

2Q20 Conference Call Transcript – Q&A

Operator

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

Vinícius Ribeiro (UBS)

Good morning everyone, thank you for answering my questions. My first question is related to the loss ratio... As you mentioned, we understand that it is an exception but when we look at the IBNR, which impacted this quarter results, it has presented a larger provision. Does this provision implies in an expectation of postponed volume recovery or there is another actuarial effect that we can't see? My second question is related to Health and concerns the dynamic of the prices readjustment. I will split this question in two parts... First of all, I would like to know if you had not postponed the readjustments, would the impact have been considerable in your average ticket? The second question is: What are your perspectives on the dynamic of negotiation and pricing with the companies? Thank you.

Ricardo Bottas (Vice President of Control and Investor Relations)

Vinícius, thank you for the question. This is Bottas, I will answer your question and then I will hand over to Raquel. I think it is very important to give you an overview so you can understand that the Company maintained the consistency of its accounting and actuarial practices regarding the disclosure of this financial statement, despite this atypical situation of the decrease in the frequency. You mentioned IBNR, we also maintained the premise and the same consistency of the practices in order to be comparable to the previous periods. It is worth to bear in mind that our actuarial practices are influenced by the registered frequency. Therefore, the IBNR can already capture a little bit of what Raquel has mentioned about frequencies, although March, April and mainly the first half of May have presented very strong decreases, almost 60%, we already noticed an important slope regarding the frequency recovery in the second part of May and June, the decrease went from 60% to 30% and we also noticed this trend in July. So, the IBNR has the function to register the incurred frequency that was not reported, however, it does not capture expected future frequency. I just wanted to make it clear that the methodology is sustained and consistent with the actuarial practices of the Company. Regarding readjustments - Raquel will further complement my answer - it does not have a material impact in the second quarter results because in fact, the readjustments for the costumers were postponed. It is also worth to bear in mind that the postponements of the readjustments are materially concentrated at the end of the quarter. In this sense, the third and the fourth quarters are periods that capture greater effect from the portfolios in which the Company, voluntarily, postponed the readjustments. Raquel, please.

Raquel Giglio (Vice President of Health and Dental)

Thank you, Bottas. In addition to Bottas' statement on reserves, the methodology has been sustained and respected, maybe it is an additional prudence factor due to what we have seen in relation to the increase in the frequency. Regarding readjustment negotiations, it is not an easy period but we have already passed through other economic crises and faced high unemployment rate so that's why our methodology is sustained. We esteem for long-term relationships so, at this moment, if we need to decrease the readjustments, a contract extension, an inclusion or an increase in the copay, a negotiation for Dental plans, in exchange for a long-term relationship, we will do so, and these are our tools for that. Our main focus is to keep the costumer with us because this moment of crisis will end, once the crisis ends, the costumer will grow again and when it happens the Company will grow as well. This is the

strategy adopted in the last two major crises and it proved to be a great strategy that helped us a lot. Due to everything that we mentioned before, such as digital tools and the improvement in the digital app, the customer perceives value in the Company when he is looking for health plans. The healthcare plan is one of the three greatest desires of the Brazilians and in a moment of crisis and pandemic, it contains greater value. So, the relationship and after-sales teams are serving the customers full time, even remotely, they are doing many video calls and we are working together always looking for solutions to keep the customer with us. We expanded our product portfolio launching the Direto line. This movement gives us resiliency to face this period so that's why we are expanding our portfolio, and keep the clients by our side.

Vinícius Ribeiro (UBS)

Perfect, pretty clear. Thank you for the answers.

Operator

Our next question comes from Yan Cesquim – BTG Pactual.

Yan Cesquim (BTG Pactual)

Good morning Gabriel, Bottas, Raquel and Marcelo. I have two questions... The first one is related to G&A, I think Bottas already mentioned this theme. We noticed that the adjusted G&A by the following components: the sale of the Auto segment, the transaction cost, the non-recurring use related to the Covid-19. It was a good surprise and was below the average of the last few quarters, around 7.3% of the operating revenues. We want to know if we can consider this lowest level of G&A as basis for new SulAmérica, without the Auto segment, and if we should expect something at this level from now on. Regarding my second question, I think Raquel already mentioned this topic but I would like to have more details... You have mentioned the rebound in the frequency and also said that by the end of July the rebound was about 30% lower than the normal results year against year. I would like to know if you can give us a number related to the evolution in July, if the number increased or how is this process happening. Thank you.

