

Operator:

Good morning, ladies and gentlemen, and thank you for holding. At this time, we would like to welcome you to Qualicorp's conference call to discuss the results for the 4Q19. We have with us today, Mr. Bruno Blatt, the Company's CEO; Mrs. Grace Tourinho, the CFO and IRO; and Mr. Pedro Henrique Rocha Nocetti, the IR Manager.

This event is being broadcast live via webcast and may be accessed through Qualicorp's website at www.qualicorp.com.br/ri, where the presentation is also available.

We would like to inform you that this event is being recorded and participants will be in listen-only mode during the Company's presentation. Ensuing this, we will go on to the Q&A session, when further instructions will be given. Should any participant require assistance during the conference call, please press *0 to reach the operator.

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

Grace Tourinho:

Thank you, and a good day to all of you. And thank you for joining us in our conference call for the 4Q19.

I apologize for our delay. We have had a minor problem with our call lines. We hope this will not happen again. Once again, we apologize for this, but we will begin the call.

Before speaking about the last quarter, I think it is worthwhile briefly summarizing what happened in 2019 in the Company, and what it is that we expect for 2020. We were able to put the digital sales tool into operation successfully. And this tool nowadays account for 99% of our sales in-house.

With this tool, we have become more expeditious, more secure, and we are able to make adjustments in our personnel and to have a more efficient operation, allowing us to grow our margin during most of the year.

For 2020, what we would like to streamline is the customer management tool that direct service with our customers, which will also help us enhance our processes, enhance the policy of service and our relationship with the customer. Beyond that, this will allow the company to be ready to grow consistently opening up ways to invest where we have greater need, especially in the commercial part, in our products and in customer retention.

Let us focus a bit on the financial part, where we have had great achievements. First of all, we renewed the Company's debt, lengthening the period three or four years with great benefits and at lower rates. Formerly, we paid CDI + 1.30%, we now pay CDI + 1.15%, once again, great improvements in terms of our indebtedness.

We reduced the capital by approximately R\$980 million, especially improving the capital structure of the Company.

We concluded the Company's restructuring, with a holding incorporating the brokerage company. And this is an operational highlight. This allows us to have greater operational efficiency, opens up new possibilities to deliver greater value to our shareholders, especially when it comes to shareholder equity payments that we will now pay directly from the holding towards investors.

Having said this, I would like to refer to two issues that had a one-off impact on the 4Q. The first is Gama Saúde - CRC that were acquired in 2014 for R\$202.3 million. Gama Saúde - CRC, once again, were acquired in 2014 for R\$202.3 million. The company has changed their focus and has now focused on the affinity area, which is where we have the greatest margins and revenue.

And with this, despite the fact that in the last five years, we have been focusing on the companies, they have never presented impactful results, results that were justified a goodwill paid for these companies, although we made several attempts to launch new products, to work with Gama Saúde for a certain period of time. We carried out an impairment test, and we decided to create a provision for the loss of R\$111 million, recoverable value in the 4Q.

Another point refers to one of the portfolio that we decided to migrate from one operator to another. And we took on approximately R\$24 million of costs with claims. We could not have worked in another way, working from one operator to the other. It would have been very difficult to have a perfect migration. We would have lost 25% of the lives. Therefore, we prefer to make this investment. This is a one-time event, it is important to say it. It was a very specific decision, so we could maintain the same number of lives and to migrate those lives from one cooperative to another. And, for this, we had to negotiate this amount of investment.

Once again, this is a one-time event, this is not something that happens, and these contracts were extended in February 2020.

Despite these effects, the Company achieved net revenues of R\$393 million in 2019, and we generated an operating cash flow, which is more important, the cash generation that the Company is able to achieve even after CAPEX of R\$657 million.

I now give the floor to Pedro.

