



**International Conference Call
Hapvida Group
Fourth Quarter 2019 Earnings Results
March 26th, 2020**

Operator: Good Morning. Welcome everyone to Hapvida **fourth quarter19 results** conference call. Today with us we have **Jorge Pinheiro, CEO, Bruno Cals, CFO, and Guilherme Nahuz, Investor Relations Director.**

We would like to inform you that this event is being recorded and all participants will be in a listen-only mode during the Company's presentation. After Hapvida remarks, there will be a question and answer session for investors and analysts, when further instructions will be given. Should any participant need assistance during this call, please press *0 to reach the operator.

Today's live webcast may be accessed through the internet address at www.hapvida.com.br/ir.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of Hapvida management and on information currently available to the Company. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors can also affect the future results of Hapvida and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I'll turn the conference over to **Mr. Jorge**, who will begin the presentation. **Mr. Jorge**, you may begin your conference.

Mr. Jorge Pinheiro: Thank you. Good morning everyone. Thank you so much for taking part in this conference.

I have the great satisfaction to tell the market about Hapvida's earnings for the fourth quarter of 2019 and the year of 2019. We are reporting excellent numbers for the quarter and for the year and we are very proud of them. We have achieved spectacular operating and financial results and we have reached an unprecedented level for the company in several spheres.

However, this is a very sensitive moment because of the coronavirus pandemic in Brazil and in the world. Therefore, before talking to you about our results, I'd like to



give you a few pieces of information about how we are preparing to go through this moment.

I have tested positive for the new coronavirus and therefore I've been isolated since last Monday, but I have only mild symptoms and I've been able to work well at home. And I'd like to tell you that the coronavirus family has been known since the 1960s, this new mutation is highly communicable and contagious although it apparently has a low mortality rate among the younger population, and a bit higher mortality rate among the elder population.

The current pandemic, like any viral disease, is an epistemological event that has a beginning, a middle and an end. People who are contaminated by the virus develop immunity against it. So this is a self-limited event that will go away.

Also, as you know, our operations at Hapvida are impacted every year by the virus season, like influenza, dengue, zika, chikungunya fever, and this is the season that starts in late January/early February and ends in the second quarter.

This happens every year, and because of that our operation has been trained to deal with this increase in the number of patients we have to provide urgent care and also hospitalization at our hospitals. This is part of our business as usual at Hapvida. Also, our members are concentrated in the North, Northeast, countryside of the Southeast and Midwest, which are areas that haven't been as hardly hit by the new coronavirus so far. And we are the most verticalized company in Brazil, and that's why our claims have the lowest possible cost.

This is a great competitive edge, our infrastructure has over 2600 beds, including 555 ICU beds right now, and we are very flexible, and we have been expanding the number of hospitalization and ICU beds buying new machines and pieces of equipment as well.

We believe that this pandemic, however, will not be that intense where we operate, but our infrastructure is prepared for the most challenging of the scenarios.

We have created a multidisciplinary commission including physicians, nurses, medical and hospital managers of our company in order to monitor the pandemic. We've been gathering every day and studying the best possible practices to treat and control the disease using the best experience in the world and in Brazil for that. And we have been talking to the health organs in the country and making sure that we follow all of their recommendations.

We are the largest healthcare operator in Brazil, and so we are also working on communication. We are working to educate the population in general, our customers, our employees, everyone with videos, folders and recommendations



from physicians, which are being communicated in newspapers, TV, radio, websites, social network, and we also have a web chat with nurses and physicians so that our customers can clarify their questions.

The Ministry of Health, the National Agency for Private Healthcare Plans and the Federal Medicine Counsel have given the healthcare operators all the possible recommendations to cancel elective procedures. Last weekend, we told our customers that we were canceling all elective services, including elective appointments, elective tests and elective procedures, except some special cases, like oncology, ob-gyn and others.

We've been doing that in order to increase our capacity to provide emergency services and hospitalizations that are needed due to COVID-19. And this is in force up until April 5th and can be expanded if needed.

