

Q4 2021 Earnings Call

Company Participants

- Otavio de Garcia Lazcano, Chief Financial Officer and Investor Relations Officer
- Paulo Junqueira Moll, Chief Executive Officer

Other Participants

- Fred Mendes, Analyst
- Gustavo Miele, Analyst
- Mauricio Cepeda, Analyst
- Ricardo Boiati, Analyst
- Unidentified Participant
- Vinicius Figueiredo, Analyst
- Vinicius Ribeiro, Analyst

Presentation

Operator

(Starts Abruptly) VP of Operations and we have the medical VP as well. This will be recorded and will be available at the website -- Investor Relations website of Rede D'Or. After the presentation, we will do the Q&A and we will continue.

Before we start, we would like to clarify that anything that is said during the earnings call regarding the business perspectives of Rede d'Or Sao Luiz's projections, operational goals, financial goals are based on beliefs of the Board of Directors. Based on information that is currently available, any future financial situations and operational results, they are involve -- forward-looking statements are involved depending on many factors and situations that might not take place. Investors have to take into consideration that many operational factors can affect the future development performance of the company and might lead to different results.

Now, I would like to give the floor to Mr. Paulo Moll and he will start the Q&A. Mr Paulo?

Paulo Junqueira Moll {BIO 22158576 <GO>}

Well, good afternoon, everyone. It is great to be here. We have the year of 2021, a lot of growth and operational -- we have lot of assets in the first semester and we have the first semester here. We have been growing 32% and also we have an occupancy of 45% and this is in-line with the records of the company.

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We are getting great results and we have 17 M&A since the IPO and we have 2,200 beds, including the entry of four new states and the integration process. We concluded the works at the Maternidade just started in Sao Paulo and the expansion of Hospital Sao Luiz Osasco, which should be operational soon. And we also have 40 different projects under development and entire team in that sense. We have our ESG. We have the best practices. We have the Annual Sustainability Report Edition 2021 that will be published. We would like to highlight that we earn the Empresas Estadão, they awarded us a sustainable company by the Commerce Industry and Services Chamber of Brazil. We have invested over BRL300 million in fighting COVID-19. We also increased 60% the amount of inventory in the reduction of the greenhouse gases going over 48 hospital units and -- from 48 units in '20 to 78 units in '21, also we -- the association was SulAmerica. On April 14th, the shareholders of both companies will deliver the agreement.

We have great admiration for SulAmerica. This is a company that is over 127 years old and it's a great process. Great historical partner of Rede D'Or. This is something, in our opinion, that adds value to both companies. And we have a combined revenue of over BRL40 billion. It improves our investment capacity and the strategy of growth of Rede D'Or does not change. We have 300 different healthcare plan operators in the same way SulAmerica will have their own relationship with the market. The companies work in similar geographies. And we will comment this thereafter. And also with a lot of joy, I wanted to highlight that after the approval, we are going to have new members of the Board of Directors of Rede D'Or. We have entrepreneurs that we admire deeply and it would be great to have them here also. We will remain in the new business and this shows the trust that we have in SulAmerica and they in us. And we have a great knowledge of the healthcare sector here in Brazil.

I will be available for Q&A. And now I'll give the floor to Otavio and he will talk.

Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Thank you, Paulo. Thank you once again. Good morning, everyone. Well, let's continue with the issue SulAmerica. We know the combination of business. And you understand that we are in the process that is undergoing that contemplates the approval of shareholders. And before we have that executed and concluded, we have to go over all the stages. And that's why we are adopting a very conservative communication system, but we are talking qualitatively about different areas and then we will continue with the analysis and we can thereafter -- we can talk about data on synergy and financial values.

And we've seen several areas where we can generate synergies for the shareholders of these -- this expanded company, an area that is very obvious is the use of the capital structure of the expanded company in such a way that the company can use real estate assets to release cash and SulAmerica has the capital requirement for their own business, of course. And another area to start these synergies is the reduction of transactional costs between the companies. And the third area is the debt reduction with the (inaudible) Rede D'Or has a capital structure that is very conservative as our subcontracted capital costs very well worked. We end up necessary dilated and SulAmerica is cash positive and has generated its records numbers that are very good and will contribute to the expanded company with a significant EBITDA and this will allow us to reduce

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indebtedness and net leverage of the combined company. So we can capture other opportunities for investments and accelerate investments and/or distribute dividends sooner for the shareholders without any impact to the capital structure for the expanded company, for the combination of company.

