

Q2 2020 Earnings Call

Company Participants

- Andre Lauzana, Vice Presidente, Investimentos
- Gabriel Portella Fagundes Filho, Chief Executive Officer & Member of Board of Executive Officers
- Marcelo Mello, Vice President
- Raquel Giglio, Vice President of Health and Odonto
- Ricardo Bottas, Chief Financial Officer
- Ricardo Bottas Dourado dos Santos, Executive Vice President of Control and Investor Relation
- Ricardo Bottas Dourado dos Santos Machado, Executive VP of Control & IR

Other Participants

- Guilherme Grespan
- Mauricio Cepeda
- Mohammed Ahmad
- Ricardo Borges
- Vinicius Serrao Ribeiro
- Yan Cesquim

Presentation

Operator

Good morning. Welcome to the conference call of SulAmerica to announce the Results of the Second Quarter of 2020. Today with us we have Mr.Gabriel Portella, CEO of SulAmerica and the company's vice presidents. This conference call is being transmitted live through webcast with an audio and a slide deck that can be accessed at the company's Investor Relations website at www.sulamerica.com.br/ri. All participants will be connected in listen-only mode during the company's presentation and then we are going to start a Q&A session when further instructions will be provided. (Operator Instructions). SulAmerica's conference call is being recorded, and the audio will be available right after its end at the company's IR website.

Now I would like to give the conference over to Mr.Gabriel Portella, SulAmerica's CEO, who is going to start the presentation. Mr.Portella, please, the floor is yours.

Gabriel Portella Fagundes Filho {BIO 18012687 <GO>}

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Good morning, everyone. I am here gathered with all the executive officers of SulAmerica to talk about the results of the second quarter of 2020.

Once again, virtually, each one of us at home from where we have been keeping SulAmerica in full operation for the fifth month in a row since the beginning of COVID-19 pandemic in March 2020. In this period, our priority has been to assure the safety and health of our employees and also providing access to health to our members and keeping full service to our customers, brokers, providers, which we managed to do successful. We have also contributed to society and the national healthcare system, patients in the form of donations and construction of beds and supply of PPEs for customers by delaying price adjustments and to providers by giving financial advancements. But we did not sit still, much to the opposite.

With all challenges we dealt with, we went beyond with very significant accomplishment in the past few months. In July, a month in advance as compared to the forecasted transaction for the sale of our unit of automobile and P&C with other challenges imposed by isolation.

I would like to take the opportunity to thank everybody who contributed to the process, our employees, including those that are now our former employees and are part of Allianz, and also SUSEP for the objectiveness and speed and all insurance brokers with whom we have long partnership. The completion of the transaction reinforces SulAmerica's new strategic positioning, focusing on personal reason, with a whole vision to support our customers in decisions involving their physical, emotional and financial health.

Along those lines, we have expanded our work in the segment of health. We have signed an agreement for the acquisition of Parana Clinicas, one of Parana's leading health carriers, an important movement for us to reinforce our position in the south of Brazil, with a new average ticket standard quite below the traditional average ticket of the company, thus expanding our product portfolio and market share.

We also have expedited innovations and services, especially with the health app with intensive technology use and connected medicine to expand our -- the care to our members and to leverage our Coordinated Care strategy, providing appropriate care to our members, whether related to COVID-19. And also for elective procedures, there were almost 70,000 services or appointments with doctors on duty and also scheduled tele appointments in many different specialties. In the second quarter of '20, we had 160,000 digital appointments with an NPS above 80% for those initiatives, which is considered a zone of excellence.

At the same time, we are continuing to monitor with close attention the evolution of all COVID-19 cases. From the beginning of crisis until August 5, we had 5,566 hospital admissions of our members with new COVID-19 and 2,607 needed to be admitted to intensive care unit. Of that total, 4,824 of our members have recovered and been discharge, and unfortunately 379 of them have died.

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Now talking about the pandemic and its impact, it's not possible to measure all its future effects, either in terms of economic slowdown, especially related to the impact in the GDP and unemployment as well as the behavior of loss ratio in future quarters. In the second quarter, we have had a reduction in the frequency of claims, especially in Health & Dental, because of isolation and social distancing measures. We hope to have a gradual recovery of a significant part of those procedures that have been delayed, so that no short-term results should be extrapolated as something that will be recurring in future quarters, just as it may be that held up frequencies will be added to usual frequencies in future.

Now I would like to give the floor to Ricardo Bottas, CEO and -- sorry, CFO and IRO, who is going to give more details about our financial performance in the quarter. Then we have a Q&A session.

