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Vertical Integration in Healthcare: A Case Study of Rede Dor Acquisition of Sul América

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Abstract

This case study investigates Rede D'Or's acquisition of Sul América, dissecting the strategic benefits and financial implications of the merger. The analysis provides a valuation of both companies and assesses potential synergies. It also considers the consequences had Rede D'Or not pursued the acquisition, in the context of industry-wide vertical integration. Additionally, the study contrasts financing the transaction with shares versus cash, outlining the merits of each approach. Concluding with a decision-making exercise, it challenges students to assume the role of Rede D'Or's CEO to decide on the acquisition's feasibility, backed by a justification rooted in the study's findings.

Key words: Rede D'Or; Sul América; Valuation; Case Study

Deal Introduction

On February 23, 2022, from the heights of Rede D'Or's headquarters in Rio de Janeiro, the CEO contemplated the city below, deep in thought about his company trajectory in the healthcare industry. Rede D'Or, already a vanguard in Brazil's hospital sector, had consistently risen to challenges and set benchmarks in the field.

The significant merger between Hapvida and Notre Dame Intermédica in 2021, who are the main competitors of Rede D'Or, heavily weighed on his mind, due to the extensive competitive and strategic implications in the Brazilian healthcare market. Concerns about how this merge might affect Rede D'Or's standing in the industry were palpable. It was evident that to maintain its leadership and influence, Rede D'Or needed to counter with a move of equal, if not greater, significance.

The possibility of acquiring SulAmérica began to take shape in the CEO's strategy. This wasn't just another merger on the horizon; it hinted at a game-changing transaction that could further solidify Rede D'Or's history. The potential terms of this deal, which might bring about a change in Sul América's controlling stakes and offer Sul América's shareholders a significant stake in Rede D'Or, underscored the monumental nature of the decision. This acquisition was more than just a response to market dynamics; it was a bold statement of Rede D'Or's vision for a unified healthcare landscape in Brazil.

Macroeconomic scenario

In February 2022, the Brazilian macroeconomic scenario was marked by significant challenges, including a rising IPCA+ rate and an increase in country risk. The IPCA+ rate, the Brazilian government's inflation-indexed sovereign bond, reflects a combination of the real interest rate and inflation and is usually used as a risk-free rate, offering protection against inflationary pressures. This rate experienced a continuous increase, peaking at 5.81% (**Exhibit 1**). This trend was driven by persistent inflation due to factors such as rising commodity prices, like gas and oil, and global supply chain disruptions.

Also, beside these challenges were political and fiscal uncertainties, contributing to an increase in country risk. As measured by Damodaran, country risk reached a peak of 6.5%, signaling growing investor concern about Brazil's economic stability. This heightened level of uncertainty played a critical role in increasing the calculation of the cost of capital. In an environment marked by high inflation and political instability, the elevated cost of capital becomes a significant factor, affecting market expectations and investment decisions.

The combined effect of these economic indicators - the IPCA+ rate, rising country risk, and increased cost of capital - underscored a challenging and volatile economic environment in Brazil, influencing both domestic and international investment perspectives. Furthermore, for a holistic assessment of Brazil's economic future,

considerations of perpetuity values using GDP growth and inflation rates are also pertinent. **(Exhibit 2)**

Between Universality and Supplemental: The Complex Structure of Brazilian Healthcare

Brazil's healthcare system stands out with its combination of universal access and a supplemental private sector, contrasting with many European countries where public healthcare often serves as the sole provider. The Brazilian system ensures universal healthcare access through its public sector, centered around the Unified Health System (SUS), and a supplemental private sector. The SUS, funded by taxpayers, offers comprehensive services free at the point of use, encompassing primary care to advanced treatments.

The private sector, regulated by the National Supplementary Health Agency (ANS), provides additional healthcare options through private hospitals, clinics, and laboratories, funded by private insurance and out-of-pocket payments.

About 28.5% of the population utilize private healthcare **(Exhibit 3)**, leaving a vast majority reliant on the SUS. The distribution of private health plan usage varies regionally, mirroring socio-economic patterns within the country **(Exhibit 4)**.

Healthcare funding in Brazil is divided between public (about 40% or BRL 250 to 280 billion, approximately 4% of GDP) and private sources (60%, roughly BRL 400 billion or 5.6% of GDP). The total health expenditure of 9.5% of GDP is just below the

OECD average, with a significant portion coming from private sector (**Exhibit 5**). This contrasts with countries like the United States, where healthcare spending is 16.8% of GDP, demonstrating Brazil's unique reliance on both public and private funding.

Private Hospitals in Brazil

In Brazil's healthcare system, private entities own about 62% of the 7,100 hospitals. From 2010 to 2022, there's been a decrease in the number of private hospitals, yet an increase in bed capacity, indicating a shift towards operational efficiency (**Exhibit 6**). Public hospitals grew by 31% during this period, showing adaptation to healthcare needs. The overall hospital facilities increased by 7% from 2019 to 2022, likely due to the demands of the COVID-19 crisis, which required expanded bed capacity.

Brazil's hospital network, with an average of 59 beds per facility, is smaller compared to the United States, which averaged 150 beds in its 6,642 hospitals in 2021. Brazil's bed density is 1.9 per thousand people, below the World Health Organization's recommended 3 to 5 beds. This disparity highlights Brazil's challenge in maintaining adequate bed capacity, especially in private hospitals.

Financially, Brazilian hospitals operate mainly on a 'pay-per-service' model, which can lead to financial strains on both the healthcare system and patients. Insured patients often use more services, potentially increasing costs without necessarily improving outcomes. Medical auditing, where insurance claims are closely scrutinized, adds to the financial challenges, with discrepancies leading to reduced reimbursements

or denials of payment. This situation requires private hospitals to maintain tight financial control and contingency planning.

Health Care Operators in Brazil

Brazil's healthcare operators funding model works on a generational subsidy system where the young financially support the medical needs of the elderly. This model faces stress due to the rapid aging of Brazil's population, with the senior demographic growing at a much faster rate than in the U.S. A significant portion of health policies in Brazil is linked to corporate entities and thus is vulnerable to economic shifts. Individual and family policies are common, some associated with professional groups.

The country's healthcare structure encompasses various contract types: Group Medical Practice with flexible classifications; Doctor-formed Medical Cooperatives as non-profits; for-profit Insurance Providers offering compensation per policy terms; Self-administered plans for organizational staff; and Philanthropic Organizations recognized by government bodies.

Financial stability in healthcare is influenced by rate adjustments authorized by the ANS, which tracks medical cost variations (VCMH) against the broader inflation index (IPCA). Revenues largely come from healthcare policy charges, with a crucial financial metric being the ratio of medical costs to income. However, these adjusted rates often lag behind the rising medical expenses, challenging the sector's financial viability.

The Rise of Rede D'Or São Luiz

The Foundational Years and the Birth of Cardiolab

In 1977, Rio de Janeiro witnessed the establishment of Cardiolab. Dr. Jorge Moll Filho, an entrepreneurial cardiologist, and his partner, Alice, set the foundation for this institution in cardiac diagnostics. Throughout the subsequent years leading up to the turn of the century, Cardiolab expanded, establishing multiple units across Rio. Dr. Moll, with his foresight, perceived the potential saturation of the diagnostic market given the low barriers to entry.

Creating the Brazilian Healthcare Colossus

Inspired by renowned institutions such as São Paulo's Hospital Albert Einstein, Dr. Moll identified a lack of benchmark in his city Rio de Janeiro. He capitalized on this gap, doing an unusual movement and acquiring the building that once hosted the Hotel Dor. This led to the creation of Hospital Copa-Dor in 2000, a unique blend of luxury hospitality and state-of-the-art medical care like Albert Einstein in São Paulo.

The growth trajectory of Rede D'Or was remarkable, but not without challenges. Financial constraints arose, with Dr. Moll at one point even mortgaging his own home. Still, with determination and strategic partnerships, the network expanded: Hospital Barra Dor (1998), Hospital Quinta Dor (2001), and Hospital Oeste Dor (2006) stood out as significant additions in Rio.

By 2007, Rede D'Or's presence extended beyond the State, evident in mergers and acquisitions in states like Pernambuco, with Hospital Esperança and Prontolinda joining the fold.

Strategic Alliances and Expansion - BTG Pactual's Entry

The year of 2010 marked a turning point for Rede D'Or. The significant sale of Cardiolab (Labs D'Or) to Grupo Fleury injected a sum of approximately BRL 1.1 billion, further fueling Dr. Moll's ambitions. Also, a collaboration with Banco BTG Pactual contributed an additional BRL 600 million, enabling the acquisition of São Paulo's respected São Luiz hospitals. Following this, the group was aptly renamed Rede D'Or São Luiz, ushering in a transformative era.

Pondering Vertical Integration: The Sul América Proposition

Rede D'Or's trajectory indicates a clear acquisition-focused strategy. From 2008 to 2022, the network realized several key milestones, such as acquiring Hospital Bangu, Santa Cruz hospital in Curitiba, Laboratórios Richet, and the strategic purchase of Qualicorp, among others. **(Exhibit 7)**. The acquisition of 10% of Qualicorp (QUAL3) for BRL 623 million was a significant step. Qualicorp is a broker and administrator of health plans, meaning it negotiates and mediates between clients and health insurers. This allowed Rede D'Or to begin its foray into the health insurance sector.

However, the network's most audacious step might be on the horizon. To diversify and enhance its offerings, Rede D'Or is considering a strategic integration with Sul

América S.A., potentially merging sectors like health, dental care, life insurance, and even investments. If executed, this merger could epitomize Rede D'Or's strategic vision for the future.