The Federal Medicine Counsel has also made it flexible for us to use telemedicine. We can now provide tele-guidance, telemonitoring and tele-appointments. We have a great infrastructure to provide telemedicine services with many physicians providing over 10,000 appointments a month. We know that the use of imaging like x-ray can help us to identify the disease, so through our health tech that is focused on artificial medicine (called Maida Health) we've been developing an official intelligence platform that uses and analyzes imaging, like x-ray images of patients that have been diagnosed with COVID-19. The idea is to increase our capacity and speed up the diagnostic process.

We are also taking a close look at our financial and operating indicators, like loss ratio, default rates and contract counseling.

We closed the fourth quarter with about 3 billion in our balance sheet in cash flow and liquidity, and this is very comfortable. So now we are going to invest in infrastructure to prepare for COVID-19 and in verticalizing claims. We are temporarily suspending all other investments. In M&A, we are suspending all of the projects that were under analysis for at least 60 days.

About our employees, we are studying all of the measures included in promissory measures number 927 of March 22nd, 2020 about labor measures to take on this public calamity. So our employees who are part of the risk group are working at home and our employees that work in healthcare units and had vacations scheduled for April, May and June have had their vacations canceled and they will be rescheduled later.

We know that this is a great crisis, but we don't know what the impact of this slowdown will be on the economic activity of the country. However, we should remind you that in previous crisis many customers have come to us, we were one of



the only companies that grew in number of members during the last crisis, so we think we are at a good position to seize this opportunity.

And finally, I'd like to tell you that we are using our experience of over 40 years in medical, hospital management to minimize possible impacts on our operations and to keep on taking care of our customers and employees as usual, with our usual warm service, which is so characteristic of Hapvida.

Having said that, I'd like to tell you that we are very happy with the 2019 results. Our health care and dental members have grown even in this adverse scenario. We have grown 49% our healthcare members and 68% on dental members, and we closed the year with extra 6 million customers.

We've made significant and relevant acquisitions in operators' hospitals and portfolios; we are now the only healthcare system that is present in the 5 regions of Brazil. And the starting in the fourth quarter in 2019 with the acquisitions of the São Francisco Group and América Group and RN in Rio de Janeiro, our exposure became national, we are now present nationwide, and when we implement our business model in these new regions we are going to connect millions of customers that will have access to an intelligence healthcare plan like Hapvida.

We closed the year with 39 hospitals due to our acquisitions in our organic growth. Our constant investment in our own network and the verticalization of claims will enable us to continue offering a high-quality product at an affordable price to everyone.

We made 2 major operations in the capital market: we have issued debt with a debenture of 2 billion; and a public stock issue of 2.6 billion, which will enable us to continue expanding and strengthening our own network infrastructure.

When it comes to healthcare quality, last year we have adopted a revolutionary tool called Five Star Service. This is a satisfaction survey that all our clients receive after being seen at one of our centers. Throughout the second semester of 2019, we gathered over 2.6 million assessments by customers. Our overall average was of 4.46, which is an excellent result. This is a valuable tool for the whole company, with that we are going to be able to see opportunities for improvement and see where we are doing well.

In 2019, many programs have been developed at Hapvida to offer high-quality services, for example: Vida Hap is our umbrella of programs that focus on quality-of-life, preventive medicine and healthcare promotion. This is a program that has been expended and is present in Fortaleza, Recife and Salvador; we have a program that focuses on decreasing the complications related to diabetes and has a total of 5,300 participant members and we have had excellent results so far; and we



have also launched Qualitotal, which is a quality certification program that is now implemented in 14 of our hospitals; we are also strengthening the standardization of our procedures with the implementation of 75 medical protocols in our IR units.

In 2019, we've also implemented many projects that reinforce the focus of our company on innovation and digital transformation. For example: the use of facial recognition to complement biometrics; we also have a new technology to monitor vital signs of fetuses; we have medical auditing that uses individual intelligences in machine learning through Maida (our health tech); we have implemented SAP and an ERP in all of Hapvida's units. This is all to prepare Hapvida for the future.