Well, another one is one of the big strengths is the procurement, the negotiation with hospital and also the purchase of medications. We will have synergy with this procurement of SulAmerica stand-alone. Another area is the acceleration of reduction of risk and the project of the organic growth, notably the greenfield projects. And last but not least, we imagined that we're going to have administrative savings and fiscal and tax efficiencies that invariably the combined or expanded company will capture more benefits for our shareholders.

So, I'm on Page 6, the operational indicators. This page should be analyzed together, but one important message is that even though there is a seasonality in our sector, when the fourth quarter that has had great results and this company hasn't had any negative aspects here in its leverage. Let's start with the graph. On your left, we've had a great -- a record number of surgeries in 2021. 107,000 surgeries, a growth of 31.7% and that's an increase of 31.7% in regards to the first quarter '20. Also year-on-year, we had an increase of 45% in total surgeries of the company. This is a second record. We have the -- this is a record for the company and this is an evidence of the strength of our relationship, the quality of our collaborators, of our personnel and the technology that has implemented in our units. On the right, you can see the same information in the concept of same hospital total surgeries.

On Page 7, still operational indicators. Start with the left. The company reported an average rate of occupancy of almost 76% in the fourth quarter, above the historical records for the 4th quarter over the last five years. The company reported in volume, patient per day. We have 616,000 patients per day, an increase of 7.2% in the number of patient day. This is quarter-on-quarter. This is a record of the company, 590,000 patients day, once again patients related to COVID, also second historical record. On the right, we have the annualized data, the occupancy rate. We can see in 2021 a 9.3%, a growth of 32.4% in the volume of patient day versus the FY 2020.

Next page, we show you the update on the COVID data. The company once again has had operational competencies to filling the gap of the COVID patients, the daily COVID patients. We have a record number of surgeries. We have a record number of people going over emergency rooms, over 2.1 million services provided at the emergency end of the fourth quarter of last year. 2021, we've had 55,000 COVID patients in the pandemic. Since the beginning, there were 80,000 hospitalized and there is an average length of stay in our units from 6.4 days in '20 to 7.4 days in 2021.

Next page. As always, we will start with the graph on the left. The company reported at the end of the fourth quarter '21 operational beds and we have 8,946. We have an increase of 29% in regards to the third quarter '20 and this increase of operational beds, if you look at the total number of beds, yes, we had an increase in the total number of beds for the fourth quarter, but the conclusion of the acquisition of Novo Atibaia and the deliveries of new hospitals such as Maternidade Sao Luiz happened in this year. And as

Paulo Moll has said before, this is consistent with our M&A strategy, but an addition of 2,200 total beds through 17 acquisitions to the portfolio since the public offering in December '20.

Let's go to the economic data. Let's start on the left with gross revenue. Fourth quarter '21, the company reported the BRL5.7 billion, an increase of 22% when compared to the same period fourth quarter '20. If we exclude the M&A effect, it's a growth of 14.2%. The ticket increased at 1.7%. The number of patient days increased 20%. At the center of the page, we have annual data. The consolidated growth, what we have BRL22 billion, ex-M&A with an increase of 35.3% in comparison to 2020 and the average ticket of '21 increased 9.1% and the volume increased 32.4%.

Once IPCA of 2020 accumulated 4.52% and the IPCA in '21 accumulated 10.9%, the evolution of the average ticket and the FY '21 is completely aligned with the methodology of pricing that the company has implemented for the financial community since its IPO. As I say, our contracts are non-negotiated at the end of fiscal year. The adjustments are negotiated all throughout the -- we have the fiscal year. We have statistical effects that we can apply to the methodology and that's why my affirmation, as you can see that the increase of the average ticket is 9.1% and that is aligned with the methodology that was communicated by the company for the financial community.

Also the fourth quarter of '21 versus the fourth quarter of '19, the average ticket increased 11.7%. So, in comparison to the fourth quarter '19, we managed to isolate substantially the effects of the pandemic. Basing the third quarter of '21, yes there is a drop of 1.9% in the average ticket. However, we've had the maintenance of the level of complexity within our units. The operational costs are very strong. We have the complexity level because of a drop in the ventilated ICU patients and that's stable facing the numbers of the first quarter '21.

