

## Q2 2020 Earnings Call

### Company Participants

- Bruno Blatt, Chief Executive Officer
- Elton Carlucci, Innovation and New Business Officer
- Frederico de Aguiar Oldani, Chief Financial Officer and Investor Relations Officer
- Pablo Dos Santos Meneses, Director of Strategic Affairs
- Unidentified Speaker
- William Eduao Machado, Senior Billing Analyst

### Other Participants

- Frederico Mendes, Analyst
- Joseph Giordano, Analyst
- Tobias Stingelin, Analyst
- William, Analyst

### Presentation

#### Operator

Good morning, ladies and gentlemen and thank you for holding. At this time, we would like to welcome you to Qualicorp's Conference Call, to discuss results for the Second Quarter 2020. We have with us today, Mr. Bruno Blatt, the Company's CEO; Mr. Frederico Oldani, the CFO and IRO; and Elton Carlucci, the VP for Sales, Innovation and New Business.

This event is being broadcast live via webcast, and may be accessed through the Qualicorp website at [www.qualicorp.com.br/ir](http://www.qualicorp.com.br/ir) where the presentation is also available. This event is being recorded and participants will be in listen-only mode during the Company's presentation. Ensuring this, we will go on to the Q&A session, when further instructions will be given. (Operator Instructions).

I would now like to turn the floor over to Mr. Blatt who will begin his remarks. You may proceed, sir.

#### **Bruno Blatt** {BIO 21352052 <GO>}

Hey, good day to all of you, and it's always very good to fill in our days, to fill in all of the days. This is what moves us to be good, is ethical imperative to be correct. And to do, what has to be done in a competitive world, without leaving aside values. The world has

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frightened us, the virus has separated us from people, goals and the tracks that we were following. The virus has shown us how fragile we are, but how strong we also are.

And about system data and dreams, achievements and the future. We took on Qualicorp in November of 2019. It was yesterday, we took it on whether decision of somebody who wants to grow investing in people and never neglecting values. The pandemic has moved us more leading us to reflect upon what is superfluous and essential. And the happy choice of taking on the leadership of Qualicorp and to work for its greatest goal, to care for the health of people. And we keep in mind our reason to be, or we will become bureaucrats, an organization without dreams. Each member of the Qualicorp Company knows that what hurts us most is what hits us in our most vulnerable moment. And that is why we need safety and tranquility to face the losses that arise with the care that we offer, we care for people. And this is the core of our organization.

And when we know our mission, it is easier to advance and to adapt and face obstacles. It is easier to redress our track and to grow, and the more we grow, the more we can care for people. This is positive, and because of this, the day today is good. This is how we began. The world of artificial intelligence, the robotics of the information revolution, the world of respect, truth, interpersonal relationships and affection, go hand in hand with an ethical awareness of diversity, transparency and sustainability. It is possible to grow without destroying, not destroying others or this common home which is nature, a new Qualicorp is being born.

The new water sources are clean and we want to turn these into rivers that are full of life, and that will nurture people. We will not go along with fills or lack of respect. Each professional at Qualicorp will be treated with dignity, with attention. We truly believe in machines and new technologies, but we believe more in human beings. We're beginning the new Quali way of being, and here I would like to summarize what we have done in this short time.

First, we looked towards the past, we looked at our correct and incorrect actions. We are working with agility, transparency, valuing humans and goals and I repeat, we know exactly where we want to get to. The governance model will become a benchmark for the Brazilian and the international market, always caring for people.

Two, we want to ease the access of people, the private health systems and care for every moment, since the first approach to the negotiation of adjustments, qualities of intervention. We want our shareholders, clients and partners to have pride in our Company and to know that you can always do things the correct way.

Three, we're looking upon a world that suffers. We invested more than BLR15 million in solidarity projects, 345 beds for the Unified Health System, broad distribution of alcohol to the needy populations throughout Brazil, the donation of 30,000 rapid tests and the donation of masks for the front-line personnel and public hospitals. If everybody does their part, the days will be good.