Our claim management initiatives have also started to achieve excellent results, our ex-SUS claims loss ratio has been well-controlled, which proves that our business model is quite robust. The rate was 58.7 in the fourth quarter and 59.1 for 2019 as a whole, and our net profitable was of R\$866.6 million for the year.

So we are very optimistic about our integrations, we can see that our plan has been followed strictly without major surprises up until now. We are very confident, and we think that we can reduce the total time of integration for the São Francisco and América Groups because we can deliver on the promised synergies.

Now I'd like to give the floor to Bruno Cals, our Financial Director, and Guilherme Nahuz, our investor Relations Director, who will give you further information about the fourth quarter numbers and then we can move on to our Q&A session. Thank you very much.

Mr. Bruno Cals: Good morning everyone. Let's please move on to slide number 3. Here you can see the main highlights of the fourth quarter of 2019 and 2019 as a whole. These are consolidated numbers, we have Hapvida numbers and the 2019 acquisitions (São Francisco and América Groups) included here.

In the fourth quarter 2019, our net revenue had a 47.4% growth compared to the fourth quarter of 2018, and 23.1% for the whole year compared to 2018. Our ex-SUS MLR means that we have had a great control with a reduction of 1.6 percentage points. We also had great EBITDA growth and we closed the year with 344.3 in the fourth quarter of 2019. We've had a growth of 49.1% in the fourth quarter and 23.2% for 2019 as a whole.

We are very happy with the quarterly and yearly results. We've had a strong EBITDA growth even considering this very high level of SUS reimbursements and some M&A operations as well.

Now in slide 4, you can see our current investments in our own network. We closed the year as the only Brazilian healthcare operator with its own hospital network in all



5 regions of the country. After the acquisition of São Francisco Group and América Group and our organic growth, we have added 13 hospitals, 23 walk-in emergency units and 110 clinics, as well as 95 diagnostic units. We closed 2019 with 39 hospitals with 2,635 beds, including 555 ICU beds, we have 42 walk-in emergency units, 185 clinics and 179 diagnostic units.

This provides our customers with new infrastructure and quick access to service. This reinforces our commitment to the quality of the service we provide to our customers.

Now I'd like to give the floor to Guilherme Nahuz, who is going to give you further details about our financial results.

Mr. Guilherme Nahuz: Thank you, Bruno. Good morning everyone. I will try and be brief in my comments so that we can open for questions.

In slide 5, you can see the number of members in our company, you can see the history of our company since 2016 and you can see that we've had strong growth in recent years; from 2018 to 2019 we had a 49% growth, which is quite significant when we include São Francisco and America's in the group. Our organic growth was of 3.7%, basically focused on our operations in Joinville and Santa Catarina, that started in early May and are doing really well. We've also made investments in Bahia, Pernambuco and Manaus.

An organic growth of 3.7 is quite robust when we compare to the rest of the market players, which did not grow last year and in some cases even decreased. So we are very happy with this growth. We also had quarterly growth in both portfolios, the individual health care plan and the group health care plans, both of them grew.

And in slide 6, we can see our dental portfolio, which was quite similar to the healthcare portfolio, our organic growth was very strong, 1,800,000 lives to 2,800,000 lives from 2016 to 2019 with a very strong organic growth. When we include the numbers of the São Francisco and America's Group, we reach almost 70% growth in one year. So we see there is a great opportunity for growth in the region of Goiânia, Aparecida de Goiânia, Anápolis and neighboring municipalities that contributed to 3,000 lives to our dental portfolio, and we think that we can continue growing at the same rate that we have been growing up until now.

The organic growth of our company was basically concentrated in the state of Ceará, and Bahia, Pernambuco and the Federal District, where we were able to sign some very significant contracts.