Pedro Henrique Rocha Nocetti:

A good day to all of you. Let us go to slide four, to speak about the portfolio. We have a small drop in churn when compared with the 4Q. This is the touchier period of the year. This is when we have the reflection of readjustment that has an impact three or four months after the customer has a change in the price, and it is normal to have a 4Q with some impact of the readjustment, and a more significant loss of lives.

I would like to highlight the annual comparison of 2019 to 2018, when, once again, we were able to reduce churn. We have had a significant improvement from 2017 to 2018, and we had an improvement between 2018 and 2019.

In terms of gross adds, we had an annual growth in the 4Q derived from the sales campaign, with a focus on the digital sales and a positive impact in the absolute volume of sales.

Once again, what I would like to highlight is the ability the Company has of converting these sales to the digital modality. We began with 12% in January, 71% in June, 96% in September, closing the year with 99% of the sales on the digital channel in December. This is the reality of the Company, and we are a more modern company at present.

Additionally, in the 4Q we had an acquisition of a portfolio of approximately 6,000 lives, and also the coming into operation of Uniconsult, 35,000 lives that the Company began to manage in the 4Q. The acquisition of Uniconsult continued in February of 2020, and, of course, this leads to an increase of revenues for the year 2020, thanks to Uniconsult.

With this, we ended the quarter with 23,000 lives more, a performance that is much better than that of last year, and the Company grows its portfolio again after two consecutive years of loss of lives.

We also had a slight reduction in the corporate segment. We had an increase of life in SMEs and TPA, but in the consolidated Company portfolio, we have a growth of more than 6% in number of lives.

We go on to slide number five to speak about net revenue, R\$521 million for the 4Q19 in the annual and sequential comparison. This is a reflection of the readjustment. And we have higher revenues in terms of agency and brokerage in the addition segment.

Part of this comes from the agency itself for the previous quarter when we compiled our results, and we saw that this had value and that we could calculate the agency rate. We also had a slight increase in other segments, in the SME segment as well as in the TPA segment.

We go on to slide number six to speak about costs. Here, you can see a decrease in gross margin, and every year we have a reduction in expenses with personnel. Consequently, we have a reduction with the third-party services. All of these costs relate to tools, IT, our service tools with customers and customer management.

This Company has undergone streamlining. We are substituting several of our tools, and this has enabled us to have an enhancement vis-à-vis the 3Q19. And we will continue to obtain gains in the coming quarters.

When it comes to royalties, savings of 3% year-on-year in the consolidated exercises. Thanks to the work carried out by the Company in the management of these costs. And finally, to speak about other costs, we have the impact of the claims cost, as mentioned by Grace. Once again, this is a one-off event. And it is not a practice of the company to have these claims costs with its customers.

When we look at the cost for the last quarter and the gross margin outlook, I would like to remind you that the company has done its homework very successfully. We continue to work successfully on this.

We are going through a very difficult and challenging market situation when it comes to our portfolio. And what the Company has obtained during the 9M19 is the operating reality, that ability

of generating margins when compared to the 4Q19. This is a more streamlined Company nowadays, and it is ready to sustain the growth that we wish to have going forward.

When it comes to administrative expenses, when you look at slide number seven, the recurring administrative expenses, they increased 14% more than in the sequential comparison. We had the expenses with the initial process, and it is our understanding that the operational enhancements will enable us to reduce our expenses with administrative costs, especially when it comes to personnel.

We had costs with QSaúde project. This should not repeat itself going forward. And we have some restricted actions, especially referring to executives that left the company in the month of November.

When it comes to the amortization of expenses, you'll see the annual increases and the lease of the new headquarters of Gama Saúde in São Paulo, that will have an impact during the year 2020.

Before giving the floor to Grace to speak about commercial expenses, I would once again like to show you the increase in amortization of expenses with lease and the policy of awards and commission referring to the sale of plans.

