



Conference Call 2Q18 (Portuguese Translation)

Operator: Ladies and gentlemen, thank you for waiting and welcome to Grupo Notre Dame Intermedica's Conference Call.

We would like to inform that all participants will be in listen only-mode during the company's presentation, after which there will be a question and answer session, when further instructions will be given. If anyone needs assistance during the call, please press *02 to reach the operator. Now, I'd like to turn the floor over to the CEO, Mr. Irlau Machado Filho. Mr. Irlau, you may proceed.

Mr. Irlau Machado Filho: Good morning everyone. I'd like to start by saying that we'll make a dynamic presentation to make the best use of the time so that you can ask many questions and we can answer them.

I'd start off by saying that the quarter was truly amazing, we had a quarter in which all our indicators were positive, beyond our expectations. As some highlights, I'd point out that the number of Beneficiaries increased 2.6% from the second quarter of 2017, despite a still extremely adverse scenario from a macroeconomic point of view, that is, we continued to gain (market) share despite a declining market. As for average dental beneficiaries, we had 1,686,000, an increase of 15.5% from the average in the second quarter of 2017, a truly significant growth, and in fact this market is still expanding but we gained an even larger share and actually became the third largest company, according to ANS data.

Net revenue jumped 14.8% in the quarter from the second quarter of 2017 to R\$1,513,200,000. Our hospital services revenue grew 24.8% compared to the second quarter of 2017. Cash MLR stood at 73.9%, that is, up 0.4 percentage points from the second quarter of 2017. G&A is really still much at ease, we are still dedicated to this issue, we were able to lower it even further, by 2.7 percentage points from the second quarter of 2017.

Adjusted EBITDA stood at R\$181.3 million, up 49.3% from the same period in 2017. Adjusted EBITDA margin stood at 12% versus 9.2% in the second quarter of 2017. Adjusted net income at R\$105.5 million, in other words, 7%, representing a growth of 52.5% from the same period last year. Net debt continued to go down, we reduced it by 82.7% from the first half of 2018 and proceeded with a few acquisitions in the relatively short period after the IPO, we had SAMED, Mediplan Sorocaba, and we're talking about 160,000 beneficiaries between the two. Actually, we signed the acquisition agreement, these numbers are still not included in the numbers you see right now, but they already represent 160,000 beneficiaries and 258 beds.

And just a reminder that, during the IPO, we also did a primary offering of R\$341 million. Going to page 4, an increase of 7.9% in the average number of beneficiaries, with growth of 2.6% in health and 15.5% in dental. Regarding dental, especially our share in Rio de Janeiro, we made intensive efforts in the city, where we obtained 235,000 new beneficiaries. We also have a continuous cross-





selling strategy, which has been working very well. Growth of 11.2% in the average health ticket, reflecting the adjustments made and the change in the sales mix, which focused on basic products. Just reminding you that basic products are more vertical and, as a result, seek lower MLR, but on the other hand they have a price, a lower ticket, and that is what we seek: to offer quality services at an affordable price.

Hospital services, considering same hospitals, posted growth of 10.7% and we also had new hospitals contributing R\$63,5 million to revenue in the second quarter of 2018. We adopted IFRS 15, which is the provision for disallowance of sales of hospital services, starting from January 2018, which had a negative impact of R\$7.9 million over the first half of 2018. Over to page 5, Cash MLR fell 0.4 percentage points to 73.9%, a number even a little better than what we expected, recovering that small increase we had in the first quarter, thanks to our acquisition of Hospital Cruzeiro do Sul, which included a Cash MLR above our average, if I recall correctly of around 85%. We already did some important work at Cruzeiro do Sul, we'll speak more about it briefly, we executed all renovation and were able to migrate to the Cruzeiro do Sul Hospital our entire patient base from Renascença Hospital, shutting down this operation a couple of weeks ago. This will still yield many results in coming months. The reason for our good performance: verticalization, the increase in beds available and new locations enabled an increase in the share of inpatients in the Owned Network to 61% in second quarter of 2018. In addition, the insourcing of new medical specialties and the higher availability of consultations and autonomous ERs helped the Company achieve 71% of consultations within its Owned Network.

