

Q2 2018 Earnings Call

Company Participants

- Grace Cury de Almeida Gonçalves Tourinho, Chief Financial Officer & Investor Relations Officer
- Pedro Henrique Rocha Nocetti, Investor Relations Manager

Other Participants

- Joseph Giordano, Analyst
- Luciano Campos, Analyst
- Marco Calvi, Analyst
- Rodrigo Gastim, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen, and thank you for waiting. Welcome to Qualicorp's Conference Call to discuss the results of the Second Quarter of 2018. We have with us today, Mrs. Grace Tourinho, the CFO and IRO; and Mr. Pedro Henrique Rocha Nocetti, IR Manager.

This event is also being broadcast live via webcast and may be accessed through the website, <http://www.qualicorp.com.br/ir>, where the presentation is also available. This event will be recorded and participants will be in listen-only mode during the company's presentation. After which, we will begin the question-and-answer session and further instructions will be given.

I now turn the floor over to Mrs. Tourinho who will start the conference call. Mrs. Tourinho, you may proceed.

Grace Cury de Almeida Gonçalves Tourinho {BIO 17244138 <GO>}

Good morning, everyone, and thank you very much for participating in this earnings call. To you who have been our investors for some time know that this is the most challenging period of the company, between July and September. This is when we readjust most of our trials, accounting for almost 90% of our revenues and 83% of the likes in our portfolio, and we made the readjustment precisely in this period.

Thus, I'd like to start this call by give you an overview of this period. We have set up a project involving all areas of the company. We have proactively communicated the annual

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readjustment to our customers, and for each one of them, got additional downgrading offer so that they could migrate, if needed, from one plan to another.

We have developed also products together with the operators in order to be able to properly meet the needs of our customers in this period in order to make available more affordable health insurance plans in cities such as São Paulo, Brazil and El Salvador in the same format we already had in Rio de Janeiro.

These products, which are available in our retention today, will also be in the market starting in September 10 in order to enhance our sales force. It is important to highlight the performance we have (03:09) managed to achieve in July 2018 even with an average rate annually by 17.7%. With that, we could improve our performance vis-à-vis the previous year by 35% comparing the same period in 2017.

Regarding August, we have partial results. Of course, August hasn't ended yet, but it's very close to what we had in July. Just to remind you, in August 2017, we (03:49) 32,000 lives. That was in 2017. And at the least, the first 16 days of this month points to this same percentage, 35%. We continue to work in order to deliver the best value possible to our shareholders, and our focus today is to focus - our focus today is to retain our customers.

Now, I give the floor to Pedro, our Investor Relations Manager.

Pedro Henrique Rocha Nocetti {BIO 20904123 <GO>}

Thank you, Grace, and good morning, everyone. I'd like to start on slide 4, talking about portfolio. I think that the first highlight here is the improvement in the churn levels where we finished the second quarter with 94,000 lives leading the company.

I think that we have started to point that out in the previous conference calls that the competitive scenario was more favorable and that the retention work with new products in key areas, as Grace has mentioned, have already started to provide some results. So, when you compare with the first quarter of this year, we see an almost 4% improvement. And when you compare with the second quarter of last year, we have an even greater improvement.

We have to highlight that in the second quarter of 2017, we had people leading the portfolio because of the internalization of the health club. But even taking that into account and when I make the comparison, we have an improvement of almost 50% in the churn level when compared to the second quarter of last year.

Regarding gross adds, it's growing but it's growing in the sequential comparison. And it's important to say here that we have total sales in retail. This is day-to-day sales by Qualicorp, a result not only of the products but also of the enhancement in sales campaign. So, all these initiatives taken by the company are starting to show results. But we always want more, of course. But anyway, we have already started to see some response regarding all the work we have been doing. It's important to mention here the health club segment is 27% of sales in the second quarter 2018.

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And before I talk a little bit about small-, medium-sized businesses and TPA, I would just like to add to what Grace has mentioned. Well, now is a time to be very close to the customer providing alternative, the affordable products and investment in good service. So, we are very confident for the second half of this year because the indicator points to a clear improvement, 35% in July, August, between 30% and 35%.

