

Operator:

Good morning, ladies and gentlemen, and thank you for standing by. At this time, we would like to welcome you to the Qualicorp conference call to discuss the results for the 1Q20. 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/ir, where the presentation is also available.

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

I would now like to turn over the floor to Mr. Bruno Blatt, the Company's CEO, who will begin the conference call. You may proceed, sir.

Bruno Blatt:

Good morning to all of you. This is the day in which we present results. Each of us are in a different corner, but distance does not separate us because we work on a single purpose.

I would like to render tribute to the health professionals that are taking risks to preserve life. We thank 520 partner entities, medical associations, physical therapists, psychologists, pharmacists and others. I can't name all of them, but I thank all of them on behalf of the President of the Brazilian Medical Association, one of the great partners of Quali. And I, once again, render tribute to them.

We have a new reality, the social and economic effects of the coronavirus that are so unpredictable. And of course, Qualicorp knows that it has a very important role to help society to go through this moment. The first step was to guarantee the normal operation even in these abnormal times. And because of this, we know that our clients are our greatest assets. And our associates are now called the Qualis. And I would like to once again thank our 1,837 associates for their dedication, engagement and commitment that have given us a real show.

Nowadays, Qualicorp is delivering rapid and efficient solutions. And in two months, we have done what normally takes one year. The home office situation has been very correct. And for more than two months, everybody has been working at home. The impact has been so positive that when the pandemic is over, we would like to adopt two days of the week in home office. This will give us savings, better results and a better life for the Qualis.

We have no case of COVID-19 in the company. The company is making the commitment of not having mass layoff or systemic layoffs during the pandemic.

Home office is using the technology that we use in all of the Qualicorp processes, and this applies to all of our partners. With 100% digital technology, we are able to guarantee sales for brokers as well.

We see the severity caused by the coronavirus. We have created a new system with several initiatives, but I would like to highlight just some of them. We have distributed more than R\$10 million to actions geared to society, for the health area, for Quali associates, their families and our partner brokers.

Part of these resources were devoted to the construction of three beds in the Santa Casa de Misericórdia de São Paulo, 200 in Rio de Janeiro, and in both cases, took care for COVID-19 patients exclusively. We also have the coronavirus project that helps the health professionals working in public hospitals very speedily. We have also donated 3,000 rapid tests, and 1,000 health professionals have already been tested thanks to this.

Another initiative was to donate 3,000 liters of sanitizing to the slums in Rio de Janeiro and São Paulo, Vidigal and Paraisópolis, greatly affected by the disease. Our associates and their family members will also receive masks and rapid tests as well as sanitizers at home. We have extended this to distributors and partners throughout Brazil.

Qualicorp is doing its part, offering help to the medical associates, to people from the government and offering updated information on the pandemic. We have a site called Qualicorp Explains. And since April, we have podcast, frequent communicates, the communicates of the Health Ministry, coverage on health plans.

Qualicorp has worked with a great purpose with the main associations that represent supplementary health. What we want to do is create and offer new products for access to health plans. This joint effort, in partnership with ANAB, the National Association of Health Companies, and the Brazilian Association of Health Plans, has enabled us to postpone the readjustments that would take place on March 1.

In health plans, Qualicorp was the first benefit company that has adhered to this, and we are following up on the actions of these associations amongst society at large and the government and finding new paths to offer access to supplementary health. All of this is part of our role as a manager of benefits and we want to include access to students for professional liberal, all for supplementary health.

We have also deployed efforts through our technical and medical associations to offer newer and more accessible products for the population at large in Brazil. This plan is underway even during this pandemic and it includes national and regional collaborated offering, more accessible products until the beginning of the pandemic.

For the first time in 5 years, we observed an inversion of the cycle. They will speak about this in the results, but this 1Q, we had a consistent growth in sales beyond our expectation. Of course, this pandemic has affected all sectors in Brazil and worldwide, and Qualicorp is not out of this. We believe that this unprecedented pandemic will pass and that we will continue to offer quality private health.

Until last year, having a health plan was the second priority of Brazilians after having a home. After this pandemic, this will become the #1 priority. Once again, we are in the quest for new opportunities. We are broadening our relationship with brokers, partners and health entities. We are open to new partnerships, new channels and new products.

We are also very attentive to the fact that this moment is a moment for protection, but we are seeking opportunities for synergy. All of the teams have been working in a brilliant way, reducing costs that have been quite expensive.

We have eliminated seven of the 12 floors of the Plínio Barreto building. And in the first four months of the year, we have more than 40 relevant contracts with suppliers for items such as gardening and other products. Any type of cost savings is being achieved.

