

## 3Q21 Conference Call Transcript – Q&A

### Operator

Ladies and gentlemen, we will now begin our Q&A session. Our first question comes from Vinicius Ribeiro – UBS.

### Vinicius Ribeiro (UBS)

Good morning, everyone. Thank you for the opportunity to ask questions. I have two questions, both about Health. First, could you please give us more details about the commercial strategy for 2022? At other times of greater economic difficulty, SulAmérica could navigate very well in the market with an expanded products portfolio and bargaining power with providers, which historically tends to favor the payers in those scenarios. What should we expect in terms of commercial strategy both in terms of retention and new sales? My second question is about loss ratio. We can clearly see a gradual recovery of usual levels, but also talking about 2022, considering the statistical and actuarial effect, should we expect that IBNR will continue helping the loss ratio? Besides that, do you have any idea how COVID-19 - now more as an endemic rather than pandemic - could impact exams and hospitalizations in 2022, even if it is more discreet? Thank you.

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

Hi Vinicius, this is Raquel. How are you? Good morning and thank you for the question. Regarding commercial strategy for 2022... We have a very clear and consistent strategy for a few years and we are known for present an extremely high average of permanence, which is longer than 13 years in some portfolios. As already happened in other crisis, we keep strategy during the COVID-19 pandemic and we do not have any intention to change this. Our intention is to keep our “goldfish bowl” full because when costumers starts to recover its organic growth, we will also grow again. Of course that last year was completely atypical in terms of revenues and loss ratio, and these are the main ratios that we observe to make a readjust - more than 90% of corporate clients use this dynamic. Mainly in 2021 we have been noticing a gradual recovery of the readjustment ratios, which are much close to reality. Even though COVID-19 pandemic has not yet finished, we can already observe that we are closer to a normal scenario. Regarding your second question, I think we must celebrate good news, and today Brazil have an excellent news concerning the COVID-19 scenario. Talking about SulAmérica, today we have 159 people hospitalized, in the past we already had around 3 thousand people hospitalized at the same time due to COVID-19. We can observe a clear trend of a gradual improvement, which is not a coincidence... 75% of the Brazilian population has already taken at least one vaccine dose, numbers above United Kingdom and Israel, countries that were the world’s benchmark. Besides that, more than half of the Brazilian population has already taken 2 vaccine doses: summing up 58% of the population. States like São Paulo has more than 90% of its population vaccinated and as you already know SP represents a considerable share of our portfolio. In addition, the Brazilian climate is helping us, we are transitioning from the spring to summer, differently from the Europe, which is transitioning from the autumn to winter. In some European countries we can observe a worsening, but I think Brazil is facing a very favorable scenario. Concerning your first question about commercial strategy, I forgot to mention the strategy for new sales. Our commercial dynamic focus on costs and claims to enable long-term relationships. We want to build a sustainable relationship with conscious pricing regardless of the aggressive commercial dynamic coming from the market because for us this is unjustifiable. Finally, you mentioned IBNR in the last few quarters. During the COVID-19 pandemic there were a high degree of uncertainty but as the pandemic is stabilizing and closer to normality in terms of claims, we have been adjusting the IBNR. I believe IBNR is fully adjusted and correct.

**Vinicius Ribeiro (UBS)**

Perfect Raquel. Thank you for the answers.

**Operator**

Our next question comes from Samuel Alves – BTG Pactual.

**Samuel Alves (BTG Pactual)**

Good morning Bottas, Marcelo, Raquel and other directors. I have three quick questions. The first one is about Health loss ratio. Could you please tell us what was the medical loss ratio in September? In this first question, I would like to understand if the loss ratio is already much lower than the quarter's average, to see as a proxy for recurrent claims. Secondly, could you please give us more details, even if qualitatively, regarding the profitability of the mid-ticket ex-COVID-19? It has been dilutive for the Company's medical loss ratio or not? My third and last question is about the Wage Variation Compensation Fund (*Fundo de Compensação de Variações Salariais* in Portuguese, or FCVS). Despite the decision taken last year, to establish the jurisdiction of the Federal Court to prosecute and judge cases of this nature, we have noticed a continuous increase in the balance of amounts receivables. I just would like to have an update regarding this theme and also would like to know if there is anything that can be done to segregate SulAmérica's receivables. Thank you very much.