Ricardo Bottas {BIO 18071813 <GO>}

Thank you Gabriel. Good morning everyone. Good morning, my fellow officers. Now let's go into Slide 2 of the webcast.

Let's talk about the revenues of the period. This already discounting the discontinued operations of car and P&C as completed in July 10, which still contributed to the results of the second quarter and first half of the year shown as discontinued operations in our financial statements.

Slide 5, I'm going to go into details about the effects and the impact it had on our consolidated equity and the results. Operating revenues of the company totaled BRL4.8 billion in the second quarter '20, 5% increase over the same period '19. There are some highlights for Health & Dental. We had a increase of 6% over the second quarter '19, reaching BRL4.5 billion, reaching the growth of all revenues from our portfolio.

Our post-payment healthcare plans also showed a progression with a 21% increase in revenues, following a good performance in number of beneficiaries in this portfolio. Life & Personal Accident, there was a decrease of 7.5% primarily due to the consequence of social distancing, because of the pandemic, which had a direct impact on sales, primarily of travel insurance policies for obvious reasons. In this quarter, pension showed 11.5% lower revenues with a smaller volume because of a few contributions made.

Asset management, there was a 22% reduction of revenues because of lower performance rates in the period, 91% lower, which followed the performance of financial markets and their impacts during the pandemic.

Slide 3 we can see our pie chart distribution of revenue breakdown. Excluding here, the car and P&C, discontinued operations, and we can see the new mix of revenues of the company, 93% of share from Health & Dental and 7% related to business in life, pension and investment.

Bloomberg Transcript

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Slide 4 now, we sum up all the items that allow us to analyze the performance. I've talked about revenues. So now we are going to address other topics. Immediately after me, I'll have my fellow officers talk about the performance of health, dental and accident. So let me go into gross margin, which show a 10 percentage point improvement due to the significant reduction in loss ratio from dental and health, as we are going to hear later. It's important to emphasize the rate of administrative expenses, which was 7.9%, one percentage point higher than the second half '19, influenced primarily due to the extraordinary expenses, even though we had discontinued the operations of car and P&C.

There are still some expenses that are going to be accounted for in the third quarter because the operation was completed in July '20. So it will have a significant impact that has been already highlighted in our releases. But these expenses amounted to BRL31 million in the second quarter and first half of year, BRL45 million, primarily concentrated on third-party services.

Had it been for this effect associated with the transaction, the indicator of administrative expenses, S&G, would be 7.3% in the second quarter and 6.8% in the first half of the year is stable over the same period last year, if we compared the same period, excluding the auto operation. In the second quarter of '20, there had also been in the period, as we had mentioned before, donations made due to the pandemic. For example, for creation of beds in -- ICU beds and amounting to BRL10 million, and versus here also as G&A expenses.

Next one we have financial results of BRL70 million, a 39% decrease over the second quarter '19. The main reason is here, the decrease in the interest rate in Brazil, SELIC rate, but it's important to -- so that we've had a recovery in investment income, and because they were impacted by that -- considering the effect of the pandemic over financial markets, especially in March '20. These assets have shown significant recovery, not entirely yet, but they already have presented a significant recovery in the second quarter, representing less than 1.5% of our total portfolio. The recovery was important because it partially offset the recurring effect of the interest rate drop over the financial results of the second quarter.

Now talking about discontinued operations, there is one line showing that, the profit -- the net profit was BRL100 million in the second quarter '20, and there is an effect in the decrease of loss ratio of the operations of auto because of the effects of social distancing, of course. It is a stronger result because of this characteristic. It's also important to bear in mind that results of these operations which have been accounted for are SulAmerica results. And this is why the amount of the transaction was not subject to any indexing because the proceeds of the portfolio will still be for SulAmerica until the very end of the closing of the operations. We have separated here two lines.

Net income from continuing operations, health, dental, life, pension and asset management reached BRL400 million, 83% increase over the comparable basis of this operation in the second quarter '19. Year-to-date, the net income was 16% above the previous year. If we add up, the whole income would reach BRL498 million of net profit, 91% growth over second half '19 and BRL578 million year-to-date, 19% increase.

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So completing this slide, considering this relevant atypical effect in decrease of frequency in the second quarter '20, impacting margins and results overall, even with the strong negative impact of the interest rate drop, we have an average net income, considering the past 12 months of 19.9% over a average net equity or 17.9%. He corrects himself.

Now Slide 5, we can see here a conciliation of our continuing and discontinued operations, showing a summary of the results and the balance sheet. We show here all the main lines and the structure of our operations from now on and what we have accounted for until the end of June 2020, concerning the segments sold to Allianz. Our discontinued operation had BRL1.5 billion of income, contributing to a profit of BRL110 million in the year-to-date benefit by the temporary reduction of number of claims during the pandemic.