A Glimpse into Rede D'Or São Luiz

Since its inception in Rio de Janeiro, Rede D'Or São Luiz has emerged as Brazil's leading integrated healthcare network. Spanning multiple Brazilian states, it boasts 69 owned hospitals, 55 oncological clinics, and affiliations with over 87,000 accredited physicians. Financially robust, Rede D'Or São Luiz stands strong with 9,469 operational beds **(Exhibit 8)** and reported gross revenue of around BRL 25 billion, culminating in a net profit of approximately BRL 1.2 billion. This underscores its financial strength and industry leadership **(Exhibit 9)**. Notably, Rede D'Or has demonstrated strategic financial planning and a commitment to sustained expansion, with a debt-to-equity ratio of 1.11 **(Exhibit 10)**, positioning it well within the industry's competitive framework. Significantly, Rede D'Or continues to finance its expansion through debentures issuance, the latest bearing a rate of CDI + 1.9%. The company ended the year with a debt portfolio of approximately BRL 27 billion against an equity (PL) of BRL 13 billion **(Exhibit 11)**. In a continuous pursuit of growth, Rede D'Or aims to adhere strictly to its schedule of opening approximately 6,200 beds by 2027 **(Exhibit 12)** and keep its debt on current levels compared to EBITDA **(Exhibit 13)**. The network is committed to maintaining at

least an annual inflation rate in the average ticket and strives to keep bed occupancy rates at pre-pandemic levels.

Sul América Seguros

Centennial Beginnings

On December 5, 1895, Dom Joaquim Sanchez de Larragoiti laid the cornerstone of what would become an insurance colossus. He founded Sul América Companhia Nacional de Seguros de Vida, now known as Traditio - the inaugural enterprise of Grupo Sul América. As the 20th century progressed, the company anchored its roots deeper into the Brazilian market. The establishment of SulaCap and their maiden foray into automobile insurance signposted the company's expansionist vision. 1969 marked a significant pivot for the enterprise. Sul América Companhia Nacional de Seguros, today's TRADITIO, went public, with shares trading on Rio de Janeiro's stock exchange. Just a year later, Sul América delved into health services management. With the group's escalating scale came the need for a structured corporate scaffold, culminating in the creation of the holding company, Sul América S.A., in 1978.

The Health Sector Odyssey

The 1970s witnessed Sul América's debut into health operations, pioneering ASO (Administrative Services Only) post-payment plans. By 1987, the company broadened its horizons to encompass private insurance, birthing the Sul América Previdência Privada S.A (SulaPrev). 1997 ushered in an era of international partnerships; a joint venture with

Aetna International Inc., an American insurance heavyweight, brought global expertise to Sul América's portfolio. The turn of the millennium saw this collaboration evolve as ING Insurance International B.V. acquired Aetna's stake, subsequently partnering with Sul América in 2002.

In 2007, Sul América marked a significant milestone by becoming a publicly-traded company, listed on the BM&FBovespa. The following year, it ended the public company status of TRADITIO after a share acquisition offer. In 2009, Sul América opened the innovative Rio Cidade Nova complex in Rio, reflecting its commitment to operational efficiency and sustainability. By December 2010, the company expanded into dental health by acquiring Dental Plan Ltda, increasing its membership by 122,000 in the North and Northeast of Brazil.

The company continued to grow through key acquisitions and partnerships, including the purchase of Rio's Capitalização S.A. in 2013 and a partnership with Healthways, Inc. in 2015. That same year, as it celebrated its 120-year anniversary, Sul América also opened its modern São Paulo headquarters in the Pinheiros district. In 2020, the company made a significant move by acquiring Paraná Clínicas - Planos de Saúde S.A. for BRL 396 million, underscoring its ongoing growth and investment in the healthcare sector.

2022 Sul América and Forecasting

Sul América has shown consistent market strength, with reported impressive revenue and a service network that extends to millions of beneficiaries. Its solid financial position is underscored by a robust net profit, as highlighted in recent financial statements. In line with its strategic financing methods, the company continues to expand through debentures, the latest issued at a CDI + 1.5% rate (**Exhibit 14**). Financial indicators for the end of 2021 reveal that Sul América (SULA11) maintains a Debt-to-Equity (D/E) ratio of 0.37 (**Exhibit 15**), indicating a prudent balance between debt financing and equity, which positions it strongly against industry counterparts.

The company's EV/EBITDA ratio of 9.47 suggests a value-oriented market valuation relative to its peers. With a P/E ratio at 35.2, there is an anticipation of future earnings growth beyond the market average. The P/VP ratio at 1.44 implies a market value slightly above book value (**Exhibit 16**). As per projections from the Brazilian Institute of Geography and Statistics (IBGE), a growing segment of the Brazilian population is expected to enroll in health plans. Holding approximately a 4.5% market share, Sul América is poised to benefit from this trend. Historical data shows an average market share increase of 0.4% per year, a trend expected to persist. Coupled with the forecasted annual Brazilian population growth of 0.5% and the current population of around 203.1 million, these factors could significantly enhance the company's revenue prospects (**Exhibit 17**).

The Offer

On February 23, 2022, Rede D'Or announced its intention to acquire Sul América. In this arrangement, Rede D'Or was set to issue 307.7 million new shares to Sul América's shareholders, with a share ratio of 0.7683 Rede D'Or shares for each Sul América share. This was based on Rede D'Or's share price on February 18th at BRL 49.41, a 49.3% premium over Sul América's share price of BRL 25.68, valuing the deal at approximately BRL 15 billion and increasing Rede D'Or's total shares to 2,289 billion."

Post-merger, Sul América's shareholders would hold a 13.5% stake in Rede D'Or, with the Larragoiti family receiving 3.8%. Rede D'Or managed the merger through its in-house M&A team, a deviation from the standard practice of hiring external advisors, except for Vinci Partners and Rothschild Brazil who provided a fairness opinion.

Significant penalty clauses were incorporated for potential delays in regulatory approval, including a 12-month exclusivity term for Sul América, with a BRL 5 billion penalty for any breach. The Larragoiti family also faced a BRL 2 billion fine if they entertained competing offers or failed to support the transaction with Rede D'Or, reflecting the deal's high stakes and the stringent commitments from the involved parties. Sul América, with a BRL 5 billion penalty for breach. Additionally, the Larragoiti family agreed to a BRL 2 billion fine for not supporting the deal, highlighting the transaction's significance and the commitment expected from both parties.

Possible Synergies

The merger between Rede D'Or and Sul América brings together two giants in the Brazilian healthcare and insurance sectors, with the potential for significant cost synergies. One of the primary areas of synergy is in the reduction of General and Administrative expenses. For instance, Rede D'Or identified approximately BRL 530 million in potential cost savings, which could be achieved through measures such as staff reductions and the consolidation of administrative headquarters of Sul América. This integration aims to streamline operations and reduce overhead costs, thereby enhancing efficiency and profitability.

Another aspect of the merger is the strategic advantages, including enhanced product development and market penetration. By integrating Sul América into its operations, Rede D'Or can more effectively design and introduce healthcare products that are specifically tailored to different regional markets. This approach is particularly beneficial for areas that were previously overlooked or underserved by larger operators.

As part of its strategic growth initiatives following the acquisition, Rede D'Or is focusing on a increase in patient referrals from Sul América's insurance plans. This integration is strategically designed to enhance patient inflow into Rede D'Or's network. In managing the alignment of both companies, Rede D'Or expects to make intracompany adjustments averaging around 8%. However, even with these adjustments in place, considering that 28.7% of Sul América's claims are for patients within the Rede D'Or

network, the company expects to increase patient inflow by an additional 10% in the next year, followed by a continued anticipated annual increase of 2.5% in subsequent years.

Regulatory Approval

The potential acquisition of Sul América by Rede D'Or has raised the possibility of a regulatory conundrum in Brazil's private healthcare sector. This merger would combine a vast healthcare and laboratory network with a significant healthcare operator. The deal is currently under the scrutiny of the Administrative Council for Economic Defense (CADE) because of concerns that it could potentially monopolize the market and limit fair competition.

Healthcare institutions and plan administrators, including prominent names, have expressed reservations. They argue that the merger could result in an unfair competitive landscape.

Communications from the ANS and CADE highlight the restrictions against market concentration, adding to the complexity of the situation. While Rede D'Or has denied any intention towards sector, the health sector awaits the outcome of CADE's deliberations on this intricate issue.

The Decision

As the trend towards "verticalization" gains momentum within the industry, the dilemma facing Rede D'Or São Luiz becomes ever more pressing. Will they risk being

left behind if they don't pursue the acquisition of Sul América? Is now the opportune moment to make such a significant move? Moreover, is the synergies NPV truly reflecting a bonus value? These are the crucial questions that must be addressed as Rede D'Or São Luiz contemplates its next strategic step in the evolving landscape of Brazilian healthcare and insurance.

Teaching Notes

Synopsis

On February 23, 2022, from Rede D'Or's Rio de Janeiro headquarters, the CEO pondered the healthcare landscape after Hapvida's and Notre Dame Intermédica's 2021 merger. To maintain its prominence, Rede D'Or contemplated a strategic move: acquiring Sul América. This merger, signaling a significant shift in Sul América's controlling stakes and impacting shareholder dynamics, was a testament to Rede D'Or's ambition for a consolidated healthcare future in Brazil.

Intended Audience

This case study has been crafted for students engaged in corporate finance and strategic management courses. It aims to offer a realistic representation of the multifaceted challenges that arise when integrating two entities operating within the same sector, yet with distinct core businesses. The narrative delves deep into the intricacies of calculating synergies, understanding market timing, strategizing acquisitions, and grappling with integration complexities. Throughout the study, there's a consistent emphasis on aligning decisions with shareholder interests while ensuring sustained value creation. By the end of this case, students should possess a holistic understanding of the dynamic interplay between finance, strategy, and value generation in the realm of mergers and acquisitions.

What strategic advantages is Rede D'Or seeking in acquiring Sul América?

In contemplating the potential strategic advantages that Rede D'Or might derive from acquiring Sul América, students might highlight several considerations. First, there's the prospect of enhanced customer base access; hospitals typically cater to a broad spectrum of beneficiaries from different health insurance providers. By integrating Sul América, students might argue that Rede D'Or is positioning itself to channel a larger segment of these beneficiaries directly to its own hospitals, optimizing occupancy rates. Moreover, students could also discuss the potential administrative synergies. Given the inherent similarities in the administrative frameworks of both entities, there's an opportunity for significant cost savings through the amalgamation of overlapping functions, leading to streamlined operations. Another point students might underscore is the improved predictability in both hospital traffic and cash flow. With direct access to Sul América's patient data, anticipating hospital movements becomes more feasible, allowing for optimal resource allocation. On the financial front, the often-delayed reimbursements from health insurance providers present cash flow challenges for hospitals. Students might posit that by bringing Sul América under its umbrella, Rede D'Or could exert greater control over these reimbursement timelines, ensuring more consistent cash flows. Lastly, students could touch upon the broader strategic implications, suggesting that such an acquisition would bolster Rede D'Or's market positioning, transforming it into an integrated healthcare titan in Brazil. In essence, this

acquisition, if examined in depth, presents a myriad of avenues for students to explore, each pointing to the profound strategic potential inherent in this union.