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

Hi Samuel, this is Raquel. I will begin answering the first two questions and then I will hand over to Bottas, so he can talk about FCVS. Regarding loss ratio, I cannot give you September figures, but I will give you a trend curve. As we observe a lower amount of COVID-19 claims every month, we can notice a positive trend curve. So, September was better than August, and so on and so forth - you must keep this trend in mind. Regarding mid-ticket ex-COVID-19 loss ratio, it is truly exceptional even with the impact of COVID-19, the mid-ticket loss ratio has been better than the general loss ratio, which make us very confident. There is already an important critical mass, mainly when we consider our actions: the launch of the *Direto* products and its lives - more than 40 thousand lives – the mid-ticket strategy and the portfolios of *Paraná Clínicas* and *Santa Casa de Ponta Grossa*, among others. We have very robust results and if we add up everything, we already have more than 160 thousand lives in the mid-ticket. Bottas, could you please continue?

**Ricardo Bottas (President)**

Thank you Raquel. Hi Samuel, thank you for the question. Concerning the receivables of the Housing Financial System (*Sistema Financeiro da Habitação* in Portuguese, or SH/SFH)... despite the balance of the receivable still not reflect the positive effects of the decision of the Supreme Federal Court, this issue is much more associated to processes that was already in course, the average age of these processes is very high and they were very exposed to decisions on the State level. Just to give you an idea, recent statistics reveals that now more than 40% of new processes goes directly to Federal Court decision, it reduce significantly the average price of these processes. The regulatory framework has evolved and it is giving greater agility in the compensation processes that has been done by *Caixa Econômica Federal*, which was hired by the Treasury fund to manage this compensations. We have two fronts, both are positive consequences because from now on processes will go directly to the Federal Justice. We expect that the Federal Justice and Caixa Econômica Federal starts to make directly the payments, discharging the insurers of this process. We also expect a greater efficiency to reimburse insurers. We can already observe an increase in the balance, it is still small, but now we are observing the beginning of a stabilization. We are starting to recover, but it is important to mention that the recovery will be long. Regarding your second question related to alternatives to split those

receivables. It is worth to remember that they are booked under a regulated legal entity, which is an insurance company, which is the same company that used to operate our auto business and still a subsidiary of our group. All I can say is that those receivables are booked in a company that is no longer operating in terms of insurance. The portfolios considered there are only run-off business and the SFH itself is a run-off operation. We actually did that split in our annual financial statements. We have begun to split the impact of those receivables over the Company's total return. Today, we estimate that those receivables are compromising 3-4 BPS of our profitability, which is measured by the return on average equity. I think it is important to demonstrate this effect and also maintain our two actions ongoing, both by encouraging the fund itself to provoke Caixa Econômica to establish more direct agreements through Federal Justice, and by pursuing together with Caixa Econômica Federal that the reimbursements are paid faster.

**Samuel Alves (BTG Pactual)**

Thank you Bottas and Raquel. Good morning everyone.

**Operator**

Our next question comes from Flavio Yoshida – Bank of America.

**Flavio Yoshida (Bank of America)**

Hi, good morning everyone. Thank you for the opportunity to ask questions. I would like to better understand the growth dynamics, especially in Group plans. When we see the growth of revenues year against year, comparing third quarter against third quarter, we can notice a slowdown of this growth from 8% to almost 6%. I can imagine that the growth in the number of beneficiaries also follow this dynamic, but could you please talk a little bit more about the competitive scenario as a whole? Still on this theme, I would like to understand how the readjustment negotiations for the Group plans are going on, because I think this is a period that a lot of readjustments happens and we can see a scenario of inflation putting pressure on your cost base, and the same time there is a challenging scenario for the next year, which lead us to imagine that it must be very difficult to negotiate at this moment. So, if you could give us more details on that, I would appreciate. Thank you.

