

## 1Q18 Conference Call Transcript – Q&A

### Operator

Ladies and gentlemen, we will now begin our Q&A session. Our first question comes from Olavo Arthuzo – Santander.

### Olavo Arthuzo (Santander)

Hello, good morning everyone. I noticed an item that may have caused a reduction of the expectation of what we saw in previously quarters related to the increase in health loss ratio. We understand the dynamics of the first quarters of the year, a quarter before the readjustments, but even so I would like to better understand what caused this increase, taking into account the consecutive improvement that we noticed in the previous quarters . So if you could share with us, it would help a lot. Thank you.

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

Good morning, Olavo, Mauricio speaking, thank you for the question. The quarterly issue, we always reinforce, it does not effectively convey what is happening with the portfolio, the photo versus the film has to be always judged here. Remember that we have the payments distributed throughout the quarter, we have more days, less days, we have seasonality, technology incorporation that happens in specific periods, in fact that was the case now, right?

We incorporated a new procedure on January 1st. So, this quarter will not give you the answer that you are looking for, and if you get the result from all health providers, you will see that seasonality is present each one of them, with their particular format and not in a linear way. So there is no way to have a clear seasonality here. But there is something that can help you to give the answer that you are looking for, I think it is important to note that we continue with a roll out of actions despite the very strong quarter result and this is an indicative from what comes from health management, loss ratio management, customer and providers experience, forward. In other words, if you despise the volatility of the quarter and look at the initiatives roll out, this may help you to explain the past and the future trend of what happens to the portfolio. Just to give an example of what we are doing in the quarter, and I think this exemplifies well what should come, if you look at the actions that move with the expectation of the customer, the customer experience that we started this quarter with telemedicine for the ASO portfolio and making a roll out of the corporate portfolio, we launched the digital reimbursement preview both in the application and in the portal with automatic calculation for several procedures, which increases the customer permanence in the house, increases the pricing power of our product, and reduces administrative expenses. We also launched the ShareCare platform, the expansion of the Well Care Elderly, which is a specific project for chronicity management for the elderly in Sao Paulo. We are now expanding to Santo André, São Bernardo and São Caetano. We have expanded the Pediatrician visits at home to six more cities, including Brasilia, Recife and Salvador. We are including one more specialty now in the cycle, as for our trading partners, whether they are brokers or providers; we changed the visibility format of the entire billing panel and receipts of medical bills to providers. We are migrating the whole process of prior update procedures for a new platform, which also allows the connectivity of customers in the decision-making process release; we also centralized the entire after-sales structure for customers and brokers with metrics SLAs which leads to reduced administrative expenses and increases the customer satisfaction experience. All this set of items, if you look at their trend, aims at better control of the loss ratio, the best health management control that we have been proving quarter after quarter that brings a lot of advantages to the portfolio and increases the permanence of the customer in the house, churn reduction, related to improvements of experience use. So, my

suggestion, as I've been saying in all quarters is: do not focus only in the quarter, look at the trend as a whole, because the seasonality will impact on unexpected ways from time to time, but it is important to look the trend that has been built with the launch of new initiatives. Obviously, there are a lot of items that I can explain why it has gone up or gone down that caused a impact in the loss ratio, but none of them will effectively explain the seasonality as it is. They will all be superficial items that will marginally explain something, but they will not give you the definitive answer, so I'm trying to get out of this discussion and show the whole film and not the picture.

**Olavo Arthuzo (Santander)**

Perfect. That helps a lot. If you allow me to ask another question related to health, you have been increasing the number of members in all lines, but I noticed that between quarters it is in fact increasing. Where does this increase come from? Is there any kind of portfolio acquisition being made or is it something related to the macroeconomic environment issue?

