

Q2 2020 Earnings Call

Company Participants

- Carlos Alberto Iwata Marinelli, Chief Executive Officer
- Fernando Augusto Rodrigues Leao Filho, Chief Financial and Investor Relations Officer

Other Participants

- Fred Mendes, Analyst
- Joseph Giordano, Analyst
- Mauricio Cepeda, Analyst
- Ricardo Boiati, Analyst
- Samuel Alves, Analyst
- Vinicius Serrao Ribeiro, Analyst

Presentation

Operator

Good morning, and thank you for holding. Welcome to the Fleury Group Conference Call to release results for the second quarter '20. Today, we have with us Mr. Carlos Marinelli, the CEO; and Mr. Fernando Leao, the IRO and CFO. We would like to remind you that this event is being recorded, and all participants will be in listen-only mode during the company's presentation. Ensuing this, we will go on to the question-and-answer session, when further instructions will be given. (Operator Instructions) This event is being broadcast simultaneously through Internet via webcast and can be accessed at www.fleury.com.br/ir where the presentation is also available. You can watch the slides at your convenience. We would like to remind the webcast participants that they can post through the website questions for the Fleury Group.

Before proceeding, we would like to clarify that forward-looking statements made during this conference referring to the Grupo Fleury business outlook, projections, operational and financial goals are based on the beliefs and assumptions of the company management as well as on information currently available to the company. These are no guarantee on performance. They involve risks, uncertainties and premises as they refer to future events that may or may not occur. Investors and analysts should understand the general conditions, sectoral conditions, operating factors mainly to results that differ materially from those expressed in these forward-looking statements.

With this, I would like to give the floor to Mr. Carlos Marinelli that will begin the presentation. You may proceed, sir.

Carlos Alberto Iwata Marinelli {BIO 18884059 <GO>}

Good morning, and thank you to the release of results for the second quarter 2020. To face the challenges brought by the COVID-19 pandemic, the Fleury Group depended on a combination of vision, courage, innovation, financial strength and capacity for execution. We have further accelerated our digital transformation, achieving operational results that prove that we are on the right path. The future of health care will be increasingly digital, integrated and consumer-centered. And we have taken on a very entrepreneur and bold stance as we never had before in our 94 years of history, we have achieved 4 years and 4 months. The evolution of our culture is already widespread among our 10,000 employees and 3,000 physicians.

Over the decades, we have developed a relationship of absolute trust with players of the health care sector: patients, physicians, hospitals, HMOs and companies that offer health care services to employees. We are in a privileged position, which not only allows us to have access to the main links of the chain but also gives us the legitimacy to create innovative solutions that bring quality and efficiency to the sector.

A few years ago, we decided that our future would go beyond diagnostic medicine. We realized it would be possible to take our excellence in diagnostic medicine to other links in the chain, who understand health care as one of the main assets to guarantee quality of life for people and their full fulfillment as individuals. Our vision was that inexorably, the future would require more connection and more integrated health care. We anticipated the future and began the process of diversification.

Those who watched our Investor Day on December 2019 know that words like platform, ecosystem, app and so many others that have exploded in recent months have been part of our repertoire for some time. We have been talking about digital transformation in health care long before thinking about telemedicine as essential for prevention. And as it has been in the recent months, that ability to unite technology and health care amazingly goes back to the last century. When we decided to put our test results on the Internet in 1997, we were called crazy or irresponsible. We were, in fact, the first to commit this madness. In a short time, many others followed the same path that we inaugurated not only in this episode but in many others that was followed since then, exercising our pioneering spirit and our leading role.

The recent multiplication of platforms launched in the market is a proof that we are on the right path. Is it possible that one of the longest-running companies in the sector will become the fastest start-up? Is it possible to innovate and maintain the excellence of almost a century of our history? Is it possible to be ambidextrous? The answer to these questions is a resounding yes.

It is clear to us that being comfortably passive in our 23 consecutive growth quarters was not an option. With courage and boldness, we have invested in our own structure to support this digital and new business journey. But we do this in the Fleury way of being, by keeping the customer at the center of all our decisions and preserving the return to shareholders, maintaining results that remain a market benchmark.

