

Y 2015 Earnings Call

Company Participants

- Arthur Farme, Vice President of Control and Investor Relations
- Eduardo Dal Ri, Vice President of Auto and Other Property & Casualty
- Gabriel Portella, Chief Executive Officer
- Mauricio Lopes, Vice President of Health and Dental

Other Participants

- Fernando Leitao, Analyst
- Gabriel Gusan, Analyst
- Gustavo Lobo, Analyst
- Nishio Eduardo, Analyst
- Rafael Frade, Analyst

Presentation

Operator

Good morning and thank you for standing by. Welcome to the Conference Call of Sul America to announce the results regarding the Fourth Quarter of 2015. Today here with us, we have Mr. Gabriel Portella, CEO of Sul America and the company's Vice President.

We inform that this conference call is being recorded and all participants will be connected in listen-only mode during the company's presentation. Then we're going to start a question-and-answer session, when further instructions will be provided. (Operator Instructions). An audio of this conference call will be available right after its end at the company's Investor Relations website. We're going to have a live webcast with audio and slides that can also be accessed in the Investor Relations website of the company at the address www.sulamerica.com.br/ri in the banner Conference Call 4Q15. The presentation will also be available for download in the webcast platform.

Before proceeding, we would like to clarify that any statements made during this conference call regarding Sul America's operational and financial projections and goals are based on beliefs and assumptions of the company and on information currently available. Forward-looking statements are not guarantee of performance because they involve risks, uncertainties and assumptions because they refer to future events and therefore depend on some circumstances that may or may not happen.

Investors should understand that general economic conditions, industry conditions and other operating factors may affect the future performance of Sul America and may lead

to results that will be materially different from those expressed in such forward-looking statements. Now we would like to turn the conference over to Mr. Gabriel Portella, CEO of Sul America going to start the presentation. Please Mr. Portella, you may start.

Gabriel Portella {BIO 18012687 <GO>}

Good morning, everyone. We are now having the first conference call in our new headquarters in Sao Paulo opening our beautiful new facilities, ensuring the quality of our services and offer for our customers. So we have our VP here and during the Q&A session they will be available to answer any questions you may have.

Today, we will be presenting the results of the fourth quarter and the full year for 2015. In any measure, this was a very special year for Sul America.

Our results are better both in the quarter and in recurring sense. First of all, they have been reached through the appropriate distribution of an operation that has increasingly better performance year-on-year. Our results more than the numbers themselves highlighted certainty that the path chosen by the company's management along the year assure long life and vitality that have been demonstrated in 120 years that gave us breath and muscle necessary to continue our trajectory thus making Sul America company that is increasingly more mature, solid with many plans for future years.

We should not fail to mention our results and to locate them against the current scenario. The current scenario is not quiet there are many different variables that affect our business and just as we did in our period, we should look with even greater attention not just at what we need to do but especially what we can do extra so as to assure a safer journey. But this is what we do every year and this new year will be no different. Now I would like to turn the conference over to Arthur Farme, our CFO and IRO for a brief comment on the main indicators and so that we briefly move on to our Q&A session. Thank you all very much.

Arthur Farme {BIO 1845065 <GO>}

Thank you, Gabriel. Good morning, everyone. We have a new approach here in our presentation adjusting our format. I'll be talking about slides two and four of the materials that you have. Slide two provide an overview of the consolidated revenue and on slide four, you will be able to see our consolidated results. Then we go to Q&A.

So on slide two about our consolidated revenue, we're closing the year with a growth of 13.4% in a consolidated. In terms of insurance premiums at the quarter, we had a 10% growth comparing the two periods and the highlight is health and dental with almost 3 million premiums, a 12.8% of growth and we'll be giving you more details about this and in the year, we had 14.3% growth with 11 billion premiums.

In terms of auto, we had R\$770 million in premiums, a 7.4 growth and looking at the year, we should not fail to highlight almost 3.5 billion of revenues, 14.3% growth. These are our two main insurance portfolio of 14% growth in the annual numbers, that very positive

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performance and I'll give you more details further ahead in terms of property and casualty with the slight decrease during the year. And as we mentioned in our press release that we sold our major risks and in personal accident, we had a modest growth of 1.6 in the quarter, but we see positive things for the future.

In terms of private pension, we grew in the quarter with a drop of little bit less than 4% in the year but once again when we talk -- on your interest we close the year with more than 5 billion reserves in pension. And the company's performance in terms of portability was very positive even though the contribution that are in the bottom line presented this behavior, but in terms of movements and migration and portability, the company has had a very positive balance.

