Report
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Rede's Anatomy

For an equity investor focused on public companies with a long-term horizon, the healthcare sector has always seemed particularly challenging. This stems not only from its historically low representation on the stock exchange but also from more fundamental issues. The sector is opaque across various dimensions, with a fragmented value chain and a collection of characteristics that deviate from the economic fundamentals typically associated with a "healthy" business environment. These deviations create added complexity for entrepreneurs, executives, and investors.

This Report aims to narrate our investment journey in Rede D'Or — a story of how we moved from a bleak sectoral diagnosis to developing high conviction in one of the largest positions in our portfolio.

Roughly 2,400 years have passed since the original version of the Hippocratic Oath, which still features prominently in graduation ceremonies at many medical schools worldwide. This ethical framework is intended to guide newly minted doctors through one of the most revered and sought-after professions. The preservation of this tradition underscores the gravity of the profession, which demands selflessness and altruism while navigating the dual imperative of promoting health and extending life — all within a landscape fraught with risks and potential conflicts.

Investors venturing into this sector would do well to adopt a similar "principles manual" to guide them through the winding paths of healthcare as a business. The pitfalls are not trivial.

Supply and demand are the foundational lenses for analysing business quality. Typically, uncertainty resides on one side of the equation. In consumer goods manufacturing and retail, for example, supply attributes are clearly defined — the challenge lies in understanding the hierarchy of consumer preferences. Conversely, in the energy sector, demand is stable and predictable, but supply is fraught with variability due to factors like instability of reservoirs and intermittency of renewables sources.

In healthcare, from an individual standpoint, demand is discontinuous and uncertain. Under normal conditions, treatments and interventions needs arise sporadically. But during medical crises, the search for healthcare becomes urgent and inelastic. Optimizing healthcare utility involves a sequence of decisions rather than a single maximization choice, as is the case with most goods. These sequential decisions reflect that current demand for medical care depends on prior choices, life cycle stage, and future expectations. This uncertainty on the demand side migrates to the supply side, complicating capacity planning — oscillating between underutilization and service shortfalls. Healthcare delivery is inherently complex: it demands extensive training, specialized management, costly and fast-depreciating equipment, and strict regulatory compliance. These requirements translate into high fixed costs and recurring capital expenditure. Even with these considerations, medical science is not exact — diagnoses can be flawed, and treatment outcomes uncertain.

When uncertainty afflicts both supply and demand, the challenge of organizing production around economically rational principles becomes exponentially harder. Basic parameters that typically underpin high-quality investments remain elusive. Cost control, supply chain coordination, customer satisfaction, and proper pricing — all are inherently difficult. Market equilibrium becomes an elusive target. This is evident in healthcare, where wide pricing disparities, low customer satisfaction, and volatile operating results are prevalent.

Economically, healthcare is often treated as a consumption good — delivering direct utility, like the feeling of well-being. Less appreciated is its role as a capital good, tied to physical, psychological, and cognitive capacities that enhance productivity, income, and longevity. In this view, health is a depreciating asset that requires constant investment — particularly in preventive care, which creates ongoing demand. Demand for treatment is irregular, but demand for preventive care is more stable and correlates strongly with individual education and wealth levels. Health and wealth are interlinked: changes in one can significantly impact the other.

While these theoretical insights may seem remote to sector practitioners, they are practically addressed in two ways: (i) pooling demand — while individual demand is erratic, a larger population base will always present a spread of medical needs; (ii) insurance coverage — protecting against acute, high-cost events where demand is fully inelastic. However, the root uncertainties remain — and may resurface dramatically, as witnessed during the covid-19 pandemic, which led to deferred treatments and service disruptions, causing severe economic dislocation across the sector.

Healthcare insurance deviates from the conventional model. While typical insurance covers only adverse events, health insurers also cover preventive care. This makes sense theoretically — prevention may reduce costly future claims — but also introduces side effects. If health is seen as a human capital stock to be preserved, removing cost sensitivity through full coverage can lead to overconsumption (moral hazard) and diminished price discipline.

Insurers also grapple with adverse selection — individuals with higher risk profiles are more inclined to seek coverage, driving up aggregate system costs. Information asymmetry plagues not just the insurer-consumer relationship but also that between patients and providers. Patients lack the technical expertise to assess treatment decisions, relying on doctors who may face conflicted incentives.

Pricing is notoriously difficult. Unlike most goods, the value of medical services is unknowable until delivered. As Arrow (1963)[1] noted, "the product and the act of production are the same," precluding experimentation. Treatment outcomes vary, and the quality of receivables is often uncertain — leading to frequent litigation. Ethical considerations also constrain financially driven allocation decisions and prevent transparent price discrimination.

