

Q1 2021 Earnings Call

Company Participants

- Marcelo Mello, Vice President, Life Pension & Asset Management.
- Raquel Giglio, Vice President of Health & Dental
- Ricardo Bottas Dourado dos Santos, Chief Executive Officer

Other Participants

- Eduardo Nishio, Analyst
- Grespan Guilherme, Analyst
- Mauricio Cepeda, Analyst
- Ricardo Boiati, Analyst
- Samuel Alves, Analyst
- Vinicius Ribeiro, Analyst

Presentation

Operator

Good morning. Welcome to the conference call of SulAmerica to announce the results of the First Quarter of 2021. Today with us we have Mr. Ricardo Bottas, CEO of SulAmerica (audio gap) and the Company's Vice Presidents.

This conference call is being transmitted live on the webcast with audio and the slides 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. Then we are going to start the questions-and-answer session when further instructions will be provided. (Operator Instructions) The conference call of SulAmerica is being