



## **4Q15 Conference Call Transcript – Q&A – SULAMÉRICA**

### **Operator**

We will now start the Q&A session. Our first question comes from Mr. Gabriel Gusan (Bradesco)

### **Gabriel Gusan (Bradesco)**

Good morning everyone, i have two questions. The first relates to the loss ratio for individual health plans in the quarter, which had an increase. I would like to talk about the effects which had impacted the comparison with the previous year, if you can highlight any reclassification expense. The second question is related to the debt issuance that we could see in the end of the quarter: a Bank Credit Note (CCB) issued by Banco do Brasil. I just would like to understand the use of proceeds of that: If you shall use it to pay another debt or if you have any different purpose for that.

### **Mauricio Lopes (Vice President of Health and Dental)**

Good morning, Gabriel. It is Mauricio speaking, thank you for the question. In terms of individuals health plans loss ratio, I guess we have two main effects combined: first relates to the reclassification of some items of expenses, which were below the gross margin, especially for the health management program, we did some cleaning in doubtful account, and it became part of loss ratio, and also we had the calendar effect. We change the calendar of payment for providers and obviously, it has some impact on the loss ratio for the quarter. I guess maybe we already have discussed this in some moment, but basically those two effects had impacted the loss ratio for the health portfolio, mainly for the individual portfolio.

### **Arthur Farme (Vice President of Control and Investor Relations)**

Gabriel, it is Arthur speaking. About your second question, related to the debt issuance, we realize that we were in a good moment to issue this debt, especially taking consideration on the conditions we had negotiated this issuance. We have a schedule, not a pre-payment, we have an amortization schedule from the debentures we issued in 2012 and 2014, and we wanted to maintain the liquidity level that the company use to have before, and, moreover, we are aware for some moment ahead when we can have more volatility, so it was only for this purpose.

### **Gabriel Gusan (Bradesco)**

Perfect, if you allowed me for one more question. For this quarter, we can quantify any impact related to the market exit of Unimed Paulista?

**Mauricio Lopes (Vice President of Health and Dental)**

It is Mauricio speaking again. The exit of Unimed Paulista didn't come as one-off effect, it took place gradually during the last 12 months, and we were capturing the destiny of those beneficiaries whose left Paulista's portfolio, as well the other players. Some beneficiaries left a little earlier, and some others left it after the bankrupt. At the end of this cycle, when the agency make the most striking intervention and request the compulsory sale of portfolio, the beneficiaries migrated to the market in a higher speed, and then we could receive a good part of those beneficiaries, as in the SME portfolio, as in the affinity and corporate portfolios. So, yes, we were beneficiated of this transition, as a good part of the market, and we are aware of what will happen in the industry, related to the other operators which can have similar situation.

**Gabriel Gusan (Bradesco)**

Perfect, thank you.

**Operador**

Our next question: Gustavo Lobo (BTG Pactual).

**Gustavo Lobo (BTG Pactual)**

Good Morning. I also have two questions: the first one is if you can disclosure, just to give us an idea, which were the expenses related to the relocation to Pinheiros headquarter, and also the expenses related to the campaign of 120 years celebration. I just want to understand in absolute terms, how those expenses should be, looking ahead. And my second question relates to the private pension segment: you have reported negative result for the quarter, and in the 4Q of previous year the result was also negative because of a liability revision, which have impacted specifically the quarter. I would like to understand the main reason for this negative result in the 4Q15. Had any specific reclassification or it was specifically a quarter even worse and should run at this level looking ahead? How to get this line?

**Arthur Farne (Vice President of Control and Investor Relations)**

Gustavo, it is Arthur speaking. No, we don't disclosure this information. The expenses already happened, they didn't happen at the 4Q, they were happening during the last two and half years, almost three years, but part of the investments could be deferred, and this is what we are seeing, so it

has no more impacts related to the relocation. Eventually, it happened: double count of rent for two buildings, benefit of employees, as meal and transportation vouchers, this kind of thing can have impacted. Related to the campaign, we also won't disclose this information. Company makes institutional investments and in products in a regular way, and this is included in our expenses.

