

## 1Q19 Conference Call Transcript – Q&A

### Operator

Ladies and gentlemen, we will now begin our Q&A session. Our first question comes from Thiago Kapulskis – BTG Pactual.

### Thiago Kapulskis (BTG Pactual)

Good morning everyone. Thank you for the opportunity to ask questions. I would like to begin with two questions: The first one is related to health. You have been talking a lot, and harping on the same string, that if we only look at one quarter we can come to the wrong conclusion, in other words, if we perpetuate a certain result in the first, fourth quarter etc., we have a relevant chance of making a mistake. We observed in this quarter, differently from the fourth quarter, an increase in the health loss ratio. I would like to separate what is more cyclical or sporadic in the quarter from what is more structural. So, if you can provide more details about it, maybe explaining the frequency and what comes from better negotiation with service providers and so forth, I think this will help us a lot in our understanding, this is the first question. The second question is related to auto. We can see a reduction in prices but we can also observe, particularly in SulAmérica's case, an improvement in the loss ratio. I would like to understand where in this cycle we are and if the auto loss ratio can continue improving and if you think the market will continue offering lower prices for the rest of the year. That's it, thank you.

### Raquel Giglio (Vice President of Health and Dental)

Hi Thiago, good morning. This is Raquel speaking, thank you for the question. Well, regarding your point, whether it is cyclical or an effect of structural actions, without a doubt it is a structural effect. In comparison between quarters, there is not a disparity that is worth commenting, everything is in line when observed the first quarter of last year. Now, from a structural perspective, we have taken more mature initiatives: health management program, negotiation with service providers, direct-purchase of drugs and materials. Everything that you are aware and which we have been performing over the last few years. In this sense, we have been strengthening even more our coordinated care strategy, launched in the beginning of 2018, it is gaining traction over the last few months. We already have 230 thousand consultations in the coordinated care network, more than 130 thousand beneficiaries, and many initiatives like the Doctor House Calls and On-Screen Doctor features, everything to strengthen even more our digital strategy and always focusing on beneficiaries, always maintaining the focus of the coordinated care program on the patient. So, I think what we are observing is a result of all structural measures that were implemented over the years.

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

Thiago, this is Eduardo speaking. Related to auto, we have seen a slight reduction in prices in the market but this was not caused by a price war, it was motivated by better indicators, mainly those mentioned by Mr. Bottas: theft and robbery indicators, especially in large capitals, so, observing and forecasting these numbers, it allows us to pass the benefits of public safety to customers. I do not believe that we will see a price war in the future, since this is an atypical year for the auto insurance market because we see lower volumes available and this is reflected in the quarter's data for the market. The market is shrinking 1%, so the insurers don't have many alternatives, you can see that the growth of the main players is homogenous, a range of 100 BPS up and 100 BPS down, differently from the past, when the competition was solely in terms of price. Now that the Selic rate is lower, it cannot support that kind of spread in our margins or any loss in our margins. Therefore, given these two reasons, I do not believe

that we are going to see any price war or prices reduction motivated for anything else than an improvement in loss ratio, basically in frequency.

**Thiago Kapulskis (BTG Pactual)**

Perfect, I just have a follow up on Raquel's remark. Could we understand that if we had to quantify this improvement in the first quarter you would say that it is almost all structural, right? When we look at this comparison year-over-year, looking ahead, should we expect continuity in this trend of improvement? This is my doubt.

**Raquel Giglio (Vice President of Health and Dental)**

Hi Thiago, this is Raquel again. Actually yes, this is a result of a series of structural measures, but you have to remember that we were only talking about one quarter, while analyzing the financials one has to consider longer periods in order to not be influenced by seasonality. In line with what is structural, it is worth highlighting the effort of the commercial and sales team on maintaining the sales and clients' retention at high levels. All of this supports the Company's result.

**Thiago Kapulskis (BTG Pactual)**

Great, thank you for the answer.

**Operator**

Our next question comes from Felipe Salomão – Citibank.

**Felipe Salomão (Citibank)**

Hi, good morning, Gabriel, Bottas, Raquel, other participants at the conference call, thank you for the opportunity. I have one question related to health insurance, specifically about the competitive environment in the health insurance market. The loss ratio of the main non-vertical competitor of SulAmérica improved a lot in the first quarter and this player has a clear speech about bundled payments, improvement in management practices and so forth. My question is: have you noticed more aggressiveness in pricing by this competitor or by others players? Or not yet? Because as the loss ratios of these players improve, the profitability also increases and this may encourage more aggressive prices. This is my question.

**Raquel Giglio (Vice President of Health and Dental)**

Hi, Felipe, this is Raquel, thank you for the question. Well, the competitive environment in health and dental was never simple, there has always been competition between the main players. I have not seen greater aggressiveness than already observed over the past few years and even if it was the case, it would not change our strategy or our pricing and client retention policies. We believe that if we have a well-done and well-structured underwriting, we will retain customers for much longer and we will achieve the desired margins, but in fact, I have not seen any change in the behavior of the main players.

**Felipe Salomão (Citibank)**

Nice, Raquel, thank you very much for the answer.

**Operator**

Our next question comes from Mohammed Ahmad – Foyston, Gordon & Payne.

