic medicine, new links and the health platform. In the first quarter of 2022 we underscored the importance of this strategy. We are determined moving forward in our trajectory and we have attained a record performance in the group.

Let us go to the highlights in Slide number 5, the revenues were BRL1.2 billion a record for this semester. We expanded all business lines and grew 21.7% via-a-vis the same period last year. If we don't take into account revenues for COVID tests we had a growth of 26% via-a-vis the first quarter '21. Our organic growth that does not include acquisitions carried out last year was of 11.8% and this shows the strength of diagnostic medicine in all of our brands and the acknowledgement that they have in terms of quality and excellence of products and services offered by the group.

If we compare the revenues of the first quarter '22 and that of the first quarter '23 of the pandemic, we had a growth of 52.3%. We're operating at a new level of revenues and therefore we're showing that the strategy that I just mentioned is bringing us the results we expected. Example of this is client's home care representing 21% of the revenues of the group with the growth of 26% vis-a-vis the same period last year. In the opposite direction, we see that COVID, exams have decreased their share in our revenue. They corresponded to 9.7% of revenues in 2021. This has dropped to 6.2%. Our EBITDA in the first quarter was BRL326.6 million a record quarterly figure, 14.4% higher than the first quarter '21. Even with the acquisitions our margin was 30% for the quarter.

We recorded revenues of BRL110.4 million with a margin of 10.1%. We reinforce our strategy of growing through acquisitions. And this quarter we concluded the acquisition of Marcelo Magalhaes and CIP and we announced the acquisition of the Saha Group in Sao Paulo, which I will detail very soon.

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Before giving the floor to Felipe to speak about financial results I would like to refer to the two acquisitions that reinforce our integrated health ecosystem. We have just concluded the acquisition of the Marcelo Magalhaes Laboratory on Wednesday. In Slide 6, you can see that they have three units home care, it has 64 years of history, and it is reference in clinical analysis in the premium segment in the metropolitan region of Recife. This acquisition reinforces our strategy to speed up the growth of the company in diagnostic medicine, expanding our strategic presence in the northwest and increasing capillarity to 30 PSCs in Recife. It also strengthens our capacity to process clinical analysis exams in the region complementing our service offer through a+, Pernambuco and Diagmax brands.

Yesterday we announced the acquisition of the Saha Hospital in Sao Paulo as you can see on Slide 7, they specialized in infusion of medication and immunobiologics and have a surgical low-complexity center. The Saha Hospital is located in the region of Bela Vista. It also has another unit in Osasco, and it works with most of the payment sources for surgeries and day hospitals, something that the Fleury Group has already done. Additionally, the acquisition of the Saha Hospital will strengthen our positioning as one of the main medication -- infusion centers in the metropolitan region of Sao Paulo where we already have Recife, the infusion center in Pacaembu and immunobiological medication infusion in the Fleury brand. So besides presenting consistent results that point to the sustainability of our business. We're determined in the execution of our strategy and the growth avenues that we have identified.

I would now like to give the floor to Jose Filippo, Executive CFO and IR Officer who will speak about our financial performance.

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

Thank you, Jeane, and a good day to all of you. I will continue on where the presentation is offering greater detail. In Slide number 8, we can see that once again the quarterly revenues were a record BRL1.2 billion with a growth of 21.7% vis-a-vis the same period last year. If we discount the effect of COVID test this figure increases to 26.3%. Although we don't include the acquisitions, the organic growth was 11.8% reflecting the strength of diagnostic medicine in all of our brands acknowledged for their services and quality. Home care had an expansion of the 27.3% representing 8.1% of the revenues of the year, and we have 5 PSC units.

In Slide number 9, we see the participation of COVID tests in our revenue. Since the beginning of the pandemic initially -- sorry, in this quarter, they corresponded to 6.2% of the revenues. These figures have been at the same level since the third quarter '21. Now, if we don't take into account the share of COVID test, we had a growth of 26.3%, which means that returning to normal operation conditions, less impacted by the pandemic, it's happening positively in all segments as we will show you in the coming slides.

We go on to Slide number 10. In the first quarter of '22, the gross revenues of the PSCs had a growth of 17.9%, vis-a-vis the same period last year, reaching BRL921.8 million. If we consider only organic growth the increase of gross revenue was 13.6% showing you the strength of diagnostic medicine in all of our brands. I would like to highlight the Fleury

brand growth, 18.6% showing the consolidation and preference for this brand for elective exams.