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

That's a great question. If you think about macro environment and what the market says, right or wrong, but what is said in the market is that the higher average ticket products are being neglected and customers are migrating to lower ticket products. We don't see this in SulAmérica. I think it is because of all investments that have been done, not only in the brand's layout, but also in the commercial channel development, but mainly the regionalization approach of the products that we have been happening for some years and the incorporation of all those initiatives that we spoke. I gave a set of them now as telemedicine, prepayment, etc. Our application that already has a million downloads, and maybe it is the app with the largest volume of features you can find in the market; the processes of network providers management, health management, I think all those aspects have proven to the client, being existing ones or for prospects, it is worth to remain in SulAmérica's portfolio, and consequently our churn has been down, despite the crisis that has plagued the country in the last four years, but also has brought a large amount of new clients to our portfolio. In other words, I think there is an additional item that worth been mentioned, for the first time in four years we had a positive move on the corporate clients portfolio, I mean, we had an increase during the three years of crisis, growing, quarter by quarter, I think that only one quarter we did not have growth in this portfolio, it was stable, but we were growing the amount of new contracts, and decreasing the amount of existing contracts. Now it is different, besides having these two effects in the portfolio, we have an additional effect, which is the positive movement, that is, more hiring than layoffs of employees and their families, in the existing portfolios in the house today. Since we have had a very large volume of contracts growth in recent years, this pro-cyclical movement is expected to be much more pro-cyclical in our portfolio than in other existing portfolios, because we have a larger volume of contracts than we had previously. So, that volume of growth you see from beneficiaries is benefiting us by the two initial items, and currently by the additional item, the growth of beneficiaries movement.

**Olavo Arthuzo (Santander)**

Perfect. Perfect. Thank you.

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

Thank you.

**Operator**

Our next question comes from Gabriel da Nóbrega – UBS.

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**Gabriel da Nóbrega (UBS)**

Good morning, everyone, thanks to all. Could you give some more details of how you are seeing the competitive environment for your main segments and also do you believe that with this scenario you will be able to transfer the price increase for your consumers? I'll ask you a second question later, thank you.

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

Hi Gabriel. Thanks for the question. Maurício speaking. We are very calm in the strategy applied to the last few quarters and we are following with it today. In fact if you go back to the trend issue, and look at what we are doing, the first readjustment that was released just now in the SME portfolio, which is already 3 percentage points lower than last year, more of 3 points, almost 3.5 points below. What this means to us in practical terms is that we are looking forward to lower variation in medical and hospital costs and this translates into a lower price variation for the client. If this variation is lower, our degree of permanence, our contract churn should be even lower than we had in the past. So, I hope that the operators, each one in its own format, are seeing the same movement, which is a reduction in VMHC. This will of course make the market a bit more stable, where everyone can have more predictability related to its permanent customers within their portfolios. So I have positive outlook at the reduction, I think we are already responding to the reduction effectively, the reduction of 19 and something to 16 and something, and now we are going to launch the readjustments of the other portfolios in the coming months, and we are looking at this VMHC variation across all portfolios. So I think the competitive environment is going to be much more stable, and we are rolling out this strategy as planned in the past. I close here the block of health and dental and pass to Eduardo Dal Ri to comment the block of automobiles and massified portfolio.

**Eduardo Dal Ri (Vice President of Auto and Massified)**

Hello Gabriel. It's Eduardo talking. In the automobile it was not very different; in fact we are following in the improvement of the economy. The great output for us is the growth in car registration; the industry has put double-digit increases in the first four months. Speaking of the three months, are unpublished numbers since 2013, although 2017 has already had some reaction, of a digit, 7%, now we are impressed with the numbers, because they are very positive. Of course the market does not only depend on new cars, but when you have a bigger commercialization of new cars, this makes the whole chain of used cars also move, with new insurance, in short, new consumers buying cars. The market perspective is good due to the fact that even the interest rates for those segments have not fallen yet, so we strongly believe in this repressed demand that the Brazilian consumer held there at the moment of crisis that is already beginning to drop. On the other hand the insurance market is much better from a competitiveness point of view, it is more rational, I think the drop in the SELIC rate made the price strategies change significantly for eventual adjustments or a better parsimony between increases and acceptance. So trend is good overall, and it has started in the last quarter of last year and still remains good and we do not see any change perspective going forward, at least in the medium term.

**Gabriel da Nóbrega (UBS)**

It's great. Thank you very much.

