

2Q19 Conference Call Transcript – Q&A

Operator

Ladies and gentlemen, we will now begin our Q&A session. Our first question comes from Mariana Hernandez – Credit Suisse.

Mariana Hernandez (Credit Suisse)

Hi everyone, good morning. Thank you for the opportunity and congratulations on the results. My question is related to the health segment, more specifically on the plan you've launched: *Direto*, in São Paulo and Rio de Janeiro. There are three main points in relation to the new product that I would like to better understand. The first point is: what is the expected standalone loss ratio for the recently launched plan? In other words, are you capable to launch a product with a dilutive loss ratio, looking to grow and seeking a much larger addressable market? When introducing a new plan, how does equation between growth and profitability works for you? Secondly, I would like to know if you can share with us more details on the negotiations with service providers that cover this product. For how long have you been talking to them? Which was the most difficult issue to address during the negotiations? If you can give us more insights on this story... Also, I would like to understand what is the next step to reduce the average ticket even more. In other words, which variable is the most difficult to adjust in order to provide a greater ticket reduction than today? These are the three points. Thank you.

Raquel Giglio (Vice President of Health and Dental)

Hi Mariana, this is Raquel, how are you? Thank you for the question. I am going to begin by answering your last question and then I will ask you to repeat the beginning of your question because the sound was not very clear for us. Actually, we are launching a new family of plans, the first product being *Direto Rio*, launched over a month ago in Rio de Janeiro, and in this week we launched *Direto Sampa*. The laid out strategy aims the sector's sustainability, it aligns the interests among operators, providers, client companies and the beneficiary. The coordinated care always comprises these stakeholders, focusing on the beneficiary; furthermore, SulAmérica is able to support patient care, targeting health, not solely diseases. Answering your second question, related to negotiations with service providers and the alignment of goals, fortunately, we are currently in a moment when most providers recognize the sector's challenges and are seeking innovative ways to negotiate. In this sense, there isn't just one compensation model that is feasible. In *Direto Sampa*, for example, there is more than one compensation model. We are using capitation and bundle, combined with many others compensation models, allowing for the alignment with other stakeholders. *Direto Sampa* has a strong partnership with Dr. Consulta, that has more than 40 units in São Paulo, the majority of these clinics are also open on the weekends. In these clinics the patient has the first treatment and ambulatory care, also focusing on primary healthcare. For secondary and tertiary treatments, *Direto Sampa* includes 12 hospitals from renowned partners. For example, *Hospital Alemão Oswaldo Cruz (Vergueiro unit)*, contributing with know-how and high-quality clinical staff. This strategy was settled by the Company to continue to absorb an even larger market share. We know that this market could and should grow, 23% of population has private healthcare coverage, and this step will allow us to enroll even more clients.

Mariana Hernandez (Credit Suisse)

OK, Raquel, thank you. Repeating the first question... I would like to know how the equation between growth potential and profitability works for you. In other words, I would like to know if it's possible for you to launch a plan with a dilutive loss ratio, because it has a larger

addressable market or not? How does it work and how is *Direto* positioned in terms of loss ratio in relation to your other products?

Raquel Giglio (Vice President of Health and Dental)

Got it, Marina, thanks for repeating your question. About the launch of new products, our profitability goal remains the same, so, it doesn't change. These two new products and the others products yet to be launched will always have the same profitability target. Thank you.

Mariana Hernandez (Credit Suisse)

Great, thank you.

Operator

Our next question comes from Eduardo Rosman – BTG Pactual.

Eduardo Rosman (BTG Pactual)

Hi, good morning everyone, I have a few questions to ask. In my first question I would like to know if there is any update regarding the material fact disclosed by the Company in the beginning of last month, which disclosed that Allianz made an offer to acquire SulAmérica's auto and other property & casualty insurance portfolio. So, are you still talking to Allianz about this offer? Is there a deadline for you to reply? In my second question I would like to better understand your perspective on the Company. I think the Company's ROAE has been considerably solid in the last twelve months, around 17%, much greater than the numbers from two, three years ago, while in that time the Selic rate was much higher than nowadays. I would like to understand how do you look at the ROAE per segment. Could you please give us an idea of which business is having a better performance? I imagine that the health segment is the answer because this business has shown a greater improvement in the last few years, probably its ROAE is greater than SulAmérica's average ROAE, I would like to know if this is correct. Finally, I would like to know if there is any possibility to begin operating hospitals. There has been an increase in discussions about the best business model: vertical or non-vertical. Historically I think you were always very clear that the answer is "no", but I would like to understand if this could change, if you see this as a possibility or not. Thank you.

