

Q2 2021 Earnings Call

Company Participants

- Bruno Blatt, Chief Executive Officer
- Elton Carluci, Sales, Innovation and New Businesses VicePresident
- Frederico De Aguiar Oldani, Chief Financial Officer, IR Contact Officer
- Pablo dos Santos Meneses, Director

Other Participants

- Gustavo, Analyst
- Leandro Bastos, Analyst
- Mauricio Cepeda, Analyst
- Samuel Alves, Analyst
- Vinicius Ribeiro, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen, and thank you for standing by. Welcome to Qualicorp Conference Call to discuss the results of the Second Quarter 2021. We have with us today Mr. Bruno Blatt, the Company's CEO; Mr. Fred Oldani, the CFO and IRO; Mr. Elton Carluci, Sales Innovation and New Business, Vice President, and Mr. Pablo Meneses, Vice President of Operations and Relationship. Some statements in this conference may be projections or statements about future expectations. Such statements are subject to known and unknown risks and uncertainties that may cause such expectations to not materialize or be substantially different from what was expected. This event is also being broadcast live via webcast and may be accessed through Qualicorp's website at www.qualicorp.com.br/ir, where the presentation is also available. We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the Company's presentation. And (inaudible) [00:00:59], we will go on to the question and answer session when further instructions will be given.

(Operator Instructions)

I will now turn the floor over to Mr. Bruno Blatt. Mr. Blatt will begin the conference. You may begin sir.

Bruno Blatt {BIO 21352052 <GO>}

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Good afternoon to all of you. There are few things more beautiful to behold in the world that the thrill of victory after a long period of preparation, after a goal obtained, after a dream fulfilled. Who would we be without our dream. Last Sunday we celebrated Father's Day, I am the proud father of two children that moved me to improve the world. I am a dreamer father, not the invasive dreamer willing to decide on the future of my children, but somebody who was present in preparation for tomorrow, I want my examples to be dignifying. Recently, I sat down with my children about the life of the Japanese Chef Jiro Ono. He has a relationship with these children. He is the best chef in the world in sushi. He has technique, discipline and passion. Technique, discipline and passion, values that we saw stamp on the athlete during the Olympic Games in Tokyo. Behind every tear, behind every smile, there is a long journey, a journey of perseverance, consistency, devotion, a dream that doesn't run out in one day. The champions of lives besides looking forward and never stopping exercise the crafts of patience. (inaudible) a marathon runner knows that there has to be endurance, this leads to victory and we are as entrepreneurs, athletes, endowed with technique, discipline, and passion. When we have a soul, everything is easier. When a marathon runner knows the path, they know exactly where they have to go to. Quali nowadays is a company that makes me very proud. It knows where it is going to, it embraces goals with responsibility, and a firm decision. We have a talent that's disciplined and passionate team. We are gigantic in sales and gigantic in our willingness to help the world become better to make a difference in the lives of people. Our goals are bold, they are grand but we need time to conquer the medal that will come like athletes, without the confidence of sponsors, without the rooting of fans, without the support in the journey, it more difficult to overcome our limits. Our Quali medal is to be an organization where people are proud to work, where shareholders have confidence in investing.

Bloomberg Transcript

This is one more quarter in the construction of Quali, the long-term construction of the company. I'm sure of this because we're within the preparation time for whatever will be necessary going forward. We broke one more record in the affinities segment, 132,000 new customers that contracted a health plan through Quali, 32% more than the first quarter where we conquered 100,000 new clients. We obtained a sales average per month of 44,000 live and we obtained this goal before we have planned for with was the collective effort of the Quali team. We were absolute champions, we climbed up the podium, and on behalf of the transparency I have always had with you. I would like to reinforce that the results in the second quarter albeit below expectations are part of this cycle of preparation that I'm leading. I am convinced that you will carefully look upon our results, Of course mathematics cannot explain the complexity of what we are doing in this company. We do not think in the short term we're not going to cut essential investment for tomorrow because of our results that may be more applauded now.

