



Conference Call Transcript

Auna Q1 2025 Results

Operator

Good morning, and welcome to Auna's First Quarter 2025 Earnings Conference Call. My name is Rob, and I will be the operator for today's call. [Operator Instructions]

And please note that this call is being recorded. There will be an opportunity for you to ask questions at the end of today's presentation. Now I would like to turn the call over to Ana Maria Mora, Head of Investor Relations. Ma'am, please go ahead.

Ana Maria Mora

Head of Investor Relations

Thank you, operator. Hello everyone and welcome to Auna's conference call to review our First Quarter results.

Please note that there is a webcast presentation to accompany the discussion during this call. If you need a copy of the presentation, please go to our investor relations website or contact Auna's investor relations team.

Please note that when we discuss variances, we will be doing so on a year-over-year basis and in FX-neutral, or local currency terms, with regards to Mexico and Colombia, unless we note otherwise.

Let's move to slide 2.

In addition to reporting unaudited financial results in accordance with International Financial Reporting Standards, we will discuss certain non-IFRS financial measures and operating metrics, including foreign exchange neutral calculations. Investors should carefully read the definitions of these measures and metrics included in our earnings press release of yesterday to ensure that they understand them. Non-IFRS financial measures and operating metrics should not be considered in isolation as substitutes for, or superior to, IFRS financial measures, and are provided as supplemental information only.

Before we begin our remarks, please also note that certain statements made during the course of today's discussion may constitute forward-looking statements which are based on Management's current expectations and beliefs, and which are subject to a number of risks and uncertainties that could cause actual results to materially differ, including factors that may be beyond the Company's control.

These include, but are not limited to, our expected Adjusted EBITDA growth, the expected impact

on revenues and profitability of certain initiatives we are pursuing in Mexico and long-term financial position and flexibility as a result of certain initiatives we are pursuing related to payors in Colombia and our target leverage level. For a description of these risks, please refer to our Form 20-F filing with the US Securities and Exchange Commission and our earnings press release.

Slide 3, please.

On today's call we have Suso Zamora, our Executive Chairman and President, Gisele Remy, our Chief Financial Officer and Executive Vice President, and Lorenzo Massart, our Executive Vice President of Strategy and Equity Capital Markets. They will discuss Auna's consolidated and segment financial and operating results for the first quarter and will also provide updates on our various strategic growth initiatives. After that, we will open the call for your questions.

Suso, please go ahead.

Suso Zamora

President, CEO & Executive Chairman of the Board

Thanks, Ana Maria. And good morning, everyone. We appreciate you joining our results call.

As reported, Auna delivered consolidated lower than expected results this quarter. Peruvian operations strongly outperformed in the first quarter and our risk-sharing strategy gained traction in Colombia. In Mexico, however, we encountered operational setbacks, which added to softness in the market, causing us to lose our growth momentum in this key market. Thus, our results were disappointing, with revenue and EBITDA increasing by just 4% and 1%, respectively, on an FX-neutral basis. However, we fully expect to recover our volume growth in Mexico during the remainder of the year, having quickly implemented corrective measures, which I'll explain in a moment.

In Peru, the benefits of vertically integrating our healthcare plans into our healthcare operations continue to accrue value, notwithstanding operating at high utilization rates. In addition, we expect to make additional gains through the efficiency program implemented in Peru last year. Peru's consistently strong performance bodes well for our Mexico operations, where we've been gradually replicating the AunaWay.

However, as we know from our experience transforming and modernizing Peru's healthcare market and improving Colombia's sector, implementing a disruptive business and care model is complex, and the road has been bumpy at times. For example, our model requires that doctors, nurses, and other care providers set aside traditional practices to adopt those of the AunaWay. While this is central and produces great efficiencies and predictability, it is as well a cultural and operational shift in the healthcare sector. As part of our strategy, we have reduced the number of legacy suppliers in Mexico, specifically those which were considered obstacles to the implementation of the AunaWay. Payors, of course, are aligned with Auna in wanting to see these practices eliminated in Mexico. However, many physicians are integrated economically to suppliers, and as we initiated more stringent control and approval of medical supplies, physician productivity fell at our healthcare facilities during the quarter. It is fair to declare that we underestimated the economic impact this would have on physicians. Realizing this, we have put in place a progressive approach that allows our physicians to better transition into our practice and standards. We have seen volumes

starting to recover, indicating that we've taken a step in the right direction. Again, I want to emphasize, this is one of many challenges we have overcome in the past and resolved, where gradual shifts are needed to achieve the right balance between the traditional economics of physician practices and the modern medical protocols that we are implementing. This is a threshold event, one that once crossed, will allow us to reap the full benefits of the efficiencies and profitability of the AunaWay in Mexico.