Fourth, we look upon technology as a way of expanding human awareness. We are more expeditious, more transparent. We reduce the damage we cause for the environment. We have already begun. We have reduced paperwork, tiresome and unnecessary work. And that time that we no longer spend with pens and papers, can be used to devote to our new clients. And this data will help us to have more systematic procedures to correct our track and to act quickly.

Five, we will and we will always look upon people. Now to look at our portfolio means to comply with this mission and the brokers are part of our mission. They are part of our wealth. Each broker represents all of Brazil and its diversity, in its way of looking upon people, and caring for people. There are so many people in this large Brazil. They are in motion for the lives we have recovered and even a farewell that can be very painful.

Six, we look at the business. We look at PMA and addition. We look carefully upon growth and we look at the sales potential. We have 35,000 brokers, 1,200,000 clients and 50 Health operators and we're the main link between them. We're building bridges and to be very modest, we know how to do this. We like numbers, we like challenges and this broad vision that allows us to understand the past, to live the present and focus on the future. But we'll care more for people and our partners, that we affectionately call Qualis. And we will show how coherent we are between what we say and practice. We're very agile.

One of the possible examples of this is that at the very beginning of the pandemic, on March 16, we set up a model home office for more than 2,000 associates with online recourses following up on their difficulties and celebrating their achievements. This was used as a plan for hybrid work which is already being implemented. We returned seven of the floors of the Company and we're going to return another five, generating savings of BRL18.8 million in 2020. To know where we're going, makes a difference and everybody know this, to be lighter helps us to go farther in a short time. We have reduced costs by 25% with the digital transformation. We saved BRL24 million with this streamlining, with digitization and operational synergy. We obtained the Great Place to Work seal and we are among the 150 best companies to work with in Brazil, with a score given by partners that went from 51% to 84%. And the price to belong went from 42% to 91%, and when you know where you're going, substantially improves our competitive strategy for regionalization.

We are at Rio de Janeiro and Parana and Rio Grande do Sul, in the Northeast, and with the launch of the new Sul America Health addition, we have something innovative and encompassing. Our day is good, whenever we embrace an issue and when we involve other people that believe in the same issue, to care for the health of people, is an extremely good issue.

We have a market to grow and we have the will to grow and this is good, and we have an excellent team and our day is good. We don't want to become dis-heartened. We don't want to have ill humor or become accommodated or be distracted. Our focus is on growth, and our strength lies in our unity, in our awareness. But the path is very challenging and that because of this, it is better to walk hand in hand, with respect, with speed and with attention and above all with love, with love for what we do, for love for the people who are part of our journey. This journey of the new Qualicorp.

Thank you to all and we hope that this will be a good day. That all days will be good. I would now like to give the floor to Elton, our Vice President.

## Elton Carlucci

A good day to all of you, and thank you very much. It is a pleasure to be with you in another call for results at Qualicorp. After this very inspiring remarks, I have to state that the bar is extremely high. And we'll try to maintain this bar. Before I give the floor to Fred, very quickly, I would like to highlight some of the issues of our commercial strategy, to speak about what we're thinking about for SME, about loyalty, and then a quick glance at what is happening within our squads. We begin with the commercial part, and to speak about sales. One of the novelties that we launched recently was the Sul America portfolio, an innovative product, a new milestone, because it brings the concept of family product to the affinity segment. We have a 9% discount when we have two or more lives in the contract, and doubtlessly this will leverage the actuarial risk and contribute to the sustainability of our partnership with Sul America. This is definitely a different innovative product, that fulfills the demand that we have in the market for these type of products.

The second highlight was the launch of the partnership with GNDI, the NotreDame Intermedica, an unprecedented product that expands access to our offer within the portfolio. The sales began now, this will come into effect in September and the product is already available in the proprietary channels of Qualicorp, in the loyalty team and the sales channel. We're also leveraging the offer of GNDI for corporate clients, including contracts for small and medium-size businesses. We also launched Parana Clinicas. At the end of July, we began sales and we have the operation of the Assim Saude integrated into our distribution base, and of course Qualicorp continues to pursue new opportunities, without forgetting the commitment we have with our present day partners.