In slide 7, on the left-hand side you can see the average consolidated ticket. Here we are adding up Hapvida, São Francisco and America's, R\$191,25 by the end of



the fourth quarter, a 10.5% growth compared to 2018. And that's basically due to price increases in our current contracts in order to achieve an economic balance in our contracts.

On the right-hand side, you can see the average ticket per company. These numbers are being shown for the first time, you can see that the tickets are quite similar, especially São Francisco and Hapvida, and America's ticket is a bit lower, R\$164. And Hapvida is growing a bit over our consolidated numbers, at 10.8%. You can see the evolution of the monthly consolidated ticket for dental, Hapvida had a 3% growth as you can see, and individual plans have grown more in this period of time and we are very optimistic about this type of contract.

We don't have the numbers of the average ticket of the Americas Group, that started in March 2020. We have started selling our dental products in the America's region with the Hapvida brand.

Now in the next slide, you can see our net revenues. We have grown by 15% excluding acquisitions, so a quite robust growth compared to the fourth quarter of 2018, and 47.4% growth including our acquisitions. As Bruno said, we are considering 2 months of revenues of São Francisco (only November and December) and 1 month of the revenue of the Americas Group and we've had this 47% growth. In December 2019 compared to December 2018, our revenue grew by almost 70%.

Here on the right-hand side, you can see our yearly growth of 14.5% ex-acquisitions, that's because we increased the number of members and we adjusted our prices. Now if we add the acquisitions, that growth was up 23.1% considering only 2 months of the São Francisco Group and 1 month of the Americas Group.

In a slide 10, once again, you can see that the numbers are impressive. We are very happy about the numbers we are showing you today, the beauty of this vertical and integrated model can be seen here and proven by the numbers we are showing you today. Ex-SUS numbers were spectacular, as you can see, 58.4 in 2019. These are the best numbers in the history of our company.

We had a positive impact of all of our claim management projects, also our claim verticalization projects that have had great results, you know, we have verticalized tests, appointments, hospitalizations and you can see that the numbers reflect the positioning of the company.

These are permanent and long-lasting gains. These are not, you know, specific cases, this is something permanent.

Now you can see our MLR and medical costs. We have also reduced our total



claims, an improvement of 0.7 percentage points compared to the fourth quarter of 2018 even though the SUS reimbursement provision had to be very high. So, achieving such a reduction with this volume of reimbursement makes us, you know, very proud of our results.

In slide 11, an interesting view we are offering to the market, which is the view of the companies that we acquired. We are talking about medical loss ratio and medical costs of the São Francisco and the Americas Group only.

So these are the numbers for 2 months in the São Francisco Group and 1 month for the Americas Group. Comparative numbers cannot be shown to you because the numbers of the previous years did not use the same standard, but we have worked really fast in November and December to implement our integration plans, and we have been able to reduce the MLR in those 2 groups, and we can say that we have already achieved improvements compared to the same quarter of 2018. So total MLR was 69.9% and the pre-acquisition numbers were around 71 to 72%.

Now in slide 12, you can see the 2 previous slides put together, total MLR of São Francisco, Americas and Hapvida: 58.7% for the fourth quarter of 2019 compared to the fourth quarter of 2018. This is an improvement of 1.6 percentage points, which is an impressive improvement, and even when we include São Francisco and America, which have a higher MLR compared to Hapvida in a standalone, the numbers are still very good, which makes us feel very comfortable with our operations, and we believe that our numbers tend to improve in the future.

2019 compared to 2018 for the whole year, we also had a decrease of 0.5 percentage points, and considering SUS reimbursement provision that is a 0.9 percentage point increase in the MLR. So once again, fourth quarter of 19 to fourth quarter 2018 an increase of 0.4 percentage points and 2019 to 2018 1 percentage point increase.

We are very glad with these numbers that include the loss ratio of São Francisco and Americas and they operator with an MLR that is almost 10 percentage points above Hapvida's, and we also had this major impact of SUS reimbursement, which we are going to talk about in slide number 13.