**Marcelo Mello (Vice President of Investment, Life and Private Pension)**

Gustavo, it is Marcelo Mello speaking. About your second question related to the private pension, it is quite seasonal. In 2014, we made a revaluation in technical provision in the 4Q, and the same thing was done in the 4Q15, so it is quite seasonal and this had happened in the 4Q15.

**Gustavo Lobo (BTG Pactual)**

Ok, thank you.

**Operador**

Our next question: Vinícius Ribeiro (Brasil Plural).

**Vinícius Ribeiro (Brasil Plural)**

Hi everyone, good morning, thank you for the question. I would like to know, in health segment, if we can wait for some gain in loss ratio in 2016, given the maturation of some of those projects which you have been implementing.

**Mauricio Lopes (Vice President of Health and Dental)**

Good morning. We cannot give you any guidance about this question, but what I can say you, is that all projects are in a good speed of maturation, and, over the past years we have obtained good results. The projects are progressing well and, we are even more placing new projects. We have done a lot of work in health management, as well in claims management initiatives. Just to remind you, claims management initiatives are mature, the projects are considered structuring projects and they can be developed a little faster, and health management takes a little longer, but we have a huge set of programs and products established which are already in good stage of mature. The wellness platform, for example, is running for two years already, the coaching program, for one year, in November 2015, we already have successful concluded the migration of a 100% of the beneficiaries from the health management programs to the Healthways structure, such as weight loss, hearth disease, COPD, diabetes, so now we have a huge volume and scale on the health management programs. Although those initiatives take a little longer to mature, they are in a good stage of results.

### **Vinicius Ribeiro (Brasil Plural)**

Perfect, thanks.

### **Operator**

Our next question: Fernando Cunha (HOYA Corretora).

### **Fernando Cunha (HOYA Corretora)**

Good morning, thanks for the call. I would like to know something about 2016; such we are already at the end of the second month of this year. Something related, not necessarily about figures, but how the things are happening at the beginning of this year, I mean, below the expectation, so I appreciate your comments.

### **Gabriel Portella (Presidente)**

Good morning Fernando, it is Gabriel speaking. Company does not provide guidance, but to give you an overview, related to your question, obviously, we see more challenge scenario for 2016, than on 2015. If you go back to the beginning of last year, we were here at the same place with a very negative perspective about what should happen, so what we can say is, there is nothing within our business units or in our plans in what we are not forecasting to minimize the effects of any crisis, and we have some good examples from last year when the sale of zero kilometer vehicles fell, and even so, we could see the premiums for auto segment growing, and we also have an addition of 150k vehicles in our fleet. So, despite the forecast pointed to the fleet decrease, what actually happened, we took the opportunity to explore different regions, brands, types, models, and everything we could do to be able to face it. So, we have the same scenario, although it may be a bit more challenging, we don't see anything what we cannot place with hard word. We will raise the workload, the initiatives and, also the attention, but overall the scenario didn't change what we were doing.

### **Fernando Cunha (HOYA Corretora)**

Ok, thanks. Just one more question, sorry if you already answer it: why the general and administrative expenses present relevant increase compared to 2014?