I also think the scenario is more favorable, a better readjustment than last year. The dispersion between readjustment in different portfolio is better. We don't see any readjustment - are way above the average. And all this leads to better retention and contributes to a portfolio performance that will be better in the second half of this year when compared with 2017. So, TPA has not changed.

The changes in the annual comparison are due to closing in TPA contract that has been mentioned in the previous quarter and also the increase in the small and medium businesses portfolio has to do with one acquisition. As we mentioned in previous call, relation to corporate contract, we had a reduction of 430,000 lives. We closed a contract, but not much impact on revenue volume of Qualicorp. So, this is not a trend of worsening in the corporate segment and other segments, as I'm going to mention in the next slide, slide number 5, talking about net revenue.

Then, here, since the first quarter, we have been reporting revenues based on IFRS 16 where you no longer have recognition of revenue of royalties by contracts. So, what we used to include or report in revenue, now we are reporting in net cost regarding what we get in terms of royalties.

Regarding the revenue itself, we have a small BRL 483 million, a slight reduction when compared to the annual revenues because of a smaller portfolio and a small increase because of the brokerage revenue we received.

Now, going to slide number 6, talking a little bit about costs. Gross margin grew in the annual comparison. Here, we could capture some value regarding expenses with personnel and royalties. As we can see, the decrease, in relation to the first quarter, this is very much related to cost related to payroll, particularly payment to the executives (09:38) and call center and services provided, and also greater cost with medical services to employees, and Qualicorp pays for medical expenses of our coworkers.

Slide number 7, talking a little bit more about administrative expenses that increased when compared to the previous year. So, it increased around 15%. And comparing with the first quarter this year, it increased by 16%. Here, I'd like to say what impacted most this line in the second quarter of 2018. We have payments to executives, non-recurring increase in co-workers' medical expenses as was the case in the costs, leading to an increase in TTR 2017. And we paid TTR in April after closing the balance sheet of the previous year.

Since we made the statements, we calculated all targets, not only overall targets of the company, but also department target and individual targets for every worker. So, we make this adjustment and maybe we can pay some more that was forecast for some

time. These expenses with personnel in the second quarter goes a little bit up because of this profit sharing program.

Regarding payment to executive, I'd like to clarify one thing here. It happened because we no longer have the stock option program in this company. We don't grant - we haven't granted new stocks since February 2017.

The company, as have been reported before, put together a new program for restricted stock, and this program is a great tool. And actually, it's been approved in April. However, in the past 12 months, we didn't issue any new stocks and then we didn't grant any new stocks. But the company paid some bonuses to executives. But I stress, this is not a recurring payment. This plan was approved in the last assembly, and we will use it as a tool to repay executives.

Regarding increase in other administrative expenses, this is very much related to regulatory contingencies. The graph below shows the trend in administrative expenses. The reversal in the trend is very much related to nonrecurring expenses. So, the company is following its guidelines to rationalize. Expense would be increasingly more efficient and this hasn't changed. This is still the same.

Now, let's look at selling expenses, slide number 8. Here, I remind you once again the impact of IFRS 16. We are no longer recognizing a commission in sales competence, and this applies to internal and external sales team, and we capitalize amortization for the period of 24 months.

In order to guarantee comparison, we maintained amortizations inside selling expenses. And if we consider these commissions as expenses, this would be BRL 60.7 million this would be BRL 16.7 million second quarter 2018 compared to BRL 14.9 million in the first quarter this year and BRL 18.8 million in the second quarter of 2017.

Regarding third-party commissions, these are just recurring commissions, and co-brokerage is a policy we have, which is linked to the sales channel performance and annual reduction. And sequential improvements will be related to the performance of our sales partners and how much we will compensate them in order to be better for the company.

Now, I would like to talk a little bit about sales campaign. It's something we have been working on and we are once again investing more heavily. We have been doing so in the past few months. So, investments have been made. And the reason why you don't see any change in this line, particularly when comparing with previous periods, is because we understand that this campaign model fits in the practices of IFRS 16. So, it's a campaign model and the compensation is fully linked to a new line because it's not commission, thus we decided to activate BRL 6.5 million in awards or compensation second quarter 2018. So, they will be active in the next 24 months as we do with sales commissions.

