

2Q21 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)

Thank you. Good morning everyone, good morning Bottas and other executive officers. I have two questions: the first one is about organic growth. You were highlighting the good performance of the mid-ticket segment, which is around 150 thousand lives, but we have noticed a still relatively low net adds, maybe due to a high level of cancellations. I would like to explore this theme with you. Analyzing your member base, which are the main moving parts? My second question is about the M&A appetite. Could you please give us some details about how are your projects going and what are the profile of your targets - are technology targets or even mid-ticket operators? Thank you.

Clovis Poggetti (Vice President of Control and Investor Relations)

Hi Samuel, this is Clovis speaking. Thank you for the question. I am going to start with second question, obviously considering the limitations imposed related to M&A topics and I hope you understand that. I would say that: I have been in the Company for a little bit more than 3 months and, in my first Board meeting, we have made some changes in some filters, which increased our focus and allowed the entrance of more businesses for our evaluation. What I can tell you is that I am very excited, the Company is also very excited, and today we have 7 opportunities in the pipeline that are under evaluation. As already mentioned in previous opportunities, this theme is part of my mandate and I dedicate a large part of my time to support the Company's inorganic growth. I hope that I have helped in this aspect. Now, Raquel and Mello will address the question related to organic growth.

Raquel Giglio (Vice President of Health and Dental)

Hi Samuel, good morning! I hope you are well. Actually, we are noticing an organic growth, a very positive flow of sales and new regions, which is very interesting – not only in Rio de Janeiro-São Paulo, but also new regions, either through Direto product or through Paraná Clínicas, that you already know. Our positive expectation is for growth. To illustrate this a little bit more, recently, about two weeks ago, we had the approval of the expansion plan of the semi-verticalized model – based on the Paraná Clínicas model – as a growth platform. I am not going to give you details of the cities and regions, but I can anticipate that there are 28 mapped clusters to expand the semi-verticalized model with primary and secondary care clinics. Depending on the number of lives and our potential in the region, the clinic size might be small, medium or large. For the first expansion wave that were already approved, there are already 4 properties being prospected, which 3 of those are in the South region of the country and one of those is outside the South region. Only in these regions, we have the potential of more than 60 thousand lives of addressable market and we have a very optimistic view for organic growth. In fact, the churn is pressuring but, as you can notice, some portfolios are suffering more while others are suffering less but, at the same time, the sales are very positive. Thank you.

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

Hi Samuel, this is Marcelo Mello speaking. Considering the question about organic growth, we have been observing a very positive evolution of the Individual segment of the Life insurance portfolio, which an important increase in the earnings release when compared to the last quarter. This is the result of many initiatives that we have been implementing, not just improving

the beneficiaries' and brokers' journey, but also adding new coverages and products to the portfolio, as well as negotiating different channels - including digital channels – to increase even more the capillarity of our distribution. In terms of Private pension, it is worth to mention that this year we have beaten the record in launching new products. Just to give you a reference, in the past, we have added 3 products to the Private Pension portfolio, and in this year we have already added more than 12 products and we also increased our penetration in the digital platforms that offers this product. It is also worth to highlight the Travel insurance product, which went through a delicate moment in the last few months, but now we are seeing some countries reopening with appropriate protocols and we can already observe a marginal recovery in the volume of this product. In relation to the Asset Management, it is important to highlight the many investments that we have made, mainly in the investment teams, adding new strategies such as the team that we have built, which is very robust in operations with structured credit. This team is already presenting an accelerated pace of growth with many products being launched, such as the SulAmérica Crédito ESG, which today is already the biggest ESG product in the credit segment. Thank you.

Samuel Alves (BTG Pactual)

Thank you Mello, Clovis and Raquel. Good morning everyone.

Operator

Our next question comes from Samuel Alves – BTG Pactual.

Mauricio Cepeda (Credit Suisse)

Hi Bottas, Raquel and Mello, good morning. This is Cepeda from Credit Suisse speaking, thank you for your time. I have two questions. The first question is about the commercial strategy. We know that you maintain long-term relationship with your customers and there are companies that hire health plans for a long time. So, I would like to know if you are noticing an economic recovery and an increase in the number of employees. Still talking about the commercial strategy: have you noticed some companies willing to make an upgrade in their plans or do you noticed an increase in the churn? What are the drivers for the churn on your portfolio? My second question is: we noticed that the ex-COVID-19 loss ratio was lower than the usual in the first quarter and, in the second quarter, it is closer to normal levels, but even so the numbers of the first half of 2021 seems to be slightly lower. Do you have any idea of backlogs? Do you feel any effect due to the decrease in screenings of oncological and cardiological patients? Does the decrease might lead to procedures that are more expensive from now on? Thank you.

