

Q3 2017 Earnings Call

Company Participants

- Gabriel Portella Fagundes Filho, Chief Executive Officer
- Ricardo Bottas Dourado dos Santos, Executive Vice President of Control and Investor Relations

Other Participants

- Gustavo Lôbo, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, and welcome to the Conference Call of SulAmérica to discuss the earnings regarding the third Quarter 2017.

Today, with us we have Mr. Gabriel Portella, CEO of SulAmérica and the company's VPs. We would like to inform you that this event is being webcast as well with audio and slides on the company's Investor Relations website, www.sulamerica.com/ir.

All participants will be in listen-only mode during the company's presentation. Later on, we will start the Q&A session and further instructions will be provided. SulAmérica's conference call is being recorded and the audio is going to be available soon after its closing on the company's IR website.

Now, we'll turn the call to Mr. Portella, SulAmérica's CEO, to start the presentation. Please, Mr. Portella, you may go on.

Gabriel Portella Fagundes Filho {BIO 18012687 <GO>}

Good morning, everyone. I'm here with all SulAmérica's VPs here in São Paulo to talk about the earnings of the third quarter 2017.

This is a special quarter for SulAmérica, since we turned 10 years since our IPO in the São Paulo Stock Exchange. In the 10 years, several of the company indicators had strong evolution. The highlights is the company net worth, that was a bit more than BRL 1 billion before the IPO is now more BRL 5.5 billion. SulAmérica unit, SULA11, recorded outstanding performance compared to the BOVESPA index and the CDI in the period. Our revenues have growths above market growth in the segment, in which we operate. The number of health members and the insured fleet in auto more than doubled in the period. SulAmérica investments closed the period with a record number of assets under its

management, BRL 37 billion consolidating as the largest independent manager in the country.

So, the company changed levels in the ten years showing its capacity to deliver growth and profitability with consistency. We are very happy to present in this quarter another period of consistent results and looking not only into the quarter, but in recent years as a whole, I call your attention to the resilience of our company.

Throughout last months, we saw positive signs of recovery in the country, with reduction of unemployment rates, recovery of GDP, increase of new car sales and industrial production. The prospect of economic recovery and more favorable cycles are positive for our operation and encourage us for better periods ahead of us. And we are prepared to seize them.

With that, I'm going to turn the call to Ricardo Bottas that is premiering our conference call. He's the new Vice President of Control and Investor Relations in SulAmérica, he took over in August, after working for almost three years in the company as the Financial Director. He is going to make a brief comment about the main highlights of the period, so that we can, as usual, go fast to the Q&A session. Thank you very much.

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

Hi, Gabriel. Good morning, everyone.

We are going to start with slide 2. I am going to talk about the consolidated revenues and I would like to highlight growth of revenue of some 7.6% off the previous quarter of last year, highlight of dental and health with growth of 13.1%, especially because of an increase in the number of members and the correct readjustments that are concentrated here, also highlight of growth of revenues in life and personal accidents and 27.3% in pension.

In auto, because of the corrected claims policy, we have saw a reduction of 13%, but it's important to highlight that this will give positive results for the company profitability with growth of our margin up 89.3% compared to the third quarter 2016.

Skipping one slide and going to slide number 4, I would like to just to close my comments on revenues, just complementing the previous slide, slide 2, the growth of our revenues in nine months in line with the evolution that we had also in the third quarter, 7.6%. Also highlighting in this slide the results of the consolidated claims ratio, loss ratio that closed at the quarter 0.6 percentage points below the biggest quarter. And this is interesting to talk about dental and health with 80.8%, 0.1% above the previous quarter and also the decrease of also 4.5 percentage points better than the same quarter last year.

As for admin expenses, they are in control with the seasonality that we saw in this quarter being nonmaterial closing the quarter with 8.6% in this quarter and so below the loss ratio that we had in previous quarter, 8.8%, I am sorry general and administrative expenses of the previous year, which shows our continuous control in the level of expenses of the company. The combined ratio in this quarter reached 99.1% against 99.8% in the previous

quarter and the financial results, especially had a reduction of 15.8% compared to the previous period. This reduction was offset with an improvement in our margin in this quarter, which basically went through a net income of BRL 151.4 million, 2.1% above last year. Also the performance of our own portfolio is very interesting. Excluding pension reserves, that had return of 102.4% of the CDI to conclude this part and also already going on to Q&A.

We delivered in this quarter a return for our equity of 13.1% and now, we are going to open for your questions. Thank you very much.

Q&A

Operator

Our first question comes from Gustavo Lôbo from JPMorgan.

Q - Gustavo Lôbo

Good morning, everyone. I have two questions. The first is group health. We see an improvement of 120 basis points and we see concentrated readjustments in the mid of the year. So, my question is what do you see in terms of the loss ratio trends for group health in the next three quarters. Can you expedite improvement to offset a lower Selic rate or is that going to be the level that you're going to have for the next quarters. And after you answer, I have another question.