Trust plays a pivotal role in the producer-consumer dynamic. Patients expect to maintain relationships with providers, which adds complexity to pricing and service design.

While demand-side anomalies can be mitigated through pooling and insurance, structural conflicts are far harder to resolve. Key questions linger: What constitutes the most appropriate care for each patient? Where's the line between under-treatment and over-treatment? What are the boundaries of prevention? What should coverage requirements include? When should intervention begin? Investigate further or admit immediately? These ambiguities pervade daily decision-making in the industry.

Healthcare involves the very integrity of human life — the fundamental unit of any collective system. Hence, medicine naturally takes on a social role. In this light, medical care is viewed as a public good, access to which should not be governed solely by ability to pay. This principle is enshrined in Brazil's Constitution, where healthcare is placed within the framework of the "social order" and declared "a right of all and a duty of the State," with the private sector allowed to "complement" public services[2].

This ethos places healthcare in a quasi-public realm, inherently tied to the state and eligible to regulatory protection. It is an essential service with high political sensitivity, where public and private players coexist — cooperating and competing simultaneously. Deficiencies in one strain the other. Superior service in one displaces the other. The government acts as both provider and payer, and scrutiny of private participants is constant. Globally, healthcare constitutes a major share of public budgets and GDP. Healthcare inflation and systemic inefficiencies are widespread, necessitating continuous oversight.

This "collective orientation" (Parsons, 1954) breeds suspicion of "profit motives" in medicine and skepticism toward treating it as just another kind of "commercialism" or "business" enterprise. Brazil's Constitution reflects this understanding, "preferring philanthropic, nonprofit entities" for private sector participation. Unsurprisingly, such organizations hold a meaningful presence in the sector, implicitly promising patients a care model free of conflicts and pecuniary motivations[3].

Additionally, the healthcare value chain is highly fragmented — spanning patients, physicians, manufacturers, distributors, pharmacies, service providers, hospitals, health insurers, and government. Relationships are not linear but circular and interdependent. Critical flows move in opposite directions: financial resources flow from payers (government, employers, individuals) to service producers, while innovation flows in reverse — from producers to the rest of the chain. When each agent maximizes its interests in isolation, the result is inefficiency and waste.

The combination of these factors creates an inhospitable environment for investors: a specialized, high-cost supply side with uncertain effectiveness, a volatile and fragmented demand base, an essential, quasi-public service under constant regulatory scrutiny, and a misaligned, fractured value chain. Together, the result is cumulative inefficiency, a fractured value chain, high service costs and low customer satisfaction.

Despite this, we have diligently monitored the sector for years, believing its size and scale deserve close attention. Its complexity and fragmentation present a broad spectrum of entry points. We have studied each possibility, gradually building expertise and forming understandings. We have made smaller, niche investments along the way, but none previously offered the robustness to overcome these structural barriers and recruit the required level of internal consensus to become an important investment in our portfolio.

The origins of Rede D'Or's business journey date back to 1977, when Drs. Jorge and Alice Moll established the first unit of Cardiolab in the Botafogo neighbourhood of

1 *As usual, the full bibliographical references used in this text can be found on our website,* www.dynamo.com.br

2 *Based on this constitutional diligence and on the understanding that health is as a citizenship right and an instrument for reducing inequalities and social inclusion, the SUS (Sistema Único de Saúde) was created in Brazil, and then became recognized as one of best providers of free and comprehensive public health services program.*

3 *In addition to this sign of detachment from purely 'financiers', these entities end up representing a more attractive and convenient place for doctors, as they exert less control on medical prescriptions.*

Rio de Janeiro. This pioneering multi-diagnostic center offered advanced medical tests using cutting-edge equipment imported from abroad and operated by a team of specialized physicians. From the outset, several hallmarks of the founder's entrepreneurial vision were evident: a commitment to service excellence, attraction of top-tier professionals, access to state-of-the-art medical technology, and convenience for patients.

The concept of offering "all exams in one location" foreshadowed the recognition that bundling healthcare services could generate economies of scale while enhancing the patient experience. The model gained traction, and new units were launched in subsequent years, consolidating the success of what became known as Grupo Labs.