ASO, Administrative Services Only, we had a growth of almost 10% in the quarter and 6.6% year-on-year with 800 million revenues in the period. In asset management, almost 11 million of revenue. In terms of net fees with 43.4 of revenue in the year, 11% drop in the year. And here this is related to the fact that the allocation of the funds were related to funds with different rate at the response to the year, but even so we had more than 30 billion of assets under our management, this is a record in the history of the company. Savings bonds were 190 million collection, a drop of 52%, that's quarter-on-quarter and 60% year-on-year. We stopped operating in one line that was significant in terms of its contribution to the revenue.

As I said before further ahead, we'll skip to slide number four. You can see here the highlights in terms of consolidated results and they are now with 11% growth in the first line of the table that you see with 13.4 in the year. Loss ratio of 69.9 consolidated numbers and the details the breakdown of the different things of the different lines, we will explore further ahead worsening of 2.5 points in the quarter, but an improvement of 30 basis points in the year. And this difference between the quarter and the year vision [ph] will be present in all our discussions, as you know and we've been saying.

In insurance, the cycles do not necessarily coincide with quarter and there is a trend of more modest numbers in the last quarter. We don't think that represent that they might be representative in terms of the positive or negative. This is a snapshot and it's random and it does not represent the behavior of a certain portfolio. It's important to highlight that because we've seen this quarter different behavior as compared to other quarters in the year as we highlighted in the report. And we will give you some more detail further ahead when we talk about the year.

In terms of general and admin expenses, we had a 10.8 in contrast with 9.7. So it's been stable in the year, 9.1 in some of the reports that have already been published commence the effect based on our previous publications and part of the change of moving to our new headquarters is a factor, the campaign that we've conducted to celebrate the 120th anniversary of the company. And then also impact of insourcing of part of our previously outsourced labor because we thought that this would be better and this has proven to be true along the year and other minor effect, but we still think that we are performing very well in terms of the management of our general administrative expenses.

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The combined ratio with a drop in the quarter is a consequence of what happened with loss ratios and admin expenses but when you look at the year, it's better to 99.1, almost one point below 100 as an operation of 15 billion represents a significant contribution to the net income of the company. Another relevant important part of the income is the growth of 33% of the quarter, a growth of 23% for recurring net income but the profitability of our own portfolio which is not connected to provision of 103% of CDI for years which is a positive activity that is well known to everybody and the management of Sul America investment was fantastic in this regard especially in the sense of protecting our priority which was given to one.

The income of the -- with growth of 0.5% for the quarter both year-on-year, 735 million. The company is exceeding against any numbers. A recurring number of 246 million, a drop of 16.8% in relation to the quarter-on-quarter. We are not considering to operations that we mentioned about sales and the recurring for the year was 683 with a growth of 23% year-on-year. ROAE of 17.5 reached our numbers that make our management very proud of what we are delivering. This is what we have to say about the informations and now we are open for the Q&A session.

Questions And Answers

Operator

Ladies and gentlemen, we are now going to start the Q&A session for analysts and investors. (Operator Instructions) Our first question Gabriel Gusan from Bradesco.

Q - Gabriel Gusan {BIO 16184494 <GO>}

Good morning, everyone. I have one question, one is about the loss ratio. For health, individual health for the quarter, I can see there was an increase. I would like you to talk about the effect that are used for the comparison year-on-year. And my second question is related to the debt issuance for the second quarter. I want to understand what was the allocation, if there is any other debt and if there is anything different?

A - Mauricio Lopes {BIO 21675846 <GO>}

This is Mauricio Lopes speaking. Thank you very much for your question. In terms of individual, there are two effects combined. One was the reclassification of items of expenses which was below the gross margin. We have the health management program and we have some actions that made the loss ratio higher and also we made changes to the calendar payment, so that had impact of the loss ratio in the fourth quarter. We have been discussing this a lot of the time, but these are the most important effects that made, so let's just say, a continuation in the loss ratio of the portfolio especially individual portfolio.

A - Arthur Farme {BIO 1845065 <GO>}

Well, this is Arthur speaking. In relation to the debt, we understand this is a very good moment to capture the condition. We have closed of not the appropriate payments, that's for the payment of debentures that we issue in 2014 and we wanted to maintain

the level of liquidity that the company had used and above everything else, we are moving this issue for situations in which more volatility could be at play.