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We embraced the idea that technology guarantees freedom of choice for the individual. We also believe that all evolution can only succeed if it is inclusive. It can only be truly transformative if it brings partners, other participants of the chain and eventually even competitors. Adding knowledge is sample. We know that it is not a simple logic. But when our obsession is based on people's health and the sustainability of the sector, why limit participants? The more open and democratic the environment, the better the results will be. And let us be clear that we are creating an environment that does not exist. We are convinced that the health platform requires a relevant number of lives, care coordination centered on the individual, the capacity for innovation with technology translated into products and the legitimacy of years in health care. We also believe that this environment is heavily based on primary care, the correct gateway to the health way system.

Today, we have already reached the mark of 7 million people connected to the offers of SanteCorp and the brands of Grupo Fleury. There are 7 million people of which we have established a relationship of trust based on hospitality and medical excellence and not on occasional business transactions. Our multichannel allows individuals to connect with us to schedule face-to-face and remote consultations, making teleconsultations, schedule and access diagnostic test results through their employers' HMOs and others directly as needed.

These millions of individuals have now gained the possibility of consulting their electronic medical records. And soon, they will self-manage chronic diseases. All of this through two partner companies: the first, Prontmed, that has integrated this ecosystem, one of the largest providers of economic medical records in Brazil. The other is an Israeli start-up Sweetech, a healthtech specialized in chronic disease prevention and management.

In this environment that we are building the health of individuals, as already happened, it will be a touch away. In addition, for the first time, their health data will belong to the individuals themselves, and it will be up to them to govern this ecosystem. It is truly a transformative concept. And to some, it may seem madness. We heard the same thing in 1997. Our ability to innovate with agility has been tested in other fronts. In mid-April, we realized that there would be an opportunity to help Brazilian companies to resume their activities for their employees and customers. In early June, we launched Integrated Care for Companies, a service that includes employee testing, consulting for the creation of security protocols. In 50 days Integrated Care went from zero to more than 300 contracts signed. These companies total a potential population of more than 400,000 individuals to use the services. We believe that concern for the health of employees will remain a focal point for companies even after the current pandemic is over. As some export -- experts abroad say, we have entered the health care era.

The new habits imposed by the pandemic also boosted our client home service, which grew 67% in the second quarter of this year. The revenues generated already exceed those of any physical Patient Service Center of the company. For 14.3% of the total patients who used the service in the period, client home service represented the first contact with the group. Comfort and quality of service resulted in an NPS of 86.2%. The multichannel strategy is proving that it is able to incorporate new customers into the base while providing quality services.

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All the digital services that started to be offered as soon as the pandemic was installed showed a significant growth. Today, almost 40% of appointments are made by WhatsApp, and 45% of the eligible public already do digital check-in before doing their tests. In the field of telemedicine, the advance is exponential. In the three months since the service started operating, almost 30,000 consultations have been carried out by SanteCorp and Cuidar Digital environment. It was thanks to these various innovations and our financial strength that we managed to get through the more difficult period imposed by the pandemic, the month of April, when revenues shrunk 61% compared to the same period in 2019. Since then, we have shown a strong capacity to recover. In June, the retraction was 5%. The more challenging phase was clearly behind us.

In the medical field, we have intensified our presence as protagonists in the effort to combat COVID-19. Since the beginning of the pandemic, we have performed more than 0.5 million tests, including 320,000 RT-PCRs and 212,000 serologies, and these volumes continue to grow. In April, we started a study in partnership with Ibope, Instituto Semeia and scientists from the University of Sao Paulo and the Federal University of Sao Paulo, Unifesp to map the new coronavirus in the capital of Sao Paulo. We also participated in a study of COVID-19 vaccine developed by Oxford University. These are but some examples of how our knowledge makes us a reference in health care even outside Brazil.

Now this knowledge continues to be one of the pillars of our activity, and it's part of our essence. And up to now, everything is being given first through by products and services. We are convinced that medicine of excellence will have a personalized, integrated and large-scale ecosystem. Our digital services, the new channels to deliver offers that have been opened, will help us, and this is but the beginning.

I now give the floor for -- to Fernando for the presentation of results, and I will be available for questions and answers.

Fernando Augusto Rodrigues Leao Filho {BIO 20171823 <GO>}

Thank you, Carlos, and a good day to all of you. I will continue with the presentation to show you the financial results for the second quarter. In slide number eight, we see the consolidated gross revenue. The total gross revenue was BRL492 million with a reduction of 37.5% vis-a-vis 2019 and the Patient Service Centers with a retraction of 42.8%. The accumulated for the first quarter totaled BRL1.3 billion, a reduction of 8.3%.