This is in compliance with our previous goal of having a lighter, more competent and more innovative company. With all of these initiatives, Qualicorp reaffirmed its protagonism, and we know that we will surpass this crisis.

I now give the floor to Grace to speak about the results for the 1Q.

Grace Tourinho:

Thank you very much, Bruno. A good day to all of you, and thank you for participating in our 1Q20 conference call.

About the quarter per se, once again, we highlight the strong operational cash generation as well as the strength of the recurrent margin, even in a cycle where we see a greater impact of commercial expenses vis-à-vis recipe.

These have been the great strength of Qualicorp in the last year, along with an operation that has been evolving and becoming ever more efficient. We can say that we have a strong company prepared to surpass this difficult moment jointly with our clients, our partners and our associates.

I now would like to give the floor to Pedro. You may proceed, Pedro.

Pedro Nocetti:

Gentlemen, good morning, and thank you very much. I begin speaking about our portfolio on slide four. We see a deterioration of churn in the annual comparison. This is due to the loss of our portfolio of 15,700 lives in January. It did not have a significant impact on our revenues, as I will refer further ahead.

Regarding the growth, it is important to mention that in the 1Q19, we had the entry of a portfolio, adding up to 31,000 lives. If we were to exclude this effect, we would be speaking about an improvement in our recurring gross add-ons. With this, and if we consider the impact of these two portfolio, we had a negative net add-on of 21,000 lives.

It is important to highlight that the company intensified its sales campaigns beginning in March. And we have continued to invest, investing in sales, seeking to have a greater assertiveness to improve our growth add-ons despite this very difficult scenario.

When it comes to the other segment and portfolios, we were able to increase the number of lives in the corporate segment as well as in the SME and TPA, although the impact of TPA is limited on the company revenues.

We go on to slide number five. We have R\$503 million of net revenues in the 1Q20, an increase in the annual comparison, reflecting the readjustments in Affinity and greater revenues in the Other segment, a very good result because of the increase in the portfolio. Vis-à-vis the 4Q, we had an extraordinary revenue because of the agency revenues in the 4Q19. And there's extraordinary revenue. If we did not have this, we would have revenues that are very similar to those of the 4Q.

In slide number six, we speak about cost. We see that gross margin in the 1Q has increased both annually and quarter-on-quarter. Compared to the 4Q19, you will recall that we had extraordinary costs with a loss ratio that occurred in that period. And the idea is that this will not repeat itself.

I would like to remind you as well that in the 1Q19, we had an increase in our payroll because of the increase in the annual services to third parties and severance pay for that quarter. And what you see here is a reflection of what the company has done in the last 12 months to rationalize these costs and offer you the results we see now.

We are referring to our IT expenses, processes, improvements in processes and systems, and all of this to increase the satisfaction of the client. Of course, we cannot automatically replace our systems quickly. We are working with systems in parallel. And we can observe periods that are better when we compare it with the 1Q19. Notwithstanding this, when we compare this with the 4Q19, you will observe a significant reduction showing that we are more mature in terms of the enhancement of processes implemented in these last two months.

When it comes to the administrative expenses, we are going to speak about this on slide number seven. We see an increase in administrative expenses, especially in expenses with personnel. This is due to the severance of an executive, and the amount was paid mostly through stock options in the 1Q.

Now besides this, we have expenses relating to what happened with QSaúde, everything referring to the QSaúde project. The sale of QSaúde was approved in January and the divestment of this company took place only now in April. And as it was still part of the company during this quarter, there was an impact on personnel services and third parties and leases. If we eliminate these extraordinary effects but because of the nature, we would have an annual improvement in SG&A in terms of absolute value as well as in the comparison of the revenues vis-à-vis administrative expenses.

We also observed a reduction in other administrative expenses, that is the last line below depreciation and administration, and these are because we have a lower volume in infraction notices. Qualicorp as a whole works very strongly to be able to offer the best service to the clients to be able to resolve the client problems as speedily as possible. And of course, all of this should lead us to a lower volume of expenses with infraction notices. As mentioned with lease, we had a decrease because we no longer have the lease of QSaúde, but this should only happen as of the 2Q.

I will speak about the selling expenses. Now there has been a trend that I have been mentioning in previous calls, which is the increase in the volume of amortization of commissions for new sales. And this increase has been occurring gradually in the year-to-year comparison as well as in the sequential comparison. It reflects an increase in sales and the award campaigns for sales that had been put in place in the last 12 months.

