

1Q22 Conference Call Transcript – Q&A

Operator

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

Yan Cesquim (BTG Pactual)

Good morning everyone, how are you? I would like to explore the organic growth theme. We noticed that in the first quarter the Company's organic growth was under pressure, I think there was a termination of an ASO plan. I would like to better understand what has impact your organic growth. I would also like to ask about your outlook for the year. Do you expect a recovery in growth to the levels that we used to see in the last quarters? That's it, thank you very much.

Juliana Caligiuri (Vice President of Health and Dental)

Hi Yan, this is Juliana. First, I will answer your question about organic growth. In 2021, we noticed a more aggressive market. Obviously we did not join the price war, but we had to make some tactical defenses, so we focused on retaining our portfolio and growing new sales in a sustainable way. I think the market this year is still very busy, the competitors are also trying to expand their portfolios, but we are very solid in terms of sustaining our growth, because our portfolio meet the needs of our customers and our business model is very close to brokers and clients. So, I am very confident that this year we still have a relevant space for growth.

Yan Cesquim (BTG Pactual)

Perfect, thank you.

Operator

Our next question comes from Mauricio Cepeda – Credit Suisse.

Mauricio Cepeda (Credit Suisse)

Hi everyone, Bottas, Juliana, Marcelo and Reinaldo. Good morning and thank you for the opportunity to ask questions. I also have a question about growth, I would like to talk about SME. We can notice that the market is going well in SME plans, many competitors are trying to explore this product, but SulAmérica is still presenting the best performance in this line. So, I would like to ask about your plans. What are you planning to do with SME plans? I would also like to know if you intend to explore other channels, such as the bank channels or something like that, in order to use this line for organic growth given the difficulty that we can observe in the corporate line. Thank you.

Juliana Caligiuri (Vice President of Health and Dental)

Hi Maurício, thank you for the question. Clearly the SME segment is one the main focus of the Company and it is a segment there is still a lot of opportunity to explore. In terms of portfolio, the Direto line was created to fit into this segment, providing a more affordable offer in addition to all other lines that we already have. Another important focus that we have is the relationship with our brokers that we recognize as a fundamental channel for the SME segment. I think this is one of the SulAmérica's differential, which is the close relationship with brokers and we want to continue

in this way. We also observe an opportunity of growing Dental and SME segments, and we have different channels. So, definitely, the SME is our main focus, but the broker channel remains the most prominent channel.

Mauricio Cepeda (Credit Suisse)

Perfect, pretty clear. Do you have a specific product design in addition to the channel?

Juliana Caligiuri (Vice President of Health and Dental)

As I mentioned, I think the Direto line, in the many regions that we have already launched it, still have many growth opportunities and we are going to combine this in the offer of Direto Nacional, which will be focused in São Paulo and Rio de Janeiro, to give more possibilities for us to enter in the SME portfolio. So, I understand that the balance of our portfolio, which can reach SMEs from different sizes and types, help us to be well positioned to operate in this segment, but in my opinion, the mid-ticket is what reinforces our strategy in relation to the SME portfolio.

Mauricio Cepeda (Credit Suisse)

Perfect, Juliana. Thank You.

Operator

Our next question comes from Vinícius Ribeiro – UBS.

Vinícius Ribeiro (UBS)

Good morning everyone. I have two questions. The first one is about loss ratio. We would not expect that ex-COVID-19 loss ratio have already resumed to 2019 levels, but I would like to hear from you: what do you expect for the loss ratio behavior? What are the most important variables, from price increases to a frequency normalization? The second question is related to organic growth. Could you please give us more details about the market prices? In price negotiations: Do you think the tickets are coming back to healthy levels or do you think the competition is still very aggressive as it used to be in previous years? Thank you.

Juliana Caligiuri (Vice President of Health and Dental)

Hi Vinícius, thank you for the question. I am going to start by your last question and then I will answer the question about loss ratio. We can observe that the market is following a dynamic with higher levels of readjustment. I think 2021 was tougher, but I think, the market this year understood the importance of price adjustments. We have made a significant price adjustments and almost all competitors are doing the same, obviously that are some competitors that are more aggressive, especially the smallest ones because they want to gain market share, but we understand that the price adjustment is absolutely necessary. The effects of this adjustment are gradual, so I think you might see better in the second quarter of the year, but we can notice that the market is following this trend. In relation to loss ratio, I cannot anticipate what is going to happen throughout the year, but we still observe higher frequency levels, COVID-19 levels are going down, which is very positive, but elective procedures are still presenting higher frequency rates. Our expectation is that it will go back to normal levels and we have many actions to manage that, but with the effect of the price adjustment in the second quarter, and if everything continues improving, probably we will observe a better controlled loss ratio.

Vinícius Ribeiro (UBS)

Perfect Juliana. Can you share with us what is the level of price adjustments that you are using? We already know the numbers for SME plans because ANS has already disclosed, but we do not know for Corporate plans. Could you please give us an idea?