Given the data from the case study, calculate the value of each company (Rede D'Or and Sul América), the synergy, and the consolidated company. Please detail the steps and assumptions used in your calculation. (Use 34% as Tax Rate)

To calculate the NPV of the potential synergies between Rede D'Or and Sul América, students should first identify that the primary quantitative synergies emerge from two sources: the redirection of Sul América's medical expenses towards Rede D'Or hospitals and cost savings through optimized SG&A expenses mentioned on the case study.

For the WACC calculation of Rede D'Or and Sul América, students should reference the provided exhibits to determine the current opportunity cost of capital for both companies. Utilizing the Brazilian risk-free rate (IPCA+) and the Equity Risk **(Exhibit 1)**, students can initiate their WACC computation. To calculate the Beta, students must verify this assumption based on the available information. The necessary inputs for this calculation can be derived from **Exhibits 10 and 15**, which provide the Debt-to-Equity ratios for Rede D'Or and Sul América, as well as their industry peers. These ratios are instrumental in determining the leveraged Beta, as presented in **Exhibits 18 and 19**, illustrating the risk profiles within the healthcare industry. Therefore, students can calculate the industry's average unlevered beta by deriving each firm's unlevered beta according to the formula:

$$\beta_u = \frac{\beta_l}{\left[1 + (1 - t) * \frac{D}{E}\right]}$$

The instructor should emphasize the importance of focusing on comparable companies within the healthcare sector, given its unique financial dynamics compared to other industries. Subsequently, one should re-lever Rede D'Or's unlevered beta using its current net debt-to-equity ratio and the industry's average unlevered beta:

$$\beta_l = \beta_u * \left[1 + (1 - t) * \frac{D}{E}\right]$$

To calculate the cost of debt, students must consider the company's debt structure calculated by the sum of the loans, financings, and lease liabilities and use the rate from the most recent debenture issuance as discussed in the case study. This rate will reflect the current cost of borrowing for Rede D'Or and should be incorporated into the WACC calculation. By analyzing the proportion of debt in the company's capital structure and applying the rate of the last issued debenture, students will be able to estimate Rede D'Or's WACC of 13.43% and Sul América's WACC of 14.88%. **(Exhibits 20 and 21)**

The next crucial step in valuation is projecting the company's cash flows. To do this, students should utilize the data provided in the case study regarding the current number of beds, the average revenue per patient, the number of patients per year and the schedule for opening new beds **(Exhibit 22)** to estimate Rede D'Or's revenues without Sul América. Historical data will serve as the basis for calculating costs, SG&A expenses, debt amounts, capital expenditures (Capex), and working capital. The case indicates that

the company intends to maintain its investment levels in the coming years, which should be considered when projecting future cash flows.

The consistency in Rede D'Or's investment strategy as mentioned in the case study suggests that capital expenditures and working capital calculations can be estimated by looking at historical investment patterns and considering any planned strategic changes or expansions.

Once the operating expenses, Capex, and working capital needs are estimated, students should calculate the Free Cash Flow to Equity (FCFE), which can be expressed as:

$$FCFE = Net\ Profit - Capex - Depreciation - \Delta Wc + \Delta Debt$$

The FCFE formula helps in determining the cash flow available to the shareholders after accounting for all expenses, investments, and changes in working capital, as well as changes in debt. This figure represents the net cash generated by the company, which is available for distribution to its shareholders or to reinvest back into the company.

Students should then discount these projected cash flows using the previously WACC to determine the present value of the future cash flows. By summing the present values of the projected FCFE, students can arrive at an estimate of Rede D'Or's equity value of around BRL 69 billion, which represents a value of BRL 27.6 per share when accounted the total amount of shares before the deal. **(Exhibit 23)**

Additionally, students should perform a similar analysis for Sul América, projecting its cash flows by considering the specifics of the insurance industry. This includes examining insurance income, expenses, and operating expenses, based on the forecast provided in the case study. The goal is to calculate Sul América's standalone value, which can be compared to the combined entity's projected value post-merger to assess if the transaction creates value. After performing these calculations with Sul América's WACC, students should reach an approximate value of BRL 12 billion for Sul América. **(Exhibit 24)**

Once the standalone valuations for Rede D'Or and Sul América are completed, students should then calculate the synergies that may arise from the merger. According to the paragraph on synergies in the case study **(Exhibit 25)**, students should estimate potential cost savings in SG&A and the potential revenue enhancements for Rede D'Or.

To accurately reflect the impact of these synergies, students must adjust the individual results of Sul América and Rede D'Or, considering the intracompany transactions mentioned on the case study, thereby avoiding double-counting of revenue or cost savings. After these adjustments, the proposed synergies—as detailed in the case study Exhibits—should be added to the projections.

The final step involves discounting these combined cash flows back to the present value using the calculated WACC for the combined entity, 13.58%. **(Exhibit 26)**. Through this process, students can draw conclusions about the financial merits of the acquisition and

its likely success in delivering the proposed synergies. After the merger and taking into account the increase in the number of Rede D'Or shares to 2,289 billion, students should arrive at a value close to BRL 29.5 per share, which represents a premium of 6,9%. This premium reflects the additional value that the merger is expected to create for shareholders. **(Exhibit 27)**

If Rede D'Or did not proceed with the acquisition of Sul América, given the trend of competitors vertically integrating their operations, what could be the potential implications for its market position and future strategy?

If Rede D'Or does not proceed with the acquisition of Sul América while competitors are vertically integrating, students might explore several strategic implications. They could hypothesize that Rede D'Or may be outmaneuvered in the market, which could lead to a reduction in customer base and market share due to competitors offering more seamless and cost-effective services. In terms of pricing power, without the acquisition, Rede D'Or could confront difficulties as integrated competitors may achieve cost savings that could force Rede D'Or to either lower their prices or risk losing customers, students might argue. This situation could also lead to a weakened bargaining position with suppliers or insurance partners, they might add. Furthermore, students could suggest that the absence of vertical integration may render Rede D'Or less capable of responding to industry changes, regulatory updates, or economic fluctuations. Finally, students might speculate that not engaging in vertical

integration could tarnish the brand's image, possibly being perceived as a lack of innovation, which could have serious consequences in a sector where trust and reputation are paramount.

What are the benefits and drawbacks of financing an acquisition entirely with shares rather than cash?

Financing an acquisition with shares offers two key benefits. Firstly, it aids in the preservation of cash, a vital asset for maintaining company operations and liquidity. Secondly, it capitalizes on the current market conditions if the shares are overvalued; as per the case study, Rede D'Or's shares are trading close to BRL 49, which is well above the fair value of BRL 27.6 determined from the analysis in question 2 of the case study. This disparity allows Rede D'Or to maximize the value of their equity in the acquisition, acquiring more with their shares than the cash equivalent, while still preserving their cash reserves for future needs.

Conversely, this strategy brings the risk of shareholder dilution. As Rede D'Or issues more shares to finance the acquisition, the existing shareholders' ownership is diluted, potentially leading to a reduction in earnings per share. Should the market reassess the value of the shares from the highs noted in the case study, this could negatively impact stock prices. Additionally, if the acquired assets do not integrate as expected, it could adversely affect shareholder sentiment.

In the end, if you are RDOR's CEO, would you proceed with the transaction? Justify your answer.

As the CEO of Rede D'Or, the decision to proceed with the acquisition of Sul América would be grounded in a detailed analysis of valuations and the projected synergies. Prior to the acquisition, Rede D'Or's shares are valued at an approximate fair value of BRL 27.6 per share. The acquisition is projected to increase this value to BRL 29.5 per share thereby substantiating the transaction. **(Exhibit 27)** Furthermore, students should consider the purchase price of Sul América, which, according to the provided calculations, values the company at BRL 12 billion. Even if Rede D'Or pays a higher value of BRL 15 billion, the transaction can still be justified by the strategic use of overvalued shares and the anticipated synergies that, if realized, could outweigh the premium paid. If the anticipated synergies materialize, Rede D'Or is poised to create value from this transaction. Students should argue that the acquisition is not only financially prudent but also strategically sound. In a healthcare sector trending towards vertical integration, failing to acquire Sul América could leave Rede D'Or at a competitive disadvantage as peers consolidate and optimize their operations. The acquisition could improve market barriers, enhance customer loyalty, and elevate the patient experience, ultimately securing customer trust and ensuring continuity of care — critical components in the healthcare industry. Hence, if the financial data aligns with these strategic benefits, proceeding with the transaction would be justified.