Ricardo Bottas (Vice President of Control and Investor Relations)

Rosman, good morning. This is Bottas speaking. Answering your first question, as we mentioned in the material fact, we don't have much to comment, the status remains the same. Emphasizing that, as described in the Company's policy, and as usual, we only disclose transactions which have been signed, generally these transactions are protected by confidential conditions, thus restricting us to comment on ongoing deals. In relation to the ROAE - the Company's return - it's important to note that the Company always emphasizes this point: we optimize returns through capital management, for this reason we don't analyze relative returns for each business unit, given that our capital management structure which encompasses all subsidiaries of the publicly-held Company. There are a lot of components in this equation, it is not a simple discussion. We disclose the results by business unit, so if I can give you a feedback, I would say that, maybe the best way to make this analysis per business unit is as disclosed, observing the solvency and regulatory capital requirements for each business unit that are also disclosed by the regulatory bodies. In relation to the Company, I would like you to continue to emphasize our vision on the consolidated return and consolidated results, our focus is on portfolio management considering all business units. Regarding your first comment, which is in fact a statement... we are always pleased when we can deliver operational performance, in spite of the sharp decrease in the Selic rate over the past 3 years, we were able to deliver an

improvement, a result of our efforts over last years. It isn't a short-term outcome, it's a result of several years of investment which allowed us to have an improvement in operating margin and increase the return over equity, even with this decrease in the Selic rate in the past years. I think this result - considering the statement you made in the beginning of your question - which was related to our capacity to continuously increase the Company's return. Raquel is going to answer your last question.

Raquel Giglio (Vice President of Health and Dental)

Hi Rosman, good morning. Regarding your first question about verticalization, if there is any interest in buying hospitals, we have been saying this for a long time, our strategy is well defined in short and long-terms. No, this is not in our mind, but the "virtual" verticalization strategy is. We don't believe that we necessarily need to own hospitals, a building for example, to align interests with providers while, at the same time, launch a product with a more aggressive pricing, in which the provider's compensation is based on performance aligned with the coordinated care and, for this, information is key. The *Direto* products recently launched in Rio de Janeiro with Rede D'Or and in São Paulo with Dr. Consulta, Oswaldo Cruz, Sabará, Sepaco, are part of this virtual verticalization strategy. In terms of the reimbursement of procedures, it's only for therapies. Through virtual verticalization strategies we can concentrate services in these providers, gathering information and monitoring the beneficiary's journey. To give you some figures of the results of this strategy, we already have more than 326 thousand appointments held in the Coordinated Care platform, more than 182 thousand beneficiaries and 1.5 thousand doctors, so the *Direto* line of products also brings providers, clinics, hospitals, and labs to take part in the coordinated care strategies with us, therefore the answer is no.

Eduardo Rosman (BTG Pactual)

It's pretty clear! Thank you Raquel and Bottas.

Operator

Our next question comes from Felipe Salomão – Citibank.

Felipe Salomão (Citibank)

Hi, good morning Gabriel, Bottas, Raquel and other participants. Thank you for the opportunity to ask questions and congratulations on the result. I have two questions, the first one is related to the increase in insured lives in the Health segment. When observing the second quarter net additions in the Health segment, excluding dental, considering only: SME (small & medium enterprises), individual and corporate, there were 4 thousand new enrolled members. The net addition of new members in 1Q19 was of 36 thousand, so I would like to understand the possible reasons for this slowdown. I would also like to know the perspectives for net additions for the next few quarters, considering *SulAmérica Direto* in São Paulo and Rio de Janeiro. My second question is related to the medical loss ratio, which had a sharp decrease in this quarter, 100 BPS versus 2Q18, when observing the first half of the year, the improvement was even stronger: 130 BPS versus the same period of 2018. I would like to know if this improvement level, of around 100, 130 BPS year over year, is sustainable until the end of this year, or... given the business dynamics, do you believe that some quarter could present a concentration of payments for providers and, consequently, this level of improvement may come down a bit, but still deliver year-over-year improvement, as has been the case for 3 or 4 years? I am asking this question because 4Q18 loss ratio increased 180 BPS over 4Q17. So, I would like to understand your thoughts for the rest of the year. Thank you for the opportunity to ask my question.