Q - Gabriel Gusan {BIO 16184494 <GO>}

Can you -- would you allow me another question. Can you tell me about what would be the impact on the quarter in relation to this idea of market -- the medical plan?

A - Gabriel Portella {BIO 18012687 <GO>}

This is not easier again. (inaudible) exited and it was an one-off specific effect. This was something that has been happening gradually along with the last 12 months and we have been capitalizing on that and we have been given, this to all those light that came from (inaudible) And at the end of the cycle when there was intervention of the agency where there was request for divestment. So, the migration was faster and we received many good part of those lives both for corporate and individual. And we were favored of course as the market-wise as well. And we are very aware of what's happening to the market in relation to all those carriers that can have the similar fate.

Q - Gabriel Gusan {BIO 16184494 <GO>}

Thank you very much.

Operator

Our next question is from Gustavo Lobo, BTG Pactual.

Q - Gustavo Lobo {BIO 18719996 <GO>}

Good morning. I have two questions. The first question is if you disclose what was the magnitude of the expenses when you move the headquarters to Pinheiros neighborhood and also to celebrate the 120 anniversary. I would like to know in absolute numbers, what was the expenses involved.

And my second question is related to pension fund. For the quarter the result was negative and correct me if I am wrong, in the fourth quarter last year the result was negative, because of review of liabilities that led to this number for the quarter. I would like to understand what was the reason of the negative result of the fourth quarter 2015. Was there review, which was something specific or was the performance worse and how can we see it in the future?

A - Gabriel Portella {BIO 18012687 <GO>}

We cannot disclose this information about this expenses. This is already been -- this is already happened. And it has been -- it played for two years. So there is no impact on the results. There were some improvements that were made, some benefits to the increase. In relation to the campaign, we do not disclose this information. The company make institutional investments on a regular basis and this cannot be disclosed.

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A - Mauricio Lopes {BIO 21675846 <GO>}

This is Marcelo Mello. The question related to the pension funds in 2014 consider this is something that has to do with seasonality on the and this is something we did many quarters. So this is something that happens additionally and this is what happened in the quarter you asked about.

Operator

(Operator Instructions) Your next question comes from Nishio Eduardo, Brasil Plural.

Q - Nishio Eduardo

Good morning, everyone. Thank you very much for the call and in relation to health portfolios, can we expect any gain in loss ratio because of the maturation of some projects that we have been implementing?

A - Gabriel Portella {BIO 18012687 <GO>}

We do not provide this guidance in this topic, the only thing I can tell you is that all the projects are moving on at good speed and along the years we have collected good results. And they are well directed. We have new projects, we have been working on them in all front of health management and loss ratio management. I would like to remind you that loss ratio management is more matured, heavier structural project that can move on at the first phase and we have a batch of program or products that have implemented that can be at a very good status of maturation.

And the core team has been therefore two years and all the programs related to health management for losing weight, diabetes. All those programs were 100% successful, successfully migrate their health base that was finalized in November 2015.

So the volume is very high and we'll have a very interesting volume. And even though they mature at longer pace, we have been collecting their results already.

Q - Nishio Eduardo

Thank you.

Operator

(Operator Instructions) Our next question comes from Fernando Leitao from Hoya Corretora.

Q - Fernando Leitao {BIO 4411017 <GO>}

Good morning, gentlemen. Thank you for the call. If possible, I would like you to say something about 2016, it's already two months with -- that have gone by. Something, not necessary the numbers, but what's going on, your feeling about the beginning of this year based on your expectations. And I would -- thank you if you could comment on that.

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A - Gabriel Portella {BIO 18012687 <GO>}

Good morning, Fernando. This is Gabriel Portella speaking. The company has the philosophy or policy not to disclose any guidance. But regardless of that and thinking of your question an overview obviously, we see that the scenario for 2016 is even more challenging than it was in 2015. If you remember in 2015, prospects were negative as to what was going to happen. What I can tell you is that there is nothing in our business lines, in our plans that we are failing to plan in order to minimize any possible effect from the crisis -- we did last year when car sales dropped and we could still have a significant growth in premiums more than 150,000 new cars in our fleet.

So considering our forecast, we made accurate forecast and the conclusion is bad and we were expecting manufacturing of cars to drop and it dropped and even so we could improve and we use our best skills to deal with the difficulties. So the scenario is the same. Even though it might be a little bit more challenging, we don't see anything that we cannot deal with, we're working more, implementing more actions, paying more attention. And we can figure the scenario has changed so drastically.