The balance of the key lines of assets and liabilities, a number of assets transferred to the operations -- discontinued operations was BRL3.5 billion and liabilities of BRL2.6 billion, with transferred net equity of BRL908 million transferred to Allianz, somewhat higher than our estimate when we had the closures. That was the shareholders' equity. Let me now invite Raquel Giglio, VP of Health & Dental, who is going to talk about the strategy of Coordinated Care and tell you about the results of Health & Dental, including our initiatives during the period of pandemic.

Raquel Giglio {BIO 21963986 <GO>}

Thank you, Bottas. Good morning, everyone. So let's do it. On Slide 6, you can see once again our arch of access, demonstrating all gateways for members to the health care system and now our virtual verticalization strategy that seeks to address each one of them to assure the best care. The strategy was crucial in the months of pandemic, and we could leverage all Coordinated Care initiatives.

So we always seek the best treatment, always coordinating and supporting the care journey of our members, including those who are not yet patients, so that they can stay healthy. The use of technology, digital tools has been expanded and intensified. And this was crucial to assure care, both for COVID-19 and other recurring procedures and all other demands of our members. So the health app had many upgrades, many launches, our services and technologies, our new services and technologies that have been used effectively during the crisis with relevant context -- contents, screening for COVID-19 in the app, in addition to medical orientation through phone chat and video.

And speaking of them, we have expanded our team and intensified the telephone medical orientation and a doctor on screen, both with a very significant adoption in the period, enabling remote care and orientation with a very high degree of satisfaction with NPS in the zone of excellence, as Gabriel mentioned. There were more than 60,000 orientations over the telephone and more than 100,000 appointments for the doctor and psychologist on the screen during the pandemic. So wherever that person -- the member was without having to commute to go to hospital units. We also have had a significant growth of elective tele appointments through the health cloud platform.

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So basically two lines here. So attention focus both on elderly and complex and chronic patients who could not stop medical care, but didn't necessarily need to be physically present for the appointment. But we placed special focus to our doctors in Coordinated Care managed specialties who could continue working and providing care through digital media. There were more than 30,000 elective appointments in Coordinated Care.

All appointments done in a very simple way, very assertive with the prescription of medications, even antibiotics, the medications that need a prescription, test orders and everything was digital. Also thinking in the cases in which going to the hospital is absolutely necessary, we launched the fast track partnership already implemented in 31 partner hospitals in the main capitals of the country, through which members are previously assessed by our digital services, by the doctor on the screen, and really needs to receive on-site live care. They do not need to wait in line in the emergency department. So soon as they arrive, they receive care very promptly, and they are also welcomed.

So I think that being received is something very important when patients arrive and they have health issue. Once they arrive, the hospital is waiting for them, and they assure that there will be a bed if they need to be admitted. So in short, everything that we did in terms of the Coordinated Care, we could respond rapidly and assertive to the challenges of the pandemic, and we're still making investments. So we're still focused on developing these initiatives with new projects, intensive use of technology and increasingly more aligned with the stakeholders in the health chain, seeking a better coordination and providing more effective care.

Now moving to Slide number 7, talking about Health & Dental in the second quarter. So the revenues of the segment have reached BRL4.5 billion in Q2 and BRL9 billion in year-to-date numbers, keeping the growth trend of past quarters. The Health & Dental members at the end of June 2020 totaled 3.8 million members, an increase of 80% in group plans as compared to 2Q '19. One of the highlights of the period was the growth in ASO plans with the addition of 58,000 net lives in 12 months, very important growth to provide us a better share to make us more representative in regions and give us -- or negotiation leverage.

We had an increase of more than 19,000 lives in this period in the Affinity segment. So the number of members in health remained stable if we compare to Q1 '20, which was good news in spite of the very challenging scenario that was imposed by COVID-19 pandemic, both for the economy and the labor market in general. This performance demonstrates the resilience of our portfolio, which keeps a very high retention rate, and new sales continue over the past few months. These factors have proven to be a key for us to assure a consistent performance as compared to the market in the previous crisis, meeting and identifying needs of our current and future clients.

In Dental, the growth in 12 months was 16%, including the members of Prodent totaling 1.6 million members in Q2 '20. Comparing to March, we have had a reduction that we explain, especially by the retail channel, where the pandemic was severely impacted with the social isolation measures and because stores were closed over the past few months.

