Conference Call Transcript
3Q26 Results
Quali (QUAL3 BZ)
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Operator:

Good morning, ladies and gentlemen, and thank you for holding. Welcome to the Qualicorp webcast to release results for the 3Q26. With us today, we have Mr. Eduardo Oliveira, the CEO; Mr. Eder Grande, CFO and IRO; and Mr. Eduardo Garcia, IR Superintendent.

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This event will be 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. Should you wish to ask a question, please click on 'raise hand' at the bottom of the screen and we will unmute your microphone. Questions will be answered in the order they are received.

I would now like to turn the floor over to Mr. Eduardo Oliveira, who will begin the presentation. You may proceed, sir.

Eduardo Oliveira:

A good day to all of you. It is a pleasure to be with you here in the webcast of our 3Q26 results. As part of our highlights, we continue to execute our strategy after several quarters. And this is how we are able to develop products with an adequate price, constantly reviewing our relationship with the commercial department and working with our in-house sales teams.

This is something that is not negotiable and will continue to be one of our strengths of working in a very judicious way, working with more balanced figures, a decrease of churn and ensuring the tenure of our beneficiaries.

In this quarter, we had the arrival of Ricardo Sales, our new Commercial Director, who's carrying out in-depth work in our commercial department to prioritize a more qualified mix of sales, focused on the sustainable growth of revenue, and of course, enabling us to have more stability, with more competitive products that have a better fit with the market, and allowing us to maximize profitability and our average ticket per product.

I think we have repeated this consistently that we are focusing more on the quality that we sell and less on the amount. The result of this work is to reduce churn, to increase the average tenure, and we have confidence that this is what will enable us to stabilize our portfolio.

In the last line of the results of this quarter, we had a net debt of 7,000 members. This is due to the churn of inactive operators. When we look at the figures of our active operators, we see a very considerable growth of members in our system.

We are implementing significant changes in the Company operations with the arrival of our new Technology Director. He has led transformational work in the areas of technology that we have

in the Company, and results have materialized quickly, allowing us to have more expressive results and operational efficiency.

We are simply at the beginning of this in-house transformation, leading us to greater efficiency and more technology in the Company. I am confident that we are on the right path, and we will continue to move forward with quite a deal of consistency.

In terms of indicators, our managed portfolio reached 473,200 lives, with a churn that is the lowest for the 3Q since 2021, despite the highest readjustments in our portfolio. This led to a net reduction of 7,000 members, the lowest loss we had since 2021.

At this point, the ANS data shows us that the average readjustment can be seen in our portfolio. Our weighted average has been reduced consistently since 2023, reaching the lowest percentage in 2026 with a substantial reduction in 2025 and with a trend towards reduction in the products that we have been selling since 2023. This once again shows you the consistency of execution.

I would like to end by highlighting two points: our recurring free cash flow reaching R$261.7 million for the 9M, a growth of 6.2% vis-à-vis 2025, even despite a lower top line. So we are looking towards the long term, as you can see in this result. Finally, our net debt is R$748.4 million, with a reduction vis-à-vis the previous quarter.

I will now turn the floor over to Eder Grande, who will give you more details on our performance and speak about liability management.

Eder Grande:

Good morning to all of you. I begin with the managed portfolio. We ended the quarter with 473,000 lives in the 3Q26, with a net reduction of 7,400 lives, the lowest since the 2Q25. The drop of active operators continue to decrease. These losses are concentrated on operators we no longer work with. We had 38,100 gross adds. In August, we had a bad month, and then in September, a recovery and then an increase of pace. This is important so that we can deliver results similar to the 2Q.

Churn stands at 9.5%, the lowest for the 3Q since 2020, which is when we had a concentration of price adjustments. We had a one-off event in the previous quarter and accumulated churn would be 36.1%.

The quality of our base of beneficiaries is improving. We have a quality of operators. And this, of course, will have a reflection on the long average tenure and our work with quality. We are on the right path. We are following this operation, as you can see.

Net revenue had a reduction vis-à-vis the previous quarter of 2.8% due to a lower average base of members. And we had for variable expenses down 13.7% vis-à-vis the previous quarter, fixed and variable expenses representing an increase because of personnel expenses. The value presented for personnel is not customary, and the trend is for this value to stabilize in coming quarters. Of course, with a trend towards reduction, we are working towards that.

We continue to incessantly search improvements in the process, are automating everything. And we have a variety of initiatives in-house to be able to improve our operational efficiency. And I believe that you will be able to see this in the coming year.