Q - Fernando Leitao {BIO 4411017 <GO>}

Okay, thank you. Another question, I'm sorry, if this already been made. Admin expenses, why was there significant increases compared to 2014?

A - Arthur Farme {BIO 1845065 <GO>}

Fernando, good morning. This is Arthur Farme. Well, it's been asked, but no problem, we can go back to it, it's important. We've mentioned in some of the reports of the analysts that address the issue of our moving and also campaigns for this 120th anniversary of the company. We also made the decision of insourcing along 2015 formally outsource employees. And now we're doing it in-house with our own staff. So in the year, there was a positive effect. And if you compare quarter-on-quarter, we are comparing quarter when we had this expense to a quarter when we didn't have this expense. But as to our moving headquarters, there was an overlapping of expenses, for example, we are paying rent for the two facilities in the quarter.

Things that will not happen again, it were one-off event. And as to the campaign, we had these two events. The company wanted to explore into mark. The 120th anniversary and the moving of headquarters that's remain slightly higher marketing expenses. But it didn't really affect significantly the company's expenses as a whole. For example, our decision of the insourcing is 350 headcounts overall including projects and investments of the company.

So it's 350 more people in our headcount, we are responding. And if you look at the annual numbers, we are stable at 9%. So I can understand that this number is likely to remain at around 9%. Well, we cannot guarantee, but the fact that we've had two full years that were stable can give you some indication.

Q - Fernando Leitao {BIO 4411017 <GO>}

Okay, thank you.

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Operator

Our next question comes from Rafael Frade from Bradesco.

Q - Rafael Frade {BIO 16621076 <GO>}

Good morning, everyone. It's just a follow-up on Gabriel's previous question. Not specifically about Unimed Paulistana, but the health market and most caused surprise and Mauricio explained that there was a migration of members along the year maybe more intense in Q4. Now when we look at your portfolio, you've been corporate members, it's dropped in the quarter. I think that one of the main concerns of investors and analysts is the greater impact of a large increase in unemployment that might affect your portfolio. So how do you explain this drop in premiums the company is tracking down headcount? Could you talk more about that and I think was more work has?

A - Mauricio Lopes {BIO 21675846 <GO>}

Thank you very much, Rafael. This is Mauricio speaking. Well, there's a number of things. When we look at the completely segmented portfolio and you just look at the group and do not consider ASO in your calculations. It might look like that, we've lost the absolute number of members. Now when you look at the ASO, we had not lost members along the year in absolute numbers.

If we look at the second or third quarter in one of the calls, there was a change in for one customer pre-payments to post-payment and then the other one from post to pre-payment. And we've talked about this, there were two portfolios that we should look at them together to calculate a total number of members. And what we saw in the last quarter, this is movement still going on. So there was quite a significant number of members from pre-payments that migrated to post-payments and they are part of the portfolio and the members that stay with us, we know them, we know the customer and the January transaction in our network give us some bargaining power with them. And always remember that the ASO customers do not consume capital and there is no underwriting risk.

So we can look at the customer very favorably in any one of the two shares. For 2016, naturally the macro dynamic might revamp to see whether they're going to use pre-payment or post-payment. So now we should always had the perception of movements of members looking at the two portfolios together. I think you will be more accurate in your analysis.

As to claims, then you should consider that in this discussion, you need to be careful in looking at the effect of the year as a whole in loss ratios because there will be change the payment calendar as we've been saying for two quarters, we are still adjusting in a very sensitive way, what is the best way to adjust the payment portfolio, so as to maximize the company's cash and reduce volatility within the quarter, which is one of our concern, the concentration in Q4 will still might have some specific effect. But if you compare the 12 months, you have more accurate numbers, the more accurate portrait of what happens in terms of premium. In this manner, I think I'm taking two parts of your question as to Q4.

Q - Gabriel Gusan {BIO 16184494 <GO>}

Yeah, you answered my question. I would like to follow-up my two questions. One is regarding ASO and one of the things that we don't really have is the perception a company would change its payment mode, it seems to be quite large. And we see an increase of 5,000 members in ASO from one quarter to the other might be just one customer. How big that the company have to be to have post-payment? Is it 1,000 or more?