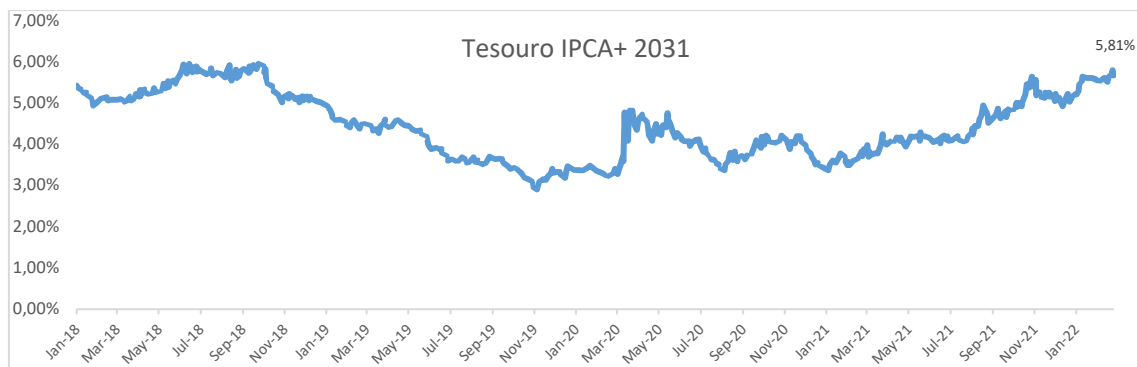
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Exhibits

Exhibit 1 – IPCA+2031



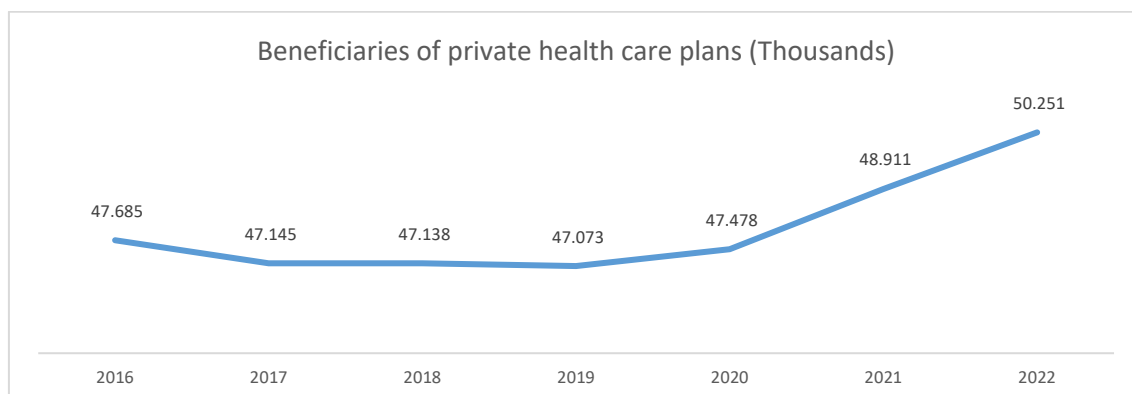
Source: Tesouro Nacional do Brasil

Exhibit 2 – Inflation Target and GDP Expectations

Year	2022	2023	2024	2025	2026	2027
Inflation Target	3,50%	3,25%	3,00%	3,00%	3,00%	3,00%
GDP	2,90%	3,50%	3,50%	3,00%	3,00%	3,00%

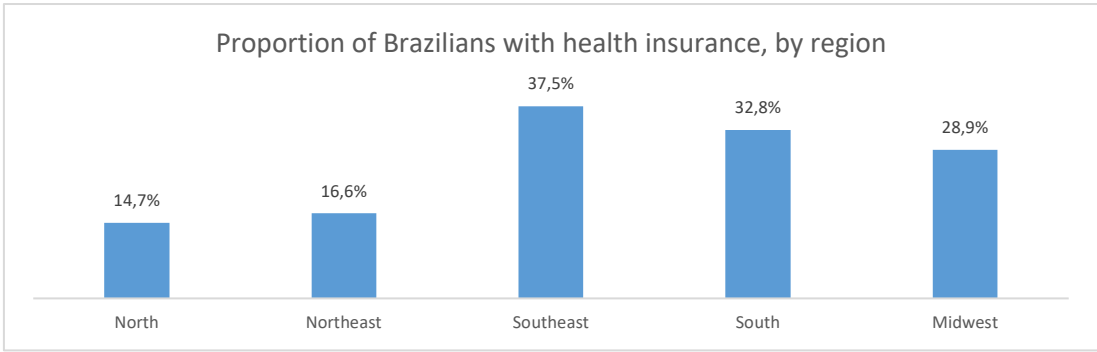
Source: Brazil Central Bank

Exhibit 3 - Beneficiaries of Private health care plans



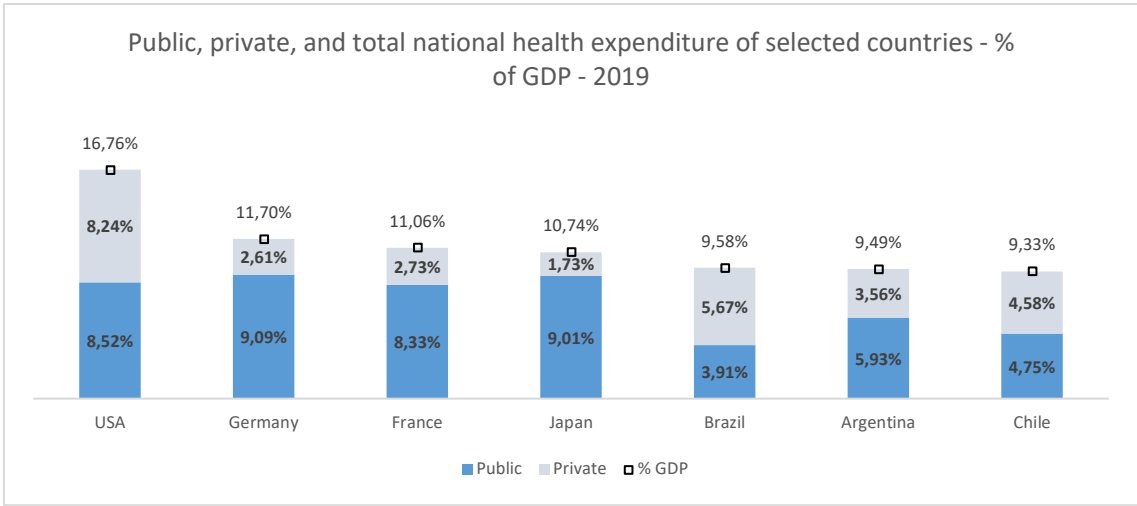
Source: Agência Nacional de Saúde Suplementar (ANS)

Exhibit 4– Proportion of Brazilians with health insurance, by region



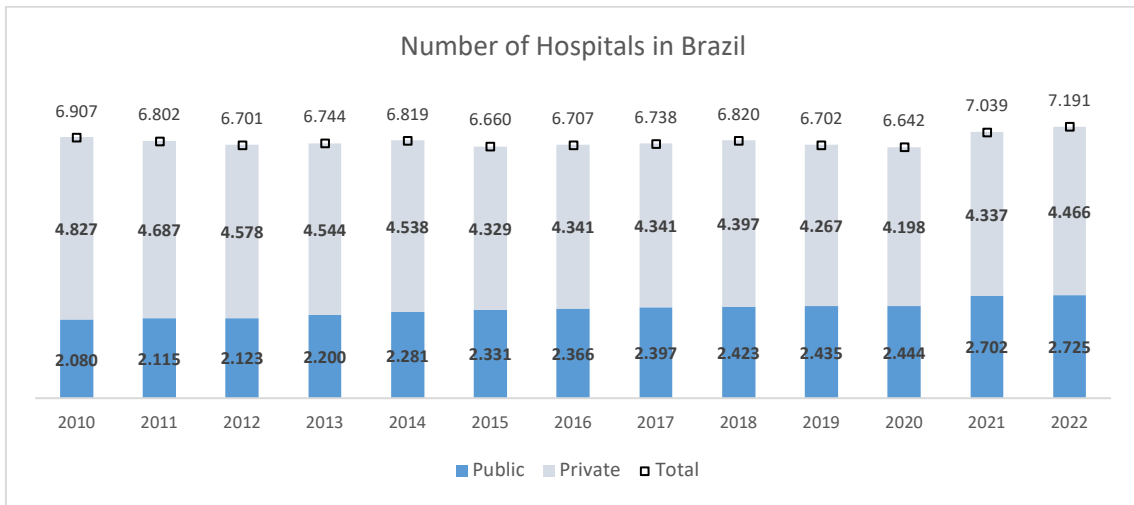
Source: Pesquisa Nacional de Saúde 2019/ IBGE

Exhibit 5 - Public, private, and total national health expenditure of selected countries - % of GDP



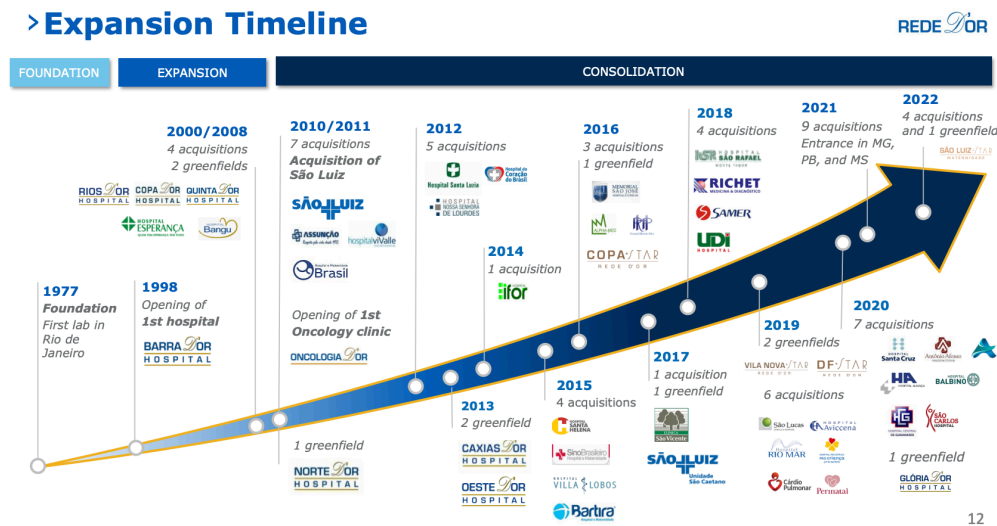
Source: World Health Organization 2019/ WHO

Exhibit 6 – Number of Hospitals in Brazil



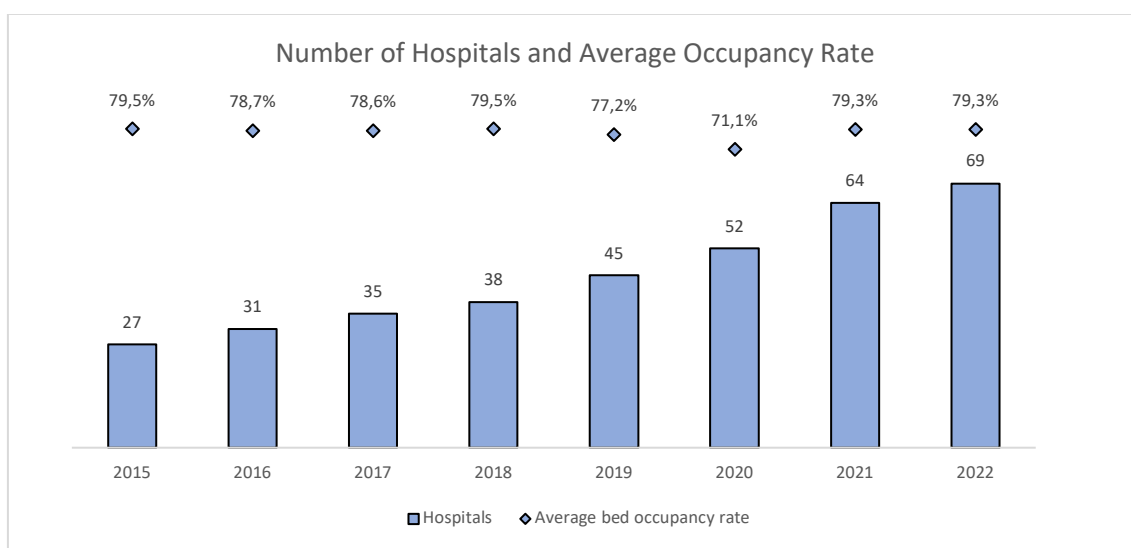
Source: FBH (Federação Brasileira de Hospitais)

Exhibit 7 – Rede Dor Expansion TimeLine



Source: Rede Dor IR

Exhibit 8 – Rede Dor Number of Hospitals



Source: Rede Dor IR

Exhibit 9 – Rede Dor Income Statement

Rede D'Or São Luiz S.A.