These factors increased the owned network share of costs from 55% to 58% in the second quarter, very much in line with the verticalization goals of our operation. Copay increased 32% in second quarter of 2018 from the second quarter of 2017, reflecting a partnership with clients in reviewing price adjustments and cost control, in other words, often introducing copay as a method to control behavior and thus being able to offer lower adjustments, which is our goal.

Regarding the growth in the dental segment, historically dental costs are significantly lower than those of health, therefore the substantial growth in the number of dental beneficiaries, thanks to cross-selling, helped expand the gross margin. About our SG&A, we saw an increase in selling expenses of approximately 1 percentage point, and which was already discussed in our previous call last quarter, resulting from the provisioning we made for the 36-month commission deferral, whose impact will last until the end of 2018. G&A itself had an important reduction of 2.7%, mainly due to synergies we obtained after acquiring assets from Unimed ABC, and the São Bernardo and Baeta Neves Hospitals, in personnel expenses and contractor services. We had a R\$6.5 million reversal of contingencies for which the former owner is liable. Adjusted EBITDA and net income, EBITDA stood at R\$181.3 million, 12%, or up 2.8 percentage points from the second quarter of 2017, a growth of 49.3% basically arising from the synergies we obtained with improvements in Cash MLR through verticalization. Adjusted net income grew 52.5%. Net income growth was 103% from the second quarter of 2017.





This was despite the negative effects of the partial payment of the termination fee of Bain Capital, and expenses with the grant of the second stock options plan. About CAPEX and net debt, regarding CAPEX we made investments in the second quarter of 2018, in addition to continuous improvements on our own network, which are undergoing renovation. Two new stand-alone emergency rooms, Samci Hospital in Rio de Janeiro, the Cruzeiro do Sul Hospital, which despite being almost complete we still have some repairs, the Frei Galvão, São Bernardo, Baeta Neves and Intermédica ABC Hospitals. In June and July 2018, the Company signed the acquisitions of the Samed and Mediplan Sorocaba groups, which combined have 160,000 beneficiaries, two hospitals with 258 beds and 3 clinics, in addition to the acquisition of the Cruzeiro do Sul group in February 2018. Our decline in net debt, compared to what we had in the first quarter of 2018, went from R\$450 million to R\$78 million, therefore decreasing from a ratio of 0.6 times net debt/EBITDA to 0.10 times in the second quarter of 2018. About debt refinancing you can read there, it's pretty under control, we already talked about it previously, but we really evolved a lot regarding the cost of our debt.

Some market snapshots which I believe should be highlighted, the market continues to undergo a consolidation process, the macroeconomic scenario enabled the stabilization of the number of beneficiaries, but still registered a slight decrease. Actually, for the year, the number of operators continued to fall, since 2001 we have seen a 48% reduction in the number of healthcare operators, and 42% reduction in dental plan operators. As you can see, we still haven't seen a macroeconomic scenario we can call a tail-end. It still is a very difficult market, we still predict there is a negative turnover in the market, the hope now is that obviously in the second half this situation can improve, but we in fact continue to see a very difficult scenario.

That is why we are quite happy with our commercial performance during these periods, during which we not only maintained our base but also expanded it. Regarding our IPO on April 23, as we can read here, we carried out our IPO and there were 664,795,000 common shares, or 33.75% of the capital, 20,690,000 primary shares, approximately R\$341 million we added to our equity. The performance of the stock is well above the BOVESPA index. Some acquisition highlights from the second quarter of 2018, noting that back in 2015, 2016, we had acquired in November the Santa Amália, then in December it was Family, and also in December Unimed ABC, the assets of Unimed ABC, totaling four hospitals, 410 beds, 297,000 beneficiaries, 20 clinics and five emergency rooms. In 2017 we acquired Samci in Rio de Janeiro, São Bernardo Hospital in the ABC region, coupled with the Baeta Neves Hospital also in the ABC region, and the Nova Vida Hospital, amounting to four hospitals, 380 beds, five clinics and four emergency rooms. In the first quarter of 2018 we concluded the Cruzeiro do Sul transaction, with 48,000 beneficiaries, one hospital with 154 beds, five clinics, two ERs and one clinical analysis laboratory. And now in June and July, we are still awaiting the decision from both CADE and ANS. We signed the purchase intent agreement for Samed Saúde and Mediplan, totaling 160,000 beneficiaries, two hospitals with 258 beds, three clinics and two ERs.