We are also encouraged by the results of the strategy and measures that we implemented in Colombia since last year to mitigate payment risk. Revenue increased modestly in the first quarter, and we continue receiving timely payments from Nueva EPS, although we continue to prudently increase provisions, which continue to constrain the bottom line. In addition to improving payment flows, we are diversifying the mix of payors, reallocating service volumes to those that haven't been intervened by the country's regulator. Taken together, our cash flow outlook in Colombia has improved considerably.

Although our debt leverage was unchanged from the fourth quarter, we remain committed to reaching our mid-term target of 3 times or less.

We'd also like to point out that Auna's net income was positive for the fifth consecutive quarter.

Let me put all of this into context: Despite the quarter's operational setbacks in Mexico, the underlying fundamentals of our healthcare platform are still very solid, and we are confident about recovering our growth momentum in Mexico as the year progresses. Our strategic direction has not changed, and we remain excited about Auna's mid- to long-term earnings potential.

Let's move to slide 5, please.

As I've noted, Peru's outperformance drove our results in the first quarter. This was true for our operating results as well, with Peru nicely running at high-capacity utilization. As a reminder, we are focused on increasing utilization through higher levels of high complexity services, not bed occupancy alone. These services have higher margins and are core drivers of profitability. In Peru, total capacity utilization increased 4.4 percentage points versus last year's quarter, while also increasing the delivery of high complexity services. In Mexico and Colombia, capacity utilization decreased 0.9 and 2.1 percentage points, respectively, both due to the volume declines that I explained earlier.

The healthcare plans side of Peru also performed well during the quarter, with plan memberships increasing 10% year-over-year and the oncology MLR decreasing 1.4 percentage points to 51.6% versus the previous quarter, which is a very healthy level.

Slide 7, please.

In Mexico, revenues decreased 4% and Adjusted EBITDA by 5%, both on an FX-neutral basis. More generally, the macroeconomic environment and the uncertainty around tariffs and employment have tempered investments and consumption, including for medical services. In addition, we consider the impact of the supplier relationships on productivity to be transitional.

This is reflected in volumes beginning to recover. To a lesser extent, softer market conditions with stronger-than-expected seasonality effects also limited our top line and profitability during the quarter. Nonetheless, we were able to maintain our attractive margins, a product of the cost efficiencies we began implementing since last year.

Let's move to Peru on slide 8, please.

As you can see in the chart on the right side of this slide, operating leverage drove a 19% increase in Adjusted EBITDA on the 10% increase in revenue during the quarter. You can also see that Peru's EBITDA margin continued improving. The impact of the efficiency initiatives that we've implemented is particularly gratifying when you consider our current utilization levels in Peru. These latest results further demonstrate the earnings power of our vertically integrated business model when it's mature and operating at scale.

Slide 9, please.

As previously communicated, we moved to slow down our growth in Colombia, to mitigate payor payment risk and prioritize a positive cash cycle. These interim measures, which include diversifying our payor mix, are paying off, with improved payment flows – including those from Nueva EPS – and a much better cash flow outlook, while partially offsetting provisions. It's important to note here the marked decline in Adjusted EBITDA. Please recall that in the fourth quarter, Colombia benefited from retroactive price adjustments and procurement rebates, which typically happen in the fourth quarter of each year.

I'll now turn the call over to Gisele, who will provide some more details on our first quarter results.

Gisele Remy Ferrero

Chief Financial Officer and Executive Vice President

Thanks, Suso. My review begins with revenue contributions on slide 11.

As Suso highlighted, Peru helped partially offset the first quarter decrease in Mexico's revenue.