Statements of profit or loss
Years ended December 31, 2021, 2020 and 2019
(In thousands of reais, unless otherwise stated)

	Note	Individual			Consolidated		
		2021	2020	2019	2021	2020	2019
Net revenue	20	10,596,880	7,927,968	8,315,398	20,381,883	14,029,408	13,319,835
Costs of services rendered	21	(7,363,840)	(6,048,335)	(5,733,558)	(15,572,114)	(11,462,348)	(9,838,962)
Gross profit		3,233,040	1,879,633	2,581,840	4,809,769	2,567,060	3,480,873
General and administrative expenses	22	(898,260)	(705,518)	(461,595)	(919,056)	(720,831)	(474,102)
Selling expenses	23	(16,888)	(17,037)	(14,663)	(37,070)	(24,360)	(24,033)
Equity pickup	8	524,536	290,651	321,628	79,338	(6,091)	4,427
Other operating income (expenses), net	24	(77,978)	(174,368)	(125,950)	(264,614)	(178,552)	(211,313)
Income before finance income (costs) and income taxes		2,764,450	1,273,361	2,301,260	3,668,367	1,637,226	2,775,852
Finance income	25	1,889,121	2,263,997	773,502	5,699,438	8,168,082	1,567,286
Finance costs	25	(3,075,896)	(3,177,502)	(1,609,546)	(7,335,189)	(9,321,851)	(2,644,182)
Income before income taxes		1,577,675	359,856	1,465,216	2,032,616	483,457	1,698,956
Income taxes	19	(2,369)	68,473	(298,145)	(354,881)	(24,034)	(507,439)
Net income for the year		1,575,306	428,329	1,167,071	1,677,735	459,423	1,191,517
Income attributable to controlling interests		1,575,306	428,329	1,167,071	1,575,306	428,329	1,167,071
Income attributable to noncontrolling interests		-	-	-	102,429	31,094	24,446
Basic earnings per share (in reais)	26	0.7991	0.2205	0.6620	0.7991	0.2205	0.6620
Diluted earnings per share (in reais)	26	0.7968	0.2198	0.6594	0.7968	0.2198	0.6594

Source: Rede Dor IR

Exhibit 10 – Rede Dor D/E

Comparable Companies - Beta Calculation	Debt/Equity	Tax Rate	Beta
Rede Dor	1,11	34%	
Hapvida	0,24	34%	1,74
Kora Saúde	1,98	34%	0,99
Dasa	1,18	34%	0,97
MaterDei	0,71	34%	1,38

Source: Status Invest

Exhibit 11 – Rede Dor Balance Sheet - Assets

Rede D'Or São Luiz S.A.

Statements of financial position
December 31, 2021, 2020 and 2019
(In thousands of reais)

	Note	Individual			Consolidated		
		2021	2020	2019	2021	2020	2019
Assets							
Current assets							
Cash and cash equivalents	4	43,910	22,091	33,580	124,621	146,884	68,684
Marketable securities	4	11,249,728	12,589,986	3,782,360	12,429,549	15,580,374	4,701,418
Accounts receivable	5	3,707,070	2,804,200	2,503,118	7,564,769	5,163,870	4,117,916
Inventories	6	401,479	351,321	182,844	735,245	607,948	335,481
Taxes recoverable		285,897	180,066	49,488	422,765	297,897	90,783
Derivative financial instruments	27	131,643	266,355	116,530	182,018	266,355	116,530
Transactions with related parties	7	32,540	8,423	2,423	-	-	-
Dividends receivable		74,093	131,229	69,657	-	63	275
Receivables from sale of properties		18,598	18,425	40,198	18,598	18,425	40,198
Other		178,418	164,205	151,039	412,019	350,085	257,937
Total current assets		16,123,376	16,536,301	6,931,237	21,889,584	22,431,901	9,729,222
Noncurrent assets							
Transactions with related parties	7	1,265,885	780,778	798,347	44,886	51,987	38,876
Deposit for acquisition of property		-	-	-	-	97,644	96,588
Judicial deposits	16	226,746	172,578	137,189	350,512	276,895	185,618
Deferred income and social contribution taxes	19	-	-	-	792,083	528,901	318,655
Derivative financial instruments	27	627,153	455,224	442,121	3,967,943	2,743,616	694,512
Investments in subsidiaries, associates and joint ventures	8	14,586,409	9,387,329	6,266,080	2,325,839	1,089,231	1,226,878
Property and Equipment (PE)	9	3,567,148	3,167,812	3,011,742	9,097,050	7,368,945	6,439,385
Intangible assets	10	2,683,489	2,618,125	2,631,182	10,631,031	7,809,898	5,365,466
Right-of-use - leases	11	1,743,808	1,664,010	1,653,342	3,134,453	2,998,021	2,370,117
Other		67,142	100,928	53,629	247,239	260,005	134,348
Total noncurrent assets		24,767,780	18,346,784	14,993,632	30,591,036	23,225,143	16,870,443

Source: Rede Dor IR

Exhibit 12 – Opening Schedule

Year	Number of Beds
2022	560
2023	1.003
2024	1.492
2025	1.347
2026	731
2027	1.090

Source: Rede Dor IR

Exhibit 13 – Rede Dor Net Debt/Ebitda

	2019	2020	2021
EBITDA	3.484,6	2.481,8	4.897,0
Net Debt/EBITDA	2,8x	2,3x	2,6x

Source: Rede Dor IR

Exhibit 14 – SulAmerica Income Statement

Income Statement - IFRS	2019	2020	2021
Operating revenue (R\$ million)	22.325,5	20.032,6	21.003,5
Insurance (R\$ million)	21.282,5	18.915,6	19.931,7
Net retained premiums (R\$ million)	21.259,6	18.870,3	19.875,5
Insurance premiums (R\$ million)	21.544,2	19.125,2	20.111,6
Reinsurance Premiums Ceded (R\$ million)	-17,5	-40,3	-84,4
Retained premiums ⁽¹⁾ (R\$ million)	21.526,7	19.084,9	20.027,2
Tax over insurance premiums (R\$ million)	-267,0	-214,6	-151,7
Other (R\$ million)	22,9	45,3	56,2
Private Pension (R\$ million)	794,9	889,4	783,2
Premiums, retained contributions and net asset management fee (R\$ million)	794,2	889,4	783,2
Other (R\$ million)	0,7	0,0	0,0
Saving bonds (R\$ million)	64,8	14,8	1,1
ASO (R\$ million)	61,7	73,1	80,2
Asset management (R\$ million)	88,3	67,4	71,8
Other (R\$ million)	33,2	72,2	135,5
Changes in premium technical reserves (R\$ million)	-599,8	-816,8	-640,6
Insurance (R\$ million)	68,9	-65,8	-18,4
Private pension (R\$ million)	-668,7	-751,0	-622,2
Earned Premiums (R\$ million)	21.595,5	19.019,0	20.008,8
Operating expenses (R\$ million)	-18.938,0	-16.604,6	-19.066,0
Insurance (R\$ million)	-18.758,4	-16.447,1	-18.892,8
Claims (R\$ million)	-16.162,3	-14.529,2	-16.986,5
Acquisition costs (R\$ million)	-2.026,2	-1.361,6	-1.426,2
Other (R\$ million)	-569,9	-556,3	-480,2
Private Pension (R\$ million)	-121,1	-130,9	-141,5
Expenses with benefits and redemptions (R\$ million)	-81,9	-79,0	-89,6
Acquisition costs (R\$ million)	-35,6	-35,7	-35,8
Other (R\$ million)	-3,7	-16,1	-16,1
Saving bonds (R\$ million)	-33,2	-3,7	-1,6
ASO (R\$ million)	-20,4	-17,0	-24,7
Asset management (R\$ million)	-4,9	-6,0	-5,5
Other (R\$ million)	0,0	0,0	0,0
Gross operating margin (R\$ million)	2.787,6	2.611,1	1.296,9
General and administrative expenses (R\$ million)	-1.857,6	-1.593,3	-1.569,2
Net investment income (R\$ million)	615,1	123,6	279,8
Equity interest income (R\$ million)	2,0	-9,0	-18,5
Other equity income / (expenses) (R\$ million)	8,9	-30,3	10,7
Income before tax and social contribution (R\$ million)	1.556,0	1.102,1	-0,3
Income tax and social contribution (R\$ million)	-374,4	-304,9	333,0
Net Income from Continuing Operations (R\$ million)	0,0	797,2	332,7
Net Income from Discontinued Operations (R\$ million)	0,0	1.550,2	0,0
Net income (R\$ million)	1.181,6	2.347,5	332,7

Source: Sul América IR

Exhibit 15 – Sul América D/E

Comparable Companies - Beta Calculation	Debt/Equity	Tax Rate	Beta
Sul América	0,37	34%	
Hapvida	0,24	34%	1,74
Porto Seguro	-0,95	34%	0,66
Qualicorp	0,98	34%	0,84