We continue with our strategy of growing concentrically, with greater reach and filling-in, that is, introducing the stand-alone ERs and clinics in vacant spaces increasing our verticalization capacity.





That said, I'd like to once again thank you for your support and turn over the floor for questions and answers.

Operator: Thank you. We will now begin the question and answer session. If you have a question, please press *9.

Olivia from JP Morgan would like to ask a question. Olivia, you may proceed.

Mrs. Olívia: Hello, good morning Irlau, Marcelo, thank you for taking my question.

I had two questions, actually. The first is about MLR, we saw an improvement there, and there was also that whole part about verticalization, we should continue to see that improvement, I just wanted to understand if you expect or saw any one-off effect from the World Cup and the truck drivers' strike that could have benefitted the MLR, maybe a lower frequency of users during both periods that are maybe specific to the quarter.

My second question is about SG&A, I believe we saw a very good improvement from the synergy point-of-view, within hospitals, regarding the healthcare plans you are attracting. I wanted to understand how much synergy gain you see here, if that's already complete, if we could expect more gains on this front in the coming quarters. Thank you.

Mr. Irlau Machado: Thank you Olivia, good morning. Let me answer your first question. I honestly expected that the world cup would be very helpful to us. Considering the use of our network in the daily average, it actually did not go as I expected. However, last year, the usage of our network was stronger in the second quarter, but that was due to the yellow fever issue, you must remember, the high usage of emergency rooms due to a certain panic, which did not happen this year.

But the truck drivers' strike did not affect us; actually, one day, on a Monday at the peak of the crisis, we had to cancel 300 elective surgeries, which were performed in the next two weeks subsequent to the event, that is, within the same quarter. So, to tell you the truth, we did not feel any significant impact in this regard.

Of course, on the days when Brazil played during the World Cup, we had fewer medical appointments at the clinics, but that was compensated in the next two or three days, that is, people planned their appointments based on the matches. Appointments are elective, you can plan the date you want to set your appointment, so we had no impact whatsoever in this regard.

The second question concerns synergy. We do believe we have a lot to absorb in terms of synergy; we have just signed the acquisition of two companies and every time this happens we look for new synergies. As for Cruzeiro do Sul, for example: this month we closed Hospital Renascença, and obviously all the people that went to this hospital will now go to Cruzeiro do Sul, in addition to the people that already went to Cruzeiro do Sul, from the base of that company with 50,000 users, so we'll have complete synergy in this regard. This business is extremely scalable; as our scale grows, the synergies and opportunities to reduce and dilute costs grow as well.





Mrs. Olívia: I just want to clarify one point here. When you talk about synergies, we always think about synergy as to MLR, when you incorporate the service you were outsourcing from a third party to your own platform. Should we continue to expect high synergy in terms of G&A, from these acquisitions, or do you think G&A expenses were already fully incorporated? Thank you!

Mr. Irlau Machado: Perfect. I was talking particularly about G&A. In a hospital, you also have G&A expenses and you can reduce them, especially in a provider that includes the health plan. You have a customer service center, administrative staff, claim adjustment staff, underwriting staff, an entire structure of costs that may be reduced, so yes, we do expect G&A optimization.

Mrs. Olívia: Nice. Perfect! Thank you for your time.

Operator: Next question comes from Marco Calvi of Itaú BBA. Mr. Marco, please go ahead.

Mr. Marco Calvi: Good morning guys. I have two questions.

First, with regard to the ticket, you mentioned the effect of negative growth of the mix due to the focus on more verticalized products. Can you tell us a number for this negative effect of the mix? Or, in other words, how much was it year-over-year, the medium-term adjustment so we can compare the same products? This is my first question.

The second one is about copay. The company's growth is interesting, the size of this product, considering sales and portfolio, can you give some color about the percentage share of the product in relation to portfolio and sales, even if the sales were made in the second quarter? Thank you.