Raquel Giglio (Vice President of Health and Dental)

Hi Cepeda, this is Raquel speaking. Thank you for your question. I am going to start from the second question, related to ex-COVID-19 loss ratio in the first half of 2021. The number we disclosed for ex-COVID-19 loss ratio still does not reflect a normal scenario. So, in the first half of the year there was an important recovery of elective procedures, which suffered a significant reduction in the frequency in the second quarter of last year, as you observed, but it still does not reflect a normal scenario. Considering the advance of vaccination, the flexibilization of the social distancing among other things, we are now seeing some light at the end of the tunnel in relation to the end of the pandemic and we are optimists about the future. Giving close attention to the oncological and cardiological patients and to others chronic diseases, which we didn't suspend the treatment, not even during the pandemic, was one of our main efforts during this period. We have activated claims in the cases that we knew there was something to be done related to prevention - for example, women who needs breast cancer screening, men who needs prostate cancer screening or someone who needs frequently tests of glycemia. So, we have been activating those types of claims because they cannot wait and, if they are postponed, the

damage would be much higher not only to the assistance costs but mainly to the quality of patient's life. This was one of our main focus since the beginning of the pandemic. Talking about commercial dynamic, we started to notice signs of a more positive economic scenario, but still timid and the unemployment rate is still very high, but depending on the sector and region, we are already observing a growth. We do not want to lose customers at this time because they will hire again and when it happens, we will also grow again. We have been seeing, punctually, some customers growing and I think the outlook is very positive. In relation to churn, we have been noticing an aggressive market - I think we mentioned this in the last 2 or 3 calls. We are not the only one who is talking about it, this is not the first time, this is cyclical and it is part of the market dynamics. This aggressive market pressures a little bit more the churn, but we already know how to deal. Thank you.

Mauricio Cepeda (Credit Suisse)

Thank you.

Operator

Our next question comes from Vinicius Ribeiro – UBS.

Vinicius Ribeiro (UBS)

Good morning everyone. Thank you for the opportunity to ask questions. There are 2 themes that I want to explore, but unfortunately not very different from what we have heard before. My first question is about loss ratio. We understand that there are a series of exogenous factors such as utilization, backlog among other things, but you have been showing a number of structured initiatives such as: increasing contracts that are moving away from the fee for service, beneficiaries in the Coordinated Care program and even the mix of products that has been changing. Thinking about all these factors, which are a little bit more under your control, should we expect some gains in loss ratio when compared to pre-COVID-19 levels? The second theme that I want to explore is the semi-verticalized model, which Raquel has mentioned. I would like to know if you could give us more details about pricing and explain to us what "agreements with service providers" are, and if its modeling is similar to the Direto product. So, please, give us more details about what can we expect in terms of products of this initiative. Thank you.

Raquel Giglio (Vice President of Health and Dental)

Hi Vinicius, this is Raquel speaking. Good morning. I am going to start from the second question. The semi-verticalized model – which is the expansion of the model that we have learned from Paraná Clínicas – follows the logic to be always in partnership with our partner providers and we do not have any intention to be 100% verticalized. Most part of the secondary care and 100% of the tertiary care is provided by our providers. A very important point, which we consider a "sine qua non" condition that allows our expansion, is: it is not enough just to find a region that seems to be interesting in the commercial point of view, the Company must find a provider that wants to expand with us. Besides that, the partner must also agree to use new payment models – moving away from fee for service - and must have a sustainable long-term vision. All of this drives our analysis to further expansions. We can say that this model has worked very successfully in Paraná Clínicas – where we operate along with Hospital Santa Cruz, which was acquired by Rede D'Or. Besides that, everything that we have learned from the Direto product also contributed to make us confident to give traction for this model. Ours integrated healthcare centers are focused to detect the needs of ours costumers and direct them to be treated internally and delegate to our partners when necessary. The adoption of new payment models is a basic condition for the model's evolution. Regarding your first question, which you have helped me already... we have been working in healthcare management, claims

management and Coordinated Care for a few years. You have been listening to us talking about it from more than 3 years, and we emphasize that it is no longer a project, but it is already a pillar of our strategy. We are facing a moment that we have never experienced before, last year we faced the positive side, but this quarter not so much. It is important to bear in mind that we should always try to see the film rather than the snapshot. Everything that we have been doing and working on to differentiate us from our competitors - such as the verticalization of care and having the beneficiaries in the center of care – is exactly what drive us and permeates our strategy, so we are able to be always several steps ahead when we talk about claims management and mainly healthcare management. Thank you Vinicius.

Vinicius Ribeiro (UBS)

Raquel, thank you for the answers.

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