Source: Status Invest

Exhibit 16 – Sul América Peers

	SULA11	HAPV3	PSSA3	QUAL3
EV/EBITDA	9,5	32,5	3,2	6,3
P/E	35,2	81,2	8,8	13,1
P/VP	1,4	3,8	1,4	3,8

Source: Status Invest

Exhibit 17 – Sul América’s number of beneficiaries and Brazilian Population

	2018	2019	2020	2021
Brazilian Population (Millions)	210,2	211,8	213,2	214,3
Population with health insurance (Millions)	48,3	48,7	49,0	49,3
Sul América Beneficiaries (Millions)	2.054	2.137	2.265	2.430
Marketshare	4,25%	4,39%	4,62%	4,93%

Source: Sul América IR, IBGE

Exhibit 18 – Rede Dor Beta

Comparable Companies - Beta Calculation	Debt/Equity	Tax Rate	Beta	Unleveraged Beta
Hapvida	0,24	34%	1,74	1,50
Kora Saúde	1,98	34%	0,99	0,43
Dasa	1,18	34%	0,97	0,55
MaterDei	0,71	34%	1,38	0,94

Industry Average	0,85
RDOR3 Tax Rate:	34%
RDOR3 Net D/E:	1,11
RDOR3 Levered Beta	1,48

Source: Status Invest

Exhibit 19 – Sul América Beta

Comparable Companies - Beta Calculation	Debt/Equity	Tax Rate	Beta	Unleveraged Beta
Hapvida	0,24	34%	1,74	1,50
Porto Seguro	-0,95	34%	0,66	1,77
Qualicorp	0,98	34%	0,84	0,51

Industry Average	1,26
SULA11 Tax Rate:	34%
SULA11 Net D/E:	0,37
SULA11 Levered Beta	1,57

Source: Status Invest

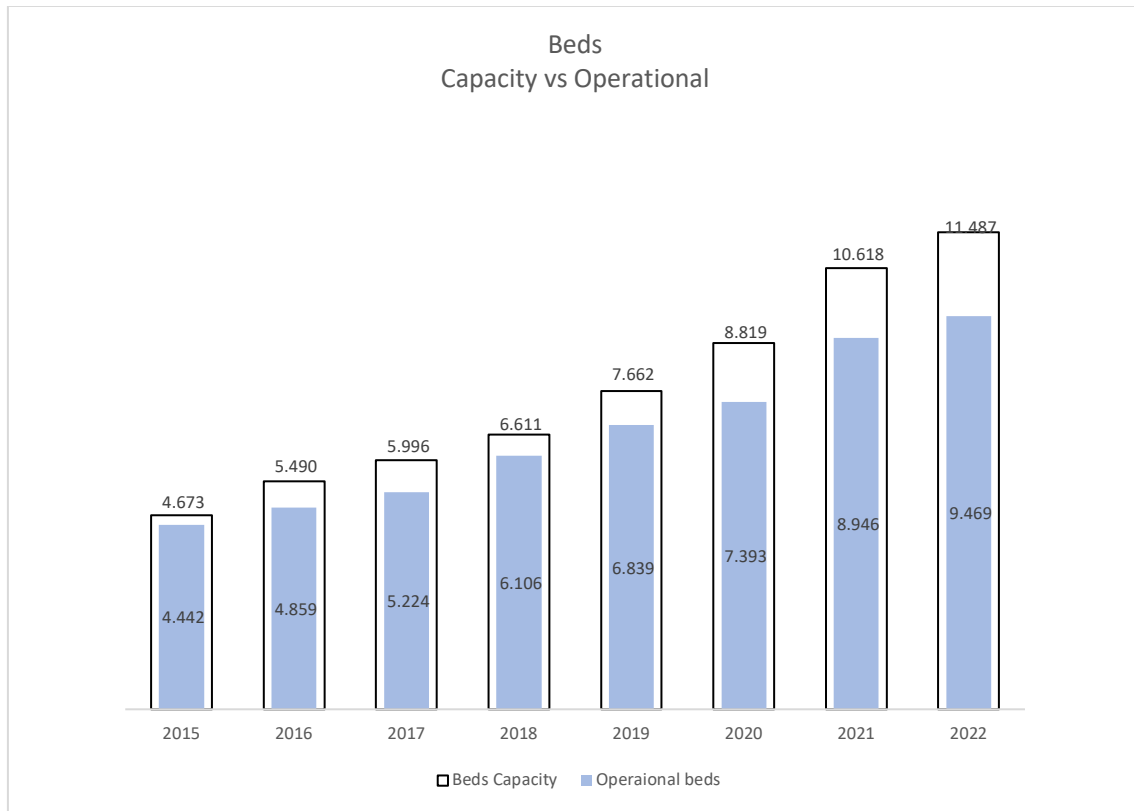
Exhibit 20 – Rede Dor WACC

WACC	2022	Description
IPCA+ 2031	5,68%	
Beta	1,48	Bottom-Up Beta taking into account the beta of companies in the same sector and the company's leverage.
ERP	6,5%	Damodaran Brazilian Equity Risk Premium
KE	15,30%	
Equity Value	13.583	
KD	12,65%	The cost of debt based on the longest-term debenture issued in the last year (Debenture RDORC3, with a rate of DI + 1.9%).
Debt (BRL Thousand)	27.629	Market value of loans, financings, and lease liabilities
WACC	13,52%	

Exhibit 21 – Sul América WACC

WACC	2022	Description
IPCA+ 2031	5,68%	
Beta	1,57	Bottom-Up Beta taking into account the beta of companies in the same sector and the company's leverage.
ERP	6,5%	Damodaran Brazilian Equity Risk Premium
KE	15,87%	
Equity Value	8.103	
KD	12,25%	The cost of debt based on the longest-term debenture issued in the last year (Debenture SULM29, with a rate of DI + 1.5%).
Debt (BRL Thousand)	3.058	Market value of loans, financings, and lease liabilities
WACC	14,88%	

Exhibit 22 – Rede Dor Beds Capacity



Source: Rede Dor IR

Exhibit 23 – Rede Dor Standalone Valuation

RDOR	2022	2023	2024	2025	2026	2027	Projection
Revenue Hospitals	25.769,7	29.496,8	34.878,8	40.164,0	43.852,6	48.910,6	
<i>Number of Beds</i>	9.469	10.472	11.964	13.311	14.042	15.132	Based on the opening schedule
<i>Growth in Beds</i>	5,8%	10,6%	14,2%	11,3%	5,5%	7,8%	Increase in Opening schedule
<i>Annual Patients</i>	2.724.771	3.013.391	3.442.725	3.830.333	4.040.684	4.354.339	Based on the increase in Growth in Beds
<i>Revenue per Patient Day</i>	9.458	9.789	10.131	10.486	10.853	11.233	Revenue + Inflation
Revenue Deductions	(2.782,2)	(3.198,9)	(3.782,6)	(4.355,7)	(4.755,8)	(5.304,3)	
<i>Denials</i>	(1.290,3)	(1.505,0)	(1.779,6)	(2.049,2)	(2.237,4)	(2.495,5)	Average of Past years
<i>%Revenue</i>	-5,0%	-5,1%	-5,1%	-5,1%	-5,1%	-5,1%	
<i>Taxes on Revenues</i>	(1.492,0)	(1.693,9)	(2.003,0)	(2.306,5)	(2.518,4)	(2.808,8)	Average of Past years
<i>%Revenue</i>	-5,8%	-5,7%	-5,7%	-5,7%	-5,7%	-5,7%	
Net Revenue	22.987,4	26.297,9	31.096,3	35.808,2	39.096,8	43.606,3	
Cost of Services Provided	(17.785,7)	(20.017,4)	(23.669,8)	(27.256,4)	(29.759,6)	(33.192,1)	
<i>%Net Revenue</i>	-77,4%	-76,1%	-76,1%	-76,1%	-76,1%	-76,1%	Average of Past years
SG&A	(926,4)	(1.071,6)	(1.267,1)	(1.459,1)	(1.593,1)	(1.776,8)	
<i>%Net Revenue</i>	-4,0%	-4,1%	-4,1%	-4,1%	-4,1%	-4,1%	Average of Past years
EBIT	4.275,3	5.209,0	6.159,4	7.092,7	7.744,1	8.637,3	
<i>Financial Result</i>	(1.016,2)	(1.102,8)	(1.197,1)	(1.221,1)	(1.234,6)	(1.154,4)	Average of Past years
EBT	3.259,2	4.106,1	4.962,3	5.871,6	6.509,5	7.483,0	
<i>Tax Rate</i>	34,0%	34,0%	34,0%	34,0%	34,0%	34,0%	
Net Profit	2.151,1	2.710,0	3.275,1	3.875,3	4.296,3	4.938,8	
Capex	(2.258,0)	(2.262,0)	(2.262,0)	(2.262,0)	(2.262,0)	(2.262,0)	
<i>%Net Revenue</i>	-9,8%	-11,3%	-6,5%	-5,6%	-5,2%	-4,6%	Average of Past years
Working Capital	(6.222,5)	(7.118,6)	(8.417,5)	(9.693,0)	(10.583,2)	(11.803,9)	
<i>%Net Revenue</i>	-27,1%	-27,1%	-27,1%	-27,1%	-27,1%	-27,1%	Average of Past years
Cash Flows	4.235,3	2.252,3	4.807,6	5.571,0	5.676,4	6.779,5	
Perpetuity						91.263,5	
FCFE	4.235,3	2.252,3	4.807,6	5.571,0	5.676,4	98.043,0	
Value	69.420,5						
Debt	14.671,9						
Shares Pre-Deal	1.980,7						
Share Price	27,6						
EBITDA	5.303,0	6.136,7	7.256,4	8.355,9	9.123,3	10.175,6	
<i>EBITDA Margin</i>	20,6%	20,8%	20,8%	20,8%	20,8%	20,8%	
Net Debt	14.671,9	15.341,7	18.141,0	20.889,9	22.808,4	25.439,1	
<i>Net Debt/EBITDA</i>	2,8	2,5	2,5	2,5	2,5	2,5	Given on the Case
<i>Change in Debt</i>	2.006,0	669,9	2.799,3	2.748,9	1.918,5	2.630,7	
D&A	2.043,8	2.030,6	2.294,1	2.484,3	2.613,8	2.692,7	