True entrepreneurship often stems from two fundamental traits: (i) a persistent dissatisfaction, manifesting in a continual drive for improvement; (ii) a state of mind "alertness" that enables entrepreneurs to identify overlooked opportunities and assemble available, although dispersed resources. This pattern held true in the Molls' case. By the 1990s, their diagnostic clinics were thriving, but Dr. Jorge anticipated that strong performance would soon attract new entrants, given the sector's low barriers to entry. Concurrently, inspired by the high standards of São Paulo's Albert Einstein Hospital, he recognized a market gap in Rio de Janeiro for comparable quality care. This insight catalysed a strategic pivot into the hospital business — a more capital-intensive and operationally complex sector, but also one less vulnerable to commoditization. The opportunity materialized in 1998 with the acquisition of the property housing the former Copa D'Or hotel. Converted into a hospital, the name was retained and became emblematic of the group's brand[4].

Despite the daunting combination of risks and uncertainties, Dr. Jorge was resolute. Betting the family's assets, he brought in partners, took on debt, and managed to launch not one, but three hospitals (Barra, Copa, and Quinta D'Or) between 1998 and 2001. This bold approach reflected a high-risk appetite, occasionally bordering on an excessive impetus toward business. Initially, the going was tough. Without brand recognition, the company was at the mercy of disproportionate bargaining power held by payers. It was a time when the company's principles and purpose were thoroughly tested. Over time, however, patients began to appreciate the differentiated service quality, and physicians saw the benefits of associating with a provider committed to excellence. The three initial hospitals gradually gained traction, validating the model and paving the way for a period of aggressive expansion and acquisitions starting in 2006. That same year, the group voluntarily submitted to international accreditation processes, and soon after, Copa D'Or received certification from the Joint Commission International (JCI). A major milestone came in 2010 with the acquisition of three São Luiz Hospital units, financed in part by proceeds from the R$1 billion sale of the original diagnostics business.

Our first financial models of Rede D'Or date back to 2007. Yet our actual investment in the company only materialized in 2020 at the time of its IPO — a delay that some may see as a type I error, or a missed opportunity, as we passed up the chance to invest at more attractive valuations. However, we interpret the lengthy evaluation process as a reflection of the rigor warranted by the challenges of the business and the pioneering nature of the entrepreneurial project. A testament to these difficulties is that the sellers of São Luiz — insiders in the industry — declined the option to swap their assets for a substantial equity stake in Rede D'Or.

Following the acquisition of the São Luiz group, to strengthen its capital structure and continue expanding, Rede D'Or raised external capital. That same year, BTG Pactual invested R$600 million through a convertible debenture, valuing the company at R$2 billion pre-money — around 40x earnings. This was the family's first significant dilution, and one of the few they would experience. It is remarkable that the controlling shareholders managed to scale the business while retaining a 47.5% stake. For us, the ability to resist to dilution is an indicator of long-term alignment and entrepreneurial vitality, particularly given Rede D'Or's status as one of the most valuable companies on the B3 and a highly capital-intensive enterprise.

Until then, the company had been propelled by Dr. Jorge Moll's empirical expertise as both physician and operator. His strategy was simple and focused: to build or acquire top-tier hospitals in Brazil's largest cities, creating a platform valued by physicians, patients, and indispensable to payers.

The investment thesis coalesced around a central principle: hospital-centric integration. By consolidating high-quality assets and local services supply, the group elevated its brand reputation, increasing its appeal to final clients and corporate payers. In parallel, scale enabled the group to offer advanced technology and specialized support to physicians, who often established practices nearby — further expanding the service ecosystem and patient convenience. This, in turn, drove up utilization rates and medical procedure profitability, widening the competitive moat. Excess cash was reinvested in technology, M&A, and asset expansion, fuelling a self-reinforcing, virtuous cycle of local dominance and national scale. Thus, the hospital — once merely a horizontal node in a fragmented value chain — became the anchor of a

4 *Coincidence or not, one of the attributes of Rede D´Or is the search for offering excellent medicine with high standard services, like hotels. In a paper considered a pioneer in health economics, Kenneth J. Arrow (1963), Nobel Prize in economics in 1972, stated with insight:* "The hospital per se offers services not too different from those of a hotel." *The success of Rede D'Or's business model has proven to be so robust that, in this case, reversing roles, perhaps even the dead economist would recognize the merit of this "practical man". We are ludicrously referring to the famous phrase of J. M. Keynes (1936):* "Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist".

multidimensional platform, serving as both gravitational center and engine of a self-sustaining healthcare ecosystem.