As I said, our team has discipline, talent, and passion. This is the most important thing. The internal and external conditions are in our favor in this strong time. People dream of having a health plan and we have a very clear perception that a company like ours that offer several alternatives or access gained space in the live of Brazilians. Quali has the goal of driving people so that they can build and plan in a more healthy way.

This marathon is just beginning. I am convinced that I can pounce upon your confidence. Our team will continue to show what we are doing, and I can guarantee that we have a

winning team. We have [00:00:37] (inaudible) and many more people falling, rising again, doing whatever is necessary to never give up when it comes to doing what is correct. This is our individual and collective dream of taking Quali to Victory.

I would now like to give the floor to the Vice President, Pablo Meneses.

Pablo dos Santos Meneses {BIO 21824064 <GO>}

I would like to thank you for your participation. I truly like what I am doing here. This is the best task of a human being, task of caring for people and what we are doing at Quali is for people. We want people to work being happier so that they can feel more qualified because happier and more qualified people can produce more. They become fulfilled and they do more for the company where they work. And this is an investment of our dreams and to speak about investment, perhaps most of our investments in marketing have been carried out in campaigns that create channels with people to foster our sales. Now, this quarter we accelerated much and we achieved very much. However there is another dimension that we have to focus on. A brand that has survived through time something we cannot ignore and that is why we are investing in projects, so that our customers will want to work with us and will want to continue to be our customers. We recently entered the Quali cult where we have 90 groups have artists and groups, music, art and theater, helping artists to overcome this very difficult moment and eliminate that anxiety that they have built. We have more than 10,000 applications and 100,000 applicants. As artist we did conquer the outside audience but it is the in-house audience that we have to prepare ever more so that they can better service all of our customers. We have invested heavily in the operational area and I can guarantee that we're in the best phase of the company at a very complex moment of price readjustment we have to be ready to offer better service and we have the lowest churn rate in the history of the company and we went from 55% to 4% in terms of our churn rate and this cannot be done without investment, without training, artist work and the work of a team valuing each and every one of the people.

And when it comes to resolution, we have 27 percentage points, the levels over 80%, which means that now the customer is able to speak because the company and can resolve everything in the first call, To help people also meet value our in-house processes. We have a team for information security, because you know that health has been the victim of the attempts of hackers and here security is fundamental, it is fundamental, when it comes to our internal decisions, when it comes to ethics and much more.

And at Quali, we have invested here. Now, I would like to give you some data. In the past, Qualicorp had approximately 4 nips and nip means a great deal. They cost money, they wear out the image of the company. Qualicorp suffered the intervention of the National Health Agency because of the nips and because of the lack of resolution, while we have reduced this figure to 1,430 and we can still do much more.

What is more important is that we had a resolution rate of 97.80% in the first call net our notifications of preliminary interpretation and they are divided into five stages. The fourth is the worst. It means you will have more notifications and less resolution. At present we are state zero the best. We receive less notifications have a better resolution rate. The

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market has had the highest accumulated accumulated readjustment of prices in all time, most of the complaints come from that and we have a team now to explain, to tell the truth, and so resolve the problem to keep our company comfortable and to keep our customers comfortable.

In terms of training, I could say a great deal. 17,600 and some training hours and then we adopted technology for sales, we are able to involve our professionals. As I said we have professionals producing with safety and with productivity and this is not by chance that comes from valuing people from building a future as Bruno said, we know where we want to go. And this helps us to make the correct decisions day in, day out. Increasing the favorability from 41% to 86% more than 100% is our goal, and this proves that we go beyond the discourse. It is in practice that we involve people is because of the practice, because of the added fuel that for the second consecutive year we have received the stamp of great place to work.