Source: Author

Exhibit 24 – SulAmérica Standalone Valuation

SULA11	2022	2023	2024	2025	2026	2027	
Revenue	23.012,5	24.148,9	25.341,4	26.592,8	27.906,0	29.284,0	
<i>Number of Beneficiaries</i>	2,44	2,46	2,48	2,51	2,53	2,55	Given on the case Study
<i>Brazilian Population</i>	214,3	215,4	216,4	217,5	218,6	219,7	Given on the case Study
<i>Population with Insurance</i>	49,29	49,54	49,78	50,03	50,28	50,53	IBGE Study mentioned on the case
<i>Sul América Market Share</i>	4,95%	4,97%	4,99%	5,01%	5,03%	5,05%	based on past years growth
<i>Average Ticket</i>	9.432	9.810	10.202	10.610	11.035	11.476	Revenue + Inflation
Operational Costs	(19.759,4)	(20.735,1)	(21.759,0)	(22.833,5)	(23.961,0)	(25.144,2)	
<i>%Revenue</i>	-85,9%	-85,9%	-85,9%	-85,9%	-85,9%	-85,9%	Average of Past years
SG&A	(1.893,3)	(1.986,8)	(2.084,9)	(2.187,9)	(2.295,9)	(2.409,3)	
<i>%Revenue</i>	-8,2%	-8,2%	-8,2%	-8,2%	-8,2%	-8,2%	Average of Past years
EBIT	1.359,9	1.427,0	1.497,5	1.571,4	1.649,0	1.730,5	
<i>Financial Result</i>	561	589	618	648	680	714	
<i>%Revenue</i>	2,4%	2,4%	2,4%	2,4%	2,4%	2,4%	Average of Past years
EBT	1.920,9	2.015,8	2.115,3	2.219,8	2.329,4	2.444,5	
<i>Tax Rate</i>	34,0%	34,0%	34,0%	34,0%	34,0%	34,0%	
Net Revenue	1.267,8	1.330,4	1.396,1	1.465,1	1.537,4	1.613,3	
D&A	123,2	129,3	135,6	142,3	149,4	156,7	
<i>%Revenue</i>	0,54%	0,54%	0,54%	0,54%	0,54%	0,54%	Average of Past years
Capex	(89,0)	(94,5)	(99,9)	(103,9)	(109,4)	(114,9)	
<i>%Revenue</i>	-0,39%	-0,39%	-0,39%	-0,39%	-0,39%	-0,39%	Average of Past years
Working Capital	(3.451,9)	(3.622,3)	(3.801,2)	(3.988,9)	(4.185,9)	(4.392,6)	
<i>%Revenue</i>	-15,00%	-15,00%	-15,00%	-15,00%	-15,00%	-15,00%	Average of Past years
Cash Flows	1.000,7	1.194,8	1.253,0	1.315,8	1.380,4	1.448,5	
Perpetuity						19.499,4	
FCFF	1.000,7	1.194,8	1.253,0	1.315,8	1.380,4	20.947,9	
Value	15.119,2						
Debt	3.058,0						
Price	12.061,2						

Source: Author Exhibit 25 – Synergies Calculation

SULA's medical expenses directed towards RDOR	2022	2023	2024	2025	2026	2027	
Net Revenue RDOR	25.769,7	29.496,8	34.878,8	40.164,0	43.852,6	48.910,6	Same as Rdor Projection
SULA Claims (in BRL millions)	19.759,4	20.735,1	21.759,0	22.833,5	23.961,0	25.144,2	Same as Rdor Projection
% Redirected to RDOR	28,70%	28,70%	28,70%	28,70%	28,70%	28,70%	Given on the Case Study
<i>SULA Claims to RDOR Without Synergies</i>	5.670,9	5.951,0	6.244,8	6.553,2	6.876,8	7.216,4	
<i>SULA Claims to Rede Dor With Synergies</i>	5.670,9	6.569,9	7.027,9	7.562,4	8.083,0	8.688,5	
<i>Additional claims from SULA directed at RDOR</i>			10%	12,5%	15%	20%	Given on the Case Study
Additional Revenue to RDOR (in BRL millions)			618,9	783,1	1.009,2	1.206,2	1.472,1
Medical Expenses Directed Synergies		3.809,5					
SG&A Costs Savings							
RDOR Net Revenue	22.987,4	29.496,8	34.878,8	40.164,0	43.852,6	48.910,6	Same as Rdor Projection
<i>SG&A RDOR</i>	(926,4)	(1.071,6)	(1.267,1)	(1.459,1)	(1.593,1)	(1.776,8)	Same as Rdor Projection
SULA'S Net Revenue	23.012,5	24.148,9	25.341,4	26.592,8	27.906,0	29.284,0	Same as Sula Projection
<i>SULA'S SG&A Without Synergies</i>	(1.893,3)	(1.986,8)	(2.084,9)	(2.187,9)	(2.295,9)	(2.409,3)	Same as Sula Projection
<i>SULA'S SG&A With Synergies</i>	(1.893,3)	(1.947,1)	(1.980,7)	(1.969,1)	(2.066,3)	(2.168,3)	
<i>SG&A % Net Revenue</i>	-8,2%	-8,2%	-8,2%	-8,2%	-8,2%	-8,2%	
<i>SG&A Savings</i>	-	2,0%	5,0%	10,0%	10,0%	10,0%	Given on the Case Study
Synergies	-	39,7	104,2	218,8	229,6	240,9	
SG&A Synergies		564,8					

Source: Author

Exhibit 26 – Combined WACC

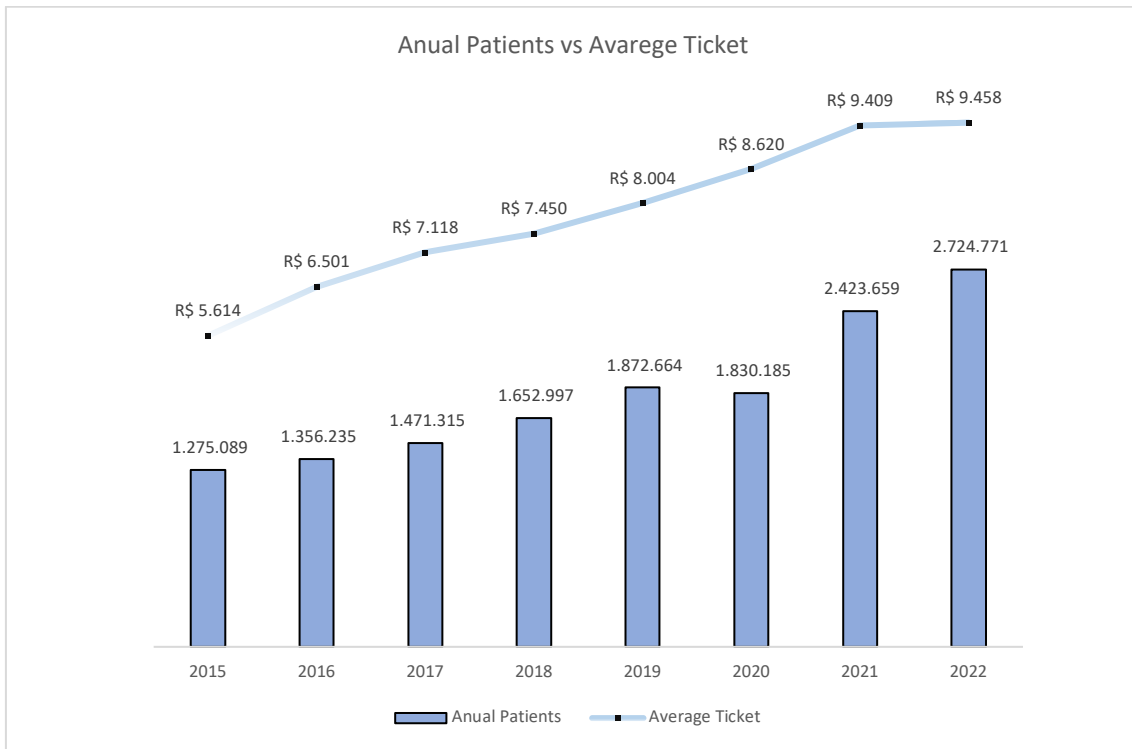
WACC	2022	Description
IPCA+ 2031	5,68%	
Beta	1,48	Bottom-Up Beta taking into account the beta of companies in the same sector and the company's leverage.
ERP	6,5%	Damodaran Brazilian Equity Risk Premium
KE	14,89%	
Equity Value	22.780	
KD	12,61%	Weighted cost of debt for South America and Rede D'Or
Debt (BRL Thousand)	30.687	Market value of loans, financings, and lease liabilities
WACC	13,58%	