The strategy, backed by ambition, was executed with discipline. By 2012, Rede D'Or had assembled a portfolio of flagship assets totalling roughly 3,500 beds across Brazil's major urban centers. While spearheading acquisitions and designing new hospitals, Dr. Jorge eventually realized his strengths lay more in strategy than in day-to-day execution. At that juncture, Rede D'Or brought in Heráclito Gomes — a seasoned healthcare executive and former CEO of Bradesco Saúde, Brazil's largest health insurer — to serve as CEO. Heráclito implemented structural reforms, translating the founder's vision into a standardized operational language. He also introduced a matrix management structure and a Shared Services Center, greatly enhancing efficiency.

Rede D'Or's organizational culture is among the most cohesive we've ever encountered. Our diligence emphasized field visits and interviews with former employees to assess this dimension. Culture is a vital — if intangible — investment factor. Many firms see theirs fade as they scale. Not so with Rede D'Or. Its strategic vision materializes through a three-pillar framework: Technical Quality, Perceived Quality and Financial Returns. This framework is clearly internalized by frontline staff and reflected in their conduct. Strategic guidelines cascade seamlessly from leadership to operations, and the belief that delivering top-tier medicine supports — rather than undermines — long-term sustainability is firmly held.

It is clear that it is not possible to accurately assess when, in each treatment, any deviation from purpose occurred, that is, if the search for efficiency/productivity prevailed over the patient's best interest, bringing unnecessary burden to the system. That said, a persistent inversion in the hierarchy of these values could put the company's reputation at risk. The colloquial adage applies here that reputation climbs through the stairs and takes the elevator down, that is, it builds slowly, and you can lose it quickly. In the corporate environment, the speed of decline is usually proportional to relevance of the product/service in the budget and, mainly, in the lives of customers. Therefore, in the case of health, sensitivity is maximum, and reputational risk lurks without truces, since, as we have been repeating, the potential conflict permeates healthcare as a business.

In the Dynamo Report 90, when we talked about resilience of companies, we brought a parallel to the discipline of psychology remembering that individual resilience depends on some "protective factors", ingredients that help in the stability of character, such as relationships of affection, support and family or community trust, etc. In business, the main "protection factor" are the elements of corporate culture: structures, codes, processes, strategies, objectives, beliefs, values, which intertwined sustain the organization. At Rede D'Or, culture functions as an internal immune system, guarding against missteps that could erode trust.

Effective management requires a reliable dashboard, where performance indicators can be monitored in real time, in order to provide valid feedback for the executive team to calibrate day-to-day operations. The more calibrated the instruments, the better the quality of navigation. The three fundamental foundations of management at D'Or, economic sustainability, perceived quality and technical quality gain greater granularity when they can be constantly monitored and provide action plans for the directors of hospitals and other executives. Rede D'Or tracks granular KPIs in real time — including bed occupancy, average service times, inventory consumption, patient flows, NPS scores, hospitalization and readmission rates, treatment histories, and more. Over 50 indicators are tracked under the "technical quality" pillar alone. As of December 2024, nearly all units held some form of accreditation, including 45 with international seals and 26 accredited by Brazil's National Accreditation Organization (ONA). These metrics inform both capital allocation and M&A integration, enabling swift capture of synergies in procurement, service delivery, and corporate overhead. The system also supports capital allocation decisions, offering an objective framework to compare performance indicators across owned and target assets. This capability gives the company a distinct advantage in acquisition integration, bringing agility and efficiency to the process. As a result, material procurement synergies, service provider consolidation, and reductions in corporate overhead are typically realized within a matter of months.

Appointing Heráclito Gomes as CEO proved to be a highly strategic decision. An experienced executive with a strong combination of operational management skills and strategic vision, Heráclito brought essential complementarity to the founding family. His background at the helm of Brazil's largest private health insurer enabled Rede D'Or to internalize critical sector knowledge — insights that would once again prove invaluable nearly a decade later. The following years saw robust growth, and by 2019 the company had fully professionalized its operations, reaching 7,600 hospital beds across 45 assets. This marked the moment when Dr. Jorge and Dr. Alice's youngest son, Paulo Moll, would step up as the group's lead executive.

Paulo Moll has been involved with the company since its earliest days — when his father's dream was still taking shape through three high-risk construction projects, including the conversion of the mentioned hotel in Copacabana. A graduate in Economics, Paulo wrote his senior thesis on hospital valuation, signalling early alignment with the business's core challenges. Over the years, he rotated through various departments, ultimately becoming Executive Director and later CEO. Colleagues consistently attest to Paulo Moll's leadership, praising his delivery, commitment, and deep-rooted dedication over two decades at Rede D'Or. With day-to-day management formally transitioned to him, Jorge and Heráclito joined Paulo in forming a strategic triumvirate, primarily focused on capital allocation — a responsibility, they note, that "is never delegated"[5].