Peru's 10% revenue increase was mainly driven by higher surgery volumes and improved pricing during the quarter, which you also see reflected in higher capacity utilization. At Oncosalud, our health plans business in Peru, revenue was driven by annual inflation price adjustments and a 10% increase in plan memberships.

In the case of Colombia, the implementation of risk-sharing models was in part behind the 5% revenue increase in local currency. These are upfront payments for high complexity services, such as cardiology and oncology services. Another factor in the revenue growth was the diversification of our payor portfolio as we are proactively managing our contracted services and diversifying our payor mix, which is another way we have been mitigating risk and preserving cash flow in Colombia.

Let's now turn to slide 12, please.

As Suso explained, Mexico's revenue decline and additional impairment provisions in Colombia slowed EBITDA growth and compressed our margin, which finished the quarter a percentage point down versus the first quarter of 2024.

Helping offset the lower profitability in Mexico and Colombia was the 19% increase in Peru's Adjusted EBITDA. That increase and the 1.7 percentage point margin expansion reflect the top line growth and efficiency gains of our most mature and scaled business.

It's important to note that despite the volume decrease in Mexico and the capacity investments that we've been making in this market, this segment's Adjusted EBITDA margin remained high at a healthy 33.2%,

Let's now move to slide 13, please.

We delivered our fifth consecutive quarter of positive Adjusted Net Income.

On this slide we breakdown the 33 million soles increase from the first quarter 2024 to the first-quarter 2025. The 43 million soles decrease in operating profit is mainly explained by the non-recurring 23.7 million soles in upfront payments to the doctors of Opcion Oncologia as well as the impact from the depreciation of the Mexican and Colombian pesos versus the Peruvian sol. This was more than offset by a 53 million decrease in interest expense. The first quarter was also impacted by a positive FX variance related to the appreciation of the Peruvian Sol relative to the US dollar outside the levels of our call spread hedges. While the decrease in interest expense was mainly due to first-quarter 2024 transaction costs related to our 2023 refinancing.

Slide 14, please.

Despite the 15% decrease in cash, we maintained a solid cash position at the end of the quarter.

Looking at the cash flow bridge on this slide, you can see that we generated 165 million soles of pre-tax operating cash flow, including interests received during the first quarter, and paid 58 million soles in taxes. Operating cash flow was primarily impacted by a drop in collections in Colombia, specifically related to Nueva EPS in the months of January and February, only partially compensated by a recovery in collections in March, after reaching a payment plan with them. They have continued to honor that payment plan into the first two months of the second quarter.

In addition, Capex was 4.5% of revenues, in its majority related to maintenance, with a small 2 million soles payment to Opcion Oncologia doctors, bringing total CapEx to 47 million soles in the quarter. Another 17 million soles in cash was used for amortizations of the earnout and holdback obligations related to the past acquisitions of Imat Oncomedica and OCA, respectively. Amortizations of the holdback obligation finalize in the second quarter, while the remaining balance on the earnout obligation is now only 12.7 million soles.

As a result, free cash flow was 42 million soles. Organic free cash flow, which excludes the amortized earnout and holdback payments, was 59 million soles.

Lastly on this slide, interest payments during the quarter totaled 76 million soles.

Let's now turn to slide 15, please.

At the end of the quarter, we maintained a healthy debt structure and maturity profile, and even though our leverage remained unchanged versus the previous quarter, we remain focused on further reducing our net debt leverage to our 3.0x net debt to EBITDA medium term target, through a combination of EBITDA growth and debt amortization.

Lastly, as announced a couple of weeks ago, this month we refinanced \$62.1 million of short-term debt, through a successful reopening of our existing 2029 Senior Secured Notes. Despite challenging conditions in the credit markets at the time, we were well oversubscribed and managed to price the issuance at a highly competitive yield of 8%, while at the same time extending maturities.

That concludes my review of our first quarter results. I'll now pass the call over to Suso, who will wrap up our presentation before we move on to Q&A.

Suso Zamora

President, CEO & Executive Chairman of the Board

Thank you, Gisele.

To wrap up our prepared remarks: All of us at Auna remain one hundred percent committed to transforming healthcare in Spanish-speaking Latin America through our proven value-based care model. Implementing this model in fragmented, inefficient, and underserved private healthcare markets like Mexico has enormous potential.