Now if we think about these expenses for more than two or almost three quarters, we have had higher expenses and awarding campaigns amounting to approximately R\$40 million per semester. Now only during this quarter, it was R\$21 million. R\$21 million per award and the trend is to maintain this increase or perhaps as we are speeding up the pace, we can have an increase or maintain the present-day level. And the volume of amortization of commissions for new sales will, of course, increase.

Now these are the efforts that we are setting forth to accelerate our sales, and the trend is to have an increase and that it will gain more parity vis-à-vis our revenue. We have worked to become ever more efficient and to have more room in our matrix to have greater output. It does not mean that we are going to lose in terms of margin. We have had gains in several areas in the company, and of course, people end up paying us.

I would now like to give the floor to Grace. Thank you very much.

Grace Tourinho:

Thank you, Pedro. We go on to slide number nine to speak about bad debt and other operating income.

I would like to remind you that in the 4Q, we had a record result in the company because of the strong work that we had carried out in previous quarters. We recovered more than R\$18 million in bad debt recorded in the previous quarters.

It is important to highlight that the performance in this quarter is the result of the company efforts that we have been carrying out steadily, and it offers us comfort to be able to bear more challenging potential scenarios. And we have worked a great deal in the field of client retention, and we are focusing on each and every one of our clients.

Regarding other expenses, we see a greater volume of provisions for contingencies this quarter. And once again, we are debating with the operators what is called the match to be invoiced.

We go on to slide number ten to speak about our financial income. The revenues had a strong sequential reduction because we paid the capital reduction of R\$980 million in November 5 of last year. We have about R\$4 million of expenses in mark-to-market for our devaluation of quotas and Exclusive Investment Fund and due to the COVID-19 pandemic.

We go to slide number 11 to speak about the EBITDA. We have excluded nonrecurring effects with an annual growth with relative stability in margins, albeit with a greater weight of commercial expenses in the result. When you compare to the 4Q19, this increase is due to our cost with impairments and loss ratios that were reported as part of EBITDA during that period. Once again, I would like to praise the work carried out by the entire company and by the leaders in the matrix

management controlling the expenses of the company. We are rationalizing not only our expenses, but we are also not losing sight of the quality delivered to the client. The present-day margin of Qualicorp will allow the company to sustain even more challenging macroeconomic scenarios, and we want to continue generating value for shareholders. This is as important as caring for our expenses.

We now go on to slide number 12. The net income drops in the annual comparison due to two reasons: The sale of QSaúde and some decisions with severance pay. In terms of our effective tax rate, in this quarter it is 37% vis-à-vis 39% in the 1Q19. It is important to highlight that if we were to exclude the expenses with QSaúde that are nondeductible, the effective tax rate would be at 34%.

On slide number 13, we have CAPEX and the indebtedness. The company ended the 1Q with a net debt of R\$778 million, maintaining a strong operating cash generation. The company has always strived to deliver value to shareholders through dividend payout or through capital reduction.

At this moment when the COVID-19 pandemic brings about uncertainties, the company has proposed to pay a minimum of 25% of the net earnings for 2019, and this was ratified by the Ordinary General Assembly of April 30. The rest of the profit reserves may be deliberated in the future if the Management Board feels comfortable in carrying out this payout. In the last five years, the company has been paying out 100% of the earnings of each exercise.

And the purchase of Uniconsult was made effective in February of 2020 and their figures will be consolidated in the company. We purchased 75% of the company that has 35,000 lives for the final amount of R\$21 million paid in February and April.

In slide number 14, we speak about our cash flow. Our operating cash flow after CAPEX is positive by R\$116 million this quarter, lower than the previous quarter because of a greater consumption of working capital accounts and, once again, because of the service of our debt.

We go on to slide 15 to speak about the approval that we have for the sale of QSaúde. It is the final approval of the National Health Agency enabling us to conclude this divestment in April of 2020. We transfer the totality of the quotas. The managerial, administrative and financial management will now take on all of the commitments, which are now pertaining to the acquirer. There has been a disagreement in terms of the acquisition price, and this discussion is being carried out through arbitral proceedings.

We now go on to slide number 16 to speak about the makeup of our Management Board. And if you allow me, I would like to thank the active participation of our shareholders in the assembly on April 30 where we approved the play of our Management Board. As President, we have Heráclito De Brito Gomes, Jr. and Mr. Mauro Teixeira Sampaio, Otávio de Garcia Lazcano, Murilo Ramos Neto, Roberto Martins De Souza, Arthur Farme De D'Amoed Neto and Wilson Olivieri, all deemed to be independent members.