On Slide 11, we will speak about new links and health platform. We had a five-fold growth if we compare this quarter with the same quarter of 2021. In the first quarter of 2022, the revenues reached BRL79.3 million, a growth of 471.9% representing 6.8% of the group revenues. The growth of 18 times of new links in the quarter reflects the acquisitions carried out and the expansion of existing services. Now, the health platform registered 272,000 teleconsultations, a growth of 45.2% when compared to the first quarter of '21. And the revenue totaled BRL7.3 million for the period.

Slide number 11. We had quarterly record gross revenue of BRL324.7 million, despite the challenges of the inflationary pressure and the strong base of comparison still held back with the cost of 2021, we were able to limit the impact of price transfers carried out at the beginning of the year.

We go on to Slide 13, and we see that in the first quarter operating revenues had a reduction of 24 basis points representing 9.7% of net revenues. We also had a strong control of expenses despite the strong base of comparison last year, and what we did was to integrate acquisitions and business units.

In Slide number 14, we highlight the growth 14.4% of recurring EBITDA that reached BRL326.6 million with a 30% margin. As mentioned, this result is due to regular conditions that have been resumed and a very judicious management of cost and expenses. There were no recurring effects this quarter. Now, in terms of net income, we totaled BRL110.4 million compared to BRL118.6 million in the first quarter '21, impacted by higher financial expenses due to the increase in interest rate.

In Slide 16, we show you our operating cash generation BRL62.7 million, impacted with differed taxes, and the payment of PL that had not happened in the last quarter. Now, the average term of receivables was reduced by 1 day and the average term of payment increased by 5 days.

In Slide number 17, CapEx totaled BRL66.5 million with an expansion of 29.6% compared to the previous year. These are investments in IT to increase the efficiency and enhance the client experience. We have renewed equipment and maintained our equipment.

In Slide 18, the net debt at the end of March reached BRL1.5 million, an increase of 9.5% compared to the close of the previous payment. Leverage was 1.4 below the limit of 3 times set forth by our debt instruments. We have the seventh issuance of debentures in April, totaling BRL700 million. The resources obtained will be used for general corporate uses, reinforcing working capital and lengthening the company debt. The return on invested capital without think reached 21% and -- excuse me, 46%. Now, when we follow up on the net promoter score, the consolidated figure was 72.3%.

In slide 20 and coming close to the end of the presentation, I would like to highlight the Fleury agenda for the coming months. This is also available in the IR site of the company.

Before we go on to questions and answers I would like to return the floor to Jeane.

Jeane Tsutsui {BIO 19695005 <GO>}

Thank you, Filippo. We began the year 2022 stronger and this is the achievement of 13,000 workers and the 3,000 physicians of the group that devote themselves intensely to the health and well-being of our customers. I would like to thank the work of our teams and the confidence of our customers and partners at Filippo Group. Thank you very much.

We are now at your entire disposal for questions and answers.

Questions And Answers

Operator

(Question And Answer)

A - Unidentified Speaker

Good morning. This is Henato Brown[ph]. I would like to reinforce the channels for you to pose questions. For those that are on the webcast, you can send your questions through the webcast. You can also use the phone and you can send your questions through the IR as well as through our WhatsApp, which is 11 5014-7236. The first question comes from Fred from Bank of America. You may proceed.

Q - Fred Mendes {BIO 22302086 <GO>}

Good morning to all of you. Thank you, Henato[ph]. Now, you already mentioned this at the beginning and you seem to be evermore motivated. I would like to understand your growth pillars, and if this would perhaps be your main opportunity.

The second question with the practical end of COVID, if you expect a reduction in the home care or if this is something that is here to stay and will continue on as part of your services? Thank you very much.

A - Jeane Tsutsui {BIO 19695005 <GO>}

Thank you, Fred for the questions. When it comes to the day clinic, you have brought up a very important point. We see the opportunity to grow in terms of ambulatory surgery. Where we have greater efficiency, we can carry out lower complexity procedures and these are models that can be expanded. We have this day clinic model of ambulatory surgeries at our orthopedic center in Anapolis. We also carry out surgeries in the Moacir Cunha ophthalmological centers and in the fertility center where we carry out surgeries relating to women's health.

With the acquisition of Saha, we can add another surgical center with five rooms to carry out these procedures. Now this is one of the growth avenues that as new links, we have included the part of orthopedics, medication infusion and fertility as well as

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ophthalmology that are opportunities. We observe, Fred, that this combination is of the utmost importance to fulfill the journey of care. All of the preventive part, consultations, the diagnostics part and the ambulatory outcome through therapies by carrying out these lower complexity surgeries in day hospitals, this will complete the journey, increase loyalty and we will be able to come to a good outcome.