And we have demonstrated our ability to do this, as the strong results in Peru made clear once again this quarter. While growing our scale and furthering our vertical integration, we expect Peru to continue being a strong earnings driver in the medium to long term.

We have effectively stabilized our cash flows in Colombia and the risk-sharing programs are delivering. Until the government resolves the current situation with intervened payors, we intend to continue diversifying the payors we serve as another means to manage risk. Longer term, we are bullish on Colombia, which remains an important contributor to our platform's scale and to maintaining best practices in patient care and outcomes.

Finally, our immediate focus is re-engaging doctors to recover volumes in Mexico during the remainder of 2025. We have acted swiftly, and we are taking the right approach to adjust our model to strike the best balance possible between physician economics and best practices under the AunaWay. We also continue advancing the expansion of Auna's oncology capabilities in Mexico, using Opcion Oncologia to build a best-in-class oncology platform. And we continue to be excited about Oncosalud in Mexico, which is the country's first mono-risk health insurance product, and the potential of which is enormous.

That concludes our prepared remarks. Operator, please open the call for questions.

Operator

[Operator Instructions]

Your first question comes from the line of Mauricio Cepeda from Morgan Stanley.

Mauricio I Cepeda

Morgan Stanley, Research Division

Hello Suso, Gisele, thank you for the opportunity here. I would like to first ask about Mexico. If I understood correctly, it's almost a cleanup of the relations you have with the physicians and suppliers there, a little bit more towards the AunaWay. So, in that regard, why trying to make this kind of transition at this point in time? What led to the decision to make this kind of transition now? And if you foresee that a ramp-up out of this transition would be something to happen in the short term, or is it something that you foresee to happen a little bit more towards the medium term?

And the second question is about Colombia. If you could update on the conversations you're having there with the interventors there, if there is any room for further risk-sharing agreements there? Thank you.

Suso Zamora

President, CEO & Executive Chairman of the Board

Thank you, Mauricio, and nice to hear from you. On Mexico, I would not want to consider it what you said was a cleanup. As I indicated before, the AunaWay is transformational. And it's tough for physicians that are so well integrated into the supplier chain. So the main source of lost volumes would be too close, these close relationships between the suppliers and physicians. This is critical for the AunaWay, and this is critical for our focus on high complexity. And this is very important, specifically in our relations with the payors. We are a unique player that has high credibility from insurance companies because we control, and we are very predictable on what happens in the clinical aspects of health care and the patient journey of health care and also in our margins. So, this is not a thing that can be postponed but has to be managed gradually to make sure that our volumes do not decrease, and that we continue to grow and penetrate, especially high complexity, higher margin services, no. And I would say that is critical, Mauricio.

I think that in Colombia, with respect to our risk-sharing models, we are now approximately 20% of our revenues in risk-sharing models. You may recall, Mauricio, that this was something like 15% last year, and we are targeting 30% towards the end of the year and even more in mid next year. This is consistent with our strategy to favor cash flows as payment terms are very favorable and margins are stable, I would say. Thank you, Mauricio.

Mauricio I Cepeda

Morgan Stanley, Research Division

Thank you Suso.

Operator

And there are no more questions on the phone line. So, I will now turn the call over to Anna Maria Mora from Auna, who will proceed with the questions from the webcast platform.

Ana Maria Mora

Head of Investor Relations

Thank you, operator. So, the first question comes from Alex Stephenson. Please provide more detail about what has happened with operations in Mexico.

Suso Zamora

President, CEO & Executive Chairman of the Board

Great. I'll respond to that. Thank you very much, Alex, for that question. So again, the main source of lost volumes was due to this close relationship between suppliers and physicians. Our model, as I said, is disruptive. It challenges many intrinsic practices, in particular, traditional practices that aren't easy to accept by some physicians. Our model allocates high volume to doctors who abide to our medical practices, and this does take some time, some months to implement.