**Mohammed Ahmad (Foyston, Gordon & Payne)**

Hi guys, thank you very much for taking my question. I have two questions, the first one on the premiums of the auto segment, obviously the volume on fleet average was very good but as expected the premiums were down given the improvements in public security situation. I am just wondering, should we expect for the rest of the year, basically pricing to offset volume for you guys? And my second question is on G&A, we've seen for last years a downward trend in G&A expenses ratio, should we continue to expect that or is it going to stabilize as a percentage of revenue or even start increasing? Because clearly in 1Q19 it grew faster than revenue. Thank you.

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

Hi, Mohammed, it is a pleasure talking to you again. You have asked about the auto segment and how it is going to perform in the rest of the year and how SulAmérica is going to behave. This is an atypical year in the topline, in premiums, not for only SulAmérica but for the competitive environment and the available premiums in the market. In the previous answer I mentioned a slight reduction in the average premium price as a result of an improvement in the risk scenario. It is hard to talk about the rest of the year but we expect an improvement for the whole industry, at least a positive number, at least reaching growth figures similar to last year. Naturally, it's a year of pressure in the topline, but we believe that it tends, from now on, to be positive, between now and the end of the year, given the improvement in vehicles sales and licensing in Brazil.

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

Mohamed, Ricardo speaking. Thank you for the question. Your question was related to our general and administrative expenses ratio (G&A ratio) that has been improving every year in relation to revenue. If whether the first quarter performance could represent a stability of this index, as though we have already reached stability level, or if there is a possibility to improve, following results of the last few years. In the beginning of the call I mentioned some specific aspects that explained this increase, aiming to show that there is nothing stopping us from presenting improvements in this ratio. However, as you know, we do not give guidance for this indicator for the next quarters or years, but we believe that the issues that caused these effects in the period will not halt the continuous improvement of the G&A expenses ratio.

**Mohammed Ahmad (Foyston, Gordon & Payne)**

OK, excellent! Thank you very much guys and good result. Thank you.

**Operator**

Our next question comes from Eduardo Nishio – Brasil Plural.

**Eduardo Nishio (Brasil Plural)**

Thank you, everyone, for the opportunity. I have two questions that are related to the health segment. If it is possible, I would like to hear from Raquel a little bit more about coordinated care, the pilot project here in São Paulo. How is it developing? After that I will make my second question. Thank you.

**Raquel Giglio (Vice President of Health and Dental)**

Hi Nishio, this is Raquel, how are you? Thank you for the question. Our coordinated care strategy cannot be called a pilot project anymore because we already have more than 130 thousand beneficiaries in this program, more than 230 thousand consultations, more than 1,200

registered doctors, it is gaining impressive strength in the last few months and the number of consultations is increasing very fast in recent months. Currently, we have at least 7 fronts developing our strategic plan on the coordinated care program, seeking to scale it even more and to spread the digital strategy for all beneficiaries of all portfolios. Last month we released the in-app On-Screen Doctor feature for children up to 12 years old, so their parents can consult with a pediatrician through the screen of their own phones, in the comfort of their own homes, without leaving their houses, so this is the kind of strategy that we have been working on. Actually, you have mentioned that the program was launched here in São Paulo. The coordinated care began in São Paulo but today it reaches 19 cities, this number changes constantly so maybe it is not up-to-date. Nowadays we already have 61 medical specialties participating in the program but you were right, last year, in the beginning of the project it was only here in São Paulo, with two specialties. So you can see how much this project has grown in the past few months. Thank you for the question.

**Eduardo Nishio (Brasil Plural)**

What is the schedule to roll out the coordinated care in the countryside of São Paulo and in the others states? Do you have any schedule?

**Raquel Giglio (Vice President of Health and Dental)**

Hi Nishio, we have a schedule but we do not disclose this information. To give you an overview, there is already a relevant penetration in regions that have concentration of our insured lives, in each one of these regions we will gain traction, in a faster or slower way. In spite of that, this network is already well scattered, is that OK?

**Eduardo Nishio (Brasil Plural)**

Are these results positive?

**Raquel Giglio (Vice President of Health and Dental)**

Yes, high NPS, always above 80's, the beneficiaries are extremely satisfied and also the final customer, which are the companies, given that the retention ratios are also in high levels. Considering corporate costumers it is above 95, and for small & medium enterprises (SME) it is above 86.

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

Nishio, this is Bottas. If you allow me, just recalling ... We have been talking a lot about coordinated care, we say that it is an investment which has a NPS resulting from our initiatives, this is a short term result, but it is a long term investment, OK? We are investing in sustainability.

**Eduardo Nishio (Brasil Plural)**

Perfect. My last question is related to Raquel's new position in the Company, congratulations on your new appointment as Vice President. I would like to know if there is something new related to health that we can hear from SulAmérica from now on. SulAmérica always had an innovative position in this segment so I would like to know if we could expect something different from this for the next months. Thank you. Will something change? Is the strategy going to change?

**Raquel Giglio (Vice President of Health and Dental)**

Nishio, thank you. As you know, I have been in the Company for 8 years, so for me, my biggest commitment is to maintain the strategy that we built together over the years. Innovation is

something that runs through our veins, so you are asking me if you could expect something new? Sure, you can always expect new things. We have been working in mid-ticket projects, for example, focused on increasing the Company's market share, entering in a new market segment by launching more affordable products, maybe working with regional products, strategic partnerships, and different compensation models with risk sharing. So this is the kind of thing that you can expect from now on. Thank you once again.

**Eduardo Nishio (Brasil Plural)**

Thank you.

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