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Now moving to Slide number 8, you can see on the left-hand corner chart, you can see the performance of the loss ratio in the past few quarters. And the chart on the right-hand side shows the loss ratio for the quarter since 2015. The result in Q2 '20 of 69.5% is explained, as mentioned before, as Gabriel and Bottas has mentioned, a significant reduction that is temporary in elective and not urgent procedures, such as appointments, tests, admissions and surgeries.

And there has also been a drop in visits to ED emergency procedures, which accompanied the measures for social isolation and social distancing in the main region, which more than offsets the costs and the full care to the populations with COVID-19. In April and May, you can see reduction of about 60% in the frequency of procedures as compared to the same period of 2019. And along the quarter, we have already witnessed a gradual but consistent recovery of frequencies in June '20 with an average reduction of 30% as compared to June 2019.

In July, we're still observing this gradual increase as we see a progressive and gradual resumption and return to normality, even though the pandemic has not ended. On the other hand, it's also important to make it clear to you, the cost of COVID admission obviously is greater than a usual standard medical admission. It's also important to mention that the level of loss ratio in 2Q '20 is one-off event. It cannot be extrapolated to future scenarios.

No snapshot of a quarter in 2020 can see in that way. This is being a very atypical year in terms of the usual seasonality that we observe in our portfolios. And we expect a significant part of the procedures that were not perform or that have not been performed since the second fortnight of March, will come back, but we don't know how much they will come back, and we don't know when in terms of timing. Moreover, we should also observe the behavior of members in the performance of on-site life procedures after a fast and very successful adoption of health access digital tools.

And I would like to highlight here telemedicine and the pioneering way with which SulAmerica deployed this technology and used it such as the doctor on the screen, sometimes someone even if they are overseas, they can have an appointment. On the lower part of the slide, you can see the history of loss ratio for the past 12 months. And once again, we highlight the importance of analyzing it for longer time periods. So we should isolate one-off and seasonal effects that cause an impact, that are more positive on a given quarter or negative in the previous quarter. So over the past 12 months and thinking about Q2 '20, in terms of loss ratio, had a gain of 2 percentage points as compared to the same period in the previous year.

In spite of short-term fluctuations, I would like to stress our continuous focus on the sustainable and long-term control of this indicator, with the continuing of initiatives of claims management and also health and well-being initiatives and our whole Coordinated Care strategy, especially in a period as atypical as the one, no snapshot of any quarter, whether it's positive or negative, could be extrapolated or give us a vision of the whole year.

Now I'm going to stop my part, talking about Health & Dental operations. And I am going to give the floor to Marcelo Mello, our Life Pension and Asset Management VP, who will be talking about the results of the operations under his responsibility. Marcelo?

Marcelo Mello {BIO 21963995 <GO>}

Thank you, Raquel. Good morning, everyone. Just now going to Slide 9, Life & Personal Accidents presented operating incomes of BRL121 million in the quarter, BRL238 million year-to-date. And these reductions were explained by Bottas, primarily due to the travel insurance market, which decreased significantly during the pandemic. However, our performance in revenue was very similar to the whole industry.

Loss ratio in the second quarter was close to 56%, 7 percentage point higher than the same period last year. It was impacted by the reduction in premium and coverage due to death by COVID in our policies. Individual life portfolios were the most impacted ones by these events. Since the beginning of the pandemic, we've already observed 155 cases in our life insurance policies, with total indemnifications of total amounts reimbursed of BRL8 million. Analyzing the impact of the pandemic in the segment, the gross margin finish the first six months with a 19% reduction, partially offset by the good performance that we had in the first quarter.

Now Slide 10, we can see Private Pension. The main highlight was crossing the BRL8 billion level in reserves due to our growth in the category VGBL, very significant increase of 17%. Concerning operating revenues, there was a second quarter with 11% reduction over the second quarter '19. However, year-to-date, first half, we've had a much better performance than the industry, had 7% increase in our formation of reserves, whereas the segment had 7% decrease, performing or outperforming the industry in terms of raising funds, which resulted from our good performance of pension -- private pension plans, the fact that we have a wide range of products to meet the needs of our Private Pension clients during a moment of uncertainty.

We have seen more interest from investment platforms and brokers, and we also had a service of digital hiring, which favored more new contracts. Portability in the first half of year was positive BRL65 million net profit as opposed to BRL16 million negative in the same period of first half '19, outperforming the industry as a whole.

Now Slide 11, it shows us the volume of managed assets for SulAmerica Investimentos. It reached BRL45 billion in the end of June 2020. There was an increase of about 3% in the past 12 months. It shows once again a performance above that of the industry, which had no growth. We had a stable equity during the first half of the year. Let me also highlight our progression of third-party reserves. It reached almost 4% increase. There was significant migration to our shares, funds, which went from 13% in the beginning of the year to -- so rather, 3% share in the beginning of the year to 7.5%.