I will speak very quickly about SMEs. We're concluding a restructuring of our organization structure. We intend to be the largest in the sector. This doesn't happen overnight, but this in the goal that we are pursuing. This is an incremental strategy. We're going to seek greater market share within the SME segment, without losing our focus of the main business, which is the Affinity segment.

I will now speak about one of the highlights of this segment, which is retention, the decrease of churn, responsible for the performance of our portfolio. We had an improvement of 8.5% in churn, when we compare the second quarter 2020 with the second quarter 2019, and these are the results we have achieved so far. And these are the strategies that we wanted to share with you. And once again, we're focusing on these three people. We look at the clients, our brokers, operators, all the part of customer intelligence, as well as new products. Once again, these are the three pillars that we have organized through squads.

And I would now like to give the floor to Fred who will proceed with the presentation.

**Frederico de Aguiar Oldani** {BIO 16665733 <GO>}

Thank you, Elton, and a very good day to all of you. I will begin my presentation on results on Slide number 9, and speak about the quarter highlights.

First of all, I would like to highlight the increase of the Affinity Portfolio, and it shows the first results of our new commercial strategy, with an improvement in sales and the reduction in churn. The revenues for the quarter reached BRL483.7 million, a slight contraction compared to the year 2019, but the drop was due to non-recurring revenues that depend on marketing activities.

And the brokerage fees and the administration fees are fully aligned with the growth of lives in the portfolio and had a slight growth in the quarter. Our EBITDA is approximately BRL233.5 million, a slight contraction vis-a-vis the same quarter last year. It's important to highlight the good performance in costs and expenses, which allowed us to offset this somewhat lower result in revenues.

We came in net income to BRL126.7 million, a growth vis-a-vis last year, especially due to non-recurring events. Thanks to an operation that we will refer to in greater detail further ahead. We had a strong free cash flow which is characteristic of our business model, and with an additional benefit this quarter, due to an improvement in the working capital indicators.

I now go on to Slide number 10, to speak about the performance of our lives Portfolio. Here we begin to see the details of how our strategy reflects on improvement. We have [ph]4,300 lives in the Affinity Health Lives, with an increase in sales and a reduction in churn. In the other product lines Affinity segment, we had a good performance driven by the dental products. And when we speak about the performance of other segments, we had a decrease in the Corporate and Gama segment because of contracts that were canceled due to the decision of the Company, because of their poor results. And they have now improved and will continue to improve.

A new topic that I would like to mention, we have segmented the contracts in P&E. We have two quite different models. One is the traditional SME model that Bruno and Elton mentioned, and that have become a significant focus for the Company. We have reached 44,000 lives in this segment and a growth of approximately 20% vis-a-vis the year '19, and it shows you the potential that our efforts have been leveraging this segment.

We have another portfolio that is called SME Stipulation, a somewhat different contract, where we receive a fee on the volumes that are commercialized in the contract and Qualicorp doesn't necessarily manage this portfolio, but it is a specific contract with the operator. And this contract was broken unilaterally with a counterpart in April. We had a judicial discussion because of this contract, as we stopped having revenues in April, we eliminated these lives from our portfolio. Now the impact of this is minor, it refers to BRL6 million per quarter.

We continue on to Slide number 11, to speak about the quarter results. Our income statement. Then I would like to highlight the main points here. The first, is the growth of EBITDA. As we mentioned, we had several non-recurring events during the quarter,

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impacting the EBITDA. Now when we look at adjusted EBITDA, and discount in nonrecurring effects, the EBITDA for the performance quite aligned with our top-line performance, because of the work that we did in cost and expenses. We continue in this P&L, and highlight the increase of financial expenses vis-a-vis the year 2019. It is important to mention that this increase in financial expenses refers to the leverage profile of the Company and the capital reduction carried out in 2019.

Last year we practically did not have any indebtedness. Once we changed the structure, we have to expect this impact on financial expenses. The effective rate reduction was an important benefit for the quarter. We had a significant reduction in taxes, and health will have a tax benefit. The taxation will not be on the main amount, and this explains the performance of this effective rate during the quarter. Given all of these effects, we had a net income of BRL126.7 million with a growth of 26% year-on-year, quite influenced by the non-recurring events that have already been mentioned.