In the next slide, number nine, in the left, we see the monthly evolution of gross revenues for the first quarter 2020 vis-a-vis 2019. We had a strong recovery during the quarter. You can observe that we began the quarter with less than 40% of the revenues and results. In June, nevertheless, we were operating at 95% of the revenues of June 2019. The Patient Service Centers entered June with more than 90% of the revenues of the same period last year, and we had a growth of 19% vis-a-vis the same quarter -- the first quarter 2020. Throughout June, we continue to see improvements, and we have grown two digits in consolidated form in the company.

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To the right, we see the COVID-19 test participation and growth revenue. PCR over the total revenues represented 17.3%; Patient Service Centers, 15%; and B2B, 23.1%. We have already hit the score of 0.5 million exams of COVID tests carried out through June with 550,000 total units, 220 serology exams and 500 RT-PCRs. We also have cut price for RT-PCR since the beginning of the pandemic, and these exams are also available in the market and in companies that are planning to resume their activities.

As Carlos has mentioned, the multichannel and their innovations were essential to enable this recovery. During the quarter, we developed through our technical area solutions to be able to attain the present-day level for the COVID-19 exams. Our operations team has created a drive-thru where we carried out more than 70,000 services, once again, prioritizing our clients. In 50 days, working in companies, we have achieved 300 contracts, allowing these companies to resume their activities.

I would also like to highlight the expressive growth that we had in mobile services. Our home services are thanks to the investments that we have carried out in several years to give a new voice to these clients. In the second quarter 2019, this mobile attention had a growth of 60.7% vis-a-vis the second quarter 2019.

We now go on to Slide number 10 where we see in greater detail what happened with our portfolio. Because of COVID-19, especially in the month of May, as mentioned previously, the revenues of the quarter were compromised. But here, we see a vision of the semester. The Patient Service Centers had a reduction of 42.9%. And if we don't consider those institutions, now we do the same in terms of accumulated results. Once again, Patients Service Centers were 45.5% for Fleury brand down.

On slide number 11, we highlight cancellations and net revenue. The cancellations reached 1.4% during the quarter. To the right of the slide, we see net revenues with a growth [ph] of 37.6% in the second quarter 2020 totaling BRL455 million (sic). And for the six months, we have BRL1.16 billion (sic).

In the next slides, we will present the main operating indicators. In the first quarter of the 2020, all of these figures are according to IFRS. The figures presented in 2019 are on the same base of comparison.

In slide number 12, we show you the evolution of our operating costs and expenses. And I bring you details on the company's contingency plan to reduce costs and expenses because of the reduction in demand. During the quarter, we reached an expressive reduction of more than BRL100 million in savings. In May and June, we created a program to reduce the working day by 25%, and we had the acceptance of all of our employees for this program.

Now in terms of general services, rentals and utilities, we have a reduction -- a temporary reduction of 40% during April. Throughout the quarter, we reopened these units. And in June, we have only 5% of our Patient Service Centers that have been closed. We renegotiated several contracts with the main suppliers of the company and service providers as well as rentals.

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On slide number 13, we continue with our cost and expenses, comparing them to the same period last year. To the left, you can observe that we had a reduction of 11.3% in costs and 0.9% for the six months. To the right, we see a reduction of 24.7% in operating expenses for the quarter and 9.5% for the six months.

On slide number 14, the impact of the deleveraging on EBITDA. The EBITDA was BRL19.6 million in the quarter with a reduction of 90.7%. There was a reduction of 51.8% for the semester totaling BRL215.6 million.

On slide 15, we see the net income of 7 -- minus BRL73 million (sic) for the quarter.

In slide number 16, we show you our cash flow graph, a reduction of 60% going down to BRL65.5 million (sic). This is explained by the reduction of 90% in our EBITDA, offset by working capital. Now working capital had a relevant impact, reaching less than BRL52.9 million, and it was BRL114 million in 2020. This effect is due to the severe impact of reduction in May. But the company did not lose its efficiency, especially when it comes to customer service. And we do have distortions. We had a significant retraction in June. Now -- but we were able to maintain the level of liquidity in the company despite the highly adverse scenario that you see.

Now the operating cash flow recorded BRL196.8 million with a reduction of 28%. In the graph to the right, you see the CapEx for the quarter totaling BRL40.1 million, a reduction of 3.7% due to the lack of investments in new units.