So data on oncology. Oncology had a flight without M&A, just organic growth. The gross revenue of the fourth quarter of BRL486 billion was 31.4% higher than the fourth quarter revenue for 2020. If you go to the middle of the page, annualized data, the revenue BRL1.8 billion in '21 was 30.3% higher than the one for 2020. The average ticket increased 13.2% and the volume increased 15.1%, once again organic growth without M&As in the oncology area.

Next page, cost and expenses. As usual, I'll start on the left. Costs that are higher than BRL4 billion for the fourth quarter '21, 29.4% higher than those reported for the same period of the fourth quarter 2020. Year-on-year cost of provided services of BRL15.6 billion, 35.9% higher than those reported for the FY '20. There is the impact of COVID, higher volume of patients' day, increase in the operational beds and the expansion -- accelerated expansion of oncology justifying this increase.

On the right, we see data on general expenses and administrative expenses. It seems that there is an increase of 88.2% in the fourth quarter of '21 when comparing to the fourth quarter of '20. But when we look at the necessary adjustments to compare apples-and-apples, oranges-and-oranges and considering the provisions for the FY of '20, they were

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done actually in May of that FY '20 and the provisions for the payment of the profit-sharing for the fourth quarter of 2020. We are absolutely stable with the administrative expenses of the company end of fourth quarter of '21. When you compare it to the same period of FY '20 year-on-year.

Also in the same way, it seems that we have an increase of 27.5%, but when we do the same adjustments to allow comparisons of apples-and-apples, we can see that the increase is just 15% even though there is all -- we presented all this growth in the company. The EBITDA reported for the fourth quarter '21 at BRL1,261.5 million, an increase of 24% when compared to the fourth quarter of 2020, a margin of EBITDA of 24.6% year-on-year. EBITDA of BRL4.9 billion since growth of 97% facing the accounting EBITDA on the previous FY, a margin of 24%.

On your right, data on the adjusted EBITDA. The company reported in the fourth quarter of '22 BRL1,285 million, a margin of 25% and monetary values a reduction of BRL230 million of adjusted EBITDA if you compare it to the third quarter of '21. This is due substantially to a reduction of expenses -- extraordinary expenses with COVID patients. BRL173 million in the third quarter of '21 to BRL78 million in the fourth quarter of '21. On your right, annualized data. Adjusted EBITDA BRL5.7 billion, a historical record for the company, a margin of 27.9%, a growth of 79.2% if you compare it to the EBITDA adjusted for FY 2020. Net income. We have for the fourth quarter '21 BRL419 million, a growth of 38.5%. If you compare it to the same period last year, we have net revenue of BRL1.7 billion, 265% higher than the one reported for the FY 2020.

Next page, we can see on your left, the managerial operational cash flow reconciliation of the company. So let's start with the reported EBITDA, accounting EBITDA of BRL4.9 billion. We have the variation delta of the working capital BRL2.2 billion. This is growing as the company grows at 44%, the topline grows 44%. We have the other balance sheet items, BRL15.6 billion. We have leasing BRL568 million. And we have the taxes BRL356 billion -- million. The managerial operational cash flow BRL1.7 billion, a growth of 75% if you compare it to the FY 2020.

Now I want to bring your attention to the fact that over the last two years, the company invested in M&As, in growth -- organic growth projects over BRL7 billion, almost BRL8 billion as we incorporate the synergies. And here, talking about all the M&As and as we go through the process of ramp up of all the projects that are related to the organic growth, obviously we are going to have an exponential growth in the operational cash flow of the company.

On your right, we have the average days of receivables, days of inventory outstanding and days payable outstanding. At the end of 2020, we had 120 ADR, safety for the DIO and 42 DPO. And we can see that the system has a lot of -- a higher loss and it's natural that we have this loss of cash flow. And the risk of credit for our counterparts and our accounts receivable is as good as we can get here in this country, all of us have banking relationships with the paying parties and these are our historical partners for company. This is actually an opportunity, an opportunity in the sense that COVID pave the way so that the company can have 20 days of cash flow in-house.

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Last page before Q&A. Let's talk about indebtedness. Here on the left, we have the gross debt of BRL25 billion in three years. We don't have a tolerance for exchange rate. We have -- we always work with reals. So in the same way, the company reported the cash and cash equivalents of BRL12.5 billion, net debt BRL12.6 billion, net debt over EBITDA 12 months 2.6 times. And in the middle, we have the indebtedness of the company. We have -- are lengthening our horizons. And we have opportunities over the last year. We increased the deadline of the company and we reduce the capital of third parties of the business. In the middle, the company hire the partial protection for this interest rate that is higher here in the country. We have over 30% of our net debt fixed. These are credit lines that are on the deadline of 26% and 29% and we have 7% in reals. Here is the debt amortization of the company underwrite. And I will close here. Obviously, it will be my pleasure to receive your questions.