To give you an idea, we launched a trainee program at Quali with 13,800 and some candidates for a trainee and enter vacancies. This is highly disputed and this shows that we are on the right path. Now the task is to unite people of reinventing people value and people. I'm very grateful for the opportunity of putting into practice the concept that I have learned and concepts that here, we believe in. Concepts that I have learned through life, that we have all learned through life and we continue to learn them with our team. Our team has discipline, talent and cash burn. I would now like to give the floor to another athlete from our team Elton Carluci.

Elton Carluci {BIO 21743831 <GO>}

Thank you very much Pablo. A good afternoon to all of you. And it is a pleasure to be here with you in another Conference Call for Quali, and to take advantage of what was said by Bruno and Pablo. At Quali, we are in constant evolution. We haven't stopped for a second. Since the last time that we had a call and I'd like the analogy with the Olympics, we will speak about team and when we speak about team that is what we do. That is why every Quali, every broker is treated as if they potential to grow. And through this tireless work with this marvelous team, I think you have observed that we obtained a new sales record, more than a sales record it crowns all of the work that has been carried out by Quali.

And before speaking of figures, I would once again like to express our gratitude to the entire sales team and a special thanks to Alexandro, our Director, who was the true crack and has a wonderful team, Danish (inaudible) and others you are making history in the company. I would also like to thank the operating team under the leadership of Pablo, and Fred, of course, for their support. Without their support, the company would never have changed its new sales level. It's very important to mention that in the last quarter, we had already shown that we will gradually increase our sales level throughout 2021. To speak about the presentation, on slide number 8, you can see that at that time, we had mapped an incremental potential of 18,000 lives on average, these are the average sold during 2020. This would raise our historical volume from 27,000 lives a month to something close to 45,000 lives throughout the year 2021. As you have observed in this quarter, we have already captured 98% of the store, retained an average goal of 44,000 lives sold as you can observe in the next slide number 9.

Now on this slide, in the second quarter, you can observe that we obtained a brand of 44,000 lives through the affinity segment. This represents a goal of almost 32% vis-a-vis first quarter of 2021 and a robust growth of 41% vis-a-vis same period last year. An important points that I would like to highlight and perhaps we will have a question for this in Q&A. As part of this volume, we have 3% of incremental sales to our clients. Although small, it is important. We have changed our strategy and we're using part of our own team for high-value customer retention.

All customers that have high potential are treated by this team and the results have been very interesting. As I mentioned, we can explore this further in the Q&A and we can perhaps give you more color on this. It is important to highlight that we continue to do the strategy of taking all of the opportunities in the SME segment this quarter. We grew 7.6% vis-a-vis the first quarter for the year, the growth has been 6%. This is an important part in our loyalty strategy, something we have remarked about our customers, have active company and they work through affinities but presently whenever they can have health plans, we maintain the cost of our in-house generating additional and recurrent revenues that we would lose previously. So quarter after quarter we can observe this growth in a constant fashion. This strategy has proven to be very promising and we will continue to act upon that. I would like to change topics and speak about Churn. We go on to slide number 10 therefore, and before referring to the quarter it is important to highlight, that of course we're facing an unheard of situation in terms of readjustment. The crude readjustment last year and the recomposition made the clients to have an average of 23.2% in their monthly payment and we can see an improvement quarter-on-quarter, the second quarter compared to the first quarter with an improvement of 8%. We have done 238,000 lives and this readjustment ended up having an impact on two consecutive quarters.

When you look at the slides in greater detail, this happened naturally, because we had a result that is very similar with 2017. That readjustment was 1.6 and that year the churn was 2.1 and in the sub frequent quarter the readjustment. Now this year the behavior has been somewhat different, especially in the second quarter of '21. So, we observe the same pattern when we look at the readjustment and recomposition applied in 2017. We see 12.1% of cancelations and a 12% percent in the second quarter. Very much in line, with the level of readjustment of 2017. And this way, the accumulated churn has led us to having a portfolio somewhat below our expectations in the second quarter. This effect will be nulled in the long term because of an increase in sales. Churn will become normal at some point, this is natural historically, such this new level of sales means that we will be able to put in a sustainable and long-term organic growth. This is the good news, and we do have a very interesting sales volume for the potential of increasing this volume. I would now like to give the floor to Fred and I will join you in the Q&A. Fred, You have the floor.

