

3Q20 Conference Call Transcript – Q&A

Operator

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

Samuel Alves (BTG Pactual)

Good morning Gabriel, Bottas, Raquel and all directors. Good morning everyone. I have two questions. The first one is related to SulAmérica Direto. Could you give us an update regarding the market share of the product and the sales dynamic in the new region that you have recently implemented it? In my second question, I would like to know if you can give us more details about the churn in Corporate portfolio. We have noted that the Company has maintained a flat portfolio quarter to quarter, organically. So, what has been holding it? Has the Company managed to sell more SME and Affinity products? Thank you.

Raquel Giglio (Vice President of Health and Dental)

Hi Samuel, this is Raquel. How are you? Thank you for the question. I will begin my answer by a quick overview. We have launched the Direto line for the first time in the middle of last year, initially, only available for groups over 30 lives because that was a test period of this new product. After this first trial, in March/2020 we launched this product for the retail segment. That moment coincided with the beginning of the pandemic, even so all the brokers were trained and the sales team was also prepared. We have noticed an exponential increase in sales month to month, notably in the retail and new sales but it also worked as a good retention tool in this period of recession. So, I can say the product is in line with our expectations and it is responding well in relation to the pandemic scenario that we are facing at the moment. Talking about our retention strategy, which we always mention in our discussions, it is sustained and nothing has changed. We do not settle short-term partnerships, for an example, a customer that wants to stay with us only for 12 or 24 months... we always look for long-term partnerships. Some years will be better than others but we are very keen to be with our customers as long as we can because we will face the crisis together and we will get out of it also together. Even though these customers might have some impact in terms of dismissals, if you can keep the customers in the portfolio, when they grow again, we will also grow again with them, without leveraging, for example, higher acquisition costs due to agencying seeking to acquire a new customer. We are following this logic of retention based on long-term contracts, with some flexibility in terms of adjustment rates, looking at a long-term maintenance, extending contracts for another 2, 3 years, eventually 6 years, we have an example like that here. The strategy is also to work more and more in our brand platform concept of integral health and provide a more comprehensive offer... in Health segment we can reduce something by: extending some contracts, implementing Dental contracts which might be with the competition and when we bring it to us, we analyze the loss ratio as a whole and it is reflected for the customers. This logic is more and more incorporated in Life and Private Pension. So, the strategy is sustained and, obviously, it is reinforced as necessary in periods of crisis.

Samuel Alves (BTG Pactual)

Thank you Raquel. Good morning everyone.

Operator

Our next question comes from Mauricio Cepeda – Credit Suisse.

Mauricio Cepeda (Credit Suisse)

Hi, good morning. Thank you for your availability to answer our questions. I would like to continue in the same line as Samuel's question about the expectation of Direto line... Some investors have been talking about it's elasticity effect, you are going to a lower ticket but on the other hand, to recompose the gross profit maybe you need a higher volume. How do you see this logic between elasticity, volume and ticket from now on? The second question is: the pandemic influenced the telemedicine culture, at this moment, the beneficiary looks for the operator before going to an emergency room... I would like to know if you are quantifying this, which is the benefit of it and also would like to know if the telemedicine helps to take off the beneficiary from an unnecessary journey. Finally, the last question isn't about Health... You have launched a credit product, what do you believe to be its potential? Thank you.

Raquel Giglio (Vice President of Health and Dental)

Hi Cepeda, this is Raquel again. I will begin answering and then I will hand over to Marcelo and Bottas. Considering your first point, which is related to elasticity and Direto line, which has a lower ticket versus volume, I think is important to point out that nothing has changed in our strategy. We still have a concentration in high average ticket products, which reflect the logic of insurance in terms of free choice and broad network. Regarding the Direto line strategy and the acquisition of Paraná Clínicas, we can have a broader range of offers. So, I see this as a positive point for our next steps. We see Paraná Clínicas as a huge lab that will reinforce even more the logic that we have in the Direto product, with a leaner network and with compensation models that makes sense to the network and notably to providers. Once again, the numbers are showing very good results, especially when we consider this moment of crisis. So, I see this as positive, the whole strategy is very successful, with all care management and claim management tools, that you already know for a while... but with a lower average ticket in the Direto line. It can be even more leveraged and expanded based on the learnings that we have from Paraná Clínicas, where they manage their own clinical centers as they offer primary and secondary care. In telemedicine, as you have seen, the accumulated figures since the beginning of the pandemic were very high, and it is worth mentioning that we had already been thinking about telemedicine even before the regulation. In 2018, we purchased Docway's control. Among other services as doctor house calls, Docway used to provide medical orientation by video, which utilization rate was low, before the pandemic it was about 500 to 700 video calls per month. But once the pandemic started the average daily use was over 1.200, so we stabilized the provision of this service. Our telemedicine has three (3) pillars: There is the emergency service that is available 24/7, which most of the time substitutes an unnecessary visit to an emergency room; There is telemedicine which is focused on therapy... I reinforce the importance of psychology because it is one of the main motives for virtual appointments regarding therapy, finally we have the coordinated care physicians who provide elective appointments, mainly for chronic patients that could not halt their medical care during the quarantine and they were able to continue the treatment. Regarding your question related to emergency room, I would say that the experience has been: 89% to 90% of on-call physician's appointments, those who are available 24/7, almost 90% of them do not require an on-site visit, it means that they were not eligible to visit an emergency room. From 10% to 11% of this population is driven to a hospital or an emergency room after the virtual appointment. This is exactly the fast-track strategy that you can observe in our entrance arch... So, when a beneficiary needs an on-site appointment and this was confirmed during the virtual appointment, SulAmérica finds a hospital, check its availability and when the beneficiary arrives at the hospital, the person is being waited for. So, it provides convenience and the person feels welcomed. That's it Cepeda.