Here you can see how SUS reimbursement works. So if you have a member using the Unified Healthcare System (which is the public health care system in Brazil), then the National Agency informs the operators, the operators received the package and they have 60 days to conduct an analysis and reply to the National Agency (or ANS), ANS will then analyze this reply and accept or reject the defenses by the operators. So if the defense is rejected, then the ANS generates what they call GRU.



Operators have to put together provision for this reimbursement and then the operators will look at the volume of requests they receive and they use a percentage that is also given to them by the National Agency that is individualized for each operator, and ANS will take a look at this provision and make any adjustments that are necessary and then you might have to increase the provisions, especially when it comes to interest rates, monetary restatement and fines.

In the fourth quarter, we changed our accounting procedures and we are going to include interest, monetary restatement and fines in our financial results. Up until the third quarter of 2019, the numbers of interest, monetary restatements and fines were not significant, but once it started to become significant, we decided to include it in our financial results. In the fourth quarter, we had R\$117.4 million of SUS reimbursement. Part of this, 48.4, were included in the financial results.

So we've seen that the number of ABIs being presented to the operator is increasing really fast, and the fourth step which is the feedback given by ANS to the operators have also taken on speed and the number of voices has also increased. So since this is now happening at a faster rate, we've had a very high volume in the fourth quarter of 2019 and in 2019 as a whole.

But we need to mention that the average SUS reimbursement per member is virtually stable, there hasn't been an increase in the average ticket by member. And the average SUS reimbursement per member is equal or actually lower than other healthcare operators in the market. In December 31, the stock was of 15 months and we are going to create an IBNR for SUS as defined by ANS starting in 2020.

So we are almost done. In slide 14, you can see the selling and administrative expenses. On the left-hand side, you can see our selling expenses. We've had a 0.5 percentage point increase, basically because the fourth quarter had been benefited by an increase in the deadline of preferred acquisition costs, so that had a positive impact and we reassessed this in the end of the fourth quarter and we saw that there was no significant change, it was only 1 or 2 months difference compared to the previous year.

Now when it comes to administrative expenses, on the right-hand side, the percentages have evolved, we had amortization of R\$75 million of our acquired companies and an M&A expense of R\$39 million. That is a one-off event, but our rate is about 10.5% if we exclude the acquisitions.

Now in the slide 15, you can see our EBITDA numbers. We've had a 20% level in 2019, 22%, and basically that's due to the fact that I mentioned in previous slide. These are numbers ex-acquisitions, once we include the acquisitions there is a small drop, both in the quarterly results and in the early results.



Now slide 16, net income has dropped 8% in the fourth quarter of 2019 compared to the fourth quarter of 2018, but we are very happy about our yearly results with this strong growth even with a significant increase in financial expenses and SUS reimbursement provisions, as I mentioned previously.

And finally, the last slide, you can see our free cash flow that is stable compared to 2018, R\$440 million of cash flow generation, even with the impacts of the SUS reimbursements provisions. So we are very happy about these numbers, and of course, we had the positive impact of the mais-valia depreciation I mentioned.

On the right-hand side, you can see our Capex, 15% Capex increase compared to 2018, 236 million ex-acquisition, so not considering some Francisco and Americas. And this is a result of the investments we've been doing in our [inaudible - audio interruption 0:42:54] ...

So now, I'd like to open for questions and thank you very much for your attention.

Question-and-Answer Session

Operator: Thank you. If you have a question, please press star 1. If at any point your question is answered, you may remove yourself from the queue by pressing star 2.

Please hold while we poll for questions.

The first question is by Samuel Alves, Banco BTG Pactual.

Mr. Alves: Good morning, Jorge, Bruno and Guilherme. I have 2 questions. The first about synergies in the São Francisco and Americas Group. In your release, you say that the synergies will be achieved faster than expected. And Jorge also said that because of the coronavirus you are not going to make any investments in organic growth, right now.