Ricardo Bottas (Vice President of Control and Investor Relations)

Thank you, Yan. This is Bottas. Regarding G&A, our difficulty is what we always mention, we can't give you any kind of guidance related to G&A. I think we were very clear to disclose the expenses breakdown, we were much more transparent than any previous releases. To be clear, due to the characteristic of this transaction expenses related to the discontinued operation in the first half of the year were isolated from the expenses related to continuing operations. It is hard for me pointed out for you to use this as a benchmark from now on, but at this moment this is our best reference to describe the operation in the first half of the year and isolate G&A results regarding the discontinued operations from the results of continuing operation. It is worth to remember that our ratios for this quarter, and also for the next coming quarters, should be compared because there is an expense that is materially indexed to the pressure from the situation with the revenues. In this period, we had a stronger decrease in revenues in the Auto segment mainly for the average premium but we also had an important challenge regarding the revenue maintenance given this adverse and uncertain scenario in relation to the impact in the revenue. We are very confident in our capacity to continue performing well in our sales. Raquel already explained the commercial dynamic, but we are not going to ignore this challenging scenario that we had regarding the revenue performance to this ratio.

Raquel Giglio (Vice President of Health and Dental)

Hi, this is Raquel, how are you? Thank you for the question. Regarding frequency, we are attentive to that and just in front of me there is a real time panel with authorized procedures. Clearly there is an increasing trend curve but it varies by type of procedure. There are some procedures with a higher speed and inclination and there are others types of procedures with a lower inclination curve. To give you an overview from greatest to the smallest inclination, I would say: exams, appointments, elective hospitalizations, surgical procedures and also emergency room. Regarding the emergency rooms visits, maybe it could mean a change in the consumer relation between the beneficiary and emergency room service, and maybe, from now on this service will be used effectively as an emergency service. We also believe that the digital tool that allows the beneficiaries to make a video appointment through the digital app gives more comfort and security to the beneficiary because before going to an emergency room, the customer can make a video appointment and receive a request for an exam or a prescribed medicine, all of this without leaving their own home. Regarding frequency... I would say that this subject can't be treated in a simple way, we should see case by case. I will give you a comparison between a Covid-19 hospitalization, which is fundamentally a clinical hospitalization, and a general clinical hospitalization. The average cost of Covid-19 hospitalization in an Intensive Care Unit (ICU) is around 4.7x higher than the average cost of a clinical non-Covid-19 hospitalization in the ICU. Obviously, it has an impact by average time of hospitalization so, without a doubt... the average time of a Covid-19 hospitalization, mainly in the ICU, is higher than a non-Covid-19 hospitalization and it is due to: the required medical team for this type of hospitalization, sterilization process, required personal protective equipment (PPE), management of drugs and special materials and so on. That said, you can't compare one frequency to another because they are different and a Covid-19 hospitalization is more expensive due to the longer period of the hospitalization, but also due to the greater work for the medical team. Considering the Covid-19 hospitalization that is not in the ICU, it costs around 2 or 2.5x more than a non-Covid-19 hospitalization. To give you an overview regarding your question related to frequency, I thought it was good to mention those points. Thank you.

Yan Cesquim (BTG Pactual)

Pretty clear. 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 answering the questions. My question is related to acquisition of Paraná Clínicas and I would also like to explore your strategy. When we look at the transaction, we notice that it brings not only beneficiaries but also clinics and diagnostic centers in the region. How should we interpret this movement? Could you please give us an update regarding your strategy? The strategy is to do some tactical acquisitions or, in this case, was just a part of the deal and a mandatory clause implied in the purchase? How are you looking to this possibility of a tactic verticalization? Thank you.