Frederido De Aguiar Oldani

Thank you, Elton. Good afternoon to all of you. I will begin on slide number 12. Speaking about the quarter highlights. First of all the growth in the Affinity portfolio with a growth of 7.3% is of the last year, driven mainly by the record sales that we had in the second quarter of this year as mentioned by Bruno as well as by Elton. And we were able to practically offset all of the churn that we had because of the scenario, the complicated scenario due to the readjustment that had a greater impact than expected. Throughout

our actions we were able to stop that additional churn that we had this quarter, something that is not recurrent and we believe they will go back to normal. The revenues reached BRL570 million with a growth of 7% year-on-year, 1.1% below the first quarter from Q1. As was expected the only relevant impact are the evaluation of our portfolio and the downgrade of some products which normally happens after the readjustments. With this, our EBITDA reached BRL201 million for the quarter.

I would like to remark a bit more on EBITDA in the coming slides. Net income BRL19.3 million, 28.4% below the second quarter of '20 and 21.1% below the first quarter of '20. Our free cash flow reaching BRL177.6 million and our ROIC 42%. Our net debt reached BRL926 million, 1.0 times adjusted EBITDA, a level that we were seeking. We had mentioned that the leverage should be 1.0 or 1.2 net debt-EBITDA and we're on the path to delivering this with the new capital structure of the company.

I would like to speak about the highlights of our income statement. Our entire strategy is to focus on all the possible resources for our growth agenda. This quarter, we ended up investing more than we had planned initially, especially in sales expenses where we accelerated some investments, and perhaps it is worthwhile underscoring that our investment in the market will be decided quarter-on-quarter regardless of the scenario and regardless of our sales performance.

We will be more or less aggressive in campaigns, in our work and we think we're getting very close to the level set forth has been the new sales level that will take the company to a new level of shares, much higher than what we had in 2020. And as we are able to maintain the sales level, they will become recurrent, churn will return to the historical level considering the normalcy of the scenario of readjustments. We truly believe that this is the path for the company to once again have a consistent growth in portfolio during the coming years, and this will be the main driver of the company results going forward. It has been made clear how important this is for the company to grow again to generate value for the chain and this is reflected in the figures of the company and while we're investing to create this new cycle of organic growth based on the new way of being Quali.

I would like to speak more about the quarter. We had BRL10 million expenses, one-off expenses that will not be repeated in coming quarters, and given the scenario that we forecast, the margin level we accumulated margin for the first half of the year is better in the coming quarters, better than it was here in the second quarter. We still think we have much more ability to generate value than the figure show at present but as Bruno mentioned we're working for the long term here, and we believe our strategy is the right one and that this strategy will put the company in a sustainable growth path in terms of revenues and results.

We go on to Slide 14 to speak about cash flow. We reached an accumulated cash flow of BRL177 million. This was a somewhat dependent using quarter when it comes to cash flow especially working capital there are no structural changes in the figures of the company. It is important to mention that given the volumes that we collect from customers and pay to the operators throughout the month, there have been minor variations on the payment day delays, the receivables of invoices from an operator. So this will change the results from one month to the other. And all of these changes are offset in the subsequent

months which means there has been no structural change in the company's working capital. The trend is for the working capital figure this year to become positive as we have almost \$100 million to receive in terms of revenue, and from brokerage and management dating back to last year and the provision for bad debt should materialize. We will still have a very positive effect in terms of working capital for this year.