And finally, in slide number 17, return on investment without goodwill reached 20.8%. To the right, we show you the evolution of our Net Promoter Score that has maintained its level, reaching 76.7%, a growth of 30 basis points compared to the second quarter of 2019.

We would now like to go on to questions and answers, and thank you for your participation.

Questions And Answers

Operator

We will now go on to questions and answers. (Operator Instructions) Our first question is from Mr. Joseph Giordano from J.P. Morgan. You may proceed, sir.

Q - Joseph Giordano {BIO 17751061 <GO>}

Hey, good morning to all of you. Good morning, Carlos. Good morning, Fernando Leao. My first question is to ask for more clarification for June. We understand that COVID-19 was a severe impact in the first quarter and that it is very difficult to work with business as usual. If this impact continues or if it has been diluted and if you observe greater normalcy as part of your demand? And you spoke about several avenues for growth. Now -- and you also referred to what is going to happen in the industry post-pandemic. I would like to

know what is going to happen with this and what is going to happen with your other services and if you're holding discussions about health plans at especially SanteCorp.

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

Good morning. This is Carlos Marinelli, and thank you for your question. We're going to begin with the question you made about July. What we see is a very strong resumption. We see this at our units, our Patient Service Centers. Because of the characteristics of the patients, very clearly, we see something that we had already discussed previously that people have perhaps postponed, perhaps excessively taking care of themselves. We referred to this in the last call, and we have also discussed this during our interactions. I'm referring to patients in the cardiology areas as well as others, and this is something we have observed at all of our Patient Service Centers. And patients now come with greater complications, and this has become more recurrent than usual.

Now the issue of COVID-19, while this continues to grow, we do have the exams. Now we do have fluctuations, which is normal because of the characteristics of our customers. They are customers that come to our patient centers for integrated care or for tests. We do tend to have oscillations, but we observed a growth for trends. What grows more rapidly are the traditional exams, the traditional health care that we normally offer to our customers and that are being serviced by our specialized physicians. As part of all of this, we do have different exams being carried out in a timely fashion. But what is important is continuity of care.

COVID-19 has had a very important impact on the health of everybody in society. It is a health tragedy. But statistically, all of the other problems continue to occur. And we know that in the last four months, in society, there has been a significant change of behavior. And we don't truly know the impact of this. What has become very clear is physical activity, for example, this is due to social distance and the psychological effect it has on people. And several of the treatments were postponed. And of course, this may impact the health as a whole of all of these individuals. What we do know, and what we will have to learn from this is going forward, is that we estimate that the vaccine will come about at the end of the year or the beginning of next year. And perhaps, this will go away with that concern. We don't see any change of behavior in terms of the normal tests.

Now to speak about the new lines of growth, the point that you brought about is very important. When we look at what has happened, we need to understand that what happened with society in the last four months, without a doubt, will have an impact on the way in which people will behave. And this behavior will change, of course, as well as the way in which people consume health and how they seek health care. The consumers' experience in different areas becomes ever more digital. This is something that we have observed in our day-to-day work from the viewpoint of consumption, work interaction and the purchase of services in general. And of course, this also affects the way in which people relate to health care. And this is what we have observed in the medical world as a whole.

Luckily enough, all of these developments were carried out quite some time ago. We made significant and relevant investments, and we have connected with state-of-the-art

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technology that is now responding during the pandemic. It responds very expeditiously to needs. And all of this is based on a conviction that the future of putting the patient at the center of our work will allow the patient to become ever more connected. We will have experience, data and much more, and the patients and physicians will look for this more intensively going forward. And this has some positive aspects. So it will be ever more sustainable. There will be more information, which is important. It will become more transactional.

Q - Joseph Giordano {BIO 17751061 <GO>}

Thank you, Carlos.

Operator

Our next question is from Mr. Samuel Alves from BTG Pactual. You may proceed, sir.

Q - Samuel Alves {BIO 18720076 <GO>}

Good morning, Marinelli, Fernando, and all of you. This is a follow-up of the previous question, and it refers to return to normalcy. Now what is happening in terms of imaging tests in July compared to July last year? Is the realization of imaging tests the same or has it dropped? And my second question, perhaps you, Carlos Marinelli, could give us greater details in terms of your investment in these healthtechs. I'm not sure that you can share this, if you could share the economics that you have with these start-ups and how you're thinking of making these investments more profitable.