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

Hi Flavio, this is Raquel. Thank you for the question. Talking about the increase in premiums in Group plans, the first thing we should observe is the portfolio mix. Within Group plans, there are some portfolios such as the Affinity plans that, historically, has average tickets that are more leveraged, and at this moment, their sales performance is not good as it could be. Now, considering Corporate plans as a whole, the number of lives is increasing, but we also should consider the entry mix of these new lives, because as *Direto* gaining traction and has been a success, somehow it depresses the entrance average ticket. The readjustments are still impacted by what I have mentioned a few minutes ago, regarding the dynamic of readjustment negotiation looking at loss ratio. Over the last few months we have been negotiating readjustments for January, we analyzed the track record of the last 12 months ending until October. So, it still consider a relevant part of what happened when we had a higher impact related to the pandemic, so yes, there has an impact. The negotiations are very difficult and the increase in interest rate is pressuring the negotiations. We had been observing a decrease in VCMH in the last few years, but in this year, for obvious reasons, there were a reversal in the VCMH curve, which is increasing now. What worsens this situation is the commercial strategy that we are observing in the market, some players are presenting pricing offers that are not consonant with the reality, but on the whole, our after-sales team is doing an excellent job with our clients. Now, the most important thing is to simulate and demonstrate what will be the loss ratio scenario for the next few years. We have been working with our teams both in terms of readjustment proposals and also proposals

that we might receive from the market. If you are negotiating the readjust of a customer that presents 110% of loss ratio and they come up with a proposal from the competition that is 10% below, they should expect that in the next year they are going to have an adjustment around 50%. We have been working a lot in education and the conversion of readjustments has been increasing in the last few months. I consider this scenario very favorable for us to have increasingly more conscious negotiations with our customers aiming a sustainable and long-term relationship, which is very important for us. Thank you.

**Flavio Yoshida (Bank of America)**

Thank you.

**Operator**

Our next question comes from Ricardo Boiati – Safra.

**Ricardo Boiati (Safra)**

Good morning everyone. I have a question related to Direto. Raquel, could you please give us more details regarding the performance of the Direto portfolio? I would like to hear from you the difference between more mature cities versus new cities, is there any relevant distinction regarding sales capacity and product adherence in those regions? Where does the Direto's clients come from? They are clients that are trading down from a traditional product of a competitor? Are they coming from a verticalized insurer? Are they coming from Unimed? There is a relevant cannibalization ratio or trade down within SulAmérica – clients that migrates from a higher ticket product to the Direto line – or not? So, if you could give us more details regarding the Direto evolution it will be excellent. You have mentioned the competitive environment. Just to understand if your margin has improved or not: The most aggressive players are more or less aggressive in the last few months? Thank you.

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

Hi Boiati, how are you? Thank you for the questions, I will begin by the last one. We still see an erratic behavior. If I am not mistaken, I think I mentioned in the last call that I was more optimistic with the collective awareness of the market, mainly in terms of pricing for new clients and readjustments. Now, since the last 2 months, I started to observe a greater aggressiveness, that is why I say it is still a very erratic behavior. It is important to mention that our strategy is not going to change due to unjustifiable pricing that are made by other players either from a non-vertical player or a vertical player, but unfortunately I am observing a strong commercial aggressiveness. The example I gave to Flavio previously, concerning a customer that has a 110% loss ratio and a competitor was offering a discount it is true, but it is completely unjustifiable. Regarding your question about the Direto line, I think I already mentioned before that Rio de Janeiro is our TOP1, it was the first product of this line, so it is more mature than the others, has more beneficiaries, a better sales performance and a very well established conversion. Pernambuco has also shown a great performance, São Paulo is starting to increase in a better rhythm and Joinville has been helping a lot the *Direto* line. Joinville is an interesting case because the launch of the *Direto* there leveraged not only the sales of *Direto*, but also leveraged the sales of *Paraná Clínicas*. There are some negotiations where both commercial units work together and the customer define which one they have a better fit. To give you an example, there were three companies negotiating this week with us, they could choose between Direto and Paraná Clínicas. To sum up, two of them chose Paraná Clínicas while one of them chose Direto. It is important to say that these options drives not only the Direto line but the mid-ticket as a whole. There are some customers that are coming from fully vertical players, such as the three companies that I mentioned in the Joinville example, one of them is coming from Unimed. There are other clients that are coming from market peers and downgrading its products. And finally, a small part of this customers are coming from

SulAmérica, which might represent the term “cannibalization” that you mentioned in your question, but this movement is the smallest one. It is important to mention that even if cannibalization happens, it would be positive because it is important to have other options to keep the clients with us and maintaining profitability.