We can't speak about the commissions, commissions will be gauged every quarter. We cannot offer a new level of commission. We're going to assess it every quarter, we're going to continue on with a very dynamic distance when it comes to how to operate with this on the street. And as we stabilize, while recent figures that we are new level of market share we can see the values becoming reduced during the coming quarters. Once again, we're going to make these decisions every quarter based on what we observe in the competitive scenario when we attain the market share levels that we expect, the trend is for a normalization of these figures. This is what I wanted to mention in terms of results and cash flow, and we would now like to go on to the question and answer session. Thank you very much.

Questions And Answers

Operator

Thank you. We will now begin the question-and-answer session.

(Operator Instructions)

Our first question it is from Samuel Alves from BTG Pactual. You may proceed, sir.

Q - Samuel Alves {BIO 18720076 <GO>}

Good afternoon Bruno, and all the other directors. I have a question at my end. Fred, in his presentation announced this stating that the company has obtained the commercial level for the year in an anticipated way and margin, however, still very much below the historical levels. How is it that we should understand this? Is this the new normal for the company considering that it is a marketing initiative, the purchase of media, will this be recurrent or is this something that simply happened in the first quarter? If you could explore this further we would be very appreciative. Thank you.

Operator

Ladies and gentlemen, if you could please hold while our speakers reconnect. Please hold while we reconnect the speakers line. Thank you. (technical difficulty) Well, you may proceed.

A - Elton Carluci {BIO 21743831 <GO>}

We do apologize. We had a technical problem. We're trying to go to our backup. I am Elton and I will respond to the backup and we can continue talking about the question. Very well. What happened in practice? We saw the opportunity and planning throughout

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the year and we saw that we had a great potential of growth and that we could accelerate this process and capture as much as possible during the first semester. We always look at the trade-off of this with margin and the potential that we have to capture more market share.

As we have already seen, we were going to cancel the retroactive re-adjustment and re-compensation of prices. So, there was no reason to wait and capture the opportunity and do this throughout a quarter or four months, instead of waiting another eight months for this. We adopted this strategy therefore, and as Fred mentioned, once we obtain the expected level of market share, and especially sales, we will be able to recover market share in the long term.

So, this was the first step. We anticipated this strategy and we have been successful, although there is room to enhance the volume in the coming month. A bit of commercial oppressiveness has taken us to an interesting level and with enough to services in coming months and gauges, eventually work on this per region. But of course, everything will depend on what is happening. We will be more aggressive but through time this should become more normal, attaining a level that will sustain the company's growth.

A - Frederico De Aguiar Oldani

This is Fred. Simply to add to what was said by Elton. The levels that we're working with, yes, they do make economic sense. We have carried out several calculation and these are levels that will sustain appropriate levels, levels that makes sense, but it's important to take this into account as part of the larger strategy. The strategy as a whole is to recover the market share levels that we used to have. And in that context, it would make sense to change the model or action of the company and the market as we resume our market share levels when we obtain adequate levels the economics will become ever clear and you will see how relevant and appropriate is economic side.

Q - Samuel Alves {BIO 18720076 <GO>}

Thank you Elton and Fred.

A - Elton Carluci {BIO 21743831 <GO>}

Thank you, Samuel.

Operator

Our next question is Leandro Bastos from Citibank. You may proceed, sir.

Q - Leandro Bastos {BIO 21416405 <GO>}

Good afternoon. He is referring to the gross adds and if we could refer to this in a more qualitative way.

A - Elton Carluci {BIO 21743831 <GO>}

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(technical difficulty) I'm sorry. We seem to have a lot of stability in the connections. We apologize once again. When we map the market, and look at the potential market share that we could have for the company, we work on a different planning, and we set forth a commercial strategy. For this to operate, we took into account several factors, are priced, either competitors, where we were, where we weren't and we said that's not planned, that would make sense and we put out the strategy to reposition the company in the shortest time possible. I think that we were reasonably successful in the execution, we did not expect this to happen in the second quarter. We were expecting to obtain that level, specifically in the third quarter we anticipate is the process, and of course all of this, thanks to the growth in sales, if we take away that the retention that the team has with high value customers, we would have had an increase of 80% in the volume sold.