Questions And Answers

Operator

Thank you. We will now start with the Q&A session. (Operator Instructions) (inaudible) from JP Morgan would like to ask you a question.

Q - Unidentified Participant

Hello Paulo. Hello, Otavio. How are you doing? I have two questions actually. The first one has to do with the average ticket. So you were saying in the release that it grew around 2%, if we're looking at the quarter. So we wanted to know how the acquired hospitals had an impact on that number and what we're going to see in terms of the ticket and also related to the inflation. Also Octavio was talking about the synergy that you have with SulAmerica. So we wanted to know if you have an idea of how much that is going to be -- how much the total is going to be for you to integrate that new asset? Thank you.

A - Paulo Junqueira Moll {BIO 22158576 <GO>}

Thank you. Thank you for the questions (inaudible). Well, about the average ticket, we would say that the methodology that we communicated to the market in the IPO and after the individual interactions with the investors and after the follow-up, there -- the following -- the average ticket is going to grow one more, 1% more because of the spread and we believe that it's going to be 4% to 5% more because of other services that we have in terms of diagnostics and also Oncology. So we capture more complex cases as well.

We believe that that's going to apply for all of the hospitals as a whole really. So that's the rule for us for analysts, for investors, or potential investors of Rede D'Or, so that they can model everything the right way for the company. We know that this is a conscious decision of the company to have financial sustainability for the system as a whole and to be market leaders and it wouldn't be possible in a different way. And also this pricing methodology is going to generate some good solid financial results as we've seen in the financial demonstrations that have been shared. And also, this is going to be very sustainable in terms of growth.

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About the synergies now, (inaudible) there is an ongoing process right now that has approvals of shareholders. We already have a few shareholders meetings that are in the agenda, our programs, so that we're going to obtain approvals. We're going to conclude the transactions. And right now we're talking to the market about the areas where we see potential synergies and right now we are getting ready. We're creating some analysis and we don't want to create any frustrations. I mean we don't want to underestimate any synergies. We don't want to communicate anything the wrong way to the market or before its time.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Well, if you allow me about the ticket, I just wanted to say that it is very difficult for us to have a good comparison of the ticket during the pandemic. I mean, if we think about what happened in the first quarter, the second quarter of 2021, it is a very different scenario. It's not the usual. So in the fourth quarter of 2021, maybe we should start to compare it from there against 2019. But it's still a change of around 12% in terms of the ticket. But anyway, that would be more of a comparable saying in terms of number of patients, use of intensive care units, et cetera.

Q - Unidentified Participant

Excellent Paulo, Ottavio. Thank you.

Operator

Now have a question from Ian Ziskin [ph] from BTG Pactual.

Q - Unidentified Participant

Good afternoon, Paulo. Hello, Otavio. We have two questions actually. The first one has to do with working capital and receivables. I think what Otavio said makes it clear that we have certain debt lines for receivables. But the question is, do you see things resuming into first semester of this year or do you think it's going to be more of a gradual process. And also we wanted to know about the expenses reduction for 2022. I mean, how is it in terms of expenses, what has been done to compensate inflation in this sector? Thank you.

A - Paulo Junqueira Moll {BIO 22158576 <GO>}

Thank you. Thank you for those questions. Well, let's start with the working capital. As Otavio was saying in 2021, it is true that with the increase for different suppliers, we had a few negotiations. We had a change in the number of days of accounts receivable. And we're working now to go back to the usual number. So we know that in the beginning of '22, there was certain stability. Now we want to -- after the second or third quarter, we want to have effectively a reduction in the number of days. What we see is a change maybe in trends, but a certain stability still. So we'll try and have that optimization in 2022.

Now in terms of management of expenses, we've been working to standardize things. We've been working in that regard. We have an important project now that is called (inaudible). It's a project what we're trying to join different support areas. We're looking at best practices basically to try and make sure that we're going to have a better outcome in

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2022. There is one more thing that I could share with you. In terms of supplies, medications, we did indeed have an important inflation. It is true and some of these items, they were affected. So we needed to see standardization. We had to review many processes. I believe that it's been complicated to think about the -- those trends and we already see a few processes or transactions that we implemented last year. In terms of stock, we know that things are more expensive right now and we hope we're going to have good news in 2022. But anyway, we want to go back to the usual trends. We have good perspectives though. We're going to, to be able to do it.