**Ricardo Bottas (President)**

Raquel, if you allow me... Boiati, this is Ricardo speaking. Regarding your second question about competitive environment, it is important to keep in mind that the aggressive competition has a price to pay. When we analyze the relative performance and compare the loss ratio of these extremely aggressive players, we are talking about +10 BPS in loss ratio. So, it is important to talk about the balance between consistent growth and the preservation of the profitability as an important component of our strategy.

**Ricardo Boiati (Safra)**

It is pretty clear Bottas. Thank you.

**Operator**

Our next question comes from Guilherme Grespan – J.P. Morgan.

**Guilherme Grespan (J.P. Morgan)**

Hi everyone, good morning. Thank you for the opportunity to ask questions. My question is about long-term strategy. Recently, we have noticed a movement of your main peer, which is launching a relevant arm, with a significant investment, in acquisitions and hospitals construction – there was an investor day that they gave a focus on that. I would like to know how do you see this movement of your insurance peer in the industry, which is going towards hospitals, and also would like to know what are the implications for you within the competitive environment. Thank you.

**Ricardo Bottas (President)**

Guilherme, thank you for the question. I will begin and then I will hand over to Raquel. We are in the path of the mid-ticket strategy. This is our strategy, which is not necessarily means to operate in a lower segment, but to mix two directions, which is called virtual verticalization. We are able to do that through the *Direto* line of products, which does not stop us to have other product lines, but it is an entry point in this strategy of virtual verticalization. It is worth to remember that *Direto* product is 100% based on risk sharing models and alternative payment models than the traditional one, which is only based on frequency. In this way, we have an example of how strong is SulAmérica’s partnership, notably with the healthcare providers and hospital managers. I think that this partnership proves one of our strategies. Another one is the execution of the penetration in a new addressable market with a lower ticket through acquisitions of portfolios and operators that we called of semi-vertical model. We believe that semi-vertical model is another driver to increase our partnership with health providers, notably with the hospital managers. I will use once more the *Paraná Clínicas*’ example, which is a strategy that we are seeking in others M&A opportunities. We are searching for portfolios with a large concentration, resolution and quality in their Primary Care and in the assistance quality of clinics and diagnostics in partnership with hospitals, creating regional products. *Paraná Clínicas* is the example of what we want to replicate. I would say that our mid-ticket strategy and our long term strategy is based on the virtual verticalization, in both of them, and has an assumption of strengthening our relationship with providers, notably with hospital managers. Thus, differently from what your question is, our goal is not to compete with our health providers and hospital managers, but to strengthen our

partnership with them, with strategies of long term orientations. Raquel, if you want, feel free to complete my answer.

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

Exactly Bottas, you answered perfectly.

**Guilherme Grespan (J.P. Morgan)**

Perfect. Thank you Bottas.

**Operator**

Our next question comes from Mauricio Cepeda – Credit Suisse.

**Mauricio Cepeda (Credit Suisse)**

Good morning Ricardo and Raquel. I have a question regarding the network of service providers. We can notice that usually hospitals and diagnostic centers are already complaining about the material inflation, the hospitals occupancy rate has dropped, maybe there is a still a reboot demand... I would like to know if, in this situation, you are feeling any pressure regarding prices renegotiation. How are you negotiating with the service providers for the next year? Thank you.

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

Hi Cepeda, thank you for the question. This is Raquel speaking. Yes, it is a very complex moment of readjustment negotiations with costumers and service providers. The rising inflation has been impacting strongly. We used to have a completely different IPCA 12, 24 months ago, so you can imagine how the negotiations will be from now on. This negotiation is not easy, but there is an extremely relevant point in any negotiation in any sector, which is the bargaining power and the company's relevance. SulAmérica rarely represent less than 25, 30, 35% of its main service providers, so, with no doubt, it really give us a greater bargaining power, especially because it is a win-win partnership and this is exactly what Bottas has mentioned before. In the past, negotiations were much more buyers trying to keep the best readjustment as possible, but nowadays we usually see negotiations where both parties compromise their views in order to reach an agreement, sometimes buyers relinquish the best renegotiation price, but set a greater demand or designing a product that have a risk-sharing between the two parties. So yes, it has been very complex as we have seen in previous years, but it is going well and under control, and it is bringing innovations and initiatives that I think that make sense to the sector's sustainability. Thank you Cepeda.

**Mauricio Cepeda (Credit Suisse)**

It is pretty clear. Thank you.

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