Marcelo Mello (Vice President of Investments, Life and Pension)

Cepeda, I will answer the second part of your question, which is related to financial assistance and which is the Company's strategy. The Superintendence of Private Insurance and Pensions (SUSEP) allowed the commercialization of this product in the beginning of August, in this sense, one is able to receive loans using part of the pension reserves from the private pension as collateral. We were the first insurer and I think the only one until now to offer this product. It is a risk free product because there is a guarantee and it is very easy to contract the service, in our case it is 100% digital, in 6 clicks the Private Pensions clients can have access to this loan. The main strategy in this process is to retain and improve the costumers' experience. We know that Private Pension customers try to avoid as much as possible to redeem their pension reserves, but sometimes they really need to redeem it and during the pandemic we noticed an increase in the volume of this redeem pension. Therefore, the financial assistance product helps the customers to maintain their pension reserves for their future use and at the same time, improves the customer's journey. You made a question regarding the retention rate in the Health segment, I can say that this product also work as a retention tool. We have a large number of Private Pension customers so the volume of redemptions also follows this trend, in this sense, we have an opportunity to improve the retention rate and also improve the customer's journey and their experience, and as a consequence, we can maintain a line of financial revenue that we didn't use to have before.

Mauricio Cepeda (Credit Suisse)

Thank you for the very clear answers.

Operator

Our next question comes from Guilherme Grespan – JP Morgan.

Guilherme Grespan (JP Morgan)

Hi, good morning Gabriel, Bottas, Raquel and other participants. Thank you for the opportunity to ask questions. I have two questions: the first one is related to mid-term... When we think in Health segment, the ROAE is about 20% and we have been seeing some changes in the regulatory capital required by National Supplementary Health Agency (ANS) until 2022 and in a simple calculation, if you assume that 95% will drop to 75%, the ROAE could maybe go up to something around 24%, 25%. I would like to know your opinion about this process for 2022 and 2023. Do you believe that this gain in profitability due to a lower capital allocated is going to be transferred to price by the competition and from you? Should we assume that hereafter if the Health ROAE did not go up to 25%, you will prioritize increasing the market share and price transference to customers? The second question regards digital which was already mentioned before. I am curious, you have more than 300 thousand virtual appointments and I would like to isolate how much of this is related to coronavirus patients and how much is not. I know that those beneficiaries that used the digital care for a coronavirus appointment, after a good care, will probably be customers of other services but I would like to know how many of those calls are related to coronavirus and how many of them are not. Thank you.

Ricardo Bottas (Vice President of Control and Investor Relations)

Thank you Guilherme. Regarding capital, we cannot give you any guidance, especially for 2022 and 2023, but you are noticing a fact which is very important and I think it generates a provocation among the competition regarding the use of this access. One point which I think is important for us, as a Company position, is that in fact we have the expectation to have a capital relief and it is defined by the ANS proposal to migrate from the traditional solvency model to a capital risk-based model. We must wait for all the ANS disclosures for all types of capital,

recently there was another discussion and publication, the expectation continues the same. If there is a relief and also a confirmation that the macroeconomic scenario and opportunity cost, that today Brazil has a cost of capital below what it used to be in previous years. I would say to you that the reduction of cost of capital should be a potential new component in a discussion of price competition, this is my belief. We must wait to know how fast it is going to happen, who is going to be the first and who is going to be more intensive in this utilization. I think we are very well positioned in terms of our operation efficiency and our consistency in returns, so we are well positioned in this competitive scenario. Raquel, could you please answer the second question?

Raquel Giglio (Vice President of Health and Dental)