So do you think that the synergies will actually be achieved before expected to be even with the new coronavirus? Also, have you seen a significant increase in the number of patients searching services in the state of Ceará because of the new coronavirus? Thank you very much.

Mr. Pinheiro: Hi Samuel, thank you for your questions. About the synergies, as I said previously, we have decided not to take on any new M&A projects right now. However, the investments that were planned in order to enhance the verticalization in the units we are already operating will be kept and we are going to give priority to them. And, yes, we intend to achieve the synergies even though we are going to face the needs of the new coronavirus in the next months, but we intend to achieve



the synergies planned. We are planning to have a complete integration of the São Francisco Group in 4 years and in 3 years for the Americas Group.

We are very confident that our systems will bring many synergies in terms of process protocols and readjustments of the operating model. So I'm confident to say that this will all be implemented before the deadline that we have given you.

About the new coronavirus in the regions where we operate (with a few exceptions, like the state of Ceará where there is a large number of cases), we have been going through daily reports to see the number of patients diagnosed. In Ceará, we have published a report yesterday and we had 6 cases confirmed if I'm not mistaken. I can look up these numbers for you to confirm.

So the emergency patients, well, this has not increased. We are working really hard to raise awareness of the patients, we have 24-hour day service with physicians and nurses to provide the whole population with information and we have a web chat to answer questions and the goal is to prevent people from going to our units if they don't have to.

So yesterday we had like 1,000 people getting in touch with us to answer their questions regarding coronavirus. So we prevent people from going to our units if they don't have to.

Mr. Alves: Great, Jorge. Thank you very much. That was very clear.

Operator: Next question by Thiago Macruz, Itaú BBA.

Mr. Macruz: Good morning everyone. The MLR improvement was a great highlight of the quarter. Now do you see room for even greater improvement, or you think the main project that have led to such improvement have already been implemented?

Now you had expenses of 40 million related to M&A. Did that happen in the fourth quarter? When did that happened exactly? So these are my 2 questions. Thank you very much.

Mr. Pinheiro: Hi, Thiago. So about your first question – I am going to answer the first question and Bruno and Guilherme will answer the second –, as you know, we aim to provide the population with high-quality healthcare services. Our EBITDA was around 20% in 2019, which is completely different from what the other players in the market got. We are confident that we can reduce the MLR of the acquired companies and increase the quality of the services provided by them.

So what I mean is that this 20% margin seems to be sustained over time, and we think that in the future we may have exceptional gains and that can impact our



prices. In Brazil, 24% of the population only has healthcare plans, so we want to achieve the other 76% of the population. So additional gains in margins will be transferred to our customers with, you know, fair prices and a more aggressive pricing strategy in order to continue expanding and expanding the access to healthcare to the Brazilian population.

Now, Bruno and Guilherme will talk about the one-off M&A expenses.

Just to add to this first question, I was looking at the numbers and the report that we published yesterday said that we had 1 case confirmed in the state of Amazonas, 4 case is in the state of Bahia, 7 cases in the state of Ceará, and 3 cases in the countryside of the state of São Paulo. So 15 cases of coronavirus confirmed in the whole of our network.

Mr. Cals: Thank you. So the 39 million M&A expenses were in the fourth quarter only. We paid these expenses when we concluded the acquisitions throughout the fourth quarter. We have a team working in the operations internally, but especially the São Francisco acquisition, this is what led to the expenses in the fourth quarter.

Mr. Macruz: Thank you very much.

Operator: Next question by Maurício Cepeda, from Credit Suisse.

Mr. Cepeda: Good morning everyone. Good morning Jorge, Guilherme and Bruno. Thank you for your introduction about COVID-19.

You said that you are considering this impact in the long-term, and I have a question. We know that many people will lose their jobs because of this economic downturn. So my question is: you said that you were suspending your M&A projects, and are there any other measures that you are considering, especially if we consider that many people will lose their jobs and you might lose scale? That's my question.