Now, what I'd like to represent, I think the important part is that we have reacted quickly, and we are already in the process of seeing and harvesting some of the results of our actions. You know, we are, as I indicated before, noting a recovery in volumes, but of course, this is a work in progress. We are confident in the recovery in the coming quarters, but it is early to quantify. These are coming from a variety of practices, medical practices especially those that we are focused on, in high complexity again, to have a higher dependence also on medical devices.

So, getting this right is something important. This is also something that we have confronted in the past. This is not something unique to Mexico, to Monterrey. Health care in the world is fraught with the challenges of fee-for-service models, highly incentivized by big pharma and medical device manufacturers. Our model disrupts this, and it works, but it needs to be implemented gradually. This is not a problem -- it is a well-known hurdle in the industry, dealing with it is part of the process of transforming the market, and makes Auna much stronger. And it's something that we've done in the past as well. Thank you, Alex.

Ana Maria Mora

Head of Investor Relations

Thank you, Suso. The next question comes from Xiomara Tantalean. Thank you for the call. Could you please share how your guidance for Mexico has evolved compared to the initial expectations?

Suso Zamora

President, CEO & Executive Chairman of the Board

So, recently, we discussed a lot internally. Given that we manage the company, as an integrated regional play, we have not given guidance by country. We have given guidance in the past about the consolidated results of Auna. But early this year, we decided to make sure that the market understood that Colombia, in particular, and now Mexico have given us enough factors to say, let's wait off before we give guidance further for the year now.

We have an internal target, and I've discussed it in the past, of full year EBITDA growth of 20%. We have been doing 20% or more over a decade. However, as I indicated right now, at the beginning of the year, we were reluctant to call it guidance because of what was occurring in Colombia, that was outside of our control.

Now, given First Quarter results in Mexico, we need to see how the recovery they shapes up in the next few quarters to have a better visibility on the full year, but we are confident we will recover our growth and our growth trajectory in Mexico in the coming quarters.

So, I don't think we're changing the way we manage the business, the way we project the business, the way we budget the business, no. But we're being a little -- we're being very conservative in what we, what I call our guidance. Our expectation in Mexico, just to be a little more conceptual on it - our expectation in Mexico is within where we expect. We manage the business with stable margins and a growing penetration of high complexity volume. That's happening this quarter. We had this reversal, but that's generally happening since we took over the operations. We have a great opportunity in Mexico. We still have a lot of capacity to use. We have a greater, you may recall, what we represented last quarter with our acquisition of the Opción Oncología Group in Monterrey, that's already seen very interesting results at Doctors Hospital in Monterrey.

So, we're growing in what we want to grow, and we want to make sure that it's stable and it actually has a qualitative impact on how we deal with physician practices and the physician integration into the suppliers. Thank you very much, Xiomara.

Ana Maria Mora
Head of Investor Relations

Thank you, Suso. The next question comes from Omar Avellaneda and it is: what is your EBITDA and CapEx guidance for 2025? Do you expect additional impairments in Colombia in 2025. What is the current status of the deployment of OncoSalud in Mexico?

Gisele Remy Ferrero
CFO & Executive VP

Thank you, Annie. I can take the first part of that question, maybe pass it over to Suso to talk a little bit about OncoSalud in Mexico. I think Suso already answered the question on EBITDA guidance, which we did not give specific EBITDA guidance for the year. As far as CapEx guidance, this continues to be the same levels that we've seen in previous years, which should be at or below 50 million dollars annually for CapEx investments in the regular course of business.

In the case of provisions in Colombia, as we've previously mentioned, our policy continues to be based on an expected loss model, and there is a differentiated treatment for the intervened entities. We will continue to see impairments in accounts receivable in the coming quarters. But as previously mentioned, this does not reflect the view that we won't be able to collect on those accounts. It's just a matter of derisking the balance sheet, basically through the coming quarters. But we still remain confident and constructive on the medium-term outlook and on the fact that we will be collecting on those accounts.

Suso, I don't know if you want to complement on the progress of OncoSalud in Mexico.