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

Thank you, Samuel. When it comes to the imaging tests, we have a constant test. And since April of this year, after the great rupture that we had at the beginning of the pandemic, we don't observe any week with a significant retraction. We still have not obtained the levels of last year in terms of our consultations, our attendance. But very quickly, we are attaining that level that we had in 2019. And this is because we have some characteristics. Now linked to my previous response, in orthopedics, for example, as people are in social distancing, we tend to have less accidents. But as we resume activities and return to normalcy, once again, these tests begin to return to normalcy. Now given the trends that we observed at present, it's that we will go back to a relative normalcy in terms of imaging tests. And of course, there's a variation. We have ultrasound, magnetic resonance. We have significant growth in MRS. And because of the resonance -- magnetic resonance carried out on lungs, the trends, nevertheless, will very quickly return to the levels that we had last year.

Now when it comes to the investments, Samuel, there are different ways of looking upon this. You spoke about the economics. Now the part of economics for us, logically, it is very important when it comes to our expectation for returns. But our main goal in terms of the investment is the ability to bring in technologies, technologies that will be scalable based on what we have already done. We made all of these investments on platforms, and they do have the legitimacy to speak about health, to speak about customers. We are protagonists in these investments, and technology ever more brings us that scalability if this is a winning technology, a top-performance technology. And this allows us to scale up

the services, guaranteeing we will have a larger number of people needing these services.

Now another aspect in terms of economics is the multichannel aspect. I can speak to the patient. I can speak to the physician. This can be done through a computer, through a laptop, through a telephone or through the iCloud. So this guarantees scalability through the use of multichannels, and it brings to the system as a whole something that is very important for us, which is sustainability. All of the investments that we make have this as a backdrop to ensure that health will become personalized, will be of excellence, but that it will be sustainable, that it will reach more people at a lower total cost at the right time and in the right place.

Q - Samuel Alves {BIO 18720076 <GO>}

Thank you, Carlos. Thank you very much.

Operator

Our next question is from Mr. Fred Mendes from Bradesco BBI. You may proceed, sir.

Q - Fred Mendes {BIO 17221617 <GO>}

Good day to all of you. And I have two questions. My questions refer to the long-term more specifically. We see once again that elective procedures have been postponed. And nevertheless, in the near future, we should have a resumption of this because of the macroeconomic scenario. So which is your vision of the medical situation if there exists the risks that you will have to absorb this potential increase in medical services? And which will be the impact of this?

Now my second question refers to genomics. And well, the part of reference to other stories [ph] is growing. Can we begin to see a more normal growth in this business, if we consider the potential size of this business? Thank you.

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

Thank you, Fred, for the questions. Regarding the elective procedures, they really were postponed. And even if we do an account on capacity and if we look at the demand throughout the year for these procedures, we could alter them, but it doesn't make very much sense. And once we are able to resolve the outcome of the patient who can go on to a therapy, of course. Now the issue at present is not how to offset this drop in revenues but instead to do what the patient needs when the patient truly requires this. So this catch-up in terms of elective procedures has had an impact on the medical situation. In April and May, we had a claim rate that was considerably lower. And as a service provider, I apologize for that. And connected with other services, we see that these procedures were simply not done. And what we see now is a catch-up, a type of continuity. And the fact that they were postponed does have a positive aspect, and we have to wait and see how all of this will work out. But it's not causing any pressure.

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When it comes to the second and third questions, we broke down our figures, once again, when it comes to the area of genomics. This did have an impact, which is perfectly normal, of course. We have some activities that are highly linked to the part of technology, which will enable us in this specific case to catch up with those diagnostics. One of the initiatives, for example, refers to the number of consultations in genomics and the personalized medicine. Nowadays, for example, we already have patients using those consultations with our specialists throughout Brazil. And more and more, we see a greater penetration of this. We have very specific knowledge, very transformative knowledge in the field of diagnostics and therapy because of this, and we're changing the way in which these people have access to therapy. But we're also transforming outcomes and lives in general that will end up having much more cost-effective results, of course, will improve the quality of life and increase our knowledge.

And we're speaking about Brazil, but our specialists have worldwide knowledge when it comes to genomics. And we have a revenue that had a positive variation in the final account, 3%. And we're extremely enthusiastic with what will come in the future. With the number of customers that we have, we have had a growth in this. We're working with partnering laboratories, and these laboratories are working with our service portfolio. But they've also had a boost in knowledge and the service levels and quality conversions with specialized physicians. So we have a highly positive outlook for the second semester, considering that we have opened up several more partnerships with these laboratories. And the intention is to continue to have an incremental relationship working with a personalized and precision portfolio, which is one of the most advanced in Brazil. Thank you.