As fate would have it, Rede D'Or's initial public offering took place in 2020 — arguably one of the most challenging years ever faced by the hospital sector. In Brazil's capital markets, it is rare to encounter IPO prospectuses of companies posting near-loss results. Typically, such offerings are timed to showcase strong performance metrics. What surprised us in this case was the subdued profitability shown in the financials. This was, after all, a company with a decades-long track record of compounded, elevated returns. The IPO documents revealed that Rede D'Or had transformed a R$100 million equity base into over R$15 billion in enterprise value between 2007 and 2019, using only R$3 billion in primary capital. By our estimates, this implied a shareholder return of over 30% annually — a remarkable feat. However, during the initial months of the pandemic, the company experienced high vacancy rates, which significantly impacted its operating results. In our view, this was a temporary setback stemming from extraordinary macro conditions, rather than a reflection of structural weaknesses. Recognizing the strength of the business model and the consistency of its past performance, we chose to invest approximately 2% of our fund's capital in the IPO. A position still modest, reflecting our prudent posture in light of sector-specific uncertainties, inherent asymmetries in public offerings, and valuation sensitivity.

As highlighted in the introduction to this Report, the healthcare sector is fraught with conflicts of interest, information asymmetries, and subjective factors. It is no coincidence that medicine is often described as the science of uncertainty. Within this context, critical questions persist: How valid are cost-benefit analyses when applied to healthcare? What is the cost and value of an additional year of life? What defines best-in-class medicine, and who should have access to it — at what price? How do we reconcile the idiosyncrasies of for-profit institutions within a fundamentally public-oriented sector? Naturally, these are the questions that continuously permeate our investment deliberations and form the core of our ongoing investigative and analytical work in healthcare.

These questions are debated globally, yet no consensus has emerged that simplifies national healthcare systems while maximizing well-being, fostering innovation, and maintaining cost efficiency. Through our due diligence, however, we observed Rede D'Or's unwavering pursuit of quality in medical care, evidenced by its measured and audited technical standards. Evidence-based clinical protocols, aligned with globally recognized scientific benchmarks, are widely disseminated throughout the organization. This is part of a concerted effort to standardize care quality across its entire portfolio. Moreover, alternative payment models — designed to discourage waste — now account for more than half of its hospital revenues and continues to gain share. In our view, the company has matured its business model over the years, currently achieving a rare balance between cost efficiency (enabled by scale and managerial capabilities) and the delivery of world-class healthcare. We are seeing increasingly clear signs of a corporate mindset that seeks to distribute economic value more equitably among all stakeholders — including patients, physicians, the scientific community, payers, and shareholders. This cultural and strategic evolution is critical to our long-term investment thesis.

Aligned with this trajectory, the IPO proceeds were earmarked to finance a new phase of growth, to be executed over the following years through acquisitions, greenfield hospital development, and primarily, the expansion of existing facilities. At the time, the capital markets were gripped by optimism. Riding the wave of Rede D'Or's public debut, several other healthcare groups sought to enter the market, proposing strategies that mimicked D'Or's model. We viewed these moves with skepticism. In our assessment, the hospital business is exceptionally demanding in its daily execution and requires deep institutional knowledge, particularly in the delicate hospital-physician and hospital-insurer relationships — both of which are locally rooted. Any misalignment in these relational nodes can rapidly erode even well-positioned assets. In our view, hospital operations, in the broad sense, are not inherently attractive businesses. To become investable, an asset (or group of assets, as in Rede D'Or's case) must stand out for its excellence, to the point that it can establish a balanced negotiating position with payers. Among both IPO-bound healthcare companies and aspiring groups, we have yet to witness a story as successful as Rede D'Or's. We attribute this disparity to the intrinsic complexity of the hospital sector, the low maturity of some emerging players, and the pervasive, long-lasting aftereffects of the pandemic.

The pandemic presented profound challenges to both public and private healthcare sectors. The unprecedented volatility in hospital occupancy was covid-19's first visible symptom in the private system. Initially, with hospitals empty, insurers posted short-term financial gains, which fuelled aggressive plan sales and pricing errors. But as the pandemic entered its second year, a surge in medical costs — driven by pent-up demand, elevated diagnostic volumes, generalized cost inflation, and populist regulatory measures — severely eroded insurer profitability. Many had priced products unsustainably in the previous year. As hospitals filled to capacity and costs soared, insurers began passing on part of the burden to providers through payment deferrals, billing rejections, rate renegotiations, and provider network exclusions. This post-pandemic "hangover" was a harsh period for the entire industry, resulting in underinvestment, leveraged balance sheets, capacity reductions, and ownership restructurings.