Juliana Caligiuri (Vice President of Health and Dental)

I think SME plans dictates how other portfolios will behave, but obviously for the Corporate plans the negotiations are individual. I cannot give you many details, but the SME's readjustment is a good proxy of what we have been doing in the other portfolios. There is always a risk of downgrades or loss of lives, but we have been managing that in our portfolio, we have other options to re-balance. It is worth to highlight that our churn rate has been below from what we have expected. In our vision, the market has realized that these price increases is absolutely necessary.

Vinícius Ribeiro (UBS)

Perfect, thank you very much.

Operator

Our next question comes from Ricardo Boiati – Safra.

Ricardo Boiati (Safra)

Hi, good morning everyone. Thank you for the opportunity. Actually, my question is a follow-up concerning the previous questions about price increases. Juliana, just to make it clear: Do you think that the price increases made so far tend to be sufficient to bring a more normalized loss ratio when compared to the Company's track record? In this question, I am adjusting the loss ratio... I am already excluding the COVID-19 impacts, because we imagine that these impacts will reduce over the time, and I am also excluding the negative price readjustment in individual health plans. We know that you have already made some readjustments with your clients. So, I would like to understand if the readjustments seems to be enough and from now on the Company will make a more regular price increases or if there is something that will happen, given the inflationary environment. This was my first question, and also on this theme, I have another question: How do you see the affordability of companies and families being impacted by the inflation rates and readjustments? You have mentioned about risks of downgrading some plans into more affordable options. Do you think this is going to be a trend? Do you think the affordability is becoming a more latent issue given the companies do not have much space in terms of operating margins considering the economy demand is lower while costs are increasing? If I can ask a last question: I would like to know if you have an idea of the potential impact of the proposal for the minimum wage for nursing professionals. I know there is a lot to be discussed, but I would like to know if you have any idea of the potential impacts for SulAmérica and also for the sector as a whole. Thank you.

Juliana Caligiuri (Vice President of Health and Dental)

Hi Ricardo, thank you for the questions. Regarding if the price adjustments are enough or not, obviously that it is gradual, there have been two years of COVID-19 pandemic which has impacted a lot the sector dynamic. So, we have been making some price adjustments, but gradually we will adjust this portfolio. To reach a balanced loss ratio, we also need to reach a normalization in the claims frequency, which is now above usual levels. This is a seasonal quarter, usually the second quarter tends to be more impacted. So, yes, I think we are going to get a healthy alignment of our portfolio, but it is going to take a while to happen, probably we will only observe that in the 4Q22

and in the beginning of 2023. So, that is my best answer to you, I think we are on track of sufficiency, but it's still a long and hard journey. Concerning affordability, we have not seen expressive downgrading or migration to other plans. For an example, the Direto's growth is mainly due to new sales and not due to downgrades, but this is a possibility that we are always evaluating. We understand that the economy is under a lot of pressure, companies are under pressure as well as we and our providers are, so this balance is important. We still do not see any significant movement towards that, but we are well prepared if it happens. Finally, regarding the proposal for the minimum wage for nursing professionals, obviously that this is topic of concern. It is not something that impact us directly, but indirectly because it will pressure our relationship with providers, so we are closely monitoring. This is a great topic of concern for the whole sector, but we must wait and understand how this is going to happen, but obviously that this theme brings an additional pressure to the industry.

Ricardo Boiati (Safra)

Thank you very much, Juliana.

Operator

Our next question comes from Marcio Osako – Bradesco.

Marcio Osako (Bradesco)

Good morning everyone. I have two questions. My first question is about the frequency of elective procedures. Considering the higher frequency that you are observing versus the historical levels: I would like to know if it is generalized in all products or if it is more concentrated in higher ticket products. My second question is about the price increases in corporate plans. I would like to know if you had to make more adjustments in the products versus the history in order to adjust the loss ratio trying to fit with a lower price increases, for example: adjustments in the network of providers, in contract duration and even an addition of Dental plans. If it is happening, how many BPS the price increases reduce due to adjustments in the product? Thank you.

Juliana Caligiuri (Vice President of Health and Dental)

Hi Osako, thank you for your question. Talking about frequency, we see broadly, this is not specific for one portfolio, but off course different portfolios have different behaviors. For example, in more expensive plans we notice higher use of reimbursement while in cheaper plans we observe higher use of the network of providers. So, I think there are different dynamics, but the frequency of elective procedures is still high in all levels, which represents the behavior of the population during the pandemic. Concerning price increases, naturally we review our portfolios very frequently and we adapt to our customers' needs, especially for corporate plans with big companies. There are many ways to keep the co-participation balanced, for example: making adjustments in the network, moving to a different model such as ambulatories and there are many other things that can help to control claims. I do not think this is going to significantly impact our premiums because we make these adjustments to gain efficiency and not necessarily to reduce premiums. Our commercial logic continues being to recover premiums, but always seeking efficiency in use and claims. I think there are many mechanisms to support companies in this sense.

Marcio Osako (Bradesco)

Thank you.

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