We have grown to -- we have spoken about avenues of new links that include consultations and treatment and you are right that Day Clinic model is very interesting for our growth journey. When it comes to home care, we believe that there has been a change in the behavior of our customers. During the pandemic, we had a significant expansion growth quarter-on-quarter. Now, once again we show you a growth of 27.6%. We have expanded the number of procedures and this is a service a lever where we still detect opportunities for growth.

So, we believe that this home care because of the level of satisfaction it has caused, it has a very high net promoter score and the opportunity of going beyond the cities where we are.

Of course, this type of care goes beyond. It is an interesting model for us and it continues to grow. It represents 8.1% of our total revenues. We had an increase of 95% in the routes and today it is very significant in all of the regions where we act. Last year, it was stronger in the metropolitan region of Sao Paulo. Nowadays, it is an important lever in all regions. I draw your attention to Marcelo Magalhaes that we had just acquired. They also have this home care and it will strengthen our positioning in Recife. Thank you, Fred.

Q - Fred Mendes {BIO 22302086 <GO>}

Thank you. Very clear. If you allow me, I have another question. Does it make sense for you to carry out partnerships with hospitals perhaps to improve the situation of their emergency centers or would it be very difficult to think along those lines, simply to get a better understanding of what could happen?

A - Jeane Tsutsui {BIO 19695005 <GO>}

Thank you, Fred. In a certain way, we work very closely with hospitals. We do carry out, diagnostic medicine in some hospitals. And in the fourth quarter, we announced a joint venture with Einstein in specific areas. Through time because of the ecosystems, this partnership seems to make sense. It's a win-win situation to carry out low-complexity surgeries in a day hospital, means you're allowing for more space for the larger complexity surgeries in hospitals. And throughout this ecosystem, part of the procedures depending on the clinical conditions of the patient will require an environment with greater complexity. Theoretically, of course, Fred, all of this makes sense.

Q - Fred Mendes {BIO 22302086 <GO>}

Thank you. That was a very clear answer. Thank you very much.

Operator

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(Operator Instructions) Our next question comes from Mauricio Cepeda from Credit Suisse.

Q - Mauricio Cepeda {BIO 21783651 <GO>}

Good morning, Jeane, Filippo and Henato[ph]. Thank you for taking my questions. I do have a question here. The first of which refers to investments. And I would like to know what is happening with the strategy between the brands. You do have very strong growth between the brands with a good margin. Are you thinking of new strategies in terms of diversification?

And another question now, the entire system is undergoing pressure and I would like to know if you foresee a pressure that would perhaps be abnormal for the rest of this year.

A third question, perhaps an unheard of question. The wage of nursing basically. If you are ready to face this, if you understand the impact that this would have on you? And the mix of the professionals that you need to work with immunobiological material and of course this extends to the nursing staff. Thank you very much.

A - Jeane Tsutsui {BIO 19695005 <GO>}

Thank you, Cepeda for the questions. I will begin with the first question on growth. As you have mentioned, we have had a very healthy organic growth of 11.8%. We have a percentage of COVID revenues in the first quarter of '21, that is higher than the first quarter of 2022. If we eliminate COVID from this comparison base, the organic growth would reach 15.1%.

When you mentioned the brand Cepeda, I would like to draw your attention to the growth of the number of beneficiaries. In supplementary health, we have approximately BRL40 million. There has been growth, but it is not homogeneous growth. In Sao Paulo, we had a greater growth and in Rio, for example, the Fleury brand has significant growth of 18.6% and this growth results from all of the activities that we have mentioned to increase market share. And they relate to differentiating the experience in the Fleury brand. The home care is also important.

Now even in the Fleury brand, if we take away home care, that growth of 18.1% will continue and the creation of the new links surrounding the Fleury brand, which has also helped to enhance customer loyalty and bring diagnostic medicine for premium brand. Plus, we also have healthy growth of 17%. We have had significant growth in the home care and for mais[ph]. So very generally, we can see that this strategy of bringing together inorganic and organic growth through the service units acquired has been a very healthy move and we're satisfied with the results that we observed, Pretti and Bioclinic on Espirito Santo, which is a new market.