When it comes to these commissions, if we were to weigh this by the old method, it would represent R\$17 million for the 4Q19. What is important to highlight here is for you to understand which will be the behavior going forward. The commercial expenses of the Company are based on commissions and awards for new sales, and the trend of this line of amortization of commissions is to increase, considering that our expenses in terms of cash have been much greater during the year.

In 4Q19, when I add prize money with commission, I reach R\$ 37 million. When I look at 3Q19, this volume was R\$40 million. So, as I increase sales with more aggressive campaigns, this line goes up and moving towards what I'm actually spending on cash, which is what the Company is looking for, which is growing.

With this, I would like to return the floor to Grace.

Grace Tourinho:

Thank you very much, Pedro. Let us speak about slide nine, the bad debt. We are at this best moment, especially because of the recovery work that was carried out, vis-à-vis previous years. This quarter, we recovered R\$18 million, and the level in the coming quarter will be of approximately R\$10 million, give a bit here, give a bit there but of course it will be higher than in other quarters. And it was nothing as exceptional as we had this quarter, and net revenues were 1.3% of this.

We believe that with this, we were able to end the year with 3.5% of recovery, and this represents a significant recovery. We made strides, thanks to several initiatives that are being put in place to ensure that we can maintain this amount of debt at the lowest level possible.

And what I would like to clarify here is that, of course, we will not be able to maintain everything at the level of 1.3%. The outlook is to be more conservative, and think that it will remain at a level similar to 4%.

When it comes to the other expenses, I would like to highlight two points. One, the impairment of Gama of R\$111 million that corresponds to 100% of the goodwill recorded at the moment of acquiring the business and extraordinary revenues with sale of the aircraft of approximately R\$3 million in the 4Q.

In slide ten, referring to our financial results, we have the renewal of our debentures in the 3Q19. And we now have interest rates that will be paid in the 1Q and 3Q of every year. And revenues had a strong sequential reduction due to the recent reduction of capital that we carried out in November 5, of R\$980 million.

We go on to slide 11 to speak about EBITDA. EBITDA had a drop due to those 2 issues that I mentioned, the impairment and the claims cost. And of course, this will not repeat itself in the next quarter as the contracts have been revisited.

I would like to highlight the work of the Company to adjust processes and implement digital transformation that has become ever stronger. The operating reality of Qualicorp is the margin that we saw from January to September of 2019. What happened in the 4Q are one-off events. And I would like to make it very clear that what we expect for coming periods is to have a return on our margin as we publish from January to September of 2019.

If we were to eliminate the nonrecurring events of EBITDA, we would obtain R\$272 million this quarter, with a margin of 50%, and we would obtain that R\$1 billion for the year 2019.

We go on to slide 12 to speak about net income. We have a drop in terms of comparisons because of one-off adjustments with an annual aliquot of taxes that is 30.8% vis-à-vis 36.8% in 2018, which means that we have had an advance of 6 percentage points.

I would like to thank the approval we had at the extraordinary assembly that enabled us to incorporate the brokerage company in October of 2019. And thus, the company can launch the income tax and the fiscal losses, representing R\$50 million in the holding of this amount. R\$15 million have already been used in the exercise itself, and R\$35 million will be used in future quarters. Most of these benefits, of course, will be used during the year 2020.

We go on to slide 13 to speak about CAPEX and indebtedness. The Company ended the 4Q with a net debt of R\$918 million due to the capital reduction of R\$980 million, maintaining strong operational cash generation, enabling us to continue to deliver value to the shareholders, carry out acquisitions or payment of dividends.

The Company was able to work with the acquisition of Uniconsult now in February of 2020. So we still have not included this amount in the Company's balance. We have acquired 75% of this company, with 35,000 lives through the amount of R\$25 million. We had the purchase of SESP R\$12 million, adding 6,000 lives to the Company's portfolio.

We now go on to slide 14 to speak about cash flow. Operating cash flow was positive and R\$189 million for the quarter, higher than the previous quarter, especially due to the strong performance vis-à-vis the 3Q19 because of an improvement in working capital, the sale of the aircraft and a lower use of cash because we accounted for the losses that we had in the holding.