Gabriel Portella (CEO)

Hi this is Gabriel. I will answer this question and then I will hand over to Raquel. I think this movement that we have been doing - to be increasingly present into the value chain - isn't recent but rather it begun once we took greater participation in the value chain and started to distribute drugs and high cost materials; today we already deliver this service for over 360 hospitals. The opportunity to acquire Paraná Clínicas and the clinical centers included in the

operation has a purpose which is the possibility to test in practice this service delivered. But it is worth to mention that it doesn't mean that we are going to make a verticalization movement. One of the purposes of this strategic acquisition is to advance SulAmérica's presence in the value chain and generate greater value for its beneficiaries. Another purpose is to reinforce our position in the South region of the country, where we have an increasingly strong market position, mainly in this year. I would say that it is a good model, it was a great opportunity that we saw but as I mentioned before it does not mean that we are going to make a verticalization movement. As Raquel has mentioned, I think there are some points of the Health value chain and the entrance arch which offer practical opportunities, partnership opportunities or acquisition opportunities and that's the component we aimed in the entrance arch. We see with optimism everything that we will learn in this process but it's not a future verticalization model. Raquel, if you want to give a complementary response, please feel free.

Raquel Giglio (Vice President of Health and Dental)

Yes, I want to answer Gabriel. Grespan, how are you? I think that more than a portfolio it is a business model. It has 7 clinical centers and it is a big lab for us and I don't have any doubt that it will generate even more inputs for all the coordinated care strategy. Thus, considering relevant findings, we are going to feedback our core strategy, which is the coordinated care. Another point, which I think is relevant to mention is: The average ticket of this operation is lower than the average ticket of the Direto line. Increase the product portfolio in a moment of crisis is always a very positive factor and we are very happy and anxious to begin this integration and see our findings of this business model. Thank you.

Operator

Our next question comes from Mauricio Cepeda – Credit Suisse.

Mauricio Cepeda (Credit Suisse)

Good morning Gabriel, Bottas, Raquel and Mello. Thank you for answering the questions. I have a few questions in order to figure the world trends for the mid-term that may influence the long-term. I know that you mentioned a lot the lack of predictability but maybe you can try to give us an overview of some early factors so we can understand what is happening qualitatively in the market. In the first point I would like to know if corporate contracts have already been cancelled. I would also like to know the dimension of employers suspended contracts and also the benefit extension after the dismissal. Do you have any idea of the magnitude of this impact? The second point is also related to the relationship with the costumer, I would like to know if you have been commercially requested, mainly in corporate contracts, for renegotiation. In the third question I would like to know if the competitors are trying to take advantage of this movement. The fourth point, regarding the short-term, is related to frequency. I think it was very profitable, thank you for giving us a position in the frequency rebound. I would like to understand if the retention already represents a higher use of frequency than the usual and I also would like to know if you see an excessive use from the beneficiaries that were dismissed and are using this extension to continue using the plan. Many questions but I appreciate if you can answer and give some details about these questions.

Raquel Giglio (Vice President of Health and Dental)

Hi Cepeda, this is Raquel. How are you? I will begin answering your question and then I will ask for André's help, our Commercial Vice President, so he can talk about the competitive scenario. We already felt a negative movement in some contracts, mainly in those that have an industrial structure because they had to freeze some of the activities while the contracts are still in SulAmérica. However, we have noticed layoffs and union agreements, as well as dismissals, which are definitive. We begin to notice this but still it does not represent any type of trend

curve, we saw isolated events in some regions but it still too early to comment about trends, but in fact we begin notice this movement. Regarding frequency and the risk of an exacerbated use when the beneficiary loses the benefit, considering the moment of social distancing and isolation measures, we still didn't notice this type of behavior. Readjustment negotiations are always a tough matter, mainly for the companies' HR and purchase departments. I think I already mentioned to Yan, everything that we've done proactively, providing new services, new channels, digitalization that grants beneficiaries access to care and doctors without leaving their own houses, results in a stronger relationship with our customers. It is worth remembering that the average time of permanence of the SulAmérica's costumers is higher than 13 year so, they're long-term relationships. The post-sales team is very close to the costumers. Our focus is not only to not be surprised but we also want to create solutions that are feasible for everyone... when this crisis is over, the costumer will have other options in our product portfolio or may hire additional products, such as Life, Dental, Private pension, portfolios that could increase the costumer bond with SulAmérica. So, it is not a simple period but it's being very well conducted by the teams and in partnership with client companies. The competition is always very tough but some periods are harder than others, I would say that we are facing a tougher period so I will ask André to give an overview of what he is noticing from the market regarding the competitive landscape.