We continue on to Slide number 12, to speak about the main non-recurring impacts, that were adjusted in the EBITDA. We had four main effects, that I think are worthwhile mentioning. The first is QSaude, BRL40 million positive for the quarter. We have a second line of adjustment, that refers to our terminations of executives and directors, due to the change in the Company. And with these terminations for the quarter, suits that were anticipated, the nonrecurring events associated to this represents BRL18.6 million in the quarter.

Now we had a provision in the first quarter, of an amount of approximately BRL25 million in charges, referring to the termination of another executive. We reviewed this understanding this quarter. And it is our understanding, that these labor charges should not fall upon the amounts of termination, and that is why we had a reversal of those BRL25 million, that offset the BRL18.6 million costs and termination, with a net effect of approximately BRL7 million for the quarter, positive. It is also important to make adjustments in the EBITDA, in terms of the values that we invested in our activities to combat COVID. We have already spent BRL15 million for these activities and in the second quarter, we in fact, spent BRL9.4 million.

We have a last important item that I would like to mention. Also, remarked by Bruno, we have returned seven floors of the Company headquarters. Now, with this return, the Company had to write-off all the improvements or betterment's done on those floors. All of this has been fully amortized and the effect was BRL12.2 million during the quarter. This is a non-recurring effect, something that normally wouldn't be allocated to EBITDA, but to depreciation. But as this was done in an anticipated way, it ends up having an impact on EBITDA. Once again, this is a non-cash expense and we will now have the benefits of having returned these floors on our results going forward.

We continue on with the presentation on Slide 13, to speak about costs and expenses. As I mentioned previously, our good management of costs and expenses allowed us to offset that mild drop in revenues. But, what is more important than discussing the details of the accounts for the quarter, what is important to mention, is that Management is changing the direction of resources within the Company, and this will become ever clear in the costs and expenses of the Company.

We have a great focus and would like to gear our resources to all of our friends that involve technology, innovation, client retention, distribution channels, actions that for us are fundamental to implement our growth agenda. And on the other hand, of course, we will be quiet hard when it comes to finding efficiency and cost cutting at all fronts. We have already mapped several opportunities for savings, and most of these savings will be reinvested into our growth fronts.

And finally, it is worthwhile mentioning that in part of costs and expenses, we're going to reformulate the model for the compensation of Management, the new Management has already come into the Company with compensation and incentive model that is quite different, and this will become evident in the coming quarters, with a substantial reduction that we will have in our remuneration model as of this moment.

We continue on with the presentation and go to the last Slide, where we would like to highlight the strong free cash generation of the Company, BRL214 million in cash for the quarter, with a growth of 50% vis-a-vis 2019, almost 40% vis-a-vis the previous quarter. And just a few points to highlight here, is strong cash generation is characteristic of our business, but we do have some businesses with very strong cash generation, high EBITDA levels, and this quarter we had two important effects that are worthwhile mentioning, both with a positive impact on working capital, where we had a gain of about BRL50 million for the quarter.

Two effects that I would like to highlight the first, a substantial reduction in the amount of advances for operators and a somewhat lower effect. That refers to the postponement of federal taxes, as part of the government's program to aid the companies because of the pandemic. This represents BRL15 million approximately, and the situation will be normalized throughout the third quarter.

These are the main highlights that the Management wanted to underscore, regarding the quarterly results, and we are now at your entire disposal, to respond to any doubt or comment that you may have, regarding our results. Thank you very much.

## Questions And Answers

### Operator

Very well. We will now go on to the Q&A session. (Operator Instructions). The first question is from Fred Mendes from Bradesco BBI. You may proceed.

### Q - Frederico Mendes {BIO 19832788 <GO>}

A good day to all of you and thank you for the call. I have two questions. If you could speak about the contract with GNDI, give us more details on the partnership that extends to Sao Paulo and Rio de Janeiro. And if you received any flexibility to close this contract. Now, the second question. This in refer specifically to the second quarter, but refers to the line item on costs and commissions. If you could focus on this line item, there has been a relevant increase of 10% quarter-on-quarter. We would like to gain an understanding of this. Thank you.