A - Operator

Hi, Gustavo, this is (08:14). Thanks for your question. The portfolio is very well priced. So, I think the most important point, we cannot give you any estimate for the future, but we see that the readjustments in previous quarters reflect quite correctly what we think the portfolio has - so, it has to be stable in the future. So, we are very comfortable with what we have in the portfolio without giving any estimates for the future obviously.

Q - Gustavo Lôbo

Okay. Thank you very much. As for auto, we are seeing an improvement in the company's operating results. But that at the cost of a high drop of the insured fleet. My question is when are you going to get to a turning point in terms of fleet. I understand the operating results are okay, but when do you think that the fleet is going to stop going down and pick up growth?

A - Operator

Gustavo, thanks for your question. This is (09:20) speaking. We hope that this will happen shortly. That, of course, depends on the risk, how much we have to input our prices and our high selectivity of risk and also it depends on the market, how much the market will adapt not only the worsening of risk that we have had in Brazil in recent times and lower Selic rates in the future that will press real margins not only ours, but the whole of the market.

So this question is very much related to other variables, we have done our homework to prepare for these variables. But that will depend on the market response to that, so that we can pick up growth once again. As you mentioned, and you're quite right, operating issues, result issues are being mitigated by means of the federal actions we have already engaged in.

Q - Gustavo Lôbo

Thank you very much.

Operator

Our next question comes from (10:50) from Santander.

Good morning, everyone. Congratulations on your results. My question has to do with your investment portfolio, the share of equity has been small, which echoes other portfolios of your competition. My question is, with the drop of the Selic rate, do you want to increase the share change or mix of investments? we see that the Selic rate has been going down compared to last year. So is there, are there any plans to change the mix of investments that you have in your portfolio?

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

This is Bottas speaking. I'm going to start answering your question and then I'm going to pass it on to (11:36) to add to my answer. It's important to highlight that we have now a policy to protect the index liability. And this is always considered as a relevant point in our strategy of allocation. I'm unsure you are aware of that, but it's very important to highlight that. And now, (12:00) is going to talk about our strategy.

A - Operator

Well, thinking about what Bottas said, we have of - respecting all legal entities in SulAmérica, we have room to work with other investment options. For instance, looking to our private credit portfolio, if we see that there are interesting options with low risk in the market with an increase in yields, we may look into them. If there is a recomposition of premium maybe inflation in that papers and obviously if the decision is to increase our share in equity, this position is going to be part of our risk budget. So, whenever we decide on some kind of allocation, we have to consider what that allocation will represent in the risk budgets that we have. So, we have room for maneuver to take risk in the market, but respecting the L&M of the company's legal entities.

Okay. Thank you very much. And if you allow me one more question. In the third quarter, we saw for the first time a slight, but a real increase in the number of members of your health plans. This number was basically flat in the last quarter. Then you had a 1% increase, 3% increase in the whole of the year in Brazil, still in recovery. My question is, you that are in the front line that see the recovery as a kind of mid-term close, do you see that this improvement in the number of members even in this so adverse scenario in Brazil, is this due to an improvement in economy, a macro improvement or what - is it due to something that you did marketing initiative, something that increased the number of

members? I know that you must disclose guidance for the future but I just would like to know how this number of members will behave in the next quarter. Thank you very much.

This is (14:16). Thanks for your question. I'm going to break your question into three. First component in terms of movements. We still have negative movements in the industry as a whole and you see that in the numbers of our regulatory agency. But they are decreasing in terms of negative numbers. So we increase the better macroeconomic crisis that is going to make the portfolio a bit more comfortable. So it's still negative but should reverse. And I believe this will happen in the coming quarters.

The second component that's for sales, (14:54) trying to be a bit more strict in terms of managing the conflicts, we have appetites for, especially small and medium enterprises that grew in the last cycle as well in some regions that we didn't reach (15:08) before has been showing good results. So, despite a negative movement in the market as a whole, the sales cycle has been - still to be positive. We are not bringing contracts (15:21) to the company.

And the third component is how we organize in terms of working on retention. So all our retention projects have all been rolled out. Nothing yet to be developed. And we are studying their maturity. They've proven to be very effective in every portfolio we are working. So the three components together lead us to have a member dynamic that is different from the rest of the market. And I think that all of these complement - they complement each other.

So when we see the movement of members, it's less negative. This will give lot of breath to the portfolio. When is that going to happen? We don't know. But we have good prospects for the macroeconomic scenario of the country. Our portfolio over the past few years - today, we are talking about 900,000 lives and this is the result of seven years of work.

Thank you very much.

If there are no further questions, I'll give the floor back to Mr. Gabriel Portella for his closing remarks.

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

Well, I would like to thank you once again for the hard work and dedication of our more than 5,000 employees and their satisfaction of being able to count on the efforts of everyone for us to reach such positive results that we have reached before and in the future quarters too. We also thank the contribution of our more than 30,000 insurance brokers and business partners that have contributed for us to present the strong place in sales. Thank you all for your participation and have a good day.

Operator

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

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