A message for the future now. Our sales force is in the engagement of the brokers and we are not afraid at all to review it and, if necessary, increase and enhance our awards

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policy, provided this will bring us (15:45) that will be profitable for the company. We did this review earlier this year and we can do it again if we think this is strategic.

Having said all that, I would now give the floor back to Grace, who will talk a little bit more about allowance for bad debt and other financial highlights. Grace?

Grace Cury de Almeida Gonçalves Tourinho {BIO 17244138 <GO>}

Thank you, Pedro. Going to slide number 9, bad debt, so we have as the basis IFRS 9 and we started to report not only actual losses but also forecast or expected losses based on a history we have of default. So, allowance for bad debt is stable when compared with the first quarter. However, it's gone up when we compare it with the same period of the previous year 2017.

In our analysis, what can we see here or highlight as a worsening, the Aliança segment. Actually, it has been getting worse, particularly because of the exposure of most Aliança customers, members or public organizations and they are having a hard time making payments in some areas of Brazil, and we have had more allowance for bad debt in this part of the business. And this is related to the current economic hardship in some Brazilian states and in some Brazilian cities.

I would also like to highlight the work we have been doing in order to try to recover credit from customers, giving discounts and making campaigns in order to have the money returned to the company. And that had already helped us recover over BRL 12 million in the first half, 48% above the recovery of the same period 2017.

I understand that for the remaining of this year, our retention work will be extremely valuable for us to improve the allowance of bad debt. By keeping customers with us prevents an impact of default on loan payment.

Going to slide number 10, financial income. This is a little bit of what has been happening in the previous quarters. Starting October 2017, we started to charge 2% fine for delay in payment. We used to charge 10%. And this is one of the reasons why we have had a decrease in our revenue compared to the annual numbers. Regarding the investments, we had a reduction in SELIC, the basic interest rate and this impacts our debentures.

Now, regarding financial expenses, if you recall, we had part of the debt or payments of acquisition of Aliança, which used to be readjusted. Now, because of the payment in 2017, we do not have that in 2018. Regarding interest rate on debentures, we made payments in the second and fourth quarter every year.

Now, slide number 11, EBITDA. Here, we had a drop in the margin in the quarter, which is basically related to occasional expenses with personnel, as mentioned previously by Pedro, and also operating expenses aimed particularly at retention of customers, which has and will probably still have a positive effect on our churn. I highlight that we still focus on having an efficient company with a lot of room for further improvement.

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Going now to slide 12, net income, comparing second quarter 2018 with the second quarter 2017. Here, we have to mention that we have this 24% decrease in the year due to the great impact of Potencial last year. Our tax rate closed the second quarter 2018 in 36.5% against the second quarter 2017 when the rate was 37.6% and 37.3% in the first quarter this year.

And the tax rate is still high for the level we want to achieve. We have been working inside the company so that we can reduce this tax rate. I think that in the next quarter, we will see some improvement in this tax rate. This will probably be presented in the next quarter. In the first quarter, I talked about corporate restructuring and opportunities to add or deliver value to our shareholders.

By the way, in June, we approved a change in the bylaws of the controlling companies. Now, we'll have brokerage activity that's part of the holding quality Qualicorp SA. These opportunities are still here, and the company will work on them in order to deliver the next modality to the shareholders at the right time. The current cycle requires total focus on administering or managing customers not only to repaying the portfolio, but to start growing again.

Slide 13, CapEx. In May 2018, we basically signed a contract with Hapvida, BRL 10 million, in order to get preference rights in the selling of health care contracts for five years. Regarding the net debt which slightly increased in 2018, and it's important to highlight here that we have used our additional cash to pay and anticipate the dividends to our shareholders. In the first six months of this year, we have already paid out BRL 355 million dividends to our shareholders, accounting for almost 7% of the yields for this period in the annual value.

Slide 14, cash flow. After CapEx of over BRL 83 million in the quarter, considering expenses with personnel, payment of debentures interest when compared to the second quarter of 2017 improved over 20%.