The company would also like to thank João Cox, Rogério Calderón and Alexandre Dias, who are leaving the Board, and we thank them for the services rendered. And we welcome the new members of the Board that were reelected at the Management Board meeting: Bruno Blatt, Grace

Cury and Fabian Rocha. Additionally, as Strategic Affairs Officer, we elected Mr. Pablo dos Santos Meneses.

I would now like to give the floor to Elton, our Innovation and New Business Officer. You have the floor.

Elton Carluci:

Thank you, Grace, and a good day to all of you.

And has been mentioned, our home office has been very dynamic. The last time we spoke, we have 5 squads in the company and some strategic initiatives. In less than two months, we have increased all of this fivefold. Presently, we have 25 squads working with more than 50 initiatives. What is more important is that we have hired most of our research team and we are growing very positively.

To speak about innovation, we have been able to implement several tests for the loyalty process. At the last call, I mentioned that we were following up on the client's life cycle to have the right product at the right time. This is our lifetime value policy. And now, in some cases, we are able to discover when the client is going to request cancellation.

Now how do we do this? We base ourselves on data. You will recall that in the last call, I mentioned that Qualicorp had to have a more proactive company. Now through some perceptive modeling tests, we have been able to determine, in some cases, when the client is going to request cancellation using PME. Why? Because we now look at the background of the client, see how the entrepreneur works, and we use this tool. And this has enabled us to anticipate a cancellation.

Of course, certain measures are taken in a surgical way, because we are speaking about different portfolios with different margins. What we are going to do now is accelerate these type of initiatives, increase the amount of products and offer the best to our clients.

This is only one of the 50 initiatives that are underway. I do hope that in the next call we will have more initiatives set in place, very similar to this initiative. We are also preparing some marketplace pilots, always with a focus on increasing the average time of permanence of our clients. I believe that in the next call, we will have some preliminary results that we can share.

In the M&A front, we are still assessing some opportunities and we are adapting to this new working dynamic, which sort of extends the processes. We are working in a segmented way, seeking new opportunities to have new products or new locations for energy clients. This is a very short update of what we are doing in the field of innovation and new businesses.

We can now go on to the Q&A session. Thank you.

Leandro Bastos, Citibank:

Thank you, and a good day to all of you. I have two questions. The first, if you could comment on what has happened during the month of April and the beginning of May?

And a second question that refers to the regulatory environment. We see that the agency is working on several fronts of this pandemic. And if you have anything to add in terms of what is happening with these regulatory agencies?

Elton Carluci:

Leandro, this is Elton. Good morning, and thank you for your questions. I'm going to speak about some cancellations that we have observed in April and May. And if anything is left, somebody will complement this question. And in terms of the regulatory part, I will give the floor to another speaker.

Let me speak about April and May. What we have been observing is a reduction, a systematic reduction of this indicator in the last few months, in February, March and April. Month after month, of course, we do have more requests for cancellation. And now because of the COVID-19, we have begun to perceive this. And there has been a cancellation of debt and there has been a slight increase at the end of April and the beginning of May. We have seen a slight improvement in this indicator. Through several of the activities that were set in place in the company since January, we do see improvement. And because of the COVID-19, people are somewhat fearful of canceling their plans.

In April and May, once again, we see that the uncollectible receivables have had an exacerbation. I would say that April has been very good. It surprised the company as a whole, but May, we observed will be somewhat more difficult. And once again, we are delving into the numbers, analyzing them to attempt to understand if this is due to COVID, to economic reasons, but once again, May has had an exacerbation compared to April, that was very good.

And we are trying to anticipate this process, and we see some people carrying out sales because of COVID-19. But in sales and cancellations, I do not know if somebody would like to complement this and perhaps Pedro could help me in the regulatory issues.

Grace Tourinho:

Thank you. And let me complement what Elton said in terms of the bad debt. This is something that we monitor day after day. Now in the month of March, we had some receivables accumulated in the company. They represented 39% of our turnover. In April, we are still waiting for the receivables. They reserved for 35 case and we are at 96% with all of the turnover received.

Now when we look at this comparatively, it was very much in accordance with what we already had. The sensitivity of a period such as this one shows clients that they cannot be left without a health plan in a pandemic like this one. And paying for the health plan has become a priority.

And in some cases, we have received anticipated payment. We have never received as many as now, but we have to be conservative. The economic situation is deteriorating, and it will continue to do so. And of course, this because people are remaining at home, they cannot work in their businesses.