Variable expenses, positive contingencies with expenses. Although they have an increase, the results are lower than what you see here. What you see here is what we had in other operations. We had to reimburse costs with the operation of third parties that you will see in fixed expenses. The CAC was 10.4% of the revenue. It's controlled, that has accompanied the increase of the average sales ticket. Adjusted EBITDA minus CAC closed at R$87.4 million, in line with the 2Q.

Our recurring cash flow, R$106.8 million, stable compared to the previous quarter. Net debt, as was mentioned, stands at R$748 million, and R$738 million for the 12 months. Net debt, 1.42x lower, and lower than the same quarter last year.

We have a significant program for amortization in 2027. We have already addressed this agenda. We have several proposals in hand, and we are now in the fine-tuning period to see which will be the term of disbursement. The longer it takes, the better, but everything is properly addressed, and very soon, we will be giving you more information on this front.

And what I would like to highlight is that all of the proposals we are working with directly address the schedule of amortization for 2027. We had an impact on the results because of the IR and social expenses because of the purchase option of one of our investees and due to future estimates of the impact of IR; it did not impact our cash, but did have an impact on our general results.

With this, we would like to end the presentation for the quarter, and we can now go on to our Q&A session.

Vinicius Figueiredo, Itaú BBA:

Good morning. Thank you for taking my questions. I would like to explore, and I think these are two main lines that we have been speaking to you about, CAC and personnel. You have explored this at depth during the introductory presentation. Despite this, I would like to gain a better understanding of what you have observed regarding a balance that you have added marginally within the cost of acquisition of clients. I am thinking of the two line items, the part that refers to third parties that is also part of CAC and in personnel expenses that you end up having whenever you are thinking of a broker or a sales force that is an in-house sales force to understand the balance.

What are you adding in terms of real investments in CAC, and what is happening with the increase of pace of your new sales, your brokerage or a management fee that could be somewhat higher? I would like to better understand this so that we can play around with our figures for 2027.

Eduardo Oliveira:

Our team will answer part of the question along with me. Personnel expenses obviously had a readjustment, as mentioned by Eder, because of the accrued productivity in the last quarter.

Basically, we have quarterly operations and the payment is also quarterly if the goals are reached. Insofar as is possible, we are going to continue on with this.

And expenses, yes, are allocated in personnel. So we have cash and in CAC, we have several aspects that could impact the role of this commercial team. So part of what is the cost of acquisition of customer does go on to our expenses, but we do focus a great deal on our internal team. This is one of our focuses for the year 2027.

We are attempting to have a lower headcount and an increase of productivity, an increase of average of sales per broker. And this is what we are attempting to address for 2027, to have minimum productivity in the commercial team, allowing us to expand the team.

Our in-house commercial team has an average ticket that is slightly better than the external sales team, and this is an important channel for the actions of the Company. And with an increase of productivity and the right indicators, this will be a significant source of revenue for the Company.

We do not think this will have a relevant impact on CAC or personnel when it comes to our in-house teams. We are working in a controlled environment. It happens recurrently with the exception of this quarter.

And the CAC, if we look at the best indicator, it's CAC with life, and we will be able to gauge this through coming quarters. The CAC eventually, of course, could increase if we have significant gross adds.

And this is a balance we will continue to maintain. We do not think we will have an expressive increase in CAC, although there could be that increase because the Company is speeding up its sales, but there will not be an expressive increase in that relationship between CAC and personnel.

Gustavo Tiseo, XP:

Good morning. Thank you for taking our questions. We have 2 at our end. I would like to explore the issue of indebtedness. How can we think about the payment of amortization in 2027? Are you thinking of working with a new profile as the Company knows what will happen in the coming year?

A second point, you spoke about the inactive operators impacting your growth. Which is the growth that you can have in the 4Q? What can you already see and understand the limit of impact of these operators? Will we see something new in the 4Q, given that the active operators are already signaling they have growth?

Eder Grande:

About indebtedness, our expectation is to carry out a fundraising and to amortize the agenda of 2027 fully. As I have already mentioned, the proposals are on the table, and we are evaluating them. We push a bit here, stretch a bit more elsewhere. This is the path that we will follow. We will raise funds in the coming months and fully amortize this amount. A relevant barrier in our amortization agenda is in July of 2027. So this is the path we will follow.

Eduardo Oliveira:

As usual, we do not offer guidance, but this is the reading that you mentioned. Inactive operators are one-off portfolios, and as all one-off portfolios, they tend to shrink quarter after quarter, and they have a lower impact on our present and future base.

When we add this to the readjustments that we have been applying sequentially at a lower rate for active operators, the inactive operators will suffer more, of course, or less because of our consolidated adjustments. Their impact on them will be reduced through time, and quarter after quarter, we will reduce the impact in our total base of members so that in the coming quarters, the impact will become nullified.