André Lauzana (Vice President of Commercial, Marketing and Press Relations)

Raquel, thank you and thank you Mauricio for the question. As Raquel mentioned, usually the competition is very tough but at this moment it is much stronger. I think it's interesting to mention what we are doing. We have a strong partnership with our broker's network, our 39 thousand brokers are very well spread in our distribution network around the country and they have an excellent qualification. Just to give you an overview, we have trained 35 thousand brokers until June 2020. We were used to train around 45 thousand brokers per year. Year to date, we have already trained 35 thousand brokers until June, it represents an increasing acceptance in training sessions and the new products that we launched and the Direto line has also been well accepted by the brokers. We have been doing some commercial initiatives and sales campaigns. Many commercial campaigns are focused in several segments of brokers and diversification in the regions that we notably have the Direto products and we encourage this. Our operation is outstanding for us, at this moment we have a fluid operation with the adoption of digital tools that have been a strong competitive edge for us, in all our business lines. Last but not least, we intensified our disclosure initiatives not only to the distribution network but also to the public in general, showing that the SulAmérica's offer is much more than just a product, rather it is a convenience with aggregated services and at more affordable prices, notably when we talk about the Direto line. Raquel and Mello, if you want to give a complementary response, fell free. Mauricio, thank you for the question.

Mauricio Cepeda (Credit Suisse)

Raquel and André, thank you for the answers. It's pretty clear.

Operator

Our next question comes from the webcast, from Mohammed Ahmad – Foyston, Gordon & Payne Inc.

“How is the growth trend for Small & Medium Enterprises (SME), Corporate and Affinity members in July?”

Raquel Giglio (Vice President of Health and Dental)

Hi Mohammed, this is Raquel. Thank you for the question. André already mentioned the commercial and competitive moment that we are facing. We observed a decrease in the number of bids in the beginning of the pandemic, now the growth trend curve already shows a strong recovery. For a moment, we noticed a limitation because the costumers were a little bit afraid of changing the benefit but now they are already considering this. As André mentioned, the dynamic of the Direto line, we will launch one more Direto product next week in the João Pessoa region and other products are coming soon, we will also launch a product in the Mid-West of the country. It gives us, even more strength and elasticity to obtain new customers and to retain portfolios, in case a costumer faces a temporary payment difficulty. I will give a little bit more details regarding Affinity, which was the segment that we noticed a reduction in the portfolio in the last quarters. We have a price table and a new portfolio launched for sales as of September 1st, which has a lot of modifications and it will be a more sustainable product. It goes from 10 geographical and pricing regions to 23 geographical regions. With no doubt, this product will be more competitive and we also believe in the potential that the Direto line will generate in this portfolio. We faced a challenging period but on the other hand I see a period beginning with good fruits and it will provide good results for this new strategy. Thank you.

Operator

Our next question comes from the webcast, from Ricardo Borges – Plural Investimentos.

“Congratulations for the results. Due to the pandemic, you weren’t applying price readjustments in the Health insurance policies, is that correct? What was the effect of this postponement in the policies and in the Company’s revenues?”

Raquel Giglio (Vice President of Health and Dental)

Hi, this is Raquel. I think Bottas has mentioned this point a few minutes ago. Yes, we did a voluntarily and temporary postponement of the readjustments from May to July for the Individual portfolio, SME and Affinity. The resumption of the readjustments will be as of August and the reorganization of everything that was not applicable will be a bit ahead. On the other hand, regarding the financial management for accounting purpose, this number is included in the results that we disclosed, so you can notice the readjustments that should have happened in May, in June and July. In this case, May and June are part of the second quarter so you have the visibility if we had done the readjustments. It is worth highlighting that a larger amount of policies’ anniversaries and readjustments are not concentrated in the first semester, but in the second half of the year. They were recognized only for accounting purposes, it is properly allocated.

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