I think we, as Qualicorp, has made enormous efforts to work at full steam in all of our areas to offer these benefits. However, it is very probable that we will have an impact and that is why we monitor this daily. And along with our clients, we are trying to understand each and every one of their needs.

I now would like to give the floor to Bruno and others if they wish to speak about the regulatory environment. And I hope to have answered your question, Leandro.

Leandro Bastos:

Yes, thank you very much.

Pablo Meneses:

Leandro, it's pleasure to speak to you. Now the topic that you have brought up is very important and we are very attentive to it. For you and for all of those that are listening to us, we have to say that this is a debate that has been tabled for many years already between operators and regulatory agencies.

Now the collective plan, the Affinity plans are part of a different segment. Nowadays, on average, we have 14% of the market through this Affinity segment. And this is something that is well-known by society and by the entities that represent the end consumer.

Now the negotiation with the operators includes an entire technical team in the background. And this technical team is able to negotiate with the operators to find better products, more extensible products and to also lead to a reduction in the adjustments and even in the loss ratio. It is important to highlight that what we are trying to do today is to generate a greater tie to their health plan.

And of course, this is something of supreme importance for health care managers. And all of this work is very helpful. And what we are doing as managers is generating products, specific products with prices that perhaps can even be lower for each different type of segments in the population. And this discussion is a permanent one.

What we do not want is to threaten the health care manager. What we want to do is to expand access through new products, including new segments through new Affinity segments. And this is what we expect going forward. I hope that I have responded to your question.

Leandro Bastos:

Yes, that has been very clear. Thank you for your answers.

Gustavo Miele, Itaú BBA:

Good morning to all of you. Thank you for taking my question. I hope that you are all well. My first question refers to cost, the PMSO, more specifically to the quarter, your cost control. And my question is more geared to the following: you have adopted new processes, made new decisions and all of these are more mature. Do you have any in additional that you could do? It was mentioned during the call that you are committed in reducing these levels of default. Is there

anything additional that you could do with third parties? If there's anything else that you could cut cost on.

My second question is a follow-up. I think that the panorama set forth by Grace was very clear. I would like to know what you are doing in terms of the recovery of credit, and if there's anything that was left over that can mitigate the impact of bad debt in coming quarters. If you think that you're going to have additional credit recovery, bad debt recovery or not? Thank you very much.

Grace Tourinho:

Gustavo, thank you for your questions. First of all, I would like to respond in terms of bad debt. We do not have a huge accumulation. What we have at present is high, but it's not something that we will receive very rapidly.

In this scenario, I truly do not think that people will be paying off their debt from the cards, even though we become more flexible, eliminate interest rates or fines. I truly do not think we will have a recovery as we had in the 4Q of R\$18 million. Or perhaps this recovery rate will drop somewhat. What I feel is that, so far, the company has not had any impact of the default. We are observing this very cautiously, and it could change during the coming months. But at this specific point in time, the health sector is one of the last to be impacted because of the pandemic.

Nobody can be without a health plan at present. This is the vision that we are working on. Now we will not have an extraordinary recovery as we had in the 4Q19. You will see that during this quarter. Our recovery was not fantastic, but it is very much aligned with what we had in the past. When it comes to the cost, we have to strive to decrease them constantly. And with this new management, there is the opportunity to do something different. The only focus that requires a counterpart from savings will be that of sales incentives. I think that we are going to have to go back and revisit this topic once again.

I think that Bruno would like to add something to this.

Qualicorp:

Simply to complement this, Bruno's line is not working. He will not be able to complement this. But once the returns, of course, we may remark on this.

Pedro Nocetti:

Gustavo, simply to add an additional point to what was said by Grace. Of course, we have several enhancements in the coming months, but some of them depend on obtaining maturity to see what else we can cut on beginning in December. We had a change in the CRM, which are the labor laws for several months. We brought in all of the operators to discuss this.

So we still have to go through that cycle of maturity for this to truly understand what it is that we can further reduce. You will see that we have process enhancements and that because of them, they have helped us to cut down on costs as a result. More efficient processes enable us to better monitor our clients. And once again, we try to cut down on infraction notices and all of this and

complaints that are sent to the national health agency. And not all of this brings about some savings. And you have been able to observe our results in this deal.

Gustavo Mieli:

Very well.

Bruno Blatt:

Let me complement something regarding the costs. We have an agenda that is a priority for our team. They work in a very focused way in 2019. And we do have a very strong austerity agenda for this quarter. We have this ranging from the larger contracts to the smaller contract. Each of the contracts are renegotiated in detail. We are trying to cut down cost in things like gardening in different locations, which means that we are focusing on every single detail. Everything is important.