We are now in February 2022, Rede D'Or announced the terms of its acquisition of SulAmérica, a health insurer with

5 *As stated by Paulo in our Dynamo Report 119 – CEOs:* The Floor is Yours I.

a significant presence in the sector and the second-largest payer for Rede D'Or's hospitals. The transaction had not been previously flagged by the company, raising concerns in the market. Indeed, the acquisition introduced an inherent conflict of interest. One of the original goals of expanding the hospital network was not only to capture economies of scale and operational leverage but also to strengthen bargaining power against payers, potentially reversing the historically payer-favored dynamics in a sector where insurers are more consolidated than hospitals. Now, by occupying both sides of the branches, the question emerged: which side would be prioritized? A favorable negotiation for one business implies margin compression for the other. The market interpreted this as a structural contradiction, placing the company in a delicate and ambiguous position. Endorsing SulAmérica as Rede D'Or's preferred payer could raise suspicions among other private health plans — particularly among more established players with strong financial backing, whose business is critical to the hospital group. Conversely, offering preferential conditions to Rede D'Or hospitals could undermine SulAmérica's competitiveness. From this perspective, the acquisition was viewed as a strategic detour — a dilution of the previously clear growth story that would consume both capital and executive attention, jeopardizing strategic alignment and potentially resulting in, at best, a zero-sum game, or at worst, a net value-destroying move. When investors built these understandings, another downward adjustment in the company's share price was triggered.

Our interpretation was different. After extensive external due diligence and internal debate, we came to view the transaction far more positively. Taking advantage of the market's mispricing and divergent perceptions, we began significantly increasing our exposure to the group — initially through SulAmérica, and later, following the conclusion of the deal, through Rede D'Or shares. This brought the investment to a prominent position in our portfolio.

We saw the potential for an integrated business model to unlock meaningful synergies. Securing a top-tier payer materially improves the hospitals' economics by mitigating cash cycle volatility, a recurring risk in the sector — one even Rede D'Or had faced in the past. If well-executed, the combined platform could create value for both segments. Coincidentally, SulAmérica accounted for roughly 20% of Rede D'Or's revenues, and Rede D'Or in turn represented about 20% of SulAmérica's cost base — proportions that naturally support a balanced incentive structure. If the group could manage this hybrid positioning with dexterity, it stood to benefit from the best of both worlds: optimizing hospital operations while enhancing the insurer's value proposition, all without alienating peers or triggering retaliation from partners.

The acquisition also deepens Rede D'Or's connection to patients and physicians, granting the company access to valuable market intelligence that can enhance its competitive positioning. Strategically, the transaction internalizes to the company´s ecosystem a significant portion of the value chain, enabling more coordinated actions, diminishing misaligned incentives that lead to inefficiencies, and even blunting regulatory risks — reducing some of the structural challenges outlined earlier in this Report.

Now two years into the integration, we are already seeing signs that our initial positive view has been validated. Operational results show that the company preserved hospital profitability while SulAmérica's loss ratio improved rapidly, returning to pre-pandemic levels ahead of its peers. In addition, the insurer has benefited from less tangible advantages, such as lower transaction costs when designing new products and implementing more sophisticated payment models. As a result, SulAmérica's client base has grown at above-market rates. Furthermore, Rede D'Or's hedged capital structure has enabled it to fund substantial share buybacks and pay dividends above its statutory minimum, even while executing its investment plan.

In our view, once integration risks were overcome, the most substantial threat from the acquisition would arrive from the strategic tension with Bradesco Saúde — Rede D'Or's largest payer and SulAmérica's main competitor. What we witnessed instead was a transition from a purely transactional relationship to one of mutual learning and ultimately, an unlikely partnership to develop new hospitals — a savvy move by both leadership teams to unlock new markets that would be unviable without collaboration. The partnership has relevant value by itself; however, we do not rule out further strategic steps between the two groups in the future.