Gustavo Miele, Goldman Sachs:

Good morning. Thank you for the presentation. I have 2 questions as well. The first, I am going to try to match the macro context with the micro context. For some weeks, we have been hearing about a heavier inflationary environment in Brazil, several contractions. Which will be the implication of this context for you in the coming year? Will this impact growth? Perhaps it could have an impact on gross adds. So could we think about a more conservative scenario for the coming year?

A second question, thinking about the claims of your more recent harvest of products. You have said that your newest harvests are operating with a better claim rate. So what has contributed to that recently in the profile of products that you are managing? I know that you are carrying out more prudent sales, and selectivity has also helped, but you have seen the penetration of more restricted products, and of course, this has helped you in having better claims in your products. That's it. Thank you very much. Those are my two points.

Eduardo Oliveira:

I am going to begin with the last one and I will also refer to your first question, and Eder will complement the answers. I think that the claims of the recent harvest have a mix that is a balance between our process of acceptance and the product that we are selling. We want to sell the right product to the right customer. So we do this very consciously.

And the tenure of the customer in the long term, when we look at our mix of products, it is a fully balanced mix. We are working with some products as exclusivity, with others with sound operators, and others with products with co-participation.

And in verticalized networks that are more restrictive we focus on the network. So when we look at our mix of sales that has contributed to our results per operator. We have sound, healthy operators who know how to carry out their work when it comes to these claims. They manage the medical and assistance part well, we carry out our teamwork, and we have attempted to give the right clients, the right product so that this will be the best sale in the short term. We want a sale to remain, and to remain at the right price.

So it's a variety of factors that allows us to have a recent claim of all of our harvest for the last 3 years since 2023. They all have consistent results because this is a result of sole work where we work with consolidated results, and we use the base of our customers to work efficiently.

In terms of underwriting, we want to have the best possible portfolio to add to this chain. We want to be considered the administrator that works the best regardless of the amount of our sales. Our DNA is to deliver quality portfolios to operators that have a partnership with us, always delivering the best results.

About the micro and macro comment, as any other company in Brazil, there will be an impact, but we are trying to work internally to avoid any future difficulty posed by the macro scenario. We have an arm of technology. We are trying to optimize our operations, have the best payments possible.

We only had one payment alternative. We now have automatic payment through Pix or payment through credit cards. We are offering systems that were not offered previously, maximizing the possibility of receiving the bill. While the credit card can be important for us, we will not have a limit of credit. We are working with a third-party supplier.

So we are preparing the technology, our communication with the client to have default levels under control. We want to be able to quickly reactivate clients who have not paid their bills. We are doing what we can control. We cannot control the macro scenario. So we are focusing on the micro things, what happens in-house and offering better payment channels to be able to optimize our reduction of default levels, which is a goal for 2027.

Eder Grande:

We have made operational adjustments in our collection rules in the cost of operators. We are much more active. We visit all of them constantly to ensure we do not have a deterioration in the default levels in the coming year.

Thiago Marmo, Safra:

Good morning. Thank you for taking my questions. I have two, the first about cash generation. Eduardo highlighted the recurrent cash flow for the 9M and working capital helped you quite a bit in this quarter. I would like to see if you can give us some more color in this movement, in the dynamic of pass-through to the operators, because we are very much into the 4Q.

And secondly, expenses and judicial expenses that were somewhat higher this quarter. Does this relate to the exit of inactive operators? And if lower readjustments have helped you along these lines?

Eduardo Oliveira:

Thank you, Thiago. I will speak about contingencies and judicial expenses. We are looking at this in the rearview mirror. It's true that that line item had an impact in the 3Q. We still have a balance to recover as we mentioned in others regarding our operational flow with the operators.

We had a boom of activity in the 2Q and 3Q due to the inactive operation that we had that we discussed in the call in the 2Q. What we see in the 4Q is a significant decrease, some entries that had an increase in the 3Q. The month of July, as you all know, is a month of readjustment. This ends up in some judicialization in September and October, but we had lower readjustments and this is on a reduced curve.

We may still have greater or lesser effects on this, but we do not detect any abnormal movements in these indicators. The level of the 2Q follows what we see in the 3Q, and we truly do not think we will have an increase in these levels in terms of judicialization of our portfolio.

I believe that the Brazilian judiciary system is quite complex. When we look at the performance, we have had a reduction in the number of entries vis-à-vis what we saw in the 1Q and 2Q. Of course, this is something that takes time because there is a carryover and these are accounts of 2023, 2024 and 2025, but the situation is more stable in the last few months compared to what we saw in the 2Q and 3Q.