Q - Fred Mendes {BIO 17221617 <GO>}

Thank you very much, Carlos, for your clear response.

Operator

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

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

Hey, good day to all of you. Thank you for taking my question. The first response you gave us, Carlos, was about July. Could you give us an idea of the representativeness of COVID week after week, which are the volumes ending up in July and if you expect to have a drop in the serology ticket?

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

Thank you, Vinicius. When it comes to these exams, we have seen a growth in the volumes, a much lower growth than we had in the past because the days that we had last year was extremely small. Now in terms of its representativity in revenues, it has represented 22% or 23% of our revenues. And at present, it is at less than 15% of the revenues.

Now it's interesting that you brought up the price of serology. Of course, the serology has come out of our hall of services. It's being debated. But because of the size and the volume of exams that we have and because of the growth that we have observed up to present, it has had a significant impact in terms of our results.

And I remind you that PCR serology for COVID-19 is of great importance for us. It is a highly important offer to the society, but it is not something that will have strong longevity. It is important for the year 2020 but will have a relative importance in 2021. We're offering this capacity to our customers and to the market in general. We have never stopped servicing our customers, especially in a hospital setting. But once again, our specialization goes way beyond the COVID-19. And the more timely thing that we have done in the pandemic period was this. And we have become leaders, of course, in this digital transformation.

Q - Fred Mendes {BIO 17221617 <GO>}

Another question. You spoke a great deal about digital transformation and the structural investments that you have made. Now the eventual costs that you were forced to make through your contingency plans in terms of SG&A, what is it that we can expect going forward when we think about gains of efficiency and all of this based on the cost-cutting that you were forced to do because of this pandemic?

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

I will begin to respond to this, and then Leao will give you more details on this. Now from the viewpoint of SG&A in the system, it is very important to highlight that we did not fire any of our employees. All of the initiatives that we have worked with are based on the guaranteeing the employment of our people, of maintaining labor and their income. And we're quite calm when it comes to this issue. We do have professionals that presently are working in the front line, offering highly relevant services to the population at large. And we strongly believe in rendering health services as part of our model that has been transformed, 67% growth in mobile or home services. This is what people want. This is what people need, and we have to have that capacity. When we have service at people's homes, we have an issue of the productivity of that employee that tends to drop because of some logistic aspects and because of the protective gear that is required at present. At our Patient Service Centers, we now need to have more space so as to avoid gatherings. So this is the movement. We see a space at our Patient Service Centers to offer other services that are not necessarily their primary intention. Now with the investments that we have made last year, we have been able to expand our service offer, accompanying the trend and the demands of our customers and, at the same time, working with that ever more personalized remote offer. And this is a trend that we have observed. I now give the floor to Fernando Leao.

A - Fernando Augusto Rodrigues Leao Filho {BIO 20171823 <GO>}

As you were able to observe, we have had very important initiatives in terms of decreasing our costs and expenses. Most of them refer to the steepest cost that we have in the company, which is with people. We acted very quickly during a specific period, and that was very important. We had that time window. We had to close down some Patient Service Centers. We did this very quickly at the beginning of the pandemic, and we

reopened these Patient Service Centers based on the increase in demand. And very gradually, we have returned to a quasi-normality because of the demand.

Most of the savings that we were able to capture happened during this semester because of the moment and present (inaudible). And as diligently as possible in terms of cost and expense management, we're going back to the levels of normalcy once again in accordance to the resumption of demand. And I think these are here to stay. We were seeking efficiency in most of our costs. But most of the expenses, most of the savings that we were able to obtain in this period refer to the period of crisis and not to the new level of normalcy that is subsequent.

Operator

(Operator Instructions) We go to the question of Mr. Ricardo Boiati from Safra Bank. You may proceed, sir.

Q - Ricardo Boiati {BIO 16528742 <GO>}

Hey, good day to all of you. I have two questions. The first refers to COVID-19. What is your capacity if we continue to have a further evolution in this? What is your expectations in terms of processing and demand and which will be the demand evolution for tests going forward? This is the first question.

The second refers to the health platform. There have been recent initiatives as well as older initiatives in the company. And the question is, which is the potential of the company? How is the company going to use this platform? And which would be the ideal platform? At which point is Grupo Fleury at present on a scale of 1 to 10 when it comes to the digital platform? And how much is missing for this platform to become fully aligned to the company and become the ideal platform?