Of course, we had savings in water and the power bills that are quite relevant as well as in the maintenance area. But we do have a very stringent agenda seeking for new opportunities to cut down on cost for the company.

Gustavo Mieli:

Excellent. Thank you very much. Congratulations.

Mauricio Cepeda, Credit Suisse:

Good morning. Thank you for the call and for taking my questions. I would like to focus on long-term issues here. Since 2018, we have observed a trend even in the Affinity segment. We observed a certain stability and a downward trend, perhaps. Going forward, we know that we are going to have more unemployment, and of course, a decrease in people's income. My question therefore refers to what you are planning to do differently because of this new world? What would you like to do in terms of geography, partnerships, channels, something that will set you even more aside than what you have done up to present.

Another question, this increase in the commercial cost due to amortization because of your more aggressive sales system. When are you going to reach a point of stability? Because there will be a point when you will have fully covered demand perhaps. These are my two questions. Thank you.

Bruno Blatt:

Mauricio, thank you for your question. We are speaking here about different channels and products, and we are seeking several opportunities through some of the projects that have been underway at least for the last two months. We cannot disclose this but last night, we had a large vertical operator in a region that has become a partner in our channel, and we will, of course, disclose this contract in a timely manner.

We held a very rich discussion, and perhaps this is a good clue for you. And in the last call, 3.5 months ago, we had some of the operators discussing the expansion and the inclusion of new products as a result of the partnership that we have created with the operators who have more than ten partnerships that are underway.

We are trying to find new ways to operate in the company. We have pilot projects with these operators. And of course, this is a way to resolve what is happening in the market as a whole. We have a great deal of enthusiasm and optimism, and we are quite excited in terms of innovation, products, channels and the new partnerships. I believe that at least the coming week already, we can already disclose this new partner. That is in a significant location or region of the country.

Elton Carluci:

Thank you, Bruno. Mauricio, simply to complement your questions and from the viewpoint of cost. We see that the commercial costs have been increasing. But when we see the impact of COVID-19, any more aggressive commercial campaign or sales campaign will be important. We have almost 20% increase in sales when we look at the same period the previous year. And this would justify this increase in cost.

One of the achievements in the company is that the personnel is fully focused on these new initiatives. This is how we optimize the cost. And this does not necessarily mean to reduce the cost, but at least to leverage the cost. This is gargantuan work that is being done through the 30,000 brokers that are connected to our company.

This is the work that is underway based on data, new processes, to be able to leverage the costs. And we will have to calibrate all of this because of the moment that we live with COVID-19. Perhaps we will have different compensation processes or a new way to gain the loyalty of customers, change the type of customers that we are working with.

Once again, all of this, that will enable us to look at the acquisition cost in a different way. And this moment where the COVID-19 is leading us to a great deal of reflection, and we will have to look upon our data from a completely different outlook. There is no perfect strategy. There is a path, and we have a new conviction that our model is good, but perhaps we will have to make some temporary adjustments or perhaps permanent changes because of this new learning that we have with home office and this pandemic. I hope that, that has responded to your question.

Bruno Blatt:

Elton, let me speak somewhat more regarding M&A. We have several analysis or assessments underway. And we are quite optimistic that we will be able to conclude this in a few months. And these are opportunities that the company was not looking upon, and we are quite enthusiastic to be able to disclose this to the market very soon.

But this moment is a moment of caution, and we have to be extremely judicious. We are revisiting our plan throughout the year 2020, but we do have several projects that are underway with some operators that we did not operate with in the past, and this should bring us good initial results.

Mauricio Cepeda:

Thank you, Bruno, for complementing the question.

Joseph Giordano, JPMorgan:

A good day to all of you. I hope that you are all well during this pandemic. I am attempting to understand how you look upon the sales per region and through differentiated health plans. Which has been the behavior of São Paulo in this aspect? Thank you very much.

Elton Carluci:

Good day. I would like to give you more color on this topic. And then, of course, anybody can complement my response. Now this idea of distribution of regionalization and I also spoke about M&As and our outlook for this, how we are looking upon Brazil and gaps where we do not have products and the performance of our channels. And what we want, of course, is the lifetime cycle with the client and to be able to calibrate our investments. We have observed a trend. We see that there will be a lower ticket.

And very clearly, a trend for economic retraction. And in those periods, as Bruno said, very soon, we will have a partner that will help us in this strategy, especially considering what we are going to go through in the coming months. We are going to have a very challenging economic period in Brazil.