Raquel Giglio (Vice President of Health and Dental)

Hi Salomão, good morning. Thank you for the question. In relation to net adds, when you observe the comparison between the first and the second quarter, I can guarantee you that in underwriting strategy terms, we remain consistent. This strategy began in 2012, bringing prices closer to the reality of each beneficiary, this movement encourages the beneficiary to remain with us, in other words, it allows the maintenance of our customer base for a considerable time since we don't have unexpected issues during the negotiation of the price readjustment. The market seasonality is natural and considering the economic scenario we don't expect different scenarios that will lead to a decrease. In relation to the loss ratio, I think you began answering the question yourself... we believe in the long-term, all of our initiatives and upcoming results are derived from efforts implemented more than 5 years ago, such as the direct purchase of materials, negotiation with providers, medical audit, all of these initiatives began a long time ago and we continue to work on them. We carefully look at each semester, we are always glad with good results like this one, but our strategy is always focused on longer periods, for this reason, considering the first half is reasonable, but observing the year as a whole is fundamental, as Bottas mentioned previously.

Felipe Salomão (Citibank)

Thank you for the answers, Raquel.

Operator

Our next question comes from Eduardo Nishio – Brasil Plural.

Eduardo Nishio (Brasil Plural)

Good morning everyone. Thank you for the opportunity to ask questions. I would like to have more details on *SulAmérica Direto*. Can you confirm the average ticket announced by the press? The disclosed numbers were between R\$130.00 and R\$190.00 depending on the region. I would also like to know if you can compare SulAmérica to its peers in this sector, e.g. Hapvida and Intermédica. How are you positioned in relation to them? Could you please give us insights on the addressable market that you are reaching? What is the size of the addressable market that you want to reach with this average ticket? Thank you.

Raquel Giglio (Vice President of Health and Dental)

Hi Nishio, this is Raquel, thank you for the question. As previously answered in Mariana's question, the *Direto* products were launched aiming to reach a new beneficiaries. These figures and SulAmérica's target is to always to be one step below the lowest product that was currently available. Either for Rio de Janeiro or São Paulo, I am not going to comment the prices, but to give you an idea, it's on average 20% cheaper than the cheapest option previously available. Obviously, comparing this to any competitor's product is impossible, but I can tell you that we can expand our scope considerably, always considering the strength of the brand and of the products that are now available, while extremely innovative, also bring flexibility to beneficiaries. We have the following features available in-app: medical orientation by phone, chat, doctor video calls for children up to 12 years old... all those are competitive edges for SulAmérica, different from what the market is offering nowadays. I can't precise the numbers for you or estimate the size of the market, but I can tell you that, without a doubt, it give us a new share of the market to work with our products.

Eduardo Nishio (Brasil Plural)

Thank you. Is there any number of the addressable market that you can share with us?

Raquel Giglio (Vice President of Health and Dental)

No, we don't have this number.

Eduardo Nishio (Brasil Plural)

OK, thank you.

Raquel Giglio (Vice President of Health and Dental)

Thank you.

Operator

Our next question comes from Felipe Salomão – Citibank.

Felipe Salomão (Citibank)

Hi everyone, thank you for the opportunity to ask another question. My question is related to dividends. The Company's ROAE has been showing a sustainable increase for a few quarters, even with the reduction in the Selic rate, as mentioned by Bottas. Today, the Company's ROAE is close to 17%. Is there a chance the Company will distribute slightly more dividends to its shareholders, considering this expansion in profitability? Is it possible to retain and keep growing as the profit percentage decreases? Thank you.

Ricardo Bottas (Vice President of Control and Investor Relations)

Salomão, this is Bottas. I am going to take this opportunity and use your question to emphasize our position on capital structure. The Company established its capital structure, in consolidated terms, to preserve a leverage ratio that may be between 20% and 25%, in other words, the debt in relation to shareholders' equity. Also, the dividend policy is set at 25%. Our belief is that the dividend policy, considering our models and estimates, is appropriate to support our organic growth and, in some situations, the policy can also support some inorganic and non-transformational movement. I can tell you that this capital structure is adequate today and there is no indication of a change in the short-term.

Felipe Salomão (Citibank)

OK, thank you, Bottas.

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