To speak a bit about the sale of our subsidiary QSaúde, the spinoff, we would like to thank our shareholders that participated in the assembly and helped us to approve this. The company followed the best governance practices to ensure that the information will be fully transparent for the decision-making process.

And we are now awaiting the final approval to be able to materialize and conclude the sale. It is important to highlight that their subsidiary -- health subsidiary that is still part of the Qualicorp Group consumed R\$51 million from the company cash in 2019, R\$32 million directly impacted our results in 2019. And we will have savings once this business is truly materialized. We believe, therefore, that this operation should be concluded in the coming weeks.

I would like to thank you, and I now give the floor to Bruno Blatt who will speak a bit about our outlook for the year 2020.

Bruno Blatt:

Good morning to all of you, and thank you for joining us in our conference call. Four months ago, I began working at Qualicorp, and I was ready for a new cycle of sustainable investment. All of this will represent a growth in revenue, more competitive products in our portfolio, and we should work better with market operators.

We have begun speaking with new operators in some states, and we have some concrete achievements on this front. We have five new and more competitive products in the Southeast and Northeast. And all of this will come in the market beginning in May. In the south, we have low market penetration, and we are speaking with the operators in that region.

As mentioned by Grace, we have acquired some companies, and strategically, this complements our product portfolio. The Company has become a sales machine and a health manager. The market is changing, and there is an ever-growing demand for products that have higher quality.

Qualicorp has to change to be able to adapt to this new market. I have met with the brokers and with our partners to analyze new alternatives for products and services, and to ensure we have good offers for our end customers. In the right time, we are going to disseminate this information.

In the four months, we took several initiatives for the Company, always focusing on sales and retention of customers. We have 500 entities and 40,000 brokers, and all of these are fundamental. Once again, we have several initiatives underway. We are changing our way of working, and we are becoming ever more productive. And we are trying to resolve the problems in our business and generate ever more value.

We have a new Board, we have a new innovation team, new businesses, and we are going to speak with the President of this new business department.

Elton Carluci:

A good morning to all of you. Thank you, Bruno. Many of you know me, I have been in Qualicorp for more than 18 years in the financial department, but I have been a manager in several operational departments. I was part of the team that worked on the IPO, the follow-on and several acquisitions, and when we get the operations with Carlyle.

The Innovation Board has the aim of consolidating and leveraging all of the initiatives linked to innovation, new business, M&As and, of course, strategic business. At the end of the day, what we expect with this is to have a more modern company that is more agile, to enhance the experience and strengthen the relationship with our customers, brokers, operators and especially with our in-house team.

Once again, I am deeply satisfied with this new challenge. And I hope to be able to contribute significantly. It has been a pleasure to be with you.

Thank you once again. And I think that now we can go on to the Q&A session. Thank you.

Thiago Macruz, Itaú BBA:

Good morning. I would like to hear about the Company's plans for this year to gain a better understanding. There is a great deal of things to still discuss within the Company. I would like to know your foundation. This is my first question.

Secondly, I would like to gain a better understanding of your investments to help you to reduce the problems that you basically faced in this last quarter. These are my questions.

Bruno Blatt:

Thank you for your question. When it comes to products because of a commercial strategy, we are not going to go into the details of the products. As I mentioned before, we are working with 522 partner entities and with operators that we are holding a dialogue with. These are operators we were not working with.

We have well-located products in regions where we did not have these products. We do continue with our traditional products. We have undergone a broad evolution. We already have some products for the coming quarter. As I mentioned, our team is on the streets to be able to work properly and decide which channel this will be sold through.

So we have a significant number of new products and ideas that we will launch in the coming quarters.