I would like to thank you all very much, and now we will open for questions. Thank you so much.

Q&A

Operator

Thank you. Now, we will start the Q&A session. Rodrigo Gastim from BTG Pactual would like to ask a question.

Q - Rodrigo Gastim {BIO 19694950 <GO>}

Good morning, everyone. I have actually two questions. The first one, Grace, in the point, you started talking about it has an improvement in churn in July and early August. I'd like to understand that better based on these 45 days you have. What's your changed in your view for the second half? I know that it's early to talk about the second half, but there's

improvement in churn. So, what are the outlets you have for the second half? This is the first question.

Now, going to my second question, how do you see the average ticket account? If we look at the consolidated, we improved in the average ticket because of the downgrading and change of the mix. Could you please help us out in this regard? Maybe there's improvement in volume because of new products and downgrading, so how that will impact the average ticket and how this will impact this company as a whole.

A - Pedro Henrique Rocha Nocetti {BIO 20904123 <GO>}

I will start and then Grace can add to my answer. Regarding the second half, we see significant improvements regarding last year. But of course, we still have a long way to go in the second half.

Last year's August was a very tough month. We lost almost 32,000 lives. However, it's been pointing to an improvement ranging from 30% to 35%. I believe that they remain forward because we have some products that only started in the retention channel. And now, in September, they will be offered elsewhere and maybe we have some maintenance and the sales phase or maybe we can have - even have the increase in sales. So, we have a much better trend than last year, which doesn't mean that we will not lose life. What we are estimating here is that we're going to lose much less than what's the case in the second half of 2017.

Now, going to your second question, the average ticket dynamic is strongly impacted. We changed this readjustment process slightly. Now, we have an active offer of products to virtually all customers that we're getting this readjustment. There's raise in price and, with that, you increase movements for the portfolio as a whole and we have been retaining most of the customers due to downgrading. So, if we are talking about a lower raise in prices or readjustment in prices, we are talking about a readjustment in average ticket that is lower than what's the case last year.

Q - Rodrigo Gastim {BIO 19694950 <GO>}

Okay. I got it. It's very clear. Well, this improvement, you started to see in July and are seeing in August and that you expect to see over the second half of this year, can you try to share with us how much is this related to a macro improvement in the margin or if this is due to the fact that for this year you have many different products, downgrading products. So, how much of this improvement comes from one sector or the other factor? Could you say that?

A - Grace Cury de Almeida Gonçalves Tourinho {BIO 17244138 <GO>}

Well, actually, I can show you what we feel. What we feel is that this improvement is because we have made available more affordable products to our customers. And we - in July and August, we see a greater downgrading. We have more downgrading. That was used to be the case before. We have a higher level of downgrading. This is stronger in our company, and the feeling we have is like customers do not want to start having their health insurance. The thing is that often they are not able to pay it. This is what we're

trying to build together with our operators, together with our partners, and what we manage.

Well, (28:18) what we wanted. We wanted to have affordable products in every place where we work. But at least, we got to have these more affordable products in 80% to 90% of the places where we operate like São Paulo, Brazil and São Paulo, and then Rio is doing well. I don't see this as an impact of the improvement in the macroeconomic scenario. But we hope that this improvement in the macroeconomic scenario will take place after the presidential elections starting in January.

But we cannot just cross our arms and just stop the macroeconomic scenarios to improve. We cannot do that. We have to try to give alternatives to our customers with better service, being better prepared, with better trained people. So, an effort was made. A huge investment was made by the company, so that we could really retain and maintain our customers. This is a big focus now. But I don't see yet a real improvement of the macroeconomic scenario that helps us. When this happens, when the macroeconomic scenario gets better, this will be very beneficial to our company.

Q - Rodrigo Gastim {BIO 19694950 <GO>}

Thank you so much, Grace. That was great.

Operator

Luciano Campos from Bradesco BBI would like to ask a question.

Q - Luciano Campos {BIO 16181710 <GO>}

Good morning, Grace. Good morning, everyone. My first question is related to the raw material behind the work you do, the products for retention and future growth and the relationship with the providers of this product, which are health insurance operators. We have been talking to many of these operators, even with big operators, and they mentioned an interest in providing more product - with more affordable products. But on the other hand, they say that they have to have a new pact, so to say, regarding brokerage. This is one aspect.