### **Arthur Farme (Vice President of Control and Investor Relations)**

Fernando, good morning, it is Arthur Farme. The question was already done, but, no problem to go back to this important point. We had comment and, also the reports from some analyst, which release comments about the company, addressed about the office moving and the marketing campaign related to the company's 120th anniversary. Partially, these effects had

impacted, but we also took the decision to internalize some positions, during 2015, and part of the workforce, related to service providers, which was previously outsourced, it starts to be done in-house, by employees. Then, the personnel expense had this increase, but year-to-date it was a positive impact. Actually, we are comparing a quarter in what we had this expense, with another one in what we didn't have it. Marginally, related to the relocation to Pinheiros headquarter had a double count of expenses, for example for rent of two buildings incurred in this quarter, what will not happen again as of the first quarter of 2016. Related to the campaign, we had those two events and the company wanted to explore, and also will do it even during 2016. Even the 120 years celebration, as the relocation brought to the quarter higher expense than the usual, but it doesn't represent a new level of company's expense. The decision to internalize some position, for example, net-add a total of 350 headcount, including projects and other investments, which means 300 to 400 more employees in the company's workforce. So, now the Company became responsible for a higher volume of operation, and when you look the annual comparison, it remains stable in 9%.

**Fernando Cunha (HOYA Corretora)**

Ok, so it means that the trend is the ration remains stable in 9%?

**Arthur Farme (Vice President of Control and Investor Relations)**

We cannot give you a guarantee, but the fact we had a stable ratio for two consecutive years, could point for this trend.

**Fernando Cunha (HOYA Corretora)**

Ok, thank you.

**Operator**

Our next question: Rafael Frade (Bradesco).

**Rafael Frade (Bradesco)**

Good morning everyone. Just a follow up from the last Gabriel's question, not specifically about Unimed Paulista, but the overall health industry dynamics, surprise me and I guess Mauricio explained the beneficiaries migration movement during the year, but maybe more intense in the 4T, but, when you see Sulamerica's portfolio, actually even in the corporate, it decreased. I think one of the major concerns of investors and analysts is exactly how this greater impact of a possibly moral hazard and an increase of unemployment would impact Sulamérica's potifolio. So if you could give us an overview. When we look this decrease in members, this is related mainly to some companies which is reducing its workforce or it is company

specific effect related to customer losses. Could you comment a bit about this?

**Mauricio Lopes (Vice President of Health and Dental)**

Ok thanks Rafael, it is Mauricio speaking. I think it has a set of things here. When you look at the portfolio by segment, segregating the pre-payment for group plans, and does not considering the portion of ASO segment, in fact you can have the perception that we lost members over the year net way. When you add the portion of ASO, you realize that we didn't lose members in net way over the year. In 2014, I think it was on 2Q or 3Q, in one of those calls, we had a large migration of clients from the pre to the post payment, and then in the following quarter we had the opposite, a migration of clients from the post to the pre-payment. We already had talked at that time that maybe we had to consider both portfolio together for the total of beneficiaries, and we saw in these two last quarter is that this movement still happening. So, we already had quite relevant part of pre-payment clients that migrated to post payment, and they are included in the portfolio, in other words, it is a group of clients that we maintain, and we know the group, and it give us a more bargain power in negotiation with our network and keep our physical presence around the country, and the ASO clients don't consume capital, and don't have the underwriting risk, so it is a quite favorable client. For 2016, it is natural in the current macro dynamic that the clients consider if they will remain in the pre or post payment plans, as they did in 2015. So, I think it' is important to take this kind of client movement in consideration and look to both portfolios, in an aggregate way. In terms of claims, I think there is another point to be considered, we have to be careful to analyze the loss ratio of the all year, because when we move the payments calendar, as we already talked for the last two quarters in a recurring way, we are trying to determine the best way to adjust the payments calendar, to maximize the company's cash flow and to reduce the quarters volatility. We can also have some specific effects for the forward quarters, but the 12 months comparison bring more accuracy of what happened in the cost controlling of the Company, compared to the premiums growth. I suppose, I took those two point of your question, if not, fell free to ask again.

**Rafael Frade (Bradesco)**

Yes, you did. I just want to follow up on both: first is, related to the ASO, which you had commented, I think that maybe one thing what we miss a bit in this movement is the perception of to make sense for a company to migrate for the ASO model, it has to be quite large. So, when we see, for example, an increase of 5,000 clients on the ASO in a quarter, this looks like a single client or same thing like that. What is the size which makes sense to have ASO model? Or indeed for a company with less than 1,000 employees makes sense to migrate to ASO model?