Now thinking about a long-term horizon, you are now considering SUS reimbursement provisions. Do you have any long-term estimates about what you need to consider when it comes to member reimbursements?

And my third question is regards shorter term horizon. You said that you are postponing elective procedures and hospitalizations represent significant costs for operators. So how much do you estimate in terms of elective claims that can be postponed in order to free up ICU capacity for coronavirus cases?

Mr. Pinheiro: Maurício, so you have 3 questions; about economic scenario, about elective procedures and SUS reimbursements. So about the elective procedures, as



we said, about 65% of hospitalizations are due to elective procedures, so we estimate that a significant part of it can be postponed. Maybe 70% of all of the elective procedures could be postponed. But this is not yet confirmed because we have cases like oncology, obstetrics and others that cannot be postponed, right?

But the fact is that in addition to the productive capacity that we have at our hospitals, our average occupancy rate is of around 60% and we have free capacity in our current operating units considering our current beds, only about 60% of them are being used and this number is going to be reduced because we are postponing elective procedures, and so, these extra beds can be used to take care of coronavirus' cases.

And we also have emergency units with great number of staff, nurses, technicians, and we also have, you know, outpatient departments, staff that can be added to our hospital services without any extra costs because these are already our employees.

So what I'm saying is that we do have this capacity in house, especially due to our verticalized business model that gives us flexibility to rearrange our staff as we need. So we have the beds available, we are given to reduce the number of elective procedures and we have staff hired and our Human Resources team is already looking up how the staff can be rearranged.

Now we still don't know what the impact will be on the economy. There will be an impact, we just don't know exactly the magnitude of this impact. However, we believe that the whole of the population would like to have healthcare plans in such a situation. So we believe that this is an attractive product that we have to offer right now, and of course, there will be an economic downturn by small businesses, but I think that we have a very attractive product at this point in time.

As Guilherme said, we went through a moment of crisis a few years ago and our company still grew. Our cost matrix is the most efficient among all healthcare operators in Brazil, so we think there is a great opportunity for growth there.

So this is a challenging moment, but we need to seize the opportunities and we think that we have the perfect model for this because we provide our clients with high-quality healthcare services at affordable prices.

Now I'd like to give the floor to Guilherme to talk about SUS reimbursement.

Mr. Nahuz: Well, Maurício, about the SUS reimbursement, the market as a whole saw this increase in the pace of SUS reimbursements and we are creating this SUS IBNR which will help mitigate the uncertainty of the amounts for this provision.

Historically speaking, the amount per life of SUS reimbursement is a bit below R\$2.



So less than R\$2 per member. These are the historical numbers of SUS reimbursement.

Mr. Cepeda: Okay, thank you. So you said R\$2 per member. Is that per month?

Mr. Nahuz: Yes, that's per month. R\$2 per member, or per life per month.

Mr. Cepeda: Okay, thank you very much for that clarification. Now as far as I understand, 6 5% of your hospitalizations are for elective procedures and you have this work force that you will rearrange.

Is there an economic advantage of suspending expensive elective procedures, like an orthopedic surgery, which has much higher costs than a respiratory viral disease?

Mr. Pinheiro: Well, our team is creating different scenarios, analyzing different possible scenarios. It will all depend on the number of patients affected by the new coronavirus in the regions where we operate. So several scenarios are possible, we have designed more pessimistic scenarios, more optimistic scenarios, but these are only estimates, we don't know exactly what the intensity will be and what the timeline will be.

So we will need a bit more time to be more confident about these 2 variables, like intensity and timeline. Until then, what I can say is that we are resilient because of our business model. Our cost matrix has been preparing our units, beds and the human resources we need to face this pandemic.

Mr. Cepeda: Okay, thank you very much. And I hope you get well soon.

Mr. Pinheiro: Well, I am feeling great and I'm working even more than if I were at the company, you know. I am isolated here at my house and working morning, afternoon and evenings.

Mr. Cepeda: Okay, thank you very much.