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

Thank you for the questions, Ricardo, When it comes to the capacity, I think we're very comfortable. We have a processing part where we can do PCR in several different ways using different vendors, of course, using the same methodology. The company invested heavily in this area and in development to make this operational. It is a market that still has several fluctuations in terms of inputs. As you can see in the newspapers at present, some of the inputs are missing to carry out these tests. We don't have all of them. In our case, we have several different ways in which we can carry out the RT-PCR test, not only the PCR but also carry out other types of tests like the proteomics. These are tests that have a quality that is very similar to the PCR. We have the stability of the sample that is superior, and we can also use this test. And of course, the part of serology were very common terms of this platform, and we already have some alternative platforms. This is a test with different characteristics compared to the PCR. And it has been highly studied by our technical area until we were able to have a test that would fully comply with the quality that we wanted to have the serology. And we're now mapping the idea of carrying out more serology tests and working with city halls, guaranteeing the quality of these serology tests. Now our responsibility in terms of these COVID tests is very important. We know that the result, especially the negative result, can generate a significant impact on

the person. So everything that we have done at present guarantees around guaranteeing the maximum quality.

Now our processing potential continues to grow. We're quite calm in terms of the material that we need, especially for a specific period. We do have very good inventories. As you can see, they are growing, and we will receive strong support in the technical area. And day after day, we investigate new possibilities, new models, new vendors to guarantee that we will always have the greatest availability and the best quality.

Now in terms of the platform, I believe, Ricardo, that -- well, to answer, based on that scale from 0 to 10, a year ago now, if we look back six months, we're much better, and we continue to improve. So we carry out continuous investments. We are at an incipient point when it comes to health. We need to have a very strong and robust platform to make the right deliveries with the right design, with a very well-trained team, and the squads that we have set up, the products that we have developed truly respond to the market is, and we're nearly beginning. We're just beginning. Our great challenge at present is to populate this ecosystem, as we mentioned before, once again, adding that part of experience, of convenience and, of course, data from the system.

This system is becoming more and more sustainable, but we're still calling when it comes to -- of bringing more offers and to making the most of the volume of people that we have connected to these different platforms. We have 7 million lives at present only in the part of telemedicine. With the offers that we have and even when it comes to patients' records and inventories from Grupo Fleury, we have some offers in Porto Alegre, offers relating to physicians, all digital, and I think we're doing very well.

But once again, we're just beginning this very long journey, although we already have a significant degree of evolution. And we have a positive platform that is already developed, already has been installed to guarantee further scalability. And we want to use this at our PSCs, at-home services, digitally taking advantage of each of these elements to be able to build this power of gravitation, allowing several people to use this platform to gain knowledge and to have ever more, better outcome.

Q - Ricardo Boiati {BIO 16528742 <GO>}

Thank you. Thank you very much.

Operator

(Operator Instructions) We have a question from Mauricio Cepeda. You may proceed, sir.

Q - Mauricio Cepeda {BIO 21783651 <GO>}

Hey, good day to all of you. Fernando and Marinelli, thank you for taking my question. I would like to attempt to summarize all of this part of diversification that you have spoken about and for which you received several questions. If you could speak about everything that is not your core business, taking away that part of digitizing. What do you expect in terms of new businesses, primary care, business lines of this sort? Which would be the

three great avenues that you would like to pursue in the coming years? And why do you think that you would have this competitive edge when entering these markets? And the first question, when we speak about expansion within the reality of Brazil, if you have rethought your expansions going forward in terms of timing? Do you have the intention of making the most of this retracted market at present?

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

Thank you for the question, Mauricio. Now this trajectory of diversification, as I underscored very clearly in the management message and some time before, this is a path that is not new for us. And it's not something that began with the arrival of COVID-19. It's something that we had said four years ago by looking at the trends that were happening, by looking at the challenges in the sector. And this is how we decided that this was the path we were going to follow.

It's interesting to speak about summarizing. And if we're going to summarize, I don't want to be a health plan, and I do not want to be a hospital. I don't want to work with management alone or deal with the complexity of a hospital. Now we think that refers to offers in the middle of these two, I think that we can offer something that will bring greater efficiency, that will bring technology, making sure that the technology is accessible for the entire sector. We have the capacity and especially the legitimacy in the medical community and our customers of acting with these services.