A - Gabriel Portella {BIO 18012687 <GO>}

The risk perception in relation of each company is very peculiar, we cannot define what is the perception of risk when they format the post-payment expense that we have had along the years is the following. Multinational client has more appetite for the risk of their national clients, because of globalization record of Brazil, American client that make insurance to their headquarters. So the company is simpler as globalize the company is and more complex the more local the company is as 5,000 lives when we talk about post-payment, it's something simple to consider.

The clients coverage and allocation is more bigger than clients who are desperate nationwide, clients with more care when they're maintaining the employees when they have turn up -- are ready to hire depending on the volatility. And once that depend on more specific contract, all this has to be considered when we define the requirements of the clients.

Additionally, when we look at the members and their movement, you can see that the integrations of members from one side to the other, there appear movement because of mainhold [ph] and hiring. And in the net aspect, this is very positive. It continues to be positive. I think this covered the question you asked.

Q - Gabriel Gusan {BIO 16184494 <GO>}

Sorry to take your time. But I want to know about the payment agenda that's implemented. I understand what you said that we have to -- we observed the year, full-year. But when we are talking about collective assets, when we say that the loss ratio that was year-on-year. It's something of course difficult to measure what is the effect of the change in the calendar of payment. So what would be the impact so that we can try to make the right comparison?

A - Mauricio Lopes {BIO 21675846 <GO>}

So I understand that considering the year makes more sense, but considering only the quarter you understand that. What we are trying to do is to calibrate the effect of weeks -- the effect of holidays and consider it in a more regular way. There are different ways of observing and considering the loss ratio, we can prepare calendar with considering other variables. So we are trying to use a very robust model that can bring about the impact of every useful day on the calendar and consider the determination of how we consider each loss ratio according to a correct model. And so that we can reach a regular way. So this is how we are trying to model this format. So we have to consider what is the loss ratio trend of the year and be based on this.

Q - Gabriel Gusan {BIO 16184494 <GO>}

Thank you, Mauricio.

Operator

Our next question comes from Gustavo Lobo, BTG Pactual.

Q - Gustavo Lobo {BIO 18719996 <GO>}

Thank you very much for answering another question. So I would like to talk about auto segment. What's the dynamics of pricing are you being more aggressive. What's the competition like? And also in relation to loss ratio, when we look at the data provided by (inaudible) we can see there was an acceleration of the loss ratio along with the quarter. So especially if you consider December, we can see then upward trend. So what are your views in terms of growth, in terms of loss ratio for this specific portfolio? Thank you.

A - Eduardo Dal Ri

Gustavo, this is Eduardo speaking. I'm going to answer about the aggressiveness of the market. The truth is that there is always somebody who is running away from the pricing. We cannot say that their installed price will but there is always a player that would be out of the curve and will open a store which is against the risk. And this is something that happens quite often and this is the dynamics of the market of auto. And this is something that is not going to change.

In terms of the acceleration of the loss ratio, we can see that this materialize in the market as a whole. And there are some inputs related to risk that have deteriorated in the last quarter. I could mention the inflation of auto part which is a large cost for us and some competitors also came in. And in terms of risk, I can -- on the other hand talk about our dynamics of the growth. The level of growth has decreased a little, but still higher than the market. The reason is that the investments that we have made in the past years was with the purpose of anticipating this type of risk that I just mentioned to you. And to a certain degree, we can anticipate the remedy, the actions that we need to mitigate the effect of those risk variations, such risk variations are cyclic in the market.

And when Brazil is facing problems in the macro economy and this is something that is likely to change upwards or downwards. And that's why at that time, we are much more aware of those changes and our model very much more intensified and we may change gears, change the directions of some of our models. Nearly half of our models have changed and we have been working on this and this explain the reduction in production that I just mentioned and it's mitigate the actions of those variables that I mentioned related to risk.

Q - Gustavo Lobo {BIO 18719996 <GO>}

Thank you.

Operator

We now close the Q&A session. I would like to turn the call over to Mr. Gabriel Portella for his final considerations.

A - Gabriel Portella {BIO 18012687 <GO>}

And to conclude as we said before, 2015 was a remarkable year for Sul America. We are very proud of it and we celebrate all the achievements we made. Once again, I would like to thank you for your engagement all our collaborators for the dedication, contribution, partnership of all the brokers without whom we would not be able to reach the results we did and we would like to thank for also the coders [ph] that helped us. Thank you everyone and have a good day.

Operator

The conference call of Sul America has now ended. Thank you very much and have a good day.

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