Now regarding the ticket, everybody has discussed the issue of the sustainability of the health sector. As Fleury group, we have taken a stance offering solutions to the operators, be it through new products and the more preventive medicine, the earlier on you carry out a diagnosis the better for the system. You will avoid cases of greater complexity. Now

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with the claims, there has been an increase and we know that through time we will have to face a negotiation. Now most of our negotiations have already taken place in the second quarter, and we now see an impact in the price readjustment of our growth.

Now when it comes to pressure for negotiation, we see that evermore diagnostic medicine represents 20% of the total amount of supplementary health. We have been working very closely with the health operators offering solutions and, of course, we're open to work together.

Now to go on to your last question, I would like to remind you that, Filippo mentioned how disciplined we have been regarding our COG and expenses with several initiatives to enhance productivity in a year where we will have inflationary pressure to ensure that we continue to grow and maintain the group profitability.

Regarding the question about nursing, we know that the nursing professionals need to be valued. And now if this project has a final approval, I remind you, it has been approved by the House of Representatives, it still has to be debated at the Senate and the government is debating funding forms. The impact on SUS and philanthropic hospitals will be significant. And of course, all of this will have an impact on private health systems as in ambulatory health group. Perhaps we will have a lesser impact because the makeup of our associates is a mix and to respond to your question objectively, for those who work in collection, they have a different profile.

We can have laboratory technicians and as part of our associates, we have room aides that are not nursing professionals. We have biomedics, chemists and in diagnostic medicine, especially the ambulatory diagnostic medicine, the make up of associates is more heterogeneous and we do not have a very high percentage of nursing professionals or nursing aides. When we look at medium and high complexity environments, this percentage will tend to be higher.

The second issue is the gap that we have between what these professionals receive and which would be a floor. Now this gap is higher in some regions. Our greatest operation is in the southeast, where the gap is lower compared to the northeast. It's also important to consider this when we speak about an impact. And as I mentioned previously, we do have several issues in terms of ways of mitigating and being very disciplined regarding our cost to maintain the lowest impact possible in our results.

Q - Mauricio Cepeda {BIO 21783651 <GO>}

Thank you very much, Jeane.

A - Unidentified Speaker

Thank you, Jeane. The next question has come in through the webcast from the JPMorgan Bank. I will read the question. "Good morning. Thank you for the presentation. What is your outlook on the profitability of the new businesses, the health platform, and the new links? What is your vision for the medium and long term?"

A - Jeane Tsutsui {BIO 19695005 <GO>}

Thank you for the question. I will begin. Filippo, please also participate. We have said that these new links are businesses with a margin structure that is somewhat different from that of diagnostic medicine, orthopedics, ophthalmology. They have a mix of clinical consultations and procedures and where in a structural way, the margin tends to be lower than in diagnostic medicine.

I draw your attention to our strategy to continue to grow in diagnostic medicine. This is our core. We have the ability to gain synergy and maintain profitability levels through time or improve them and also have the growth of new links where structurally the margin tends to be lower that as part of the mix will end up being very healthy. It helps us to increase the revenues for diagnostic medicine. We can see what happened in the first quarter. In the second semester of last year, we had acquisitions in new links. We grew significantly and through time we have been able to maintain a margin of 30% in the first quarter.

Filippo, I don't know if you would like to add something.

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

Yes, Jeane and thank you for the question. An additional point is that our growth in new links has happened inorganically as well as organically. We're beginning to build a portfolio today that can carry out measurements of organic growth. Now structurally, when we compare this with diagnostic medicine, the margins tend to be lower.

Our goal is that through time and with an integration of these activities with the arrival of new links and new acquisitions in the system, we will be able to have the gain of efficiency that we're seeking and that this margin will increase. It will always be lower than diagnostic medicine. It is something complementary in the health journey as we mentioned. So, we do have a significant outlook for growth. We begin to have critical mass, the presence of new links in the business with a good future outlook.

Now as new links grow, they bring us more activity in diagnostic medicine. Now, the share of new links in the total revenue of the group's portfolio will always be absorbed by the organic growth of the group as a whole. Through time, we hope to be able to add new activities, new links with greater efficiency, and increase the margin, gaining experience in terms of the management of this activity.

Operator

Our next question comes from Vinicius Figueiredo from Itau BBA.

Q - Vinicius Figueiredo {BIO 20592660 <GO>}

Good morning to all of you. Thank you for taking my question. First of all, I would like to refer to New Links. We have observed quarter-on-quarter a somewhat different behavior vis-a-vis what we expected, which is the seasonality of New Links if the first quarter should be weaker than the fourth quarter, or if there is a specific effect that could justify this drop?