Then, the other thing, when we look at your numbers for the second quarter, making a pretty straightforward comparison, brokerage revenue by member divided by the administration rate by member, we see a change. It used to be 47%. Now, it's around 41%, 42%. Could you please, Grace, if possible, say something about it? These trends in the market having a better offer with more products in exchange for a change in this brokerage relationship. And secondly, if this will have - or if this has had a change or it has had an impact, sorry, in the numbers we see in the second quarter, this change in brokerage rates.

A - Grace Cury de Almeida Gonçalves Tourinho {BIO 17244138 <GO>}

Thank you for your question. First, I would like to show you the scenario. Actually, brokerage revenue of Qualicorp has in the market is one of the lowest brokerage

revenues when compared to the market at large.

Just to make this very clear, actually, Qualicorp has a default nonpayment rate for its current operating expenses, seven days acceptance, all the documents, meaning all the red tape, all the bureaucracy is here, and we get the same amount of a regular market broker. This has been made very clear.

Now, Qualicorp is open to have new products, more affordable products. You shouldn't doubt that. As I have been talking to you, part of the revenue regarding brokerage, it's important to look at it as a whole between brokerage and the brokers we have within the administrative company. If you look at these things as a whole, we see that we decreased a little bit in the broker, but it's been growing in the other end.

This is – well, we work together with the operator, right? And particularly, we are willing if this brings improvement so that we can grow again. But we will try, whenever possible, to keep our brokerage margin as a whole. So, don't look just at our brokerage revenue, but look at it as a whole. This is important, right? So, it's an equation we have in our company. So, usually, our side is offset. Did I manage to answer your question?

Q - Luciano Campos {BIO 16181710 <GO>}

Yes. Can we be optimistic with this new product or it's still too early?

A - Operator

To say that we will really have more products be made available. I have to be frank with you just for you to understand. In the past, we used to have that product in Rio de Janeiro. However, together with the operator, only after – almost three years after the launch of this product, we were able to relaunch it in Brasília, São Paulo and Salvador.

We're trying to have partnerships with other operators, partners who are willing to enter into this market with a lower ticket, particularly in the hard macroeconomic scenario, but it's not that fast really. And the difficulty operators have, which we understand, is that we don't have a market like hospitals, clinics, labs you have in Rio. We are different from the ones you have in São Paulo region and they're different from the hospitals, clinics and labs in Salvador. It's not easy for operators to bring more affordable products to the market.

So, what is – so, the difference is basically what you are going to be seen. It's not easy. But, anyway, we have been working very hard in order to make more products available. And I think that when one operator launches this new product into the market, the others will follow more quickly. So, we have that movement. That's for sure.

And another important thing to highlight here is that we have a movement in the market, which I cannot prove yet. We have to wait a little bit. But anyway, we have a movement particularly by hospitals. I think hospitals are more partners to the operators right now because hospitals want to have many patients in their hospitals. They have a lot of installed capacity, and the hospital installed capacity is not being matched fully. And I see

that many hospitals, many clinics and many labs are sitting on the table in order to try to get other forms of treatment and visits so that they better serve our customers.

I already see an improvement there, and this will help us next year so that we don't have to make a readjustment on average of 17%. So, we adjusted that last year, but still this is a too big raise in prices considering the current interest rates we have in Brazil. So, I see an improvement in this direction. And I hope that this period next year, we won't have to raise the price at this level.

Q - Luciano Campos {BIO 16181710 <GO>}

Another question. I don't know if you look at the figures that way. If you do, maybe you can give me a more quantitative kind of answer, otherwise you may give me a small qualitative answer. If you separate the first group that entered in the company last year, the other group of customers, older customers like associations, and another group, older patients of open associations. If you look at the term profile of the different groups, how do they compare?