Pedro Henrique Rocha Nocetti:

When it comes to the tool, I would like to speak about this in greater detail. What the Company wants is to generate a better experience in customer service. If we are able to speed up the service to the customer using WhatsApp tool, if we are able to resolve the large number demand with self-attention through the application of a portal, we will have more satisfied customers,

customers that will complain less. And in the final amount, customers that will not seek National Health Agency to resolve their problem.

Once we enhance our customer management tool, we will commit less mistakes, which means that this represents a series of enhancements that we have implemented and will continue to implement to enhance the customer's experience. Of course, it will allow us some savings and avoid that wear and tear with our customers.

What we want is a satisfied customer because they have the right project for them or because they can count on Qualicorp to resolve their problem.

Thiago:

Very good. Thank you very much for the responses.

Fred Mendes:

Good morning, and thank you for taking my questions. I would like to speak in greater detail about your management enhancements during the 4Q, the considerable change vis-à-vis the 3Q. When we look at 2020, if we could focus on the main lines, where you have an opportunity to reduce costs, if you could give us more visibility about this, how are you going to reduce your cost going forward in 2020 and 2021? Thank you.

Grace Tourinho:

Good morning, Fred, and thank you for your question. When it comes to the agency costs, we receive an analysis from the operators about the products and in great detail. We carry out conciliation when it comes to specific products, and some of them have different percentages. Some have 100%, others have 150%, others have 200%, depending on the operator and the product that is being sold.

And in this conciliation, we have noticed that we have some amounts that has already been realized but not paid for by the operators, and we were able to recover this in the 4Q. And that is why we are proceeding very cautiously.

Part or some of these revenues may have happened in previous quarters, but we have now realized them. The 4Q does have a positive effect when it comes to this reconciliation and the payment of revenue that was done subsequently by the operators. When it comes to the cost reductions, of course, we are constantly seeking opportunities in-house.

And there are new opportunities. Bruno is looking upon this with a completely new pair of eyes. We are making adjustments, so we can have even more significant cost reductions.

Bruno Blatt:

Fred, thank you for your question. We have made significant efforts. We had worked during previous years to reduce our costs, and the team truly worked brilliantly when it comes to cost reduction. But we have found other opportunities. We had a building with seven floors, we are

reducing this to five floors. The intention is to have a reduction of another two floors. Of course, this represents significant savings. And there are opportunities day after day, we find these opportunities.

I do not want to speak about this further because we are about to invest in our distribution channel. We are investing in new entities, new operators with a focus on the end customer. New products and new channels. We are making a diversity of investments for the long term of the Company. Of course, this will have a pressure on our expenses, but I will not go into details as we do not have them to give at this moment.

Fred Mendes:

Thank you very much for your response.

Leandro Bastos, Citibank:

Good morning. I would like to know how you are offsetting the capital after the capital reduction that you carried out.

Grace Tourinho:

Excellent question, Leandro. Thank you. Since the beginning, five years ago, when I entered the Company, the idea was to have 60-40, 60% of indebtedness, and 40% of our own capital. We still have not gotten to that, but we are very close. We have taken a step in the right direction.

Another step is to intensify the structure of our companies. We have just acquired Uniconsult, which means that we would have three managements with three different company names, and we will have to take that fourth step eventually.

Thank you for your question. And of course, we are always going to seek the best capital structure for the company. This is important to make the company more expeditious and to bring about higher returns for investors. This is something we will seek constantly.

Leandro:

Thank you, Grace, for your response.

Joseph Giordano, JPMorgan:

Good morning. Thank you for taking my question. The first refers to the new products in new regions that was mentioned, I would like to know if there has been a change in the Company economics to make these products ever more competitive in terms of price. It is a parity, will be somewhat lower if the management rates charged by the Company will be lower.

My second question goes to Grace in the financial part, very good results. I would like to understand, going forward, what is going to happen with the recovery of bad debts, which would be a normalized situation going forward.

And some timely issues referring to QSaúde, what is that we can imagine, if it's R\$40 million to R\$26 million or R\$30 million, what is your intention?