Q - Unidentified Participant

Excellent, thank you.

Operator

Now we have Gustavo Miele from Goldman Sachs. Actually it's from -- Mendes from Bank of America.

Q - Fred Mendes {BIO 22302086 <GO>}

Hello, good afternoon. Well, we understand that you cannot share a lot of information on this right now, but I wanted to know more about the integration. How do you see this strategy with the assets? I mean, are you going to change anything in terms of operations or is it going to be more of a subtle operation focused in the short, medium or even long term? And also when we think about M&As 2022, you were saying 500 more beds, right, which is a third what we have in this year. But in the past few months, we haven't seen many announcements, so we wanted to understand more about that. In terms of SulAmerica, that did -- that have a good impact or any kind of impact in that regard?

A - Paulo Junqueira Moll {BIO 22158576 <GO>}

Thank you for that question. Well, about the strategy with SulAmerica, we would say that we still have 300 operators and we work with. And as far as SulAmerica, we see a lot of opportunity for growth for this company. I believe that it is a very strong brand. It is both organic and inorganic growth. So we're going to see that change in the business model. We're going to try and have a better interaction. We're going to look at cooperation. We're going to look at better payment models. So SulAmerica and Rede D'Or will try to bring more responsibility to the sector. So in terms of care and all that and payment for the sector, we're going to be more sustainable. It's going to be a task of Rede D'Or to take this kind of practice to all of the operators.

A - Otavio de Garcia Lazcano {BIO 49990009 <GO>}

This is an association that on the long-term we are looking at sustainability and the relationship of the companies with the stakeholders. This is the way that we face this strategic alliance. The other part of the question, could you just repeat it?

Q - Fred Mendes {BIO 22302086 <GO>}

Sure. The M&A part, Paulo. I just -- well, you already talked about the 2022 in regards to the year, it's very strong. Over the last few months, we didn't have that -- well, the operation at SulAmerica had some impact in the hospital?

A - Paulo Junqueira Moll {BIO 22158576 <GO>}

No, no, no, there is no impact. It doesn't change our M&A strategy. The organic growth strategy. M&A, you have a pipeline. We depend on the dynamic for the negotiations. We have to be careful. When we look at the records. And this is part of the dynamic and the maturing of the negotiations in the pipeline. There is no influence of SulAmerica in our M&A strategy.

Q - Fred Mendes {BIO 22302086 <GO>}

Thank you, Paulo. Very clear.

Operator

Next question comes from Gustavo Miele from Goldman Sachs.

Q - Gustavo Miele {BIO 21077665 <GO>}

Good afternoon, Paulo, all the directors. Thank you for your presentation. Two quick questions here. First, I wanted to hear you in terms of Oncology. It's something very interesting in regards to this, Paulo already mentioned this. It's interesting that the interesting performance here is due to price. So the pain part is in this beginning [ph] is doing well. So how do you think that the solution of Oncology that is different from the other players and the paying parties? And do you think that as the company is ever more vertical in the Oncology service, can you gain some more traction here? Do you think that verticalization and if the protocol is well defined, it will make you get more market share as time goes by, I wanted to understand how this is tied with the business?

Second question, I wanted to talk about two points that we already highlighted. The working capital. When we do a deep dive in the analysis, we have volatility that is lower and you already commented on the dynamics. When we look at the working capital, the days here for paying subcontracted parties is decreased. Hence this happened because of decrease in price or the variables do not talk amongst themselves. The pressure on service providers is a different. The strategy of Oncology verticalization protocol and this (inaudible)?

A - Paulo Junqueira Moll {BIO 22158576 <GO>}

Well, thank you, Gustavo. I will start with Oncology and the second part of working capital and I wanted to comment this. We can see that there is an important growth in Oncology and we will have an organic integration here. And we will have the services in our -- this is a big differential. And we have the Oncology services and chemotherapy surgery, interventional radiology, this is the big differential that we offered. So under the leadership, we attracted in all the states where we acquired hospitals. We assembled services. And we have reference services -- their reference of services and their cities and their hospital services.