Suso Zamora

President, CEO & Executive Chairman of the Board

Sure. Thank you very much, Gisele. And thank you very much, Omar. So again, we continue to be very excited about OncoMexico, OncoSalud in Mexico. We have a very strong pipeline. I've spoken about this in last quarter, and I think that we made really good progress in closing the network outside of Monterrey, which is a key deliverable from most of the prospective large clients that we want to be covered by OncoMexico, that is outside of Monterrey. In this quarter, we have already secured a national network in three major cities, in addition to Monterrey, of course, in Mexico City. In Guadalajara. I was in Tijuana the day before yesterday, on Monday, and we're closing on Tijuana this month. So, the market should read this as very positive for OncoMexico, given that we're closing these agreements on this platform of services, and we will have it in the four principal cities of Mexico, for the benefit of the pipeline that we have that is also, of course, demanding national coverage. So, we don't give guidance on OncoMexico, but clearly, I'm very optimistic. And as you can tell from what we're closing in terms of this network, this is definitely related to demand from this pipeline that I represented before. Thank you, Omar.

Ana Maria Mora

Head of Investor Relations

Thank you Suso. The next question comes from Gerard Fort. Could you share your outlook on capital expenditures for the rest of the year? And do you see the effective tax rate stabilizing around a 30% level this year?

Gisele Remy Ferrero

CFO & Executive VP

Thank you for the question. I think the CapEx part was already answered with the outlook, basically being at or below 50 million dollars for the full year. And in the case of the effective tax rate, which I think last year was around 33%. This year, we expect it to be closer to around 38%, this having to do also with when you make payments intercompany in the subsidiaries of the group, you do have some tax effects. We continue to recognize deferred tax benefits in the effective tax rate, which should lead to an improved tax cash rate in the coming years, which I think will also be very positive for liquidity.

Ana Maria Mora

Head of Investor Relations

Thank you, Gisele. The next question comes from Saikat Majumder. Could you please elaborate the business development expenses in Mexico? Is this related to OncoMexico and will this continue in the coming quarters.

Gisele Remy Ferrero

CFO & Executive VP

So, the approximately 27 million soles in business development expenses, which were adjusted from EBITDA in the first quarter, correspond to the upfront payments made to the doctors from Opción Oncología, who joined us in March. Those payments will be made throughout 2025, but they were recognized as part of the expenses in the accounting EBITDA in the first quarter and are completely nonrecurring and only due to an upfront payment.

Suso Zamora

President, CEO & Executive Chairman of the Board

And I would just add, Gisele that, yes, they are related to OncoMexico. Of course, because we manage the oncology platform as an integrated platform on the insurance and Opción Oncología, which is the platform of services that are our center of excellence for oncology.

Ana Maria Mora

Head of Investor Relations

Thank you, Suso, thank you, Gisele.

The last question comes from Caio Moscardini. How long did it take for the AunaWay to be fully accepted by suppliers and physicians when you started its implementation in Peru.

Suso Zamora

President, CEO & Executive Chairman of the Board

Well, that's a very good question, Caio. So in Peru, it took various years. In Colombia, it was a little quicker. And in Mexico, we expect it to be also quicker than what we've seen in Peru. Given that we've learned, and given the scale that we have today in terms of engaging suppliers directly and not through third-party intermediaries that are the ones that are integrated into the physicians themselves. This is the way we manage it, Caio, is practice by practice. Orthopedics and trauma have a big component of integration. Cardiology, a little bit as well. Some surgical procedures, and we manage by practice and by supplier. And gradually, gradually because it's very important to recognize doctors have a total income, family income, let's call it, that includes the payments they get from this integration. So, we have to be careful, and we have been careful in the past, in helping them better transition their total income from suppliers to Auna and their own personal physician practices. Thank you, Ani.

Ana Maria Mora

Head of Investor Relations

Thank you. Suso. At this time, I'm not showing any more questions. Maybe I would like to turn the call back over to Suso for the closing remarks.

Suso Zamora

President, CEO & Executive Chairman of the Board

Thank you very much, Ani. Just in finalizing - we have had a bump in the road. We're in control. The model is disruptive, as I made the case on occasions. It is, I'd like to call it a threshold event. Once you get the model going, it scales, it reaps the benefit for both patients and doctors and, of course, for Auna. I thank the investor community for your commitment to Auna and to the community behind Auna. I want to thank you for your attention on this call. Thank you very much.

Operator

This concludes today's conference call. You may now disconnect.