This is the most important point of course. We're also looking in detail at each channel and we have the expectation of cancelation. This will not cause an imbalance in the channel of course. And because of your question, I would like to underscore that when we do become more aggressive, we may have an impact on the channel, we want to make sure we won't have an impact on churn and we're calibrating or gauging, the mix. And we're looking at other channels but this is for the long term. In the short term, what we are doing basically is based on the channel that have already been implemented and we're selling to all operators and practically all regions. If you look at the map of Brazil, we want to be everywhere. We are concentrated, we have very capable, and we have been able to grasp almost all of the opportunities in the past. If we had a product that was losing its competitiveness, we repositioned that and now it is selling better than we had imagined. And this is how we have been able to obtain these figures in the second quarter. It's a bit of everything, better channels, better performance, more operators, new products all of this happening throughout the second quarter.

Q - Leandro Bastos {BIO 21416405 <GO>}

Thank you. Thank you very much.

Operator

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

Q - Mauricio Cepeda {BIO 21783651 <GO>}

Bruno, Elton, Fred, and others thank you very much for the call. Once again, going back to the issue of churn to understand how I should think going forward and we want to know what is happening in the real world. Now the customers that are canceling -- what are they looking for? Which are the alternatives? Another question refers to the seasonality of the cancelations of the churn. What is happening at present that customers are no longer can somebody despite the readjustment and of course you have contract. So it isn't that simple. Now if we look at the retention part, what is your opinion? What is it that is lacking in terms of retention, something that could help you with the issue of churn and to take advantage of the question posed by Samuel, of that you have done in the commercial area. Does the commercial areas still have to increase his figures to attack what is happening with churn? Thank you very much.

A - Elton Carluci {BIO 21743831 <GO>}

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This is Elton. I'm going to begin responding to your question. So we're -- I will begin speaking about the customers that were cancelled to give you more color in terms of what is happening. We have an increase in default during the first semester, And what happened, what moved in terms of our expectation was the default in the second quarter with some of our older customers in the company. And you can give me a class in terms of what is happening in terms of economic terms in the country, but the readjustment was 23%. This is what surprised us initially, historically the cancelation because of default was always around 30% and this increase somewhat, this second quarter, reaching almost 40%. And the cancelation by request ended up being lower than we had imagined in the second quarter. By looking at the figures, we see that families are suffering pressure in the budget. So this is the first point when it comes to our figures. Now, the problem of non-payments or default was exacerbated in the second quarter and was a part of what we had in our radar as a result of this, we drilled down on the figures and we do this based on survey, we survey each of the customers canceled, and then we carry out a crossing to see if they have active asked a link or not with a focus on cancelation. So we work with squads that are looking at this in the company. We drill down on the numbers and what is that we have seen an increase of people migrating to the health systems -- a large number of people migrating to (inaudible) the people decreasing their coverage, working with local operators with the lower tickets. So there is a bit of everything. All I can say to you is what caused the dollar [ph] was this additional default and volume of people migrating to the store health system. All the rest was what we had expected. This was the novelty in the second quarter, the default levels, and people who have had to leave their health plan for financial reasons exceeding what we had imagined. Now, when it comes to retention and to explain how we're dealing with this, we're implementing multiple strategies, the most recent was to focus on conversion using sales vouchers and our sales team has helped us the factors up in the split churn. We have to accelerate this as everybody knows part of our portfolio, 50% that will have a readjustment now in July, it has already been applied, a readjustment of 11% in case you ask. So we haven't intensified what we were doing. We have people who will have 34% readjustment in a time horizon of seven months. So this could lead to a greater churn expectations than what we have seen with the figures of July. We base ourselves on our guidance and we see a behavior similar to 2019. This brings us a certain tranquility because it's a compound accrued readjustment for the customer and our customer will have readjustment at least they have not had the previous readjustment going towards the limit of their budget are being impacted. And this is the default that we saw in the second quarter, the second -- first half of the year. I see a behavior that is very similar therefore in July, and we already have some days in August. I look at this once or twice a day but hour-after-hour, I have a dashboard, that is being updated and we know every hour what is happening with our portfolio and the behavior is very similar to 2019. So we have anticipated this strategy, we have changed the level of the sales in the company. We're working with 45 plus of lives. For the third quarter, if we have the same cancellation performance that we had in 2019. We're repositioning the company in terms of growth, because in the fourth quarter, all of this will become more normal. We agreed on a more aggressive commercial stance, we anticipated it. And all we are seeing exactly the same behavior that we saw in 2019. If you do your accounts you will see that it will be very similar set 2019 in terms of percentages, with an adjustment that growth adds.