## A - Elton Carlucci

Hello, Fred. This is Elton.

## Q - Frederico Mendes {BIO 19832788 <GO>}

Yes, thank you, Elton. Everything is well here.

## A - Elton Carlucci

Thank you for the question. I'm going to speak about GNDI. Well, first of all, we did have more flexible rates. These are the table list of Notre Dame. This to be able to distribute the products. What we have been surveying is, if we're going to carry out a commercial strategy in the retention channel, but this means that Qualicorp might adopt a more aggressive strategy, and we're glad to see if we can do something different in terms of retention. And this product, as a priority, is being sold through the Qualicorp channels and through our fidelity cell, and initially the focus will be Sao Paulo state. Another important point. We have already received this question frequently, and we have no actuarial risk in this contract. What we do have, is that, part of our commissions can be variable. But once again, the variation can be upwards or downwards and we do not run a risk. This is a very controlled risk and once again, something we have perceived clearly.

In terms of the commissions, we're going to speak about commissions/incentives strategies, and as a focus is growth, we're allocating priority to some partners and incentives based on goals, and because of this, the commissions might be somewhat higher vis-a-vis 2019. Because of this model, we're working very closely with some of our partners and secondly, because the Company will grow again, and naturally we expect to have to spend some more because of this growth. Basically, this is what we have in terms of commissions.

## A - Bruno Blatt {BIO 21352052 <GO>}

Fred, this is Bruno speaking. The partnership with GDNI, well we have high expectations in terms of this. We're beginning with a project that is strictly for our own channel. When it comes to compensation or remuneration, we already have this partnership with other operators and there is that risk of the commission going upwards or downwards, but there is no actuarial risk. We do not do the pricing, we do not do the regulation. This is a network. We're working with an operator. And we do have this type of partnership with other operators, based on the same model. We're working with coming closer to GNDI in the Affinity Segment and we will probably be doing this with the SME and Corporate Segment as well.

## Q - Frederico Mendes {BIO 19832788 <GO>}

If you allow me a quick follow-up. It's obvious that this contract should have an impact on both sides, gross sales and share. But you delayed this in the fourth quarter 2019. Now, this partnership could help you even more in the churn and the sales of course will also help you in the churn.

## A - Unidentified Speaker



Yes, we do believe in this, Fred. And when we look at this product, not something we had internally, especially in the loyalty sell, and it will be a very complementary product, especially in Sao Paulo. And as a priority, we're focusing on retention on the part of scripts, on the part of intelligence. There is an intelligent underpinning the entire part of retention, and of course there is a more intelligent script underlying this, and because of this, we require more time for the fidelity process. This is our own channel and people know the product, and 80% of our efforts are geared towards retention and fidelity because of this.

**Q - Frederico Mendes** {BIO 19832788 <GO>}

Thank you. Thank you very much.

## Operator

Our next question is from Tobias from Citibank. You may proceed, Tobias.

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

Hey, good morning. Thank you to all. I would like to gain an understanding of what you think about that churn premise, going forward, after all of the initiatives and launches that you have. And if you could speak about your strategy, those pillars that will increase the penetration in the Affinity Segment. Thank you very much for taking my questions.

## A - Unidentified Speaker

Very well, Tobias. Thank you for the question. Churn, well, we had a surprising result in the second quarter. We, for some months, had had a large part of our people working on loyalty. I will say that this was the starting point, predictive processes, modeling the profiling of people. We haven't implemented everything, we haven't implemented more than 20% or 30%, because this is being carefully segmented. And something that we don't control of course is the macroeconomic variables. And when it comes to churn, we have questions about what will happen post COVID and what will happen with the GDP. This is significant for churn.

And as I said, we have some products that we did not have formerly, and when we launched GNDI, we also launched theme Group, and all of this is being included in our retention strategy. Some of these things may decrease that we're going to continue to implement. But, once again, there are those macro issues, and people are working towards understanding the impacts. Our expectation of course is that, we will continue to improve, perfect this. Decrease the churn. But that macroeconomic variable is of great importance, as part of our modeling, 80% refers to financial issues. And to speak about penetration, point number two, I'm going to invite some executives that were not in the opening, Pablo Meneses will speak about penetration and what we're thinking about this.