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There is a great differentiator in the quality provided and in the context of Oncology and it also differentiates the hospital because we can do complex surgeries. So there is an expressive organic growth. And we understand that we want to explore this better. We can roll our services connected to hospitals adding more oncology professionals. This has been a great -- the best strategy. About the average ticket, this is a dynamic of oncology in and on itself. And this is the area of medicine that we have the most of launches and investments in the industry. And this has impacted in the fact that tickets for the new medications, they still are higher the presence and the previous drugs. So in the context of Oncology, we are working with the operators to have standardized protocols. And we have (inaudible) where we discuss all the cases with all the units in Brazil and we have the capacity to offer well-defined protocols obviously looking at the indicators.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Well, let me go through the second part of the service providers. Wonderful Gustavo, Paulo. Well Gustavo, the company has a capital cost of subcontracted parties that is very low and we historically -- very low and certainly this is do -- well, this is (inaudible) work with our service providers. So we have a shorter payment deadline because it's convenient for us. Obviously, we used all commercial levers and have a reduction of price per item or product or that is provided to the company.

For example, at this moment, the company has an average indebtedness rate of six years of CDI plus 7. And my cash flow 0.7% and my cash is investment -- has investments in the fourth biggest countries -- banks in the country and I don't have negative care in the cash that we have invested in the company. So it's convenient to us to use our shorter deadline therefore because certainly we have subcontracted third-party capital cost that is lower because of the way that we work with our service providers. And year-on-year, this is dropping.

Q - Gustavo Miele {BIO 21077665 <GO>}

Clear, Ottavio and Paulo. Thank you.

Operator

The next question will come from Vinicius Figueiredo from Itau BBA.

Q - Vinicius Figueiredo {BIO 20592660 <GO>}

Thank you, everyone. And now working with a few colleagues at the beginning of the call with the tickets of the acquired companies, well, how should we imagine the strategy of taking more complexity and adjusting this to the hospital? How is this done in the hospitals that you acquired recently?

Another point that I wanted to talk about is about normalization. When you look at occupancy rates, an emergency, 2022, do you think that it will be easy to work with a year that is more life while we observed pre-pandemic? And also if I may, also in the part of costs, specific cost, I wanted to actually better understand the dynamic for the subcontracted parties because we've seen that this number is in a higher standard in the

results of the third quarter. So wanted just to understand what is the base number that you're using looking up ahead so we can model this better?

A - Paulo Junqueira Moll {BIO 22158576 <GO>}

I'm going to start with the first part of the question Vinicius of the integrations. You know that things are gradual and that's going to depend on the profile of the hospital. A few hospitals we really have to invest a lot in infrastructure and some of them -- and in some others we already have very modern infrastructure, so we don't really have to worry about, I don't know, electricity and some other types of infrastructure. So in that case, we can have a different cost of investment.

In every hospital, we also look at NPS. We look at other indicators. We really try to have good indicators, good outcomes. We have a certain average that we want to achieve for NPS. So for every opportunity of cost reduction, we really want to look at the right integration of our shared services center. We want to also implement the right systems, DHEAS as we call them. So the -- there are few things that we can do. And in approximately two years, we're able to implement of that usually.

And we have a good improvement in terms of EBITDA. Usually we have six or seven folds increase in that regard usually. We are observing good trends in terms of margins in all these hospitals because, of course, when you improve the NPS, you're going to have some additional advantages as well. The idea is to have all those negotiations with the hospitals. Usually, these things are established or pre-established by Rede d'Or and we follow that profile. It's a specific process that we have that involves technology. Also we look at complex surgeries we try to improve the ticket. I know -- I mean it is all part of our strategy, so we try to renegotiate everything the best way possible and we can also invest in things that are more complex when we do that.

Now looking at profile -- at patient profile, I would say that we start to see a specific profile for the ER. We also have that for intensive care units, complex surgeries. It's probably more similar to what we had before the pandemic right now. So we're already controlling that just like what we did in 2019. We have a good follow-up on the EBITDA as well. There is nothing that indicates any changes in the trends or in the profiles right now. I believe that we -- it's true that we had a change in the number of cases with Omicron, but we didn't have a huge increase in hospitalized cases. Now I'm going to turn it over to Otavio to continue to respond to your question.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Well, yes, I just wanted to compliment a little bit. When it comes to complex surgeries within the total of surgeries, we know that it is a very similar level to what we had before the pandemic. So when we think about people with ventilation in ICUs or people hospitalized in an ICU, we know that the indicators and the numbers are really similar to what we had before the pandemic. Anyway, I just wanted to say that.