Despite this very challenging first half and high volatility rates, we've had an increase of 14% in our revenues of administrative fees of investment products, significant growth which can be explained by the natural progression of our portfolio of shares. It was also a

result of multimarket fund changes. But analyzing total revenues, they were impacted by the performance rate. Because of the first half and the impact that capital markets experience during the crisis, there was no performance to offset the losses.

With that, let me hand it over to Bottas again. Thank you.

Ricardo Bottas Dourado dos Santos {BIO 18808387 <GO>}

Thank you, Mello. Let me go now to Slide 12. I've already made some references to the effects on general and administrative expenses. Let me just share with you some additional data.

We have one column in gray, so that we have adjusted calculations without extraordinary expenses that were part of the spin-off to conclude the operations with Allianz. On the second half again -- second quarter, we can see the results without the expenses of the transaction, and the gray column, the first half, excluding BRL45 million, which was the year-to-date expenses in the period. Please bear in mind, there are still some expenses that will be incurred because we have part of the transaction also going into the third quarter of the year. So retention of some key people, some third-party services, commissions that were required to support the spin-off and services that we will provide to Allianz during the transition phase.

Our own workforce after the transfer of 1,700 headcount to Allianz closed with 3,800 employees, 200 people more than we used to have with the same comparison level over the second quarter '19. This is something that we had already mentioned before, people who were engaged in strategic projects of the company, primarily in digital transformation of the company and all the other strategic initiatives of Coordinated Care and development of new products, as mentioned by Raquel.

Let me also give you some understanding about the consolidated data. We don't have an impact on administrative expenses here. But analyzing the total continuing and discontinued expense, excluding those related with Allianz transaction, our total -- grand total administrative expenses were BRL890 million, with 1.8% increase over the first half '19. An important highlight to make is the effect of growth of headcount because of the 200 people that we added because of the strategic projects we have.

And it also has an effect in reduction of expenses, especially those directly associated with the moment of social distancing, no expenses on commuting, on traveling, which meant 44% decrease in the half of the year and 75% lower in the second quarter '20.

Slide 13, to conclude my contributions, I'm going to talk about our portfolio of investments. I've mentioned that in the second quarter, we had a recovery of our performance. Considering the negative impact in the first quarter of '20, our own financial assets, excluding our pension reserves, have already crossed BRL8 billion. They were -- the performance of 143.7% CDI on the second quarter, much above the performance of what had been our own portfolio of insurance in the second quarter '19, which was 116% over CDI.

With that, I close my presentation and now I'd like to go into the Q&A session. Thank you very much.

Questions And Answers

Operator

(Question And Answer)

Ladies and gentlemen, we are now going to start our Q&A session. (Operator Instructions) Our first question comes from Mr.Ribeiro from UBS.

Q - Vinicius Serrao Ribeiro {BIO 19720178 <GO>}

Good morning, everyone. Thank you for taking my questions. If I could ask something about loss ratio, and as you have said, I can see it, but when we look at the impact in this quarter, it seems that there is a slightly higher provision. And then are you expecting the volume that has been delay to come back? And the second question is about the dynamic in health in terms of price adjustment. There are two parts. First one, if you had not had an adjustment, what would be the impact in your average ticket and what about negotiations and pricing with companies? That's it. Thank you very much.

A - Ricardo Bottas Dourado dos Santos Machado {BIO 18071813 <GO>}

Thank you for your question. This is Bottas. I'm going to share -- answering your question. I'm going to answer it together with Raquel. But you need to understand very well that the company has kept its consistency in accounting and actuarial practices in this quarter in spite of the atypical drop in frequency. You talked about IBNR. We have kept the same number and consistency and practices to be compared to the previous quarters, and our actuarial practices have a main effect because of past occurrences. So IBNR can already capture what Raquel mention about frequencies that in March and April and in the first half of May, it was about 60%.

We can't see any significant inclination in the recovery of May, June and slightly more significantly. So the drop was half. So IBNR has a mechanism of capturing what may -- that may have been in the volume of frequency that was incurred. So it shows incurred but not reported, but it's not capturing expectations of future frequency. So my methodology is still the same and consistency with the company's historical actuarial practices as to adjustment. And now Raquel is going to complement.

I would say that there is no material impact in Q2 because, actually, what we did is we delayed adjustments to customers, and they are materially concentrated at the end of the quarter. So Q3 and Q4 are the periods where we usually see the more relevant effect for trade in the portfolio -- where we see the impact of the adjustment in Q3 and Q4.