And although the health segment will always be the last to feel this impact, as we said before, the last thing that a client will cancel the health plan. And we can't see which will be the end of this cycle, but there will be a natural trend to have a distribution based on less expensive cycles. This will be a new pattern.

And this is what we will do with our M&A. We are going to try to fill in that gap and not generate competition with our present day products. Well, we do not want to cannibalize one of our partners in a specific location at present. We are involved in a much more complex analysis at present. We are not trying to attack one or another operator.

And we have to discuss this cautiously and overcome this desire when we are implementing a product, make sure that it complements our distribution strategy. If it makes sense from the M&A viewpoint. What we are looking for basically is to cover up our gaps.

These gaps have been mapped, and we are seeking ways of covering these gaps through a contract or through a strategic and timely M&A. I hope that this has responded your question.

Bruno Blatt:

I would also like to complement what was asked by Mauricio before. We are expanding significantly in the public sector as well. We have a partnership and alliance, and we are focused on public health systems. We have several operators that have produced products for the public sector. They have some novelties, and we are quite enthusiastic about this new movement. This is a segment where the default is much lower. The ticket is also lower.

When it comes to the regional expansion, as was mentioned, we are conversing with some regional operators. Up to this point, we had not inaugurated a conversation with them. And now we are very enthusiastic about this possibility.

Of course, besides working with our great partners, Bradesco, Amil and others, where we have held frequent meetings to discuss products as well as innovation in packages and products as well as channel.

Joseph Giordano:

I would like to present a follow-up here. Which are the regions or locations where you should have a greater focus, if you could respond to this? And what is this that you have done in terms of helping in this pandemic. I came in to the call late.

Bruno Blatt:

The location of São Paulo, of course, is the one that we have devoted ourselves most. We have distributed direct products. We are also developing other possibilities for our channel here, and of course, we are thinking of new local projects here.

Elton Carluci:

Excellent. Bruno, we have more accessible products for the location of São Paulo as well as for Rio. We are looking at the interior, the Hinterland of São Paulo with a greater focus. There are local operators that, of course, could cover the region with products that will work that are efficient. This is what we are conversing about at this precise moment about that type of location, locations with different characteristics, of course.

If there is a strong local operator there, if we cannot sell our product, we are at a dead end. We will not have the return that we expect. And what we end up doing, therefore, is considering all of the collateral aspects but what we are going to do is to cover this gap. There is an enormous potential market that would be important for the company.

And we are making adaptations, seeing what we can do, and this is a dynamic perhaps that will take somewhat longer than we are used to. But I think we will be able to set in place several new initiatives in the coming months. All of this depends on our positioning. And I will give the floor back to Bruno once again.

Bruno Blatt:

Elton, we have a problem with the call. Is there anything you would like to add?

Joseph Giordano:

My question refers to what is your outlook for SG in terms of COVID-19? What are you doing to help the community?

Bruno Blatt:

I did refer to this at the beginning of the call. We have worked on several fronts to help society. We have a partner in the sector, and we have participated with more than 300 beds in the SUS health system, 200 in the campaign hospital in Rio de Janeiro. We have also made donations of hand sanitizers to São Paulo and Rio de Janeiro, and the same has been donated to all of our associates, masks and sanitizers and the rapid test for COVID-19.

And for our brokers, we are working very heavily for those who work in the selling position. We have already delivered sanitizers. We are carrying out COVID rapid test. And we have had a commercial campaign with a partner operator that has worked among these people who sell our products.

This is a very challenging financial situation, and we have offered one-off help, which means that we have a great number of initiatives, and the company is truly playing its role supporting the society.

Joseph Giordano:

Very good. Thank you.

Fred Mendes, Bradesco:

A good day to you. I have two questions. If you breach yourself off a contract, I would like to know what is happening with the competition? What happens with your clients when they breach the contract and go to other operators?

And the second question refers to the royalties. We know that the company is highly focused on growth, and we have an expectation that the amount of royalties would necessarily have a reduction, but it is increasing. So I would like to know your outlook for the year. And what are you doing with the royalties? Are you paying these royalties? Is this of any aid in your sales? Thank you very much.

Elton Carluci:

I would like to refer to our churn and what we have been doing in that field, and then we will speak about the royalties. I think this was said in a call in the past. Now what happens when we have a cancellation? We have, of course, a very varied environment, but we have 62% that goes through a request. And the other 40%, this varies also due to default to nonpayment.