And to think about Saha that you have just acquired, can we imagine new units being a new inaugurated in the coming years? And if you allow me to touch upon another topic regarding working capital, year-on-year we don't observe grade changes but there is a greater cash burn -- cash consumption. Is this due to a more difficult negotiation with the payment sources? Are they requesting longer terms? What will happen going forward? Thank you.

A - Jeane Tsutsui {BIO 19695005 <GO>}

Thank you Vinicius for the questions. Regarding the New Links, you brought up an interesting point. Yes, there is seasonality. In the first quarter at the beginning of the year, especially in January, we have a large number of physicians and patients that go on vacations. There is seasonality where you have lower growth in the first quarter. This is what we have observed.

In the first quarter, the revenues move sideways compared to the fourth quarter because we have orthopedists and ophthalmologists that go on vacation and we made the most of this period to renovate some units, the Moacir unit -- Clinic, we carried out an interesting retrofit. And presently, we see that the movement has enhanced its pace. We do have a plan for the growth of new units and organic growth. And the expectation is to open seven new units for diagnostic medicine, not only in Sao Paulo, but also in Rio de Janeiro. Last year, we also had openings at the end of the year.

We opened up units in Wyman[ph] as well as in Sao Paulo. Now besides these seven units of diagnostic medicine, we do have an organic expansion plan for orthopedics. We have acquired Vita. We have Vita, Vita Care units for physical therapy, and the plan presently is to increase this by six units more for Vita and Vita Care in 2022. Now this organic expansion is very important associated to inorganic growth through acquisitions.

Regarding working capital, I will give the floor to Filippo.

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

Regarding accounts receivable that we have seen in our growth, they are highly associated to the growth of revenues. They do not reflect any change in stance or positioning on the part of our customers. What happened, and this is something I would like to underscore, we had a change of one day when we speak about the average term of receivables. It's not an issue of change or change in stance of the payment centers. It's only due to a growth in revenue.

I would like to make a comment regarding the cash generation for the quarter. Now we have shared this information with you. We have some extraordinary situations that do not have an impact, the cash generation for the year is within what we expected it is aligned with the market projections.

We had a payment -- tax payment that was deferred in 2021. We also paid for PLR, which refers to our payroll and this had not happened the previous year. Now these are some factors that have an impact on the cash generation. In the first quarter, these are

extraordinary effects that will not have an effect for the rest of the year. This is what happened in cash management -- generation, excuse, and working capital for the year.

Q - Vinicius Figueiredo {BIO 20592660 <GO>}

Excellent. That was very clear. Thank you, Jeane and thank you, Filippo.

Operator

Our next question comes from Gustavo Miele from Goldman Sachs, also through audio.

Q - Gustavo Miele {BIO 21077665 <GO>}

Good morning to all of you and good morning to the rest of participants. Thank you for taking my question. I have a few points of discussion. The first refers to the benefits that could be offered by the acquisition of Saha. Based on the description that you gave us, this situation is more of a hospital situation, perhaps is focused on infusions. And will this cause any problem with your sources of payment? These are figures that are still under pressure vis-a-vis what we saw in 2021. This is the first question.

The second question does not refer to guidance but to the creation of new units, new businesses. Which is the process for a potential accreditation of these new units? And the third question, how can you explain the huge share that you had in the Fleury brand from 46% to 52%? Is this due to the donation of share for other larger players and is most of this coming from the hospital niche? These are my three questions. Thank you very much.

A - Jeane Tsutsui {BIO 19695005 <GO>}

Thank you, Gustavo for the questions. Regarding the first, the benefit of Saha and renegotiation with the payment sources. Saha has a positioning that is different from CIP. It is interesting, because we end up by expanding the offers to our customers. Saha has significant revenue because of the immunobiological medication. Although it may seem to be a hospital, we are speaking of ambulatory centers for infusion, very similar to CIP in Osasco and Bela Vista. And besides having a greater breadth of plans that have been accredited.

We see a very large benefit when it comes to negotiations with suppliers. We're working with medication and pharma has developed new molecules. There's a pipeline of development with immunobiologics and because of the volume, we practically double our revenues of infusion of medication and we're able to have a better negotiation with suppliers.

In terms of the potential opening of new units, you have brought about a very important point. We're very attentive to this. We spoke about accreditation but first of all, the opening of the orthopedic units offer us significant revenues from the private group in Vita and Vita Care and we don't foresee difficulties.