You asked about what would make us be different, have success. All these are singular characteristics in our company because of our history, that legitimacy is something that the customer knows. It touches the customer. And when it comes to critical information in the treatment with patients, the outlook of treatment, we have this legitimacy among physicians as well. And what sets us aside again is that issue of multichannels. We have more than 250 service centers from Maranhao all the way to Porto Alegre.

We have developed a competency in terms of servicing the customers in their homes. This is something tested and proved our mobile services, and it shows that many of these customers would like to continue to use these mobile services. Besides satisfaction from services offered in this mobile service, the infusion centers, for example, that we have begun, we now have partnerships with pharmacies to be able to treat patients. And this is going to become something that is very usual, very common.

We have our population that is aging. Many people have restrictions, especially in this quarantine period and to have this home service (Technical Difficulty) ensuring that people can avoid leaving home by offering these mobile services. And this is the new trend of staying within your home environment for longer periods of time.

And another point, of course, is our experience, that intense and deep experience because of the studies and because of our quest for technology throughout the world, such as Sweetech, to bring scalability to this model. We're making the most of these technologies to generate added value, to have more knowledge about our patients and to have a more convenient use of all of this in terms of helping to ensure that it will be more scalable. This makes the relationship of patients with physicians and patients with

their health. And this quest for quality, this is something that is very different and will be a trend in the future.

We're speaking about the sustainability of the sector where everybody comes out winning. The physician, the patient, the operator, the entire system ends up winning. Now this is a proposal that is based on legitimacy, on scalability, and we do have significant differentials that are critical so that we can become the main operators of this system.

A - Fernando Augusto Rodrigues Leao Filho {BIO 20171823 <GO>}

Thank you for the question. This is Fernando. Now for the second part, the inorganic growth, I can say that our M&A team is always working actively and has continued to work during this period of pandemic in this semester. We have several avenues for growth (Technical Difficulty) in our core business that we can continue to seek development (Technical Difficulty) that is linked to the diversification of our business, new services.

As you mentioned at the beginning of your question, M&A is also focusing on this, and we are going to engage in projects that will complement our service offers as part of that ecosystem and our business platform mentioned by Carlos.

Now in terms of strategy, this refers to the notice that we issued yesterday. We're looking for strategic partners in this environment to make strategic investments for the platform, of course, and to ensure that the technology will be aligned with our outlook for the platform in the future. Let us recall that we prepared very well for this moment. It's been 3 or 4 months. We postponed the payout of dividends, and we had very little cash burn during this semester. This is very important.

So in terms of resources and cash availability, that is more than BRL1 billion, the company is doing very well. And when it comes to the level of indebtedness of the company, it is still very low. We have a scenario that is highly favorable to speed up and fill out this ecosystem, not only with the present day offers but also offering novel things, guaranteeing that we will have good products and a winning connection with patients and physicians on the population at large.

Q - Mauricio Cepeda {BIO 21783651 <GO>}

Thank you.

Operator

Are there -- as there are no further questions, we will now end the Q&A session. I give the floor to Mr. Carlos Marinelli for his closing remarks.

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

First of all, I'd like to thank all of you for participating in our conference call. We're attempting to reinforce our responsibility as a company. As we have done in our fight against COVID-19, this is our social responsibility. We have maintained jobs. Now the issue

of knowledge, how to return this knowledge to society through surveys, surveys on the vaccine, working with the city hall of Sao Paulo and much more.

Now it has been 4 months since we have been living intensely this moment that has completely transformed the way that we live in society, the way that we behave, not only now but also going forward. So I would like to thank investors and analysts for working closely with us, for acting very responsibly and working closely with our teams, even though we maintain social distancing. And I would like to thank our 3,000 physicians and employees who have always looked for what is the best for the patient.

Now this shows you what can be done with a strong entrepreneurial culture and with values that are expressed in actions in the day-to-day. And also speak about the pride that we feel for what we have done here, not only because of the evolution but also because of how we entered this battle against COVID-19, a battle that is not over yet. We still have several moments that will be challenging, but this will remain in history as being a special moment, not only for the company for -- but for society and in terms of medical knowledge in Brazil. My pride and my thanks to all of you for working very closely for us and for the responsibility that we observe at present. We hope to see you in our future interactions and to have good results in the third quarter 2020. Thank you very much.

Operator

The Grupo Fleury conference call for the second quarter 2020 ends here. We would like to thank all of you for your participation. Have a good afternoon.

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