From a broader system-wide and social perspective, well-executed vertical integration offers a superior alternative to fragmented systems characterized by misaligned incentives, high costs, rework, waste, opacity, and patient dissatisfaction. By internalizing the value chain conflicts that plague healthcare globally, integration facilitates the much-needed shift from fee-for-service to value-based care. Every serious healthcare reform effort shares a common principle: the patient must be restored to a position of primacy, empowered and in control of their data. In theory, vertical integration — when competently managed — can eliminate internal conflicts and restore patient health to the core purpose of medicine. We do not view Rede D'Or's verticalization as an end in itself. However, as the group's hospitals increasingly represent a larger share of SulAmérica's (and its partners') cost base, the sharing of information and use of applied technology should enable system-level adjustments — particularly in aligning incentives between providers and payers to maximize prevention and client longevity. The economic benefits are clear: reduced churn in beneficiary portfolios, improved asset utilization, lower waste, and a broader addressable market. Additional externalities include better diagnostic accuracy, improved treatment quality, and stronger incentives for preventive medicine and customer retention.

Perhaps in no other discipline is research so intimately tied to practice as in medicine. Medical research, and the innovations it spawns, form a critical foundation for improving patient outcomes and public health. We must highlight Rede D'Or's nonprofit initiative focused on research, education, and innovation in healthcare, of which it is the main sponsor. With an annual budget of approximately R$100 million, IDOR (Instituto D'Or) offers advanced laboratory infrastructure and boasts an impressive academic track record[6]. Beyond fostering healthcare innovation, the Institute's mission to become a center of excellence in research and medical training positions the company at the knowledge frontier and helps attract top medical talent seeking to participate in this platform.

As our readers know, our investment methodology always includes a disciplined risk assessment. Here are the key risks we monitor:

(i) Risk of diminishing returns on hospital´s network expansion. Despite Rede D'Or's execution track record and capital allocation discipline, expanding operational capacity by over 50% on an already significant base introduces uncertainties around market dynamics and potential capital misallocation.

(ii) Competition. In insurance, while verticalization offers innovation potential, short- to mid-term differentiation remains limited, and competition is intensifying. In hospitals, where entry barriers are higher, the competitive environment is healthier, and we believe Rede D'Or will continue to widen its moats.

(iii) Regulatory. Regulation is intrinsic to healthcare. The sector is complex, constantly scrutinized, and susceptible to disruptive regulatory initiatives. Assuming that regulatory norms should be universal and isonomic, Rede D'Or's robust financials, competitive positioning, and strong metrics place it in a relatively comfortable position compared to weaker players.

(iv) Disruption. Healthcare, representing ~10% of GDP in OECD nations and Brazil, with ~30% estimated waste, is a ripe target for disruption. Numerous ventures — supported by significant capital — aim to challenge incumbents. We continuously monitor emerging models (e.g., telemedicine, AI) that could shift relevance away from hospitals or physicians. So far, we see meaningful disruption as unlikely and distant.

(v) Digital. As digitalization permeates the sector, system architecture, process controls, and data integrity become critical. Risks range from cybersecurity and privacy breaches to operational reliability. Digital transformation holds enormous potential but requires robust infrastructure. This is already a significant and growing focus in Rede D'Or's budget and strategic planning.

Given the above, we believe Rede D'Or is well-equipped to navigate the challenges identified at the beginning of this Report. The group exhibits key attributes that offer resilience and long-term value:

(i) A value proposition based on an ecosystem concept where each component – hospitals, insurance, oncology, diagnostics and education/research – connects, complements and reinforces each other producing a very peculiar competitive position in the industry, capable of delivering robust operational/financial results, while offering quality treatment, recognized by doctors, patients and independent entities;

(ii) A platform with scale, access to capital and high barriers, inserted in a fragmented industry, facing a large and expanding market;

(iii) Experienced and aligned founders/executives, ensuring a long-term view, materialized in the ability to see ahead (sale of the diagnostics business, acquisition of SulAmérica, a joint venture with Bradesco).

We believe we are shareholders in a controlling group that is sensitive to the importance of the service it provides to the health and, therefore, the lives of its customers. Our investment in Rede D´Or is built on the integrity of this fundamental understanding;

(iv) In our view, a multiple of P/E (price/ earnings) of 16x for 2025 and 13x for 2026 does not reflect the full potential for future growth with high profitability that

6 *Some selected numbers: 2.300 studies published in international scientific journals, +69 thousand citations, +100 PhDs, 150 clinical research studies completed, 224 ongoing, 5.4 thousand students, 230 medical students training in hospitals, 250 resident doctors in training per year, 1.8000 potential partners mapped, scientific collaboration with institutions in 87 countries, including so many others.*

Dynamo Cougar x Ibovespa Performance in R$ up to April 2025

Period	Dynamo Cougar	Ibovespa*
120 months	186.6%	140.2%
60 months	47.0%	67.8%
36 months	17.7%	25.2%
24 months	33.7%	29.3%
12 months	5.1%	7.3%
Year (2025)	14.8%	12.2%
Month (April)	12.2%	3.7%

(*) Ibovespa closing. Indices are presented as economic reference only, and not as a benchmark.