A - Raquel Giglio {BIO 21963986 <GO>}

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Now Raquel complementing what Bottas said about reserves. So we are keeping -- sticking to the same methodology and respecting it, maybe out of being additionally cautious considering everything that you're seeing in terms of coming back of frequencies, the methodology is still the same. As to adjustment, negotiations win issues. Of course, this is not a simple period, but there have been other crisis, other economic crisis, unemployment and everything and our principles are still the same. So we want to have long-term relationships.

This is what we care about. So if adjustment has to be slightly lower or a contract extension with an increase of co-pay and then bringing a contract of Health & Dental with a different carrier and then bring it -- we can use many different strategies. Our focus is to keep customers because this would pass. And once this is passed, they will go back to growth. They will grow again. So this has been the strategy and we have adopted in the past relevant crisis that we have had, and this strategy proved to be right. So customers in terms of what have said, the digital tools and the app, they see value in these things. So supplemental health was already one of the top three desires of Brazilians.

And in the period of crisis and pandemic, this is even more valued. So the relationship and after sales teams, they are providing full time service to our customers in full time, even though it's remotely through video and we are trying to find solutions. But the fact that we have expanded our product portfolio with direct products, undoubtedly, this provides us greater resilience for this period. So we expand the array of options.

Q - Vinicius Serrao Ribeiro {BIO 19720178 <GO>}

Thank you very much.

Operator

The next question comes from Yan Cesquim from BTG Pactual.

Q - Yan Cesquim

Good morning, Gabriel, Bottas, Raquel, Marcelo. I have two questions. The first is about G&A. So Bottas really addressed it in depth. So I would like to ask more about that because you no longer have the auto business unit. And how has that impacted? My question is, can we consider this lower G&A as a basis for the future, considering that it is the basis without the auto unit? And secondly, Raquel mention this, and I would like to have more details. You talk about the recovery of frequencies that was 30% below normal year-on-year. Do you have any other numbers about the performance in July? Has it accelerated? How is it going? Thank you.

A - Ricardo Bottas Dourado dos Santos Machado {BIO 18071813 <GO>}

Thank you, Yan, Bottas again here. So our main difficulty is what we said that the company can't give you guidance about DA indexes. We were -- admin expenses, and the future of the transactions, we need to make it clear the expense that we had with the operation. In H1, that was discontinued in the expenses that we have within our overall criteria for the operation that are remaining. It's difficult for me to tell you, use this number as a

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reference for the future. But this is our best reference, which was our operation in the first half of the year and the result of that operation that was discontinued and the result of the operation that is remaining in terms of admin expenses.

And as a reminder, the numbers we have for the period and future ones, too, also need to be compared because as we have materially indexed numbers considering the pressure in terms of revenue. So we have had a drop in revenue because we no longer have the automobile unit, but we also have preservation of revenue, considering the uncertain scenario in terms of its impact on revenue. We are confident that we'll continue to perform well, commercially, as Raquel mentioned, but we should not neglect the challenge that we have regarding the behavior of revenue for this indicator.

A - Raquel Giglio {BIO 21963986 <GO>}

Hi, this is Raquel. As to frequency, we are still seeing -- and in terms of procedures. So clearly, there's an ascending trend curve. It varies depending on the type of procedure. Some are slightly faster and some are slightly slower. So from top to bottom, so there are the tests, appointments, elective, surgical and ED. So going to the ED might indicate some changes in consumption, and it can be use as an urgency service, where you can have the chance of talking to a doctor eye-to-eye through an app. So this provides comfort and confidence for someone who has a choice before of having that type of care or consultation before going to the emergency department.

Now in terms of frequency, so frequency cannot be seen. I will mention a comparison of what it means comparing COVID, which is a medical admission, as compared to a standard medical admission. So the average cost of an ICU admission due to COVID is 4.7 greater than the average cost of a medical admission -- ICU admission that is non-COVID. Of course, this is related to the average length of stay.

So average length of stay for COVID in the ICU is higher than standard lengths of stay in ICU for regular admissions and all sterilization, PPE, drugs and everything. So it's not one frequency for the other. So a COVID admission is more expensive, because it lasts longer, and it demands more work from the hospital team. So it's about twice or 2.5x greater than a non-COVID admission. So to answer better your question, I thought it was important to mention this.

Operator

The next question comes from Guilherme Grespan, JPMorgan.