When we look at the reason in both of this, of course, has a financial impact. The client will say, and I am requesting a cancellation because I am unable to pay for this health plan. What we are doing is anticipating this process. We have identified this in a significant group of people that end up buying our products. So sometimes, we have those vertical products, and these clients end up buying a product from a cheaper operator, a local operator. People who have just gotten a new job will become part of a corporate policy, for example.

We have a group of people focusing exclusively on this in the company. Now what we are doing from the viewpoint of product is to ensure that people can have these products and that we have the products to offer, and we are working with some modeling at present that is somewhat different. We work with different margins and much more.

But in-house and the company, we are able to identify when a buyer, an engineer that did not have a company has joined the company and is now requesting a quotation for a product. And through the data, we are able to see that at some point in time. This customer is going to call us and try to buy an SME plan.

Formally, when we spoke to this client, I had already closed the deal with somebody else, and so we are trying to have an impact on the flow. We are trying to get there a little earlier before that moment of decision and before the client will cancel the plan, and we are able to offer this client something new.

We try to maintain the client in-house, and of course, the brokers continue to be paid for these clients. And we truly believe that this will improve the profile significantly. We are carefully analyzing this process to be able to use all of this data when it comes to churn. I hope I have responded to the question.

Pedro Nocetti:

This is an important part here. We are working side-by-side with our brokers to increase the award that we give. And of course, we are looking for the best possible alignment when working with our brokers when it comes to the offer of products. We are trying to find the healthiest, soundest clients.

When we observe the 1Q19 and the 1Q20, we see that in the 1Q19, there was a fluctuation, a reduction in the volume of transfers of sales. The 1Q20 is more similar to the 4Q19, and this is the reality of the company.

We want to make sure that we have a win-win situation for all here. Once again, we will have variations in the awards and what we pay that is called *pro labore* to our brokers here.

Fred Mendes:

Thank you very much.

Gustavo Tiseo, Bradesco:

Good day to all of you, and thank you for taking my question. This is another question I have. I would like to ask about cancellations because of debt. If you have an outlook that there will be a change in this. If you are going to try to hold back that person because it would increase your bad debt. If you hold back on the client for a longer time or if you cancel and have an impact on your churn during this COVID-19 period. What is your outlook on this?

And if you allow me to ask another question about QSaúde, the resources that you spend in the 1Q should return during the 2Q. And if this will truly happen, if all of this amount will return in the 2Q.

Elton Carluci:

Gustavo, thank you for your question. And I would like to speak about the cancellation through debit or bad debt. And then I will speak about your other question. Well, what are we doing because of this situation with COVID 19? We want clients to remain as long as possible. And we have an initiative in how to try to offer installment quotas.

We have a huge challenge in terms of this, and we have remarked upon is often the compensation per ticket. It will take us 5 months to recover when we have a client that enters the situation of nonpayment. We have to be very careful not to have a huge impact on our results going forward.

The entire team working on client loyalty attempt to do what is possible to perhaps change the product to lead to a reduction but once the client is truly in default, it is very difficult to operate with them.

Our background shows us that it is very difficult to revert this. And this is what I wanted to mention in terms of uncollectible receivables.

Pedro Nocetti:

Gustavo, I think your second question refers to our expenses with QSaúde.

Gustavo Tiseo:

Yes, precisely.

Pedro Nocetti:

QSaúde was sold just recently now in the month of April. And from May going forward, we will no longer have any expenses with this entity QSaúde. We had the closing of the operation in April. And once again, in May, we should not have any more operating expenses of any nature. All of the obligations and commitments of QSaúde were transferred to the acquirer.

Gustavo Tiseo:

Thank you very much.

Bruno Blatt:

A final comment, as we have no more questions. We do have a medium and long-term strategic agenda that is quite positive. We are quite enthusiastic with this agenda. And despite all of the confidence that we have in Qualicorp and the strategic agenda, there has been a change in the company since this was implemented, but I would like to leave here a message of optimism.

We are going to carefully revisit all of our strategies. Of course, there is a possibility of collapse. This is an extremely serious crisis, and we are following up very closely on what is happening in the country now. This is the message then I would like to leave with you.

I would like to thank my entire team and all of the associates that are imbued with the quality spirit that are working full steam with a spirit of union. I think the company has been able to remain afloat for 50 days, these last 50 days. And we will continue working this way despite the challenges that we face.

I would like to thank all of you for your participation and say that the IR team is at your entire disposal should you have any questions at that. Thank you very much, and let's continue on.

Operator:

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

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