Mr. Irlau Machado: Yes. Answering your first question, around 2%. Earlier, we were selling around 40%, even 50%, of IPO products. Today, we are selling almost 80% of HMO products. That is a very important change in the sales process, I would say it is a positive mix, not a negative one. Because it's a target, a strategy we are pursuing, because the margins of HMO products are higher, since they are more verticalized.

As for the share of copay, 80% of our sales under corporate agreements come from copay. As for PME, which is obviously a different product, copay accounts for about 20%, but it has been growing drastically. This PME percentage doubled year-over-year, and it has been very positive. In the terms of the portfolio as a whole, copay products account for 52%. This is very interesting from the standpoint of claim adjustment, since it induces proper behavior.

Mr. Marco Calvi: Perfect, Irlau. Thank you very much.

Operator: The next question comes from Mr. Felipe Salomão, from Citibank.

Please, Mr. Salomão, you may proceed.

Mr. Felipe Salomão: Hello Irlau, Marcelo, Glauco. Good morning! Thank you for the opportunity to ask questions and congratulations for the results.





My question is: have you noticed an increase in competition for M&A, both from hospitals and smaller health plans? I am asking this by looking at the latest transaction multiples. Mediplan Sorocaba cost nine times the adjusted EBITDA, Samed cost eight times the adjusted EBITDA, and I remember that, during the IPO, the company wanted to pay six to eight times the EBITDA, the last two acquisitions were closer to this range. I want to understand how is the M&A market, which is an important part of your growth strategy. Thank you.

Mr. Irlau Machado: You're welcome. Perfect! Actually no, we are not seeing this increase in competition but, of course, each case has its peculiarities. A company that is the only provider in a given region may obviously control the price more, it also depends on synergy, the post-synergy results, and our EBITDA during this period. So, you should not consider the last 12 months as a benchmark; for example, a given asset may be more expensive if we consider the last 12 months. However, considering all synergy opportunities, that asset may become even cheaper than another one for which we paid less in the last 12 months.

Mr. Marcelo Moreira: Felipe, we brought the chart once again, the map of São Paulo metropolitan area, precisely to reinforce that the strategic component of each acquisition is that we highly expect to continue obtaining synergy from all these businesses.

Mr. Felipe Salomão: Right, Marcelo and Irlau. Thank you for the answer. I have no doubt that the acquisitions are still very accretive, I just wanted to know whether you've been noticing it's becoming a little more difficult, margin-wise, to pay the prices you would like to pay, but the explanation was perfect. Thank you and congratulations once again.

Mr. Marcelo Moreira: Thank you, Felipe.

Operator: The next question comes from Mr. Vinícius Ribeiro of Bradesco.

Good morning Vinícius, you may proceed.

Mr. Vinícius Ribeiro: Good morning guys. Thank you for the opportunity.

I wanted to explore the issue of competition. According to the ANS data you showed in your presentation, net adds grew in the second quarter, whereas your organic performance was not so good. I wanted to understand whether you see stronger competition partially related to the launch of verticalized products by your competitors here in São Paulo or whether you are following any other move, in terms of competition, that is somehow affecting your organic growth. That's it. Thank you.

Mr. Irlau Machado: Ok! Thank you! Felipe, in fact, if we consider the second quarter of 2018, we are talking about 132,000 lives, which are exposed, in Brazil, including all products, individuals and legal entities. If we separate this by region - Southeast, North, Northeast and South - the Southeast region, with more jobs and corporate plans, remains stagnant, it still hasn't recovered in terms of jobs. And I tell you that during the quarter we were highly disciplined about cleaning up the portfolio. And what do we call a portfolio cleanup? We rescind agreements that are not performing well or which have no chance of performing well; we do not maintain bad agreements





in our portfolio only to impress investors. We remove them because we believe they adversely affect the company's results.