And also on third-party services, well, that's important. It's important to think about the honorarium, I mean the fees that are paid to professionals, to HCPs. We have a huge

number of surgeries and we also have to think about the maintenance and the complexity that we have in our facilities. And here I'm thinking about the third and the fourth quarter and the seasonality, but the idea is that that line and the cost structure is going to present fewer opportunities for cost reduction.

Q - Vinicius Figueiredo {BIO 20592660 <GO>}

Excellent. Thank you very much for the answers, Paulo and Ottavio.

A - Paulo Junqueira Moll {BIO 22158576 <GO>}

You're welcome.

Operator

Now we have a question from Vinicius Ribeiro from UBS.

Q - Vinicius Ribeiro {BIO 19720178 <GO>}

Hello. Good morning, good afternoon. I think my question is also connected to the previous question and also gross margins. I was thinking about the number of surgeries, maybe if you have observed a change also in the number of HCPs. I mean, you were talking -- you were saying that the gross margin also change because of COVID-19, the number of beds and also the projects with Oncology. So maybe if you could detail a little bit on what variables are the most important here and what we can expect as well so that we can understand what the level should be for 2022.

And also another question here has to do with SulAmerica. Two questions I would say that might be sample. The first one would be what motivated that in this specific moment? Did you see any kind of opportunities or anything that's part of the strategy? And also what is happening to the strategy here to the rationale of maintaining this if it's going to be reassessed or not?

A - Otavio de Garcia Lazcano {BIO 49990009 <GO>}

Well, let me answer about the gross margin and then I'll leave Paulo with the second question. In terms of gross margin, we see two opportunities to improve the results of the company in 2022. So we had a few comments on costs, on supplies, equipment. It's even -- it really difficult to say, I mean, what's the number of hours, the dedication of HCPs of other professionals looking at this issue from the beginning of the third quarter last year until now, so there were a few changes in percentage points for the margin and we were successful with the negotiations.

We are looking at thousands of suppliers or service providers as well implied in all this. I think it catches our attention because we have certain redundancy to our operations because of the pandemic. Let me give you maybe an extreme example, but I just wanted to make this clear. If we look at the number of patients who were COVID-19 and non-COVID-19 patients, the frequency of use of certain items for, I mean, individual protection equipment and all that, since this is more endemic and not so much pandemic anymore,

this is changing broadly and going back to the historical levels that we had before the pandemic.

And about the second part of that question about SulAmerica, we are very excited to be working with this very important brand. When it comes to insurance, to healthcare insurance, we know that SulAmerica is one of the strong -- strongest brands right now. It is focused on health on and I think it's a very good transaction, very attractive thing, yet, extremely interesting to have this connection with SulAmerica. It's a great synergy and I am sure that we'll be able to share more details with you soon. We were saying that we are focused on sustainability for the sector and I believe that this acquisition is in-line when this long-term strategy. We want to have more people accessing good quality healthcare services. And since we have this operation now within the group, within our network, this is going to represent great evolution and the way we are adding value for our patients and also adding prevention because in terms of our mission and our vision that is going to help fulfill our goals with SulAmerica.

I think we're going to be able to take this to the market and address those concerns that we had and we want to evolve our connection with other operators as well, with other suppliers as well. We want to have more sustainability and better access as we were saying. And as for the investment, we are not controlling the company. I mean there are some other different situations of investors that already have an investment in healthcare companies, so we understand that we're going to continue in the shareholder's board I would say.

Q - Vinicius Ribeiro {BIO 19720178 <GO>}

Okay, excellent. Thank you for that.

Operator

Next question will be from Mauricio Cepeda from Credit Suisse.

Q - Mauricio Cepeda {BIO 21783651 <GO>}

Hello, everyone. Good afternoon. Thank you for the opportunity. I have a few questions. I am going to go back to the receivables, but as Octavio mentioned, part of the increase of the receivables is to decrease the liabilities and this is a point that there might be a trade-off in tickets and the negotiation of the rates. I want to know if this is true and if there is an opposite risk as you remove the shortened deadlines, the health plan operators that might also have cheaper tickets I should say? And the second question and I think that Octavio said that there is an opportunity, the medical honorarium is low. I wanted to talk about a point. We have more complexity and the procedure is not only to increase the ticket, but we can also increase the margin of the procedure. I want to know if this is true and if that margin occurs at a higher level to the point that you can open spread whether if it's medical honorarium or other items of the purchase? Another question here is how are you working with the statistics of the patient day in the day hospital? And strategically, how do you want to face the opportunities for the procedures and confines?