A - Operator

I don't have that information. We do compare, but I don't have this information here to tell you now. But I can tell you that quickly after this call. Qualitatively, when you look at the past two or three years, we had a greater share not only in sales, but also in terms of portfolio of health clubs. These are lower-income customers, and the turnover of the segment is much higher than the turnover of the ramp. Hence, when we have some closed associations, the profile of the members of the closed associations, we have higher income people there. So, the turnover rates are smaller.

Now, the quantitative answer, we'll discuss here and we can talk to you later.

Q - Luciano Campos {BIO 16181710 <GO>}

Okay. Thank you very much for your answer.

Operator

Joseph Giordano from JPMorgan would like to ask a question.

Q - Joseph Giordano {BIO 17751061 <GO>}

Hi there. Good morning, everyone. I have two questions. Going back to churn in this profile of cancellation, you mentioned Aliança, which I think is a portfolio that has a greater number of premium plans than the average of the company. So, how is the churn between premium plans and regular average plans and basic plans? I imagine the basic insurance plans have a higher churn.

And more than that, in which part of the pyramid do you see more cancellations? And what is the average ticket of customers' entries and how does it compare to the

company? When we look at the company's average ticket, has it decreased a lot comparing year-to-year?

A - Operator

Great question. Let me just ask you - actually our sales, just for you to understand, in the fourth quarter last year, average sales is above 370, Aliança; 160, health club; Quali, around 500. And then, the consolidated, we are around BRL 400 per member for each one of these different segments (40:23).

Regarding the portfolio, we have Aliança with BRL 470; health club, Clube de Saúde in our portfolio is around BRL 190; and Qualicorp, BRL 730, roughly that number. On average - and the total consolidated figure for the company, we have around BRL 630 in our portfolio.

I would like to add the following. Actually, when you look at the Aliança segment, it deals with many public employees, civil servants, people working in local state government, and with the situation in many different states not only Rio and São Paulo.

But we have a crisis in many different public organizations. And sometimes, employees don't stay because they're not paying from the government and not getting their salaries from the local or state government. That's why sometimes from Aliança, we have an increase in the allowance for bad debt.

Regarding sales, it's not secret. What we have been reinforcing in our offers since earlier this year is more affordable products, and more affordable products have a difference regarding the figures when compared to the Qualicorp portfolio, which was built with a very solid basis of high-end - high to high-end customers - premium customers. So, we have this different discrepancy.

So, in total, sales today are around BRL 400 versus BRL 720. And 50% of our portfolio are customers where the premium products, 30% of their customer portfolio have around - accounts for around 50% of our revenues.

Q - Joseph Giordano {BIO 17751061 <GO>}

Perfect. Regarding cancellation, people don't have your credit (42:56) again.

A - Operator

Well, the cancellation profile is between what is being sold and the stock profile. So, the cancellation profile is for medium-income people. So, this is individual. They momentarily lose their income or maybe they are affected with this raise in price, and they are no longer able to pay. So, cancelation is more in this average income range customers.

Q - Joseph Giordano {BIO 17751061 <GO>}

Are you seeing a migration already to corporate portfolios or is it more individuals who are no longer able to pay?

A - Operator

Joseph, actually, it's much more related to being able to pay. The flow to the corporate portfolio, I have to tell you that it does exist. I could estimate it around 20%, 25% total of people who just give up. But I don't see such a big increase.

This is really much more related to inability to pay. And we have a survey here showing that almost 50% are just giving up and are just going to the public health care system. So, they're not able to pay any health insurance and they just resort to public health care system.

So, at the right time, if you had a more favorable macroeconomic situation, surely, people will return because anyone who wants - in public hospitals, if they see that, if they experience that, they will definitely, when they can afford again, go back to the private health insurance.

Roberto Otero from the Bank of America would like to ask a question.

Hello. This is Pedro (45:13) actually. Thank you for this opportunity. Congratulations for the results. Regarding bad debt allowance, simply higher than expected for this quarter, particularly due to Aliança. Do you have an agreement how the allowance for bad debt will behave in the next periods?