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In terms of accrediting, these services that are still very fragmented in Sao Paulo, we carried out a very precise geo marketing survey and we have the opportunity of expanding this offer for an audience that wants greater capillarity, especially in physical therapy. We're speaking about frequent sessions and it's very good to be close to your end consumer. In diagnostic medicine, we're also bringing a new contracts at the end of the year. We spoke about a very large contract with more than 400,000 lives and in fact, we need to expand our units to service those customers who were quite calm when it comes to accreditation. We have carried out an expansion in the regions where we have a very high volume in our units and where part of the accreditation already exists.

Now regarding the reconciliation of the share gain of the Fleury brand. The Fleury brand is 96 years, it is very acknowledged and it has a very high share. You mentioned the number of lives, now these lives do not grow very much in this segment and we have had expressive growth with a gain in share. We don't look at our competitors but what we do observe evermore is a vision of the integration of the journey that ends up causing loyalty for the customers in the ambulatory environment.

This is interesting for the operators as well as for the customer who will have a complete journey. And from the operational viewpoint, we have carried out all of the processes to capture the customer who goes for an ophthalmological or orthopedic consultation. 60% of the customers of Vita also carry out their diagnostic exams with us with the Fleury brand and this is a win-win in terms of the experience, reduction of waste and offering physicians a very quick solution. The results are in the physician's hand so that they can make their clinical decisions.

Q - Gustavo Miele {BIO 21077665 <GO>}

Thank you very much, Jeane. A very clear answer.

A - Unidentified Speaker

We have received three emails with very similar questions. I will put them together. The first comes from Walter Pereira[ph]. How is the growth of diagnostic medicine? The second link to this topic comes from Saulo Toledo[ph], which is the evolution of the margins of diagnostic medicine? And the third question, which will be the impact of Marcelo Magalhaes on the company results? The last question was asked by Claudia Martins[ph].

A - Jeane Tsutsui {BIO 19695005 <GO>}

Thank you for the questions and I will try to respond to the three. The first regarding the growth in diagnostic medicine. I would like to emphasize structural data and data of our activities in all of our brands. First regarding the epidemiological part, I repeat that Brazil is one of the countries where we have one of the highest aging rates of the population. People with ages higher than 60 years of age do have chronic diseases. They will require more medical services and diagnostic medicine goes through all of the stages of care, prevention, diagnostics and treatment as well. So there is an epidemiological trend in Brazil with the potential for growth for diagnostic medicine.

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Now the second part, in fact, we have carried out several activities in diagnostic medicine with the launch of new products and through medical relationship. To give you an idea, we have a team that periodically visits physicians clarifying issue, offering medical education and speaking about the portfolio. We visit 12,000 physicians every year -- month, excuse me. Through this team, we also offer consultancy and we have spoken about the growth of home service, the differentiation of units, the care that we have with the reception of our customers and inorganic growth.

Now given that through time, we have an increase in volume. In the first quarter, we grew in terms of volume exam 23%. We have the opportunity of capturing synergy not only through a greater volume in clinical analysis, there is a possibility of gaining synergy with an increase in productivity, which means that the margins of diagnostic medicine through time will continue to be very healthy. And even with a different mix of brands, we do have a good margin for diagnostic medicine.

Now to go on to the last question regarding Marcelo Magalhaes, this is a traditional brand, a benchmark in HCP [ph] They have three patient service centers and home care. They're focused on clinical analysis in the premium sector, they have high margins. And with the acquisition of Marcelo Magalhaes, we have captured synergies. We already carry out clinical analysis with mais [ph] in Pernambuco and images in mais[ph] Pernambuco. There is the opportunity of capturing synergy in technical areas. For example, the processing of clinical analysis and we have the opportunity of expanding our imaging services as well with a differentiated positioning.

All of this will bring about benefits when it comes to negotiations with operators and suppliers and we're very thankful for that. We're very happy with the closing of Marcelo Magalhaes.

Operator

Our next question through audio comes from Ricardo Boiati from Safra Bank.

Q - Ricardo Boiati {BIO 16528742 <GO>}

Hey. Good morning, Jeane, Henato[ph], Filippo and other participants. I do have some questions which in truth are more follow-up questions. The first to go back to the organic growth more specifically. Jeane, you gave us several insights and points that have been very useful in your adjusted growth, which I believe was 15% in March. If you could rank which are the main factors that we look at, is the recovery of health plans due to the crisis generated by the pandemic? This has been a recurring theme. Patients are beginning to visit physicians more, beginning new treatments. Was this an important factor in this resumption of organic growth at a very sound level in this quarter? There are other factors such as marketing, market share for the sector, cross-selling with some New Links.