Yes, sure. Guilherme, how are you? Thank you for the question. I will separate in two stages. In the beginning of the pandemic we noticed that the whole population was more concerned, and it could not have been different, and there was also a curiosity regarding the service that we launched based on a ministerial order that approved temporarily the telemedicine in Brazil. So, we can't forget that the telemedicine was approved in the country. What used to be just a medical orientation by video became effectively an appointment because you can receive a QR code that includes exam requests, drug prescriptions, even antibiotics. So, we had a greater increase in the number of attendance by on-call physicians, mainly in this first moment. Then, a few weeks later, we started doing elective appointment with specialists that was notably to treat chronic patients, a mother that needed to talk to a pediatrician, oncology follow-up visits, geriatric medicine, pulmonologist and many others specialties. In the past, undoubtedly, most of the appointments that we made were people who wanted to ask questions about Covid-19, who wanted to know if the diagnostic was compatible or not, but along the time this were coming back to normal levels and I would tell you that the vast majority of the elective appointments nothing have to do with Covid-19. Regarding on-call physicians there is an important part of the appointments that are related to Covid-19 but there is also a very significant number of appointments that has nothing to do with Covid-19. I think your question is similar to "When Covid-19 is past, will the telemedicine trend go away or has it already been incorporated in the beneficiaries' culture?". So, I believe much more in the second alternative. The telemedicine utilization has been expanding even more, it started much more concentrated and focused on Covid-19 but then it spread to other demands. I would like to draw attention to the virtual appointments with psychologists, because during the quarantine, burnout and mental diseases are topics that everyone must pay attention. So, if there is an app that provides the possibility for the beneficiary to have their therapy session with a psychologist using the app is something that it very disruptive and it's have been very well accepted by the population as a whole... HR departments are massively adopting it in their companies but also beneficiaries are finding this resource in the app and they are asking for this and using it. So I think it is something that it is here to stay. Thank you, Guilherme.

Operator

Our next question comes from Vinicius Ribeiro – UBS.

Vinicius Ribeiro (UBS)

Good morning everyone, thank you for picking my question. I would like to talk about the postponement of price increases in relation to 2021 commercial dynamic. There is some uncertainty about what is going to happen in fact, but I would like to know how has been the discussion with the companies and regulatory authorities considering everything that is happening. In my second question, also related to 2021, I would like to explore a little bit more the point that Raquel mentioned previously... We have been noticing that service providers are under a lot of pressure and maybe due to a potential second coronavirus wave, this situation

could be even more intensified. I would like to understand... the negotiation with service providers regarding new negotiation models, new payment structures, closed network and other as such... This negotiation has already been accelerated in the last 8 months, do you expect to continue accelerating for 2021? Should we expect new and more affordable products coming from you and the market? Thank you.

Raquel Giglio (Vice President of Health and Dental)

Hi Vinicius, this is Raquel again. Thank you for the questions. Regarding the postponement of price increases, as Bottas has mentioned before, the mandatory postponement required by the National Supplementary Health Agency (ANS) was obeyed and everything was suspended and properly accounted, except for the Individual portfolio because we still do not know the readjustment rate. In 2021 we will be allowed to charge postponed readjustments but we are still waiting for ANS instructions. The regulator has already ensured that we will be able to charge. Concerning corporates plans over 30 lives, the price hike can be charged during this period if the client companies agree to it. I am going to share with you the numbers that we have for contracts over 100 lives... There are 4 clients that preferred to postpone the price increases to January. So, we can notice that the corporate clients, mainly the largest ones, do not want to postpone the price increases, they prefer to have this discussion with us at this moment based on SulAmérica's good faith and all discussions that we already had with them. The fact that we have long-term relationship with these costumers helps a lot in this kind of negotiation, we have never contacted them only by a formal written communication. We always look at what happened and also what is going to happen, we always consider the contractual rule and together we come up with a solution that will be acceptable for both. In my opinion, this was one of the main reasons to our success to maintain the price increase to a relevant number of corporate clients. Concerning the retail segment, we are still waiting what ANS will determine to start operating as of January. Regarding your question about service providers, "if the providers are under pressure during this year, it could be more difficult to negotiate with them into new models from now on?"... I think it is exactly the opposite, providers were already approaching us to talk about new products and new compensation models, such as capitation, bundle, single daily payments and I notice that providers want to do this even more. I see this movement as a good news, not only for providers that are concentrated in large centers, but also from outside the axis Rio de Janeiro - São Paulo. For example, last week we signed a contract of global daily payment with a provider from Feira de Santana. I haven't noticed any speed reduction regarding this theme, on the contrary, I have noticed that they want to do this more and more proactively. Of course those providers which were first confronted with this theme, concerning the new compensation models, in other words, those who were invited first to join SulAmérica were the largest providers, now we are moving into further regions and hospitals where there is lower utilization by SulAmérica. So far everything has been very successful and I do not think we are going to decelerate this movement. Thank you for the questions.

Vinicius Ribeiro (UBS)

Raquel, Perfect. Thank you. Just a follow up, my question was related to acceleration and not about the deceleration, but you have answered perfectly, thank you.

Raquel Giglio (Vice President of Health and Dental)

Yes, it has accelerated.

“This document is a transcription with text adaptations made in order to ease reading and understanding the speeches. The text depends on the quality of the audio and on the speakers’ discursive clarity, therefore it includes adaptations that increase the legibility and coherence without affecting the speakers’ discursive ideals.

Declarations on events or future results are based on certain premises and analyses that are prepared by SulAmérica (“Company”), representing exclusively the expectations of management in relation to the future of the business and the continued access to resources to finance the business plan of the Company. However, the real results of the Company and its controlled entities depend, substantially, on changes in market conditions, government regulation, competitive pressures, segment and Brazilian economic performance, among other factors, which may differ significantly or implicitly from those declarations.

This transcript and its contents are the property of the Company and, therefore, should not be disseminated or reproduced partially or entirely without the consent of SulAmérica.”