Q - Guilherme Grespan {BIO 19926617 <GO>}

Hi, good morning. Thank you for opening to the question. I have a question, not about the quarter, but I'll go back to the acquisition of Parana Clinicas and your strategy. When we analyze the whole foundation, we understand that they had some clinics and diagnostic centers in the region. So I'd like to hear your update on how we should interpret this movement. Is it a strategy, which has strive to make acquisition, which tend to be more tactical or was it just part of the deal and a mandatory clause of not buying the clinic? So if

you could please give us an update on your possibility of going into tactical verticalization in some points of your network, and how should we understand this moment? Thank you.

A - Gabriel Portella Fagundes Filho {BIO 18012687 <GO>}

This is Gabriel speaking. I will start answering, and then Raquel will complement. The movement that we have been doing of being more present in the value chain is not something new. It's something that started a long time ago when we started distributing medication, high cost materials, and there are over 360 hospitals where we supply them.

The opportunity with Parana Clinicas with clinical centers that came with the operation had one purpose, which is to test in practice service provision, but it does not mean at all that we are going to go towards verticalization. Evolving our value chain, generating additional value to our beneficiaries is part of the strategic acquisition of Parana Clinic in addition to reinforcing our position in the south of Brazil where we had been expanding significantly. So I think it's a good model.

It was a good opportunity, but it does not mean that we are going to go towards full verticalization. There are some points there. And as you can observe, we can see opportunities of practice or partnership or even opportunities of acquisitions. This is what we've seen in our arch of access, and we are very optimistic about everything we've been learning. It's not adopting the model of verticalization. Raquel?

A - Raquel Giglio {BIO 21963986 <GO>}

Yes, I would like to add. I think that much more than a portfolio. It's an opportunity of business. They have seven clinical centers, which is going to be like a lab to us. It's going to serve as inputs to our Coordinated Care. We are going to have a feedback with additional findings and learnings. And it's going to reinforce our Coordinated Care. The average ticket of this operation is lower, much lower than our direct line of products. In the moment of crisis, expanding your range of options is always positive. So we are looking forward to starting the integration and findings and learnings that we are going to obtain from there. Thank you.

Operator

The next question comes from Mauricio Cepeda, Credit Suisse.

Q - Mauricio Cepeda {BIO 21783651 <GO>}

Good morning, Gabriel, Bottas, Mallov, Raquel. Thank you for answering my question. I have some questions to try to detect trends to the midterm that will also impact the long term. You've been talking about lack of visibility and predictability, but what are the early warning signs, so to speak, that will help us understand the market? The first point is the dimension of interrupted employment contracts or suspension of benefits. Do you already know anything about the magnitude of this first impact?

Secondly, concerning relationship with clients, have you been commercially activated, especially by your large clients for negotiation -- renegotiation purposes? And have you

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felt the competition is fiercer, trying to approach more your clients? Going into the point of utilization, I would like to thank you all for telling us the perspective that utilization is going to recover, but don't you think that this pool of unused utilization would mean unnecessary use? And do you think that now people are maybe trying to use more of the system because they are concerned that they might go out of job and won't have a insurance plan later?

A - Raquel Giglio {BIO 21963986 <GO>}

Well, this is Raquel speaking. Thank you for the question. I'm going to start here, and then I'm going to ask Andre, who is our Commercial VP, to tell us about competition. Yes, we've already felt some negative movements in some contracts, especially, those that were in industries that discontinued some of the operations. And yes, we have renewed some contracts, but some people have been already dismissed or our own leaves, and that has impact somewhat.

So we have started seeing it happening, but we can't see any trend yet. We may be seen some occasional impacts, but it's too early to say anything about trends, but yes, we've noticed some. Concerning utilization and the risk of having excessive utilization because people are concerned about losing benefits and because of social distancing, also for the time being, we haven't observed any unexpected behavior. In terms of renegotiation of price adjustments, it's always a difficult topic. It's difficult when human resources and procurement departments have to get our visits.

They are not very happy to see us, but I think I answered in my previous question everything that we've done proactively in providing additional services, digital channels, digitalization, providing access to care, to physicians from their homes, it all has generated a strengthening of the relationship we have with our clients. It's important to emphasize that the average length of stay with us as a client is of 13 years. So it's long-term relationship. And our aftersales team is working very closely with our customers. We don't want to be taken by surprise. We always want to come up with solutions, which are viable and interesting to both sides.

And once the price gets better, of course, the clients will have additional options in our portfolio of products, adding, for example, additional products or other products that might increase the share of clients of doing business with us. It's not a simple situation, but it's something that we are managing in-house very efficiently, interacting with our clients.

Let me ask now Andre to make his comments about the competition. Competition is always fierce. We know that during sometimes, they hit hard. I think, yes, now they are coming closer to us. So let us hear from Andre.