**Mauricio Lopes (Vice President of Health and Dental)**

The perception of relative risk of each contractor is a quite specific. It is hard to define the risk appetite of each company for choosing between pre or post payment. What I can say, about the experience which we have met during the years is: multinational clients are more willing to have the post payment plans than the local ones, especially because of the globalization; they already have the overseas risk pools. We have found some kind of clients that even made retro insurance for their headquarters. I think the discussion for post payment in companies over 5,000 lives is very simple; they have a group big enough for this. For clients more concentrated in a single place area easier than for nationally dispersed clients. Additionally, when you see the member movements as a whole, we have to remember that we have the migration of some member between the portfolios, we also have the pure movement of members for layoffs, so this effect is totally mixed. In net basis, it continues positive, but it is a mixed effect.

**Rafael Frade (Bradesco)**

That is it, sorry about taking your time, but i have another question related to the payment schedule which you have commented: It is very clear that I have to look at the whole year. I just would like to have an idea about the amount, when we are talking for example in the group plans, which showed 90 BPs of worsening in loss ratio year on year, It is hard to measure how the shift in the payment schedule affect the loss ratio. Would It be something close to 50 BPS or something more.

**Maurício Lopes (Vice President of Health and Dental)**

What we are trying to do is calibrating the determination of weeks with the effects of holidays and companies, in order to bring a little more regularity. There is several ways to do this schedule. You can make a calendar with a fixed date; you can make a calendar with periodic payments or, even, a calendar with an established number of days plus a factor for paying. The way in which we are trying to do is a very tough modeling that can bring the impact of each business day of the calendar, each determination of the claim composition in each specific day, what means, a modeling into other modeling, and these two modeling together will bring more uniformity. It is hard to decompose these effects, because of the complex modeling, which is in progress. So, for the moment, I think is more important to read the loss ratio trends for the year than for the quarter.

**Rafael Frade (Bradesco)**

It's very clear. Thank you, Mauricio.

**Operator**

Our next question: Gustavo Lobo (BTG Pactual).

**Gustavo Lobo (BTG Pactual)**

Hi, thanks for taking one more question. I'd like to talk a bit about auto market. How the pricing dynamic is? Is there any player more aggressive? How is the competition? And also, related to the loss ratio, if we look at SUSEP data, we see loss ratio acceleration over the quarter, the loss ratio for December, specially, rising year on year. Looking forward, what are you expecting for growth and loss ratio for this portfolio for 2016? Thank you.

**Eduardo Dal Ri (Vice President of Auto and Other Property & Casualty)**

Gustavo, it is Eduardo speaking. About your first point about the aggressiveness of the market, actually in this market always there is any player being more aggressive, breaking the median prices. We cannot affirm that there is a price war, but we always see any player diverges a bit of the median, because they are betting against the risk, so this basically always going to happen, this is the auto insurance market dynamic, and it will not change. So, about the acceleration of the loss ratio, it happened for all market, we have some risk inputs which showed deterioration in the last quarter, such as price increase of auto parts, which is a large cost for us, and the frequency of robbery and theft, as already release for some competitors. Explaining a bit about the risk change, I also explain our growth dynamics for the last quarter. The growth level declined slightly, despite we have grown above the market, just because the investments we have made in recent years in tools, which allow us to anticipate this types of risks. We can, somehow, anticipate the solution to mitigate the effects of risk variations. Those risk variations are cyclical in the market, and the Brazilian current macro scenario moment, they tend to move, and at this time, we have to be aware to the movements and intensified the update of our business models, and if necessarily change the route. We already made the half of our models. We are working on then, since August, and this can explain the reducing in production, that I just mentioned, but this can mitigate the effects of these risk variations.

**Gustavo Lobo (BTG Pactual)**

Ok, thank you.