Operator: Next question by Gustavo Enrico, from Bradesco.

Mr. Enrico: Good morning everyone. Congratulations on your results. I have a question about SUS, the Brazilian public Healthcare System reimbursement. You said 48 billion in interests, so that was accrued numbers, right? So what can you expect although you have 15 months' stock, what can you expect in terms of interests? Do you think that it's going to be the same in the next quarter, the same level?



Mr. Cals: Hello Gustavo, this is Bruno here. It's hard to define the amounts. This 48 million comes from the increased rate, the increased pace of collection. The predictability of the pace is what's going to define how much this is going to be. We simply cannot predict it.

Also, we can't predict exactly when each procedure will be collected from us by the public healthcare system. If it takes a long time for them to charge us, then the interest rates will be higher.

Mr. Enrico: Okay, thank you very much.

Operator: Now Leandro Piva, Condor.

Mr. Piva: Do you work with the possibility of regulatory risks considering this uncertain scenario?

Mr. Pinheiro: Hi Leandro, thank you for your question. Well, actually, I think it's the other way around. The regulation is going to be affected by the situation and they will create flexible possibilities for the operators to face the situation.

So when it comes to canceling contracts, I think that we need more flexible deadlines. We still need to check if the regulation will make sense in that new situation. But on the other hand, I think that regulatory capital deadlines and costs will be flexibilized.

For now, what we know is that we have had the deadlines postponed so that the operators can prepare for the pandemic. So I think this is actually a time in which the regulators will be more flexible than stricter.

Mr. Piva: Thank you very much.

Operator: If you wish to pose a question, please press star 1.

Now we have Caio Mocadini, from Morgan Stanley.

Mr. Mocadini: Good morning, guys. Can you please tell us what the breakdown is of the members of the corporate healthcare plans among large, medium and small enterprises?

Mr. Pinheiro: Hi, Caio. We have a strong footprint in individual healthcare plans, about 25% of our portfolio is made up of individual plans in the North and Northeast, and 18% in the Southeast. Now when it comes to the corporate portfolio, we have many big customers, but unfortunately, I don't have a breakdown in the number of small, medium and large enterprises.



I will ask Guilherme it to get that number for you. And I think Guilherme can give you a few more details about this right now.

Mr. Nahuz: Thank you, Caio, for your question. Our healthcare portfolio considering the São Francisco and the Americas Group when it comes to group plans only 8% are small and medium enterprises, so enterprises with 1 to 29 lives. So 8% of our member base was made up of small and medium enterprises, and we have 27% of individual healthcare plans, so the rest is of business plans.

But I don't have the exact breakdown to give you about, you know, small, medium and large enterprises. Medium-size enterprises would be up to 300 lives. We don't know exactly how many we have. But as soon as we get these numbers, we are going forward them to you.

Mr. Mocadini: Okay, thank you very much.

Operator: Thank you. If there are no further questions, let to give the floor to Mr. George for any closing remarks.

Mr. Pinheiro: That was great. Congratulations Bruno and Guilherme for your explanations. I think it's very clear. I'd like to thank all of our investors and partners in this journey. We are very happy to share our 2019 results with you. We expect to keep on achieving great results and we are working really hard for that.

And I'd like to thank our employees as well for our 2019 results, that were above our expectations. And now a special thanks to our employees who are working really hard to prepare, to provide high-quality services in such difficult times throughout the world in fighting this pandemic. I've been seeing great dedication and passion from our employees. I am really proud to be part of this team. We are sure that we are going to overcome this challenge and we will come out even stronger.

This is a moment for us to reconsider what we do and to look for alternatives, and we think that we are going to come out of this as an even stronger company.

Also, special thanks to our clients who give us the privilege of taking care of them. We are working to provide them with the best possible care.

Thank you very much, and I hope that we can keep on working well and that you can all keep healthy.

Operator: Thank you. This concludes today's presentation. You may disconnect your line at this time and have a nice day.