If you could perhaps put in order which are the main factors they can help us think better going forward? And if we can think of a sustainable growth of two digits in organic growth for diagnostic medicine? This is a very broad question.

A second question referring to capital allocation. You have given us some clues, but to gain a better understanding, which is the size of the opportunity that you have to continue to work with small or medium-sized acquisitions in the core part in diagnostic medicine or in New Links, where you still have many opportunities for acquisitions, not only Saha and Marcello Magalhaes, for example?

And the growth potential with this profile of M&A and if the company is assessing something larger? And as part of that context, which will be the company balance? The company does not have a very high leverage. You may have a gradual increase in your indebtedness. So, which would be the company balance enabling you to continue allocating capital for growth?

A - Jeane Tsutsui {BIO 19695005 <GO>}

Thank you for your questions. Regarding organic growth, we have already spoken about this. Let me bring in some new elements. First of all, we have grown 17% in clinical analysis, laboratory exams and 12% in imaging exams. Now when we perceive what is happening in the growth sector, there are some factors. The increase in chronic diseases is one and there's a greater awareness among people on the need of carrying out a follow-up of chronic diseases. We do have that relationship with colleagues who are in clinics and the pandemic has brought about a greater awareness.

We spoke about patients with chronic diseases that had higher mortality and during the pandemic, several patients stopped following up on their diseases. They have now resumed this. Now this lack of follow-up or lack of treatment exacerbates the diseases. We have factors and we know that patients with post-COVID are faced with chronic situations that are there to stay. And we have put all of our strategy to work to capture patients. Generally, we see that people are more concerned with their health. We have a greater number of chronic diseases of chronic patients. And the fact that there is greater awareness on the need to care for your health will take people to follow up with their physicians and carry out diagnostic exams, even though they are in good health. Now, all of this is very positive and the early diagnosis will avoid cases with greater complexity.

Now regarding capital allocation, I will give the floor to Filippo. I remind you that we have been extremely disciplined in-house as we mentioned and in terms of our capital allocation. This is an important factor. We have a sequence of internal analysis, but Filippo will speak about this in greater detail regarding the opportunities that we have for acquisitions and an adequate capital allocation.

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

Yes, without a doubt. Thank you, Jeane and thank you for your question. We have already mentioned here our commitment with our discipline, but our growth will come from a combination of inorganic and organic growth. We have already observed this. The acquisition of Marcelo Magalhaes has just been concluded and reflects this prospection activity. We have an M&A area that has been reinforced with expertise to be able to analyze cases. Now, our goal is not to do business that is not aligned with our goal.

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Now of course, this will pose a challenge in terms of our hit rate. We do have to comply with the parameters that we set forth and we do have room in terms of leverage but this room is limited, it's not infinite. We're going to use this combination to our favor. We are at the end of the quarter with 1.4x net debt to EBITDA ratio. And there are situations where we could get to 2x. We would still be very far from the 3x which would be a technical limit because of our debt instruments, but this is something that we manage on a daily basis. So this combination of parameters will enable us to continue on successfully now the targets and our acquisitions already bring in EBITDA.

And of course, this is positive. We're working with something that is established that brings in synergies and efficiency gains. They reinforce the company and, of course, all of this will contribute to this combination where we will continue on. You speak about the opportunity for more transformational larger movements. Well, this would be very specific situations. We're speaking about that prospection pipeline that we have that quest the combination of inorganic and organic growth, which is sustainable and can continue on with our trend.

Q - Ricardo Boiati {BIO 16528742 <GO>}

Thank you. Thank you very much, Jeane, Filippo and the rest of you.

Operator

The next question comes from BTG Pactual. Mr.Cesquim, you may proceed.

Q - Yan Cesquim

Good morning, Jeane, and all the rest. We do have some questions here. The first is a follow-up on Fred's question on home care. Have you observed an effect of the substitution of demand for this year? And if you could perhaps reduce the units that you have, because of the mobile care that you have?

The second question refers to orthopedic services. You have spoken about several new units and I would like to understand the impact of this. If this changes your outlook for the year? Thank you very much.

A - Jeane Tsutsui {BIO 19695005 <GO>}

Thank you, Yan, for the questions. Now regarding home care, mobile care, we follow up on the indicator that you mentioned, how many patients used to go to the units and are now being serviced through home care. Now home care services customers at that point in time where they have clinical analysis. When they have a combination of ultrasound or MRI, they will have to go to a unit. There is no significant replacement of demand of units in terms of the home care.