A - Andre Lauzana {BIO 21963999 <GO>}

Thank you, Raquel. Thank you, Mauricio, for your question. Yes, competition tends to be strong. Right now, it's even heavier on us. Let me tell you what we've been doing. We have a strong presence with our brokers, well distributed throughout Brazil. We are

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working on capacity building. Just for you to have an idea, up to June, we had up to 35,000 participants, brokers involved in activities. And we've been resorting to lives, to digital. In initiatives, we normally had 45,000 people involved.

And after June this year, we've had 35,000. So it means that they are engaged, and everyone is accepting it quite well. We have had a number of commercial actions, commercial promotions and campaigns focused on the different segments of brokers, pricing ranges in all the areas where we have our own products.

Our operation is really key to us. So having a natural, a seamless operation through digital tools has proven to be a competitive advantage to us in all our business lines. And finally, but not least important, we've also intensified our actions of communication in the distribution channels and to the public at large, showing that Sul America offers not only a product, but rather convenience, add services and at affordable prices, which is really our strategy. I don't know if Raquel or Marcelo would like to say anything else. Thank you Mauricio for your question.

Q - Mauricio Cepeda {BIO 21783651 <GO>}

Thank you, Andre. Thank you, Raquel.

Operator

Our next question comes from Mr.Mohammed Ahmad.

Q - Mohammed Ahmad {BIO 18064109 <GO>}

What is the trend of growth in membership?

A - Raquel Giglio {BIO 21963986 <GO>}

Hi, Mohammed, this is Raquel. Thank you for your question. Well, Andre has already mentioned and talked about the commercial -- the times we are through. And I think I said in the beginning, a reduction in the numbers of operations and the trend curve already shows a recovery that is quite significant. And for some time, it was frozen and kind of on the standstill.

People were scared of changing benefits and now they will start looking at that again. And I think that all the dynamics of the family of products that we call Direto. We'll be launching a new Direto next week for the region of Joao Pessoa. The other one will be in the center west. So this provides stability to our customers and the maintenance of our portfolios. So people might have been dealing with some temporary difficulties to pay. So I'm going to give you a few details about the Affinity segment where we had a slight reduction in the last quarters. And there is a focus in terms of the period being more than 10 regions and tariff regions, and it goes to 23 geographical regions, a product, which, undoubtedly, will be commercially more competitive and we really trust on the potential that Direto, it can generate as part of the new portfolio. So I think we've been through slightly more complex times and now I see that the times we are starting now with good fruit that can be reaped from the strategy that we built before.

Q - Mohammed Ahmad {BIO 18064109 <GO>}

Thank you very much.

Operator

The next question comes from Ricardo Borges from Plural Investimentos through webcast.

Q - Ricardo Borges {BIO 20701089 <GO>}

Congratulations on the results because of the pandemic you were not adjusting your health insurance premiums, right? What was the effect of the delay of adjustments?

A - Raquel Giglio {BIO 21963986 <GO>}

Hi, this is Raquel again. I think that Bottas covered that point a few minutes ago. Yes, we voluntarily suspended adjustments from May to June to July, rather, for Individual and Affinity plans. And the recovery of adjustments or the adjustments are going back as of August. In spite of financial issues in terms of accounting results, this is allocated in the financials that we have publish. So the adjustment that should have been applied in March was applied in July. So everything is delayed. It's also important to highlight that the anniversaries and adjustments are concentrated in the second half of the year, but for accounting purpose, they are appropriately allocated or booked.

Operator

Excuse me, if there are no more questions, I would like to give the conference back over to Mr.Gabriel Portella for his closing remarks.

A - Gabriel Portella Fagundes Filho {BIO 18012687 <GO>}

Thank you very much for attending our conference call. I know that these are difficult times, not just for us, but for Brazil as a whole. No one would like to be going through this situation. We know that our performance now should not be extrapolate and much less for us to celebrate at such difficult times.

What we are showing to you is the result of very consistent strategy and speed in adapting to different times and their features, but especially to look into the future. And here are guidance for you that we don't usually do. Today, Sul America is starting a new period with very clear positioning and with a very optimistic vision of the future. All of this will pass and we'll only be able to get there with the effort, dedication of all our employees who have been supporting the company, working and making all our processes working almost 150 days of the pandemic, the support from brokers, insurance brokers and business partners, shareholders, service providers.

My special thanks to healthcare workers who have been fundamental to fight the pandemic. Thank you all very much. Stay safe and have a good day.

Operator

The conference call of SulAmerica has now ended. Thank you very much and have a nice day.

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