DYNAMO COUGAR x IBOVESPA (Performance in US$)*

Period	DYNAMO COUGAR Year	DYNAMO COUGAR Since Sep 1. 1993	IBOVESPA** Year	IBOVESPA** Since Sep 1. 1993
1993	38.8%	38.8%	7.7%	7.7%
1994	245.6%	379.5%	62.6%	75.1%
1995	-3.6%	362.2%	-14.0%	50.5%
1996	53.6%	609.8%	53.2%	130.6%
1997	-6.2%	565.5%	34.7%	210.6%
1998	-19.1%	438.1%	-38.5%	91.0%
1999	104.6%	1,001.2%	70.2%	224.9%
2000	3.0%	1,034.5%	-18.3%	165.4%
2001	-6.4%	962.4%	-25.0%	99.0%
2002	-7.9%	878.9%	-45.5%	8.5%
2003	93.9%	1,798.5%	141.3%	161.8%
2004	64.4%	3,020.2%	28.2%	235.7%
2005	41.2%	4,305.5%	44.8%	386.1%
2006	49.8%	6,498.3%	45.5%	607.5%
2007	59.7%	10,436.6%	73.4%	1,126.8%
2008	-47.1%	5,470.1%	-55.4%	446.5%
2009	143.7%	13,472.6%	145.2%	1,239.9%
2010	28.1%	17,282.0%	5.6%	1,331.8%
2011	-4.4%	16,514.5%	-27.3%	929.1%
2012	14.0%	18,844.6%	-1.4%	914.5%
2013	-7.3%	17,456.8%	-26.3%	647.9%
2014	-6.0%	16,401.5%	-14.4%	540.4%
2015	-23.3%	12,560.8%	-41.0%	277.6%
2016	42.4%	17,926.4%	66.5%	528.6%
2017	25.8%	22,574.0%	25.0%	685.6%
2018	-8.9%	20,567.8%	-1.8%	671.5%
2019	53.2%	31,570.4%	26.5%	875.9%
2020	-2.2%	30,886.1%	-20.2%	679.0%
2021	-23.0%	23,762.3%	-18.0%	538.9%
2022	-7.8%	21,899.9%	12.0%	615.4%
2023	32.1%	28,965.0%	31.8%	842.8%
2024	-30.8%	20,002.8%	-29.9%	560.7%
2025* **	25.6%	25,143.6%	22.8%	711.6%

(*) Considering that this is a Fund that has existed since 1993. the figures were converted into dollars (US$) as a way to eliminate the volatility of the Brazilian currency throughout the period and. in this way. minimize the risk of possible misinterpretations by the reader in the case of an investment decision/ divestment. Dynamo Cougar is a fund that invests in NAV of an equity investment fund and is currently closed for new investments. (**) Ibovespa closing price. The index is presented as a mere economic reference and does not constitute a target or benchmark for the Fund. (***) Return up to April 2025.

this differentiated platform of health services is able to capture. Under the prerogative of being able to think and invest with a dilated time horizon, the frictions of quarterly earnings are diluted and what emerges is a long-lasting and solid opportunity of predictable and high-quality results.

For all the reasons above, we remain highly confident in our investment in Rede D'Or — a position that today holds a prominent place in our portfolio.

Rio de Janeiro, May 13th, 2025.

Additional information:

- **Inception**: 09/01/1993
- **Objective:** Deliver NAV appreciation above inflation in a medium/long term horizon by investing at least 95% (ninety-five percent) of the fund´s net worth in the NAV of Dynamo Cougar Master Equity Investment Fund ("Master Fund")
- **Target investor**: Qualified investors
- **Status:** Closed for new investments
- **Redemption grace period:** 12 months grace period or liquidity fee of 3% for redemption within this time period*
- **Redemption NAV:** D+12 (calendar days)*
- **Redemption payment:** D+2 (working days) after NAV conversion*
- **Applicable taxation:** Equity
- **Anbima´s classification:** "Equity – Free Portfolio"
- **Management fee:** 1.90% per year for the Fund + 0.10% for the Master Fund
- **Performance fee:** on the top of IPCA + IMAB*
- **Average monthly net worth last 12 months:** R$ 5,520.9 Million.

(*) Detailed description provided in the bylaws

To find more information about Dynamo and our funds. or if you wish to compare the performance of Dynamo Cougar to other indices in different time periods. please visit our website:

www.dynamo.com.br

DYNAMO

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