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And perhaps you will be able to see the strategy that we had set forth. And that will put deep put in place as of now. Very well. I think that I have responded to all of your questions. If Elton could complement something. When we took the company with this year's strategy when we look at the market we had several doubts. One was to fix our sales level. The company was losing share, and sales constantly. And I think that this was the first challenge that we can say we have addressed. We were able to take the company to a completely different level. The second challenge is churn, we have adopted several measures, we can now see results on certain that the, because of the economic situation. The only issue that we can now work on is the customer's pocket is you can see with the size of the readjustment that we put in place. However, as we have worked with sales, taken sales to another level. Nowadays, the company will have to focus on retention. One of the challenges has been taken out of the way and the Churn will now become the second great challenge of the company. We believe that this will become more normalized historically, this is what happens after the adjustment. The third great challenge mentioned by Pablo refers to the evolution of the company operations, and this is very important for this new phase where we're going to on retention. If we look at the cycle now vis-a-vis other years, we were unable to do this. When somebody called to cancel, we have to practically stop working, considering the evolution in our operations. In the last readjustment cycle, we had less than 4% loss of costs based on the level of 40%, 50%, 60% after the readjustments. So when we look at churn, we know that now we are at the moment that we can see the evolution of the service levels of the company and its contributions of the operations area and perhaps we are now ready to tackle churn in a more aggressive way as we have done with our sales.

Q - Mauricio Cepeda {BIO 21783651 <GO>}

Thank you. Thank you very much for the detail.

Operator

Our next question Vinicius Ribeiro from UBS. You may proceed, sir.

Q - Vinicius Ribeiro {BIO 19720178 <GO>}

Hey, good afternoon to all of you. I do apologize to continue speaking about margins. Can you refer to the margin, the pressure that you have on your margin, which is part of this technology to the hiring of people, or because of your customers? And if you can convert this into cash according to the levels up to '19 how should we think about this as you recover the market share that is natural for you as you remarked.

A - Frederico De Aguiar Oldani

I am going to begin with the SG&A BRL10 billion for the quarter are one-off expense. Now if you look at the commercial discount, we have a new level of commercial expenses basically now given the number of present-day a sales, these are the new values. When the (inaudible) was added we have more people and I think the growth of people is very clear. What I can say is a great investment that the company made within two areas, operations where we changed the level of the service levels of the company, and initially the idea was not to optimize cost but to maximize service levels because we see a scenario with very high readjustments because customers want us to look for solutions.