**Marcelo Mello (Vice President of Investments, Life and Pensions)**

Gabriel, let me comment on the environment of Life, Pension and Capitalization. In the pension plan we are seeing a very significant movement with this scenario of falling interest rates for more sophisticated products, before we had a very large flow to the pension funds with

strategies more focused on fixed income and this scenario has changed in a very relevant way, more than half of PGBLs and VGBLs new volume is already going to the multimarket industry, which is good for the customer since he has a product that will help you compensate for the reduction in interest rates and is good for those who offer the product because they can, with greater expertise, charge a little more for this product. So we have a very optimistic vision for Social Security open here in Brazil. In relation to Life, the industry grows this year much in line with what grew last year, around 10%. Individual life is growing, gaining more participation and penetration, and we have been taking various initiatives to take advantage of this good moment, which I think the main cause is the increase in real income that we had last year and we must have this year too. At the beginning of this year, we launched the digital signature for contracting life and private pension products, we included new coverage on life products. Still in the pension plan, we opened our architecture; our internet banking was renewed, so we took a number of initiatives so that we could be prepared for this growth, not only of life but also of Social Security. On investments, we are also having a very significant flow and I think it is in line with my pension comment, with a higher demand for multimarket funds and now for stock funds, which we did not see last year. We launched several products, we have a very complementary portfolio of products, very competitive, practically all alpha strategies. If you notice in the release, you will see that we have gone from the market share of 24% to 40% multimarket, which is very relevant. So I guess as long as we have this SELIC rate perspective view on a reduced footing, we're going to have a very relevant flow to these more sophisticated funds, and if you have a competitive portfolio like we already have, I think that we can have a significant improvement in our margin in the investments part.

**Gabriel da Nóbrega (UBS)**

That's great, thank you very much for the answers. I have another doubt, could you give an update of the notice to the market that you released a few weeks ago about the possible sale of some assets, I wanted to understand a little more about the reason behind this, if you can disclose some more details about these operations. Thank you.

**Gabriel Portela (CEO)**

Hi, namesake. Gabriel talking. In fact there are two stories within the article, a speculation and one a fact. The speculation we do not comment, the fact is that we really sought advisors and this is part of the the letter that we replied to CVM, analyzing the alternatives and the logic of them is very simple: they are portfolios that we have besides a little relative mass within the Company, and we want to see the alternatives that we can have, either channels or scale, so that we can see relevant alternatives for the development of these companies. That is what is behind our process, just as we are looking for opportunities on other fronts, which we do not need to detail now, but we are always looking, as we have said, to opportunities in order to improve our market positioning. So that is the fact and the exactly logic behind it.

**Gabriel da Nóbrega (UBS)**

It's great, pretty clear. Thank you.

**Operator**

Our next question comes from Rubens de Oliveira – Banco Brasil Plural.

**Rubens de Oliveira (Banco Plural)**

Good morning, how are you? Thanks for the opportunity. I have a question that is more related to cost. Costs were a highlight this quarter, mainly because you have your G&A ratio falling around 160 BPS year over year and your overall administrative cost dropping 7%. This was

driven by the drop in third-party services and other administrative costs. Could you give more details about these lines? I'd appreciate it.

**Ricardo Bottas (Vice President of Control and Investor Relations)**

Rubens, it's Bottas speaking. In relation to the reduction, we like to treat it with the same business as usual issue as we treat the seasonality, for example, when people comment on loss ratio. It is important to understand, using Mauricio's expression, the film and not the photo issue. Now, this combination of the quarter result is a combination of items that happened on the first quarter comparison basis. You highlighted an item from others, for example, in the first quarter of last year there was a higher volume of fines than we had in this period, this is an important item, but I did not want to give much relevance to it, as if this was the main highlight because when you look at all lines, we see an opportunity and that's what we're constantly looking for. Gabriel always reiterates this aspect when we are asked about the challenge of investment income reduction, a set of initiatives is how we face this challenge considering various lines of Company's operation, which include its operating expenses, and its administrative expenses. If we check the lines of telecommunications spending, we have had important reductions in the line of third-party services, mainly related to services costs. We have had improvements that have been established in previous years, such as moving the company's headquarters in São Paulo in 2015 to new headquarters with lower maintenance costs which reduced the costs of location and operation. So, not being deterministic about having a silver bullet, the company works in a very comprehensive way related to its prudence and monitoring of administrative expenses. It is always important to deliver good results, but it is important to understand that there are seasonality issues, and also there are issues on the basis of comparison, but the message I wanted to say is very clear: the company treats very closely and understands the relevance of monitoring and controlling expenses administrative procedures.

**Rubens de Oliveira (Banco Plural)**

Ok, thank you very much.

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