Elton Carluci:

Speaking about new products, I am heading this initiative. Let me explain to you what is it that we foresee. We are beginning with these new products now, and what we have is a cluster vision. We are no longer working with basic or intermediate products that are the same for everybody. And we are going to see now if it makes sense or not to change our product base, to make our products more competitive according to specific regions.

Going forward, our economics should not change very much because we are making timely changes, 1%, 2% or 3%. This is fine-tuning. Where we have adopted a broader vision, we are discussing the products in terms of customer loyalty, and we are thinking perhaps of working with differentiated agency fees.

It does not make sense to have very high commercial expenses with some of these products. When we are working with retention products, perhaps the agency fee can be somewhat lower. But we do have a certain foundation. So we are working with the detail to be able to create a more customized experience for the customer. And this is what we are working on primarily.

This was not your question, but we have 90 management companies that we could acquire, and this would be acceptable by CADE, with regional products that might be of interest for us in some specific regions.

This means we would have additional annual products during the year 2020 with a different strategy. We would have a local manager. And it would make sense to have these products in-house in the company. And we have mapped all of this. And we are thinking about these local products as they would make sense for the company.

Once again, we are simply serving this, and this would not have an impact on our recurring revenues, and they would be important in terms of retention or increasing customer loyalty. And this would lengthen the period in which people are with us within the company. And of course, this will enable us to leverage our returns.

Grace Tourinho

Regarding your second question that refers to uncollectible debts or bad debts, in 2018, our recovery rate was approximately 6%. I do not know if you recall, but we have some contracts in Rio de Janeiro, Aliança, where we had customers who were not paying, and we measured that this debt amounted to a very high percentage in 2018. And these amounts were practically recovered in 2019, benefiting our exercise for 2019.

This was not the only positive impact on our exercise. There were other internal activities in the company that also had a positive impact. I do not believe in a rate of bad debts that will be higher than 6%. We have now changed this level, but I also do not believe that we can get to 3.5% as we presented in 2019. I believe, in a rate of approximately 4.5% or 5%.

Once again, it is not a very simple task. We do have a readjustment that will happen between July and August. And with this readjustment, if we have lower percentages, this will help us a great deal. In terms of the uncollectible precedent, I think will remain at around 4.5%, or even lower amount.

When we speak about the line item personnel, without saying anything extraordinary, I would like to say that the 3Q19, we can reduce the figures when we withdraw the effect of QSaúde and get to a level of R\$3 million to R\$4 million.

In my viewpoint, I think we are very close to this, unless we have a one-time impact on our administrative expenses. We have carried out a series of reductions in 2019, we had costs with severance in 2019. And once again, this should not repeat itself in the year 2020.

I hope that has responded to your question.

Joseph Giordano:

Yes. Great. Thank you very much. And simply a follow-up in terms of that benefit. And you spoke about M&As. If you could help us quantify the universe of lives of the portfolio that we are speaking about.

Elton Carluci:

Thank you for that additional question. We have 90 in terms of regional products that we think are worthwhile, considering 109 active administrators with a good invoicing. And we have to look at them more calmly.

At this precise moment, we are working in-depth on this. We are serving potential markets, potential products. And we are also looking at the competition and their products. Therefore, we cannot divulge any information because of this. But what I can say is that we are looking upon this almost surgically of making investments in specific regions, considering the target audience that we have at present.

We cannot give you more color on this because at present, we are working with the part of business intelligence, and we have no figures that we could share with you presently.

Joseph Giordano:

Thank you.

Operator:

At this point, we would like to end the question-and-answer session. We will now turn the floor back to Mrs. Grace Tourinho for her closing remarks.

Grace Tourinho:

I would like to thank you once again. We are at your entire disposal, the entire Investor Relations team, should you have any doubt.

Thank you very much.

Operator:

The conference call for Qualicorp ends here. We would like to thank all of you for your participation. Have a good day.

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