Now, when this happens, it's not negative for us. We have made the most of our square meters to expand our growth in terms of imaging exams and other services. We have spoken about making the most of our units for primary care, for the infusion of medication. And in our vision, we follow up on the indicator of revenues per square meter

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and we have increased the revenues in a very healthy fashion. We don't need to eliminate some units. We have better used our units in the Fleury brand. When we carry out a retrofit, we're expanding the offer of services, increasing the number of ultrasound for the Fleury brand, so much so that we're going to have to open new units this year.

In a very controlled fashion, there will be seven units of diagnostic medicine and the expansion of orthopedic services. Now these units for orthopedic services, we have a combination of units. We have a broader portfolio, which includes physical therapy and other units where the focus is physical therapy to be closer to the customer. The CapEx of these units is not very significant. It is part of our CapEx projection for this year.

Last year, CapEx was somewhat higher. It offset the CapEx that we had held back on in 2020. So, this CapEx is fully under control. And through time, there is an indicator of return on capital invested and we're very confident in this strategy. We remind you that in this model of creating orthopedic service units, we do have that vision of working very closely with a diagnostic medicine unit to complete the customer's journey and to capture the demand for diagnostic medicine.

Q - Yan Cesquim

That's very clear, Jeane. Thank you very much.

Operator

(Operator Instructions) Our next question comes from Vinicius Ribeiro from UBS.

Q - Vinicius Ribeiro {BIO 19720178 <GO>}

Hey, good afternoon. Thank you for taking the questions. We have two topics we would like to discuss with you. First of all, remaining with the Fleury brand. When we think about the ticket revenue that is consolidated, we will see that the ticket ends up being flat. Now, you have spoken about the gain of market share. What does this relate to? And once again speaking about the Fleury brand, the gross margin dynamic, does it refer to the fact that the Fleury brand is growing more and above and beyond other brands?

The second topic is to speak about Saude iD. The revenues albeit not being significant, have had a resumption. And you mentioned the number of active users. Now is this revenue resumption associated to consultations, associated to Omicron? Or do they refer to growth of active users? And if this is what we should expect going forward? Thank you.

A - Jeane Tsutsui {BIO 19695005 <GO>}

Thank you, Vinicius for the questions. Now, regarding the ticket that you mentioned, the growth of the Fleury brand is very healthy, and the growth of the ticket in the premium sector is higher. When you mentioned that there was a revenue due to exams and there was a reduction, I recall that this is due to the mix between clinical images, clinical analysis and images. We have grown more in clinical analysis vis-a-vis images. And on the average, we have a reduction of the ticket, but this is very healthy. We have grown 25.6% in number of exams, 17% in clinical analysis and 12% in terms of images.

This ticket that has a drop here is due to the fact that the number of clinical analysis exams is higher than the number of imaging exams. Of course, there are several negotiations and through time, we work very closely with the operators. It's interesting to bring in evermore volume when processing clinical analysis. With a higher volume, we can reduce our costs because of these synergy gains. But generally, the negotiations are at a very healthy pace.

Now what you mentioned was very interesting. The Omicron movement leads to an increase in medical teleconsultations. We had 272,000 medical consultations during the quarter. And of course, this relates to the increase in the Omicron cases. The number of customer serviced by Saude iD does have a variation and it depends on waves on movements and the number of acute cases. We have a baseline that is growing where we follow up on chronic patients, but the Omicron wave did lead to an enormous increase especially in January.

Now, regarding the number of customers serviced in the first quarter of 2022, we had 173,000, a number that was higher than what we had previously corresponding to 15.6% of the total lives of the group. Now, why don't we speak about this constantly? There is a natural fluctuation in Saude iD. It fluctuate with COVID waves, for example, or acute cases. Very generally, we are following our strategy of Saude iD with new partners and by offering new products. Thank you very much, Vinicius.

Q - Vinicius Ribeiro {BIO 19720178 <GO>}

Thank you, Jeane. That was very clear.

Operator

As we have no further questions, at this point, we would like to conclude the question-and-answer session. We return the floor to Ms.Tsutsui, for her closing remarks.

A - Jeane Tsutsui {BIO 19695005 <GO>}

I would like to thank everybody who participated in our conference call for the first quarter 2022. We are very confident in our strategy for an integrated health ecosystem. It contributes a great deal to health. We are determined to continue on with our discipline and we want to build an ever stronger Fleury group. Thank you very much.

Operator

The conference call for the Fleury group ends here. Thank you very much for your participation. Have a good afternoon.

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