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A - Paulo Junqueira Moll {BIO 22158576 <GO>}

Let me start here Cepeda after -- and then thereafter Otavio can compliment. There is no negotiation, no correlation with the deadline because of the COVID audit issues. We have it involved in a few discussions, but as we commented all throughout 2022, we have just normalization, but there isn't a trade-off. This involve tables, commercial discussions for the receivables. Another point that you were mentioning about the medical honorarium and we have a fixed instalment and a variable installment. The honorarium surgery we have to passthrough for the charging of the operators. And for example, the surgeries we are doing the variable. For the medical honorarium, we have the teams -- emergency teams intensive care units. And here for COVID specifically in our emergency rooms, we have the structure and we have a loss of efficiency that is completely separated. And we are going back to our reality in the pandemic and we can -- before the pandemic and we hope to continue here. We have the patients that are working with a series of hospitals with this type of patients and we have less complex surgeries given that our hospitals offer that type of structure and we have our numbers. I will let Octavio actually continue with the answer. And I believe that we have a 115% being transparent.

A - Otavio de Garcia Lazcano {BIO 4999009 <GO>}

Thank you. Now with the increase of complexity and thesis, we could have a larger margin even with the variable component. The variable component tends to follow-up on the revenue and the physical part, we have an operational leverage.

Q - Mauricio Cepeda {BIO 21783651 <GO>}

Thank you very much.

Operator

Our next question is from Ricardo Boiati from Safra Bank.

Q - Ricardo Boiati {BIO 16528742 <GO>}

Hello, everyone. Another follow-up in regards to the association with SulAmerica. Let me actually do very direct questions. Do you have a predictability on the approval -- regulatory approval that the company is depended on the timing in regards to this M&A? Also, the second question. In regards to the long-term strategy of the company, in that segment of insurance, SulAmerica has a position that is very good, very differentiated, but when we do a parallel with Rede D'Or and follow-up with the hospitals, SulAmerica is very far away to have a dominant position in the sector. So my question is, the strategy long term of the company of seeking the leadership and costs and organic growth movements, what is the ambition here in this new area of work of the company. Last but not least also associated to this issue, we are seeing the consolidation that is accelerating in service providers for the medical -- for the hospital sector and insurance. So what is your opinion in regards to the future of the sector -- healthcare sector, less players, they're ever bigger, how can that change and impact the competitive environment of the healthcare sector looking up at the future?

A - Paulo Junqueira Moll {BIO 22158576 <GO>}

Yes. Let's do the following. We can work with other operations that are similar. It's very difficult to get a specific date. It depends under each regulator. But we imagine -- we hope to have these approvals within this year. Other strategy of growth, SulAmerica has had a lot of success for acquisition, M&As. We also have several players that we admire. And once we approve, we hope that we can strengthen the dynamic or the growth of the company and its efficiencies.

About the sector becoming larger, I mean, populated with larger groups, it's easy for you to have scalability, bringing efficiencies. And if you spend more time, we are going to see a reduction in the number of operators in Brazil. And there might be some delays, but we have the same dynamic. Brazil still a country of small hospitals. The averages in Brazil is 60 beds. But we understand that these are processes that will continue and that will be repeated. As you have larger players and with more scalability, you are going to have more efficiency in the healthcare sector. We have cost and capacity of having protocols for the control of quality indicators. And once again, we are following up on the path of what is happening in the world. Brazil is also moving along this path.

Q - Ricardo Boiati {BIO 16528742 <GO>}

Great, thank you, Paulo.

A - Paulo Junqueira Moll {BIO 22158576 <GO>}

Thank you.

Operator

If there are no more questions, then we're going to close the Q&A session. And I would like to give the floor to Mr. Paulo Moll for the final statements.

A - Paulo Junqueira Moll {BIO 22158576 <GO>}

In the name of Paulo and the company and all the executives, we thank you once again to show you our earnings call result and the business. Thank you very much and have a wonderful week.

Operator

The earnings call of Rede D'Or Sao Luiz is closed. Thank you very much for your participation. We wish you all a great day.

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