Eder Grande:

Regarding cash generation, historically, the 1Q and the 3Q are the quarters where we have a somewhat better cash generation. And we always indicate not looking at the quarter per quarter, but to look at each half of the year. We have not had anything different in the 3Q, and in the 4Q, we should have something different. It is the payment of vacation and the 13th salary that tend to have significant impact. But aside from that, nothing atypical.

Sometimes the bill of the operator arrives earlier on or later, but these do not have significant impact. So what you can expect in terms of cash generation for the 4Q is similar to the 4Q25, impacted by the disbursements of our payroll.

Vitor Yonekura, Santander:

Good morning. Thank you for taking my questions. We have two at our end. When we look at the average readjustments that you showed us in the release, 1.3 and 1.4 for the PME. Which is your mindset? Do you think that this average readjustment of affinity will decrease compared to SME? And what will happen with your share of gain?

And the second question refers to capital allocation. With a more difficult macro salary, which are the difficulties in leveraging? Can you think about an official dividend policy? Which are your priorities in terms of capital allocation?

Eduardo Oliveira:

Vitor, thank you for the questions. The average readjustment for SME was a turning point compared to last year. It was below what we saw last year, and this will be repeated in 2026. We have the largest portfolio in the market and our readjustment will significantly impact the figures. With sequential readjustments, weighted readjustments, we have been able to reduce this.

What is of interest is the result of the Company. The readjustment of affinity in the sector could be high, but what we expect for 2027 is a reduction of readjustments once again, because of

the cancellation of inactive operators. The more active operators we have in the base, the higher the oxygenation, and the less we will need readjustments.

So this is a trend. We still have space to capture improvements in terms of readjustments. We do expect an improvement in churn as well. We have a hope that we will have lower weighted readjustments vis-à-vis 2027, but we will have a reduction in our portfolio.

When it comes to capital allocation, the answer is in the question. We continue on our journey towards deleveraging. It's one of our priorities. And another priority is our efficient allocation of CAC. We are not going to change the policy. We are going to continue as we are working because there is a return for the Company. If something makes sense and has a return, we will take it up, but it should not change.

The potential for dividends in 2027 is not very high. As this quarter, we had readjustments for deferred income tax, definitely in 2028, we will have the payout of dividends. If there is a payout of dividends in 2027, it will not be relevant. So our priorities are deleveraging and an efficient allocation in CAC.

Eyzo Kuroki, Bank of America:

Good morning. Thank you for taking our questions. We have 2 as well. First, regarding the gross adds in the Company, I think the structural improvement of churn is clear and the great challenge continues to be in gross adds that is below 30,000 lives per quarter. What do you still need to unharness the increase of gross adds for the coming year?

And secondly, there are several topics discussed during the call, but I would like to speak about the adjusted EBITDA for the Company. In the short term, margins will continue to be under pressure because of a lower operational leverage. Could you increase the margin in the long term to the low 30s? Those are my 2 questions.

Eduardo Oliveira:

Good morning, and thank you for the question. About the gross adds, our focus is much more on quality than on the figures or numbers that we sell. We could sell 10,000 lives with a high ticket, but then people will not pay for their bills. So what is important is the quality of the products we are selling with. We do not want to have cancellations increasing our churn. We want our beneficiaries to remain.

In the 3Q, we had two good months in terms of volume when we look at our annual behavior. In July, we were impacted by the World Cup and a commercial team that was somewhat more distracted, whereas the brokers were more focused on the World Cup than on selling health plans. After that, we went back to a normalized situation.

We delivered a gross add of 38,000 lives with a stabilization of the running rate in July and August. Of course, we should have done better than that. We have the 4Q that is also more seasonal for us. We also have seasonality in sales.

The 4Q and the 1Q of each year are more complex because of the vacation period and sales. What we are doing is to hold awareness campaigns so that these will not be valley periods, to maintain the sales we have had in previous quarters.

Eder Grande:

Regarding the margin, we do not offer guidelines. Our expectation is that the margins will be very similar to what we are having. Of course, we want to improve our margins, but they will not change very much quarter-on-quarter. The adjusted EBITDA margin or the EBITDA margin minus CAC, and all of this will depend on the sales volume. Adjusted EBITDA margin will not have significant fluctuations.

Operator:

The question-and-answer session ends here. I would like to return the floor to Mr. Eduardo Oliveira for the Company's closing remarks.

Eduardo Oliveira:

I would simply like to thank you for your attendance for another quarter. I also thank all of the employees that are listening to the call. We have a very clear strategy, and we want to proceed based on the 4 Cs, with a great deal of consistency.

We hope to see you again in February, and our IR team is at your entire disposal should you have any additional doubts.

Operator:

We would like to thank all of you for your attendance at our earnings call for the 3Q26.

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