Hi, Pedro (45:37). Actually, this line, allowance for bad debt in July, well, I didn't see a very significant change. What is important to say here is the following. The initiative of having new products and offering cheaper products is designed not only to retain customers, but also try to avoid losing customers because they don't pay because of default. So, what I'm trying to achieve in the second half of 2018 is to no longer have such a big difference in allowance for bad debt as of the case last year. So, we are striving not to have such a big decrease in bad debt in the second half of this year. But we analyze that on a day-to-day, on a month-by-month basis. So, so far, I haven't seen any worsening of the allowance of bad debt in July.

Great. Thank you so much.

Rodrigo Gastim from BTG Pascual would like to ask a question.

Q - Rodrigo Gastim {BIO 19694950 <GO>}

Just another question. Talking about future use of cash flow. The company is still generating a lot of cash. It has a robust cash flow and you mentioned the change in the corporate structure. Could you please give us an idea, a schedule what are the next steps to be taken if you have an extraordinary payout of dividend? What are your plans and what can we expect?

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A - Operator

Hi, Rodrigo. Thank you for your question. We are trying to optimize our cash flow as much as possible. Actually, we have anticipated the payment of dividends 2018. BRL 355 million was paid to our shareholders this year so far.

Right now, our focus are our customers, to retain our customers, our clients. This is our focus now. We will now incorporate the brokerage company into our holding company. It is within schedule. In the plan today, we got an approval for that. And right now, now the holding became a broker company. And we will have like 30 to 40 days for us to get the revenues from this brokerage company. This is the first thing.

And with that, we will probably benefit regarding - because we had a holding company with no revenue, that would be soft. It will be a little (49:04) soft in this period.

Now, regarding the next step, we have been working internally in order to add more value to generate more value. So, I'd like for you to know that our focus now is we think customers, then later we will go to the second, third, and fourth step. But be patient, please, because we will be doing that when the right time comes. I don't know if I managed to answer your question.

Q - Rodrigo Gastim {BIO 19694950 <GO>}

Great. Great. Thank you so much.

Operator

Marco Calvi from Itaú would like to ask a question.

Q - Marco Calvi {BIO 19854632 <GO>}

Hello. Good morning. My question is about this expansion in the health club in trying to improve sales. Could you please give me some information regarding the difference in the profile or lives in health club regarding brokerage and other things?

How do you see the return from these lives regarding the expansion in your bases, vis-à-vis the average of the bases? This is my question. I think there is a difference, a significant difference in the return from these lives when compared to the bases of your company.

A - Pedro Henrique Rocha Nocetti {BIO 20904123 <GO>}

I'll start. Grace can add later. Actually, when you think about the logic, administration fees and brokerage, we don't have a very significant difference, percentage wise. Now, we are talking life profile here, which is 3.54 times lower than a Qualicorp ticket. So, your gain per life is smaller. Now, regarding how we see this basis of customers, well, this product is very easy to sell. However, considering the profile of who is buying it, considering the target margins, these are individuals who are severely impacted by the market if you have a strike. Anything could make them give up the insurance plan turnover. Therefore, it's higher than the bases. No doubt about that.

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A - Grace Cury de Almeida Gonçalves Tourinho {BIO 17244138 <GO>}

I would just like to add to what Pedro said because that is strategic. This is the first time this individual will ever have a private insurance company, and this is very important particularly when we - this is very important where people could have an improvement in macroeconomic condition. So, this person is entering this plan and later may buy more premium plan. So, we use the health club in a different brand. It's not Qualicorp, it's a different corporate number so that we work in a different way delivering value to the company.

So, I think it's a beginning, and we are working on it differently and it does generate value and opens up a major opportunity for us. And particularly, in strategic terms, considering the competition we have in the market. I don't know if made myself clear.

Q - Marco Calvi {BIO 19854632 <GO>}

Yes, you were. Thank you both.

Operator

We now close the Q&A session. I'd like to give the floor back to Mrs. Tourinho, CFO and Investor Relations Officer, for her final remarks.

A - Grace Cury de Almeida Gonçalves Tourinho {BIO 17244138 <GO>}

Thank you very much for this conference call. And we are all available to clear any doubts, any question you have. Thank you very much, and have a nice day. Thank you. Have a nice day.

Operator

Qualicorp conference call is closed. We thank you very much for your participation. Have a nice day.

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