Exhibit 27 – Merged Companies Valuation

Merged	2022	2023	2024	2025	2026	2027	
Net Revenue	46.000,0	48.961,9	54.733,1	60.545,5	65.081,2	70.873,9	
<i>Revenue Rede Dor</i>	22.987,4	26.297,9	31.096,3	35.808,2	39.096,8	43.606,3	Same as Rdor projection
<i>Revenue Sul América</i>	23.012,5	24.148,9	25.341,4	26.592,8	27.906,0	29.284,0	Same as Sula projection
<i>Intracompany Elimination</i>		(2.103,8)	(2.487,7)	(2.864,7)	(3.127,7)	(3.488,5)	Given on the case Study
<i>Synergies</i>	-	618,9	783,1	1.009,2	1.206,2	1.472,1	Given on the case Study
Costs	(37.545,0)	(39.093,6)	(43.688,1)	(48.263,2)	(51.803,7)	(56.324,8)	
<i>Costs Rede Dor</i>	(17.785,7)	(20.017,4)	(23.669,8)	(27.256,4)	(29.759,6)	(33.192,1)	Same as Rdor projection
<i>Costs Sul América</i>	(19.759,4)	(20.735,1)	(21.759,0)	(22.833,5)	(23.961,0)	(25.144,2)	Same as Sula projection
<i>Intracompany Elimination</i>		1.658,8	1.740,7	1.826,7	1.916,9	2.011,5	Given on the case Study
SG&A	(2.819,7)	(3.018,6)	(3.247,7)	(3.428,2)	(3.659,4)	(3.945,2)	
<i>SG&A Rede Dor</i>	(926,4)	(1.071,6)	(1.267,1)	(1.459,1)	(1.593,1)	(1.776,8)	Same as Rdor projection
<i>SG&A Sul América</i>	(1.893,3)	(1.986,8)	(2.084,9)	(2.187,9)	(2.295,9)	(2.409,3)	Same as Sula projection
<i>Synergies</i>	-	39,7	104,2	218,8	229,6	240,9	Given on the case Study
EBIT	5.635,2	6.849,6	7.797,3	8.854,2	9.618,1	10.603,9	
<i>Financial Result</i>	(455,1)	(514,1)	(579,2)	(572,8)	(554,2)	(440,4)	
EBT	5.180,1	6.335,5	7.218,0	8.281,4	9.063,9	10.163,5	
<i>Tax Rate</i>	34,0%	34,0%	34,0%	34,0%	34,0%	34,0%	
Net Profit	3.418,9	4.181,5	4.763,9	5.465,7	5.982,2	6.707,9	
Capex	(2.347,0)	(2.356,5)	(2.361,9)	(2.365,9)	(2.371,4)	(2.376,9)	
Δ Working Capital	(8,9)	(1.066,6)	(1.477,8)	(1.463,2)	(1.087,2)	(1.427,4)	
FCFE	5.235,99	3.588,11	6.153,26	7.012,20	7.205,29	8.383,84	
Perpetuity						110.558,3	
	5.236,0	3.588,1	6.153,3	7.012,2	7.205,3	118.942,2	
Net Value	85.195,6						
Net Debt	17.729,9						
Shares Post-Deal	2.289,0						
Share Price	29,5						
EBITDA	9.466,1	10.185,2	11.390,1	12.596,6	13.541,6	14.748,7	
<i>EBITDA Margin</i>	20,6%	20,8%	20,8%	20,8%	20,8%	20,8%	
Net Debt	14.671,9	15.341,7	18.141,0	20.889,9	22.808,4	25.439,1	
<i>Net Debt/EBITDA</i>	1,5	1,5	1,6	1,7	1,7	1,7	
<i>Change in Debt</i>	2.006,0	669,9	2.799,3	2.748,9	1.918,5	2.630,7	
D&A	2.167,0	2.159,8	2.429,7	2.626,7	2.763,2	2.849,4	

Source: Author

Exhibit 28 – Patients and Average Ticket



Source: Rede Dor IR

Exhibit 29 – Rede Dor Balance Sheet – Liabilities and Equity

	Note	Individual			Consolidated		
		2021	2020	2019	2021	2020	2019
Liabilities and equity							
Current liabilities							
Trade accounts payable		409,917	321,103	216,267	990,942	846,883	498,066
Derivative financial instruments	27	343,265	128,027	5,591	469,249	324,510	92,905
Loans, financing and debentures	13	1,260,597	387,193	602,556	1,554,588	662,956	584,960
Salaries, provisions and social charges		430,156	364,450	343,994	794,061	671,164	510,293
Tax obligations	14	199,681	145,577	114,647	592,127	364,994	313,799
Accounts payable for acquisitions	15	59,251	27,690	20,411	223,957	58,367	163,063
Dividends and interest on equity payable	18	57,339	343,870	264,527	64,551	346,600	287,394
Deferred gain on property sales	12	3,920	3,920	3,920	3,920	3,920	3,920
Leases	17	222,316	347,037	108,724	346,720	415,472	171,074
Other		29,888	136,439	26,169	108,913	166,184	67,367
Total current liabilities		3,016,330	2,205,306	1,706,806	5,149,028	3,861,050	2,692,841
Noncurrent liabilities							
Derivative financial instruments	27	786,166	87,968	-	786,166	87,968	-
Loans, financing and debentures	13	21,009,175	16,801,560	12,633,669	26,074,748	23,275,581	14,821,417
Transactions with related parties	7	-	-	21,098	2,199	42,794	415
Tax obligations	14	54,421	70,736	75,193	239,835	228,061	228,685
Accounts payable for acquisitions	15	22,533	67,406	44,227	382,370	456,247	299,993
Deferred income and social contribution taxes	19	161,010	72,741	166,730	592,976	325,956	301,548
Provision for contingencies	16	135,220	140,480	139,749	344,868	319,863	227,509
Provision for losses on investments	8	214,115	166,294	105,334	-	-	-
Deferred gain on property sales	12	61,000	64,460	68,370	61,000	64,460	68,370
Leases	17	1,750,260	1,471,673	1,652,691	3,156,746	2,822,337	2,356,098
Other		97,548	121,339	100,872	1,012,745	170,545	160,789
Total noncurrent liabilities		24,291,448	19,064,657	15,007,933	32,653,653	27,793,812	18,464,824
Equity							
Capital	18	7,322,485	6,472,948	867,776	7,322,485	6,472,948	867,776
Capital reserves		4,475,504	4,570,222	2,345,109	4,475,504	4,570,222	2,345,109
Treasury shares		(139,282)	(153,194)	(474,462)	(139,282)	(153,194)	(474,462)
Income reserves		1,600,180	2,789,480	2,467,483	1,600,180	2,789,480	2,467,483
Future capital contribution		4,224	4,224	4,224	4,224	4,224	4,224
Other comprehensive income		320,267	(70,558)	-	320,267	(70,558)	-
Total equity attributable to the Company's shareholders		13,583,378	13,613,122	5,210,130	13,583,378	13,613,122	5,210,130
Noncontrolling interests		-	-	-	1,094,561	389,060	231,870
Total equity		13,583,378	13,613,122	5,210,130	14,677,939	14,002,182	5,442,000
Total liabilities and equity		40,891,156	34,883,085	21,924,869	52,480,620	45,657,044	26,599,665

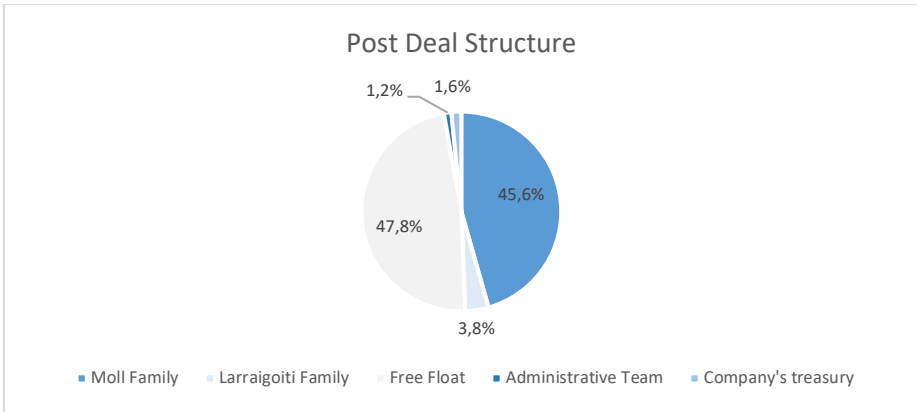
Source: Rede Dor IR

Exhibit 30 – Sul América Balance Sheet

Balance Sheet	2019	2020	2021
Current assets (R\$ million)	20.270,4	18.990,3	19.699,1
Cash, cash equivalents and marketable securities (R\$ million)	16.970,1	16.793,0	17.625,7
Receivables (R\$ million)	2.287,2	1.597,9	1.324,2
Taxes (R\$ million)	154,8	178,2	244,2
Reinsurance assets (R\$ million)	26,8	46,4	65,2
Deferred acquisition costs (R\$ million)	712,7	339,6	395,7
Other (R\$ million)	50,1	35,3	44,1
Salvages for sale (R\$ million)	68,7	0,0	0,0
Discontinued operations assets (R\$ million)	0,0	0,0	0,0
Non-current assets (R\$ million)	8.142,1	8.878,8	9.365,8
Marketable securities (R\$ million)	1.351,0	1.315,3	1.536,4
Receivables (R\$ million)	1.308,2	1.591,6	1.620,4
Judicial deposits (R\$ million)	2.854,4	2.795,3	2.239,6
Reinsurance assets (R\$ million)	7,6	7,6	9,4
Deferred acquisition costs (R\$ million)	704,2	706,7	865,3
Taxes (R\$ million)	1.145,1	1.257,8	1.834,2
Other (R\$ million)	14,6	6,3	14,8
Leasing assets (R\$ million)	163,4	164,1	125,1
Investments, property and equipment, and intangible assets (R\$ million)	593,7	1.034,1	1.120,5
Total assets (R\$ million)	28.412,5	27.869,1	29.064,9
Current liabilities (R\$ million)	10.376,4	8.411,6	8.785,3
Accounts payable (R\$ million)	2.254,2	1.117,1	1.104,8
Loans and financing (R\$ million)	178,0	579,1	606,5
Insurance and reinsurance liabilities (R\$ million)	395,6	343,1	384,7
Technical reserves - Insurance (R\$ million)	7.439,5	6.215,4	6.486,1
Judicial provisions (R\$ million)	80,7	131,5	176,1
Other (R\$ million)	28,4	25,2	27,2
Discontinued operations liabilities (R\$ million)	0,0	0,0	0,0
Non-current liabilities (R\$ million)	10.888,3	11.353,8	12.141,2
Accounts payable (R\$ million)	235,4	232,5	164,6
Loans and financing (R\$ million)	1.572,3	1.010,5	2.660,8
Insurance and reinsurance liabilities (R\$ million)	0,0	0,0	0,0
Technical reserves - Insurance (R\$ million)	6.790,4	7.766,2	7.535,7
Judicial provisions (R\$ million)	2.284,5	2.344,2	1.779,9
Other (R\$ million)	5,7	0,3	0,2
Deferred taxes (R\$ million)	0,0	0,0	0,0
Shareholders' equity (R\$ million)	7.147,7	8.103,8	8.138,4
Total liabilities and shareholders' equity (R\$ million)	28.412,5	27.869,1	29.064,9

Source: SulAmerica IR

Exhibit 31 – Rede Dor Post Deal Structure



Source: Rede Dor IR