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So we gauge the entire area of operation to work with the retention. This was a significant the massive investment, very carefully thought out. And going forward, we think we can improve on this. So we're not going to take away any capacity until we have a clear vision of churn. So, the operations area perhaps is larger than would be necessary when we look at the Company portfolio, but this is because of the economic situation that still causes concern because of the churn. We want to have excellent service level and when all of this becomes more normal, when the churn becomes more normal, this will probably remain as efficiencies for the operations area. In the commercial area, we have opened offices in different regions. We're working closer with the brokerage channel, we're working more with training, investing in having a sales force in the hinterland. And we're also working considerably on the tension. We see significant positive effect of recovery of customers since we set up the so these teams. So these are the two main investments in SG&A, we had some, I'm not going to say we didn't, but they took place during 2020 and the first quarter of this year. Nowadays, they help us with everything that is changing at the company. Investments were made in improving our customer service and proving our sales force. Now we can break down our strategy, further. And we can guarantee that we have a very healthy relationship but an aggressive one to redress all of these points. And we can look at this in detail for each product for each week and each operator.

Once we have achieved the volumes that we think are important for us, we're going to look upon each of these different components and gauge the investment based on market share. Of course, we accelerated the work in all of the areas when we concluded the sales potential that we could reach during that quarter, we went from 27,000 lives on average last year and got to a figure close to 50,000 for the third and fourth quarter, we still have potential for this means we have to reinforce our anti-fraud areas, it was a marginal investment that was important to guarantees that we can sell for this relevant number of lives and have everything working properly. Once again, we can get to 50,000 lives and this will be a weight on the operations areas. So our team has to anticipate this process and so eventually, we could work with another VHS, but we have to learn how to sell with quality. And this is what we have done throughout -- during the second quarter.

Q - Vinicius Ribeiro {BIO 19720178 <GO>}

Thank you. Thank you very much for your responses.

Operator

Our next question Bradesco Bank by Gustavo. You may proceed.

Q - Gustavo {BIO 16209398 <GO>}

Good afternoon. Thank you for taking my question. We have a single question. To understand what is happening with your channel some of the NHS and if there have been any movement to transfer some of this work to the brokers. This is the question we have at our end.

A - Elton Carluci {BIO 21743831 <GO>}

Gustavo this is Elton once again. And if I don't fully respond to your question, my colleagues will also do so. We have had training in all regions and of course, when we look

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at the strategy as a whole, the part of loyalty, this has led us to having a multiplicity of products, products that will resolve the problem. We have all of the products in all of the regions. And it is almost impossible to lose a sale for lack of alternatives and whenever we have the opportunity of bringing in a new product in the Central West, we consider this opportunity. So, we have done most of our hallmark during the last quarter of last year and it has enabled us to get to the position we are in at present. This was the goal. Of course the workers ended up considering Qualicorp as their favorite operator, especially where we have competitors with another administrator. What we haven't done is to become the main administrator of all of the brokers in the country. We do carry out a great deal of survey and we look at the comment, and others and we are achieving what we had committed ourselves to achieving. We look at the operators that have a synergy plan, we see how they perform during the month to see if they have an estimate in terms of churn. And all of you know how far we were from having a share equivalent to a company like ours. While we're not there fully, but we should get there during the third quarter. And what we will do this, our sales planning that is very mature and it will enable us to tackle the churn. The churn has had a bad performance not only in the third quarter, but also the fourth quarter. So we're focusing on reconquering our market share and we're going to carry out this fine-tuning so that we can better work on cancellations. We know there will be an improvement a great deal of the problem is the economic situation that is impacting the customer's pocket but we're better prepared than in the past and we're not going to allow a competitor administrator to take over what we have. This is the main point that we're working on tirelessly here.

Q - Gustavo {BIO 16209398 <GO>}

Thank you. Thank you very much.

Operator

So we have no further questions, we would like to turn the floor over to Mr. Bruno Blatt, CEO of the Company.

A - Bruno Blatt {BIO 21352052 <GO>}

Well, that is there. Once again, we would like to say that our team is determined, we have a very clear strategy and we continue to pursue our strategy with a view on the medium and long term without only focusing on the short term, we are convinced of this task. We are athletes as I mentioned, and we're very determined and focused on obtaining our goal. Once again, I would like to express my thanks. Thank you very much for participating in the call.

Operator

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

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