Now, as for this moment in the economy, if I'm not mistaken we had 24,000 lives canceled, and a significant amount of them was from national health plans (PNS), which disappear from the market or which are closed, so it's an important number. Our sales performance was actually very positive, we had 180,000 new users this half. We had 48,000 lives from M&A, but we had a reduction in employees of approximately 31,000 and cancellation of contracts of 129,000 lives. Of these 129,000 lives, 50% were corporate plans with an average of 93% in the loss ratio, that is, if we compound the cost, these were companies that brought losses to the company and were unsuitable to be in our portfolio.

I believe we are quite aggressive from the organic viewpoint, our sales were exceptional, we continue to be attractive. At times we see irrational pricing, for some contracts in which we, as a verticalized network, we would need substantial adjustment, of 30% or 40%, and we see some players offering 30% discounts. That is rare, but it does happen. At the moment we are not seeing that as a threat.

Mr. Vinícius Ribeiro: Ok, perfect. Just to be 100% clear: what you are saying is that there's the issue of churn and admission of contracts on a macro basis, and we are already seeing that, but if you look at gross adds, is your perception that you have been gaining market share in the region where you operate?

Mr. Irlau Machado: Certainly.

Mr. Vinícius Ribeiro: Perfect. Thank you very much!

Operator: If you want to ask any questions, just press *9.

The next question comes from Mr. Rodrigo Gastin of BTG Pactual. Good morning, Mr. Gastin, you may proceed.

Mr. Rodrigo Gastin: Good morning guys. I have two questions. The first one is related to the churn in the second half of the year. I want to better understand the distribution of the anniversary of agreements, whether they are more concentrated in the second half of the year, or the process of renegotiation with the companies throughout the year. Is there any change, any improvement in the churn level on account of the adjustment, given that the macro (scenario) has not yet improved as expected? This is my first question.

The second question: I remember that in the first quarter we discussed a lot about Cruzeiro do Sul, which should eventually be improving both in terms of loss ratio and reduction of lives, but I want to understand about Cruzeiro do Sul's loss ratio in the second quarter. Can you give us a quantitative idea, that would be ideal, or maybe a qualitative idea, of how this synergy gain has been evolving at Cruzeiro do Sul? These are my two questions. Thank you guys.

Mr. Irlau Machado: I will answer the second question first. The good news is that we already managed to bring Cruzeiro do Sul's loss ratio to our loss ratio level. To give you an idea, we





managed to reduce by 36% the average time of patient stay and by almost 40% the number of hospitalizations via emergency room. As for Cruzeiro do Sul, we have brought it to our level of loss ratio. Pardon me, what was the first question?

Mr. Glauco Desidério: About the churn.

Mr. Irlau Machado: There is no portfolio concentration in the second half of 2018. Most of our large clients were already renegotiated in the first half of the year, so there is no concentration in the second half of the year. We are very diligent about this, and we have been noticing that the number of cancellations, not churn or turnover, is a little lower than in the first half of the year, while sales are a little more aggressive now than in the first half of 2018.

Mr. Rodrigo Gastin: Excellent!

Mr. Marcelo Moreira: Discipline is a very important for us. We are obviously very careful about the number of lives and growth, but our commitment to you is to deliver sustainable growth in the long run, and this discipline has been paying off even at times when the market is more challenging. We have been thriving thanks to our cost structure, as well as the improvements in terms of reforms and all certifications we have been pursuing, all of which is very important.

Mr. Rodrigo Gastin: Excellent. That's very clear, Irlau and Marcelo. So your adjustments are distributed throughout the year, there is no concentration in the second half of the year. Can you tell me your average adjustment this year?

Mr. Irlau Machado: Around 14% and 15%.

Mr. Marcelo Moreira: Average ticket of 11%. Adjustment around 14%.

Mr. Rodrigo Gastin: Excellent. That's clear. Thank you for the answer, guys.

Mr. Irlau Machado: Thank you.

Operator: If you want to ask any questions, just press *9. We are ending the question & answer session. I will turn the call over to Mr. Irlau Machado Filho for his closing remarks.

Mr. Irlau Machado: Guys, thank you very much for participating in the call. Thank you for your questions, all very intelligent. We are always at your disposal. We will continue with our strategy of pursuing better results in the future, and we are very satisfied with the result of this conference call. Thank you very much.

Operator: The conference call of the NotreDame group has ended. We thank everyone for participating, have a good day.