**A - Pablo Dos Santos Meneses** {BIO 21824064 <GO>}

Tobias, good morning. It's a pleasure to speak to all of you. Our relationship with EBITDA, we have worked with a much closer relationship with operators, with clients, with users of Quali and also might become users. Now, how do we work with proximity, by understanding the needs of this audience. We're speaking about more than 500 class

entities and each in a different corner of this Continental Brazil. We need to understand problems, tickets, characteristics and other issues, and of course this makes it somewhat more difficult in terms of loyalty and market growth. And this market growth will take place alongside the entity, checking to see which are the products that are under demand for each of them. Rio de Janeiro, for example is one state, we also have the Amazon. We have to understand entities, operators and only this way can we deliver a great diversity of products.

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

Thank you. Thank you very much. And when do you think that we will begin to see the results of this initiative, and from the macro viewpoint, if 80% refers to financial issues, what has happened with your doubtful debts, your bad debts? I know that health plans are very important. But what has happened with your provision for doubtful accounts?

### **A - Frederico de Aguiar Oldani** {BIO 16665733 <GO>}

This is Fred, Tobias. The first important point is to speak about the issue of default or bad debt, which is quite under control. And this was important because we delayed or postponed readjustments. At the moment of a price readjustment, we have a loss in our portfolio. And because of the increase, we have an increase in financial default, as this readjustment was postponed, allowed us to maintain the bad debts under control. There is a new factor, what we have perceived with the pandemic, is the need for companies to maintain their health plan coverage, because of the risk that this might pose to their health. Now this combination of a pandemic, with the postponement or readjustments, has helped us to hold back the bad accounts and to maintain a demand for a health plan in the short term.

I think, Bruno would like to add to this.

### **A - Bruno Blatt** {BIO 21352052 <GO>}

Tobias, good morning. Thank you for the question. I would like to mention something that relates to our results. You said, what is it that we expect? Now I'm going to reinforce my long-term vision. And here in the Company, we're not looking at the short-term, we're looking at the long-term. You can see how much we've been able to do in the short-term, in terms of regionalization, and the new local partners, who are going to offer more options to those who sell our plans and brokers. This will distribute revenues, and lead to a greater sustainability in the long-term.

In the short-term, of course, we do have important achievement. This is the example of Assim Saude, that has surprised us in terms of what we expected. And we see the need of users, brokers and entities, and this is something that we're tackling with a great deal of seriousness and diligence. And we're looking at everything in a regional way and we are, of course, focusing on medium and long-term results, although we have gained a great deal of traction in the short-term.

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

Thank you. Thank you very much, Bruno.

## Operator

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

### Q - William {BIO 15106707 <GO>}

Hey, good day to all of you and thank you for taking my question. Well that certainty of growth, I'm also convinced of that. Congratulations for the results, they truly are surprising, and they give us a good vision for the long-term. I do have some questions. We observed that you have had a very responsible costs and expense management. You were able to achieve quite a bit, but there are still some distortions, whether positive or negative in the results. To gain greater visibility, are you close to a level of stabilization in terms of G&A and gross margin?

The second question, what do you foresee for the Affinity market post pandemic? What is happening? What is happening in this market?

The third question refers to the evolution of tickets. What do you foresee? Is there a pressure on tickets and how can you force this somewhat to be able to compete in the market?

And the fourth question. The idea that you have of the SMEs, which has been the commercial reception of this new idea? Thank you.

### A - Frederico de Aguiar Oldani {BIO 16665733 <GO>}

This is Fred, William. I will begin speaking about the SG&A. The level of SG&A, we don't expect to see great changes vis-a-vis the present day levels. Now, as part of the line items, you may observe several changes. The part of commissions, for example, yes, we are going to use more resources to stimulate that channel, campaigns. We're going to invest more in lead generation, in technology and scores. And all of this will be financed by a drop in the other line items, to mention some examples. The occupancy rate with a return of seven floors. We also have other fronts, that with relevant savings and the issue of the remuneration or compensation of Management.

This is a very relevant scenario. We don't expect great changes in terms of our consolidated accounts, but there will be significant change in the makeup of accounts. As Bruno mentioned, we do have a growth plan. We have to focus on some fronts and there was a company with zero budget for innovation. This doesn't work for us. We're going to have to invest significantly on technology, in our front for client retention and scores. We will have to invest. So the main message is, don't expect enormous changes in costs and expenses. But, there will be changes in the makeup of some line items.

### A - William Eduao Machado {BIO 19285047 <GO>}

Mauricio, this is William. The Affinity market, what we have observed going into the third quarter, is that well, in truth, different variations and this is a very regional viewpoint. What we perceive is that in some states, there have been put aside a bit with very little growth. We look at the impact of the Sul America portfolio. I can't give you a forward-looking

statement or disclose the figures. But what happened is above what we expected, because of the dollar rate and much more. So, very generally, we haven't seen a slowdown. We changed portfolios. From portfolios, we have lost a few data at beginning in specific regions. But this is something seasonal. Of course, it tends to happen usually during the year with one or another portfolio. But taking this away, we haven't seen a reduction in demand and in principle we haven't observed this.

Of course, in the medium and long term, we have to focus on the macroeconomic issues. We're more concerned with the macro issues, than the middle and long term. How long will it take for our economy to recover and the part of revenues. And the recovery has been much faster than we imagined. And of course we do have a product gap and we're trying to close these regional gaps as fast as possible. The great concern is the macroeconomy. The evolution of tickets, yes, we may have a dilution, because of the low-end growth in tickets, and not because of the evolution of other tickets.

Once again, we have had a better performance in some products with the higher ticket, which of course is extremely positive and it is natural that we will have a dilution. We're increasing the share of lower tickets in our base. In principle, this does not mean a reduction in the sale of products with medium and higher tickets. And this is what we have observed internally.

Now to speak about the SMEs. We do have differentiated model for the SME segment. They're underway, and the short-term effects that we have observed is that we have, the traditional distribution of products for SME. We have the retention model and, of course, we know what is not eligible for SME, and we work with predictive modeling for this. And what we see is a significant opportunity, because we can distribute any health product that's part of our customer base. We're quite enthusiastic with this. This will be complementary to what we do and we will have different models coming up from Qualicorp. We also have a technological platform and we can sell these products through our traditional distribution channels. I think that this rounds up the question. If I have forgotten something.

**Q - William** {BIO 15106707 <GO>}

Yes, you did cover everything with great transparency. Thank you. Thank you very much for enhancing our understanding and congratulations for your results.

**Operator**

(Operator Instructions). Our next question is from Joseph Giordano from JP Morgan. You may proceed.

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

Hey, good afternoon. I hope all is well. And thank you for taking my question. I was not there at the beginning of the call. So I don't know if this was mentioned. I would like to understand the impact of not increasing prices at Qualicorp. Of course, this will help you in terms of the bad debts, and have you had any impact in terms of churn and how is this going to impact your top-line? Thank you.

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## **A - Frederico de Aguiar Oldani** {BIO 16665733 <GO>}

Hi, Giordano. This is Fred. Now the details on how we suspend this and when we can go back to the price readjustments are pending. It is still very early to give you any estimates. We're assessing this and as soon as we have something more concrete, we will signal this. But it's too early once again, to speak about what type of impact we could have because of this suspension. I was speaking to Fred about this, and in churn, for example, as we have that issue of income and price, as one of the main variables for cancellations in the short term, so eventually all of this will be recomposed. The life cycle will mean that the client won't look at these three or four months as something isolated. And that is why we can't speak about the churn.

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

Yes, thank you for the response. Very clear.

## **Operator**

Ladies and gentlemen, with this we would like to end the question-and-answer, question for analysts and investors. We will turn the floor over to Bruno Blatt for his closing remarks.

## **A - Bruno Blatt** {BIO 21352052 <GO>}

The Qualicorp conference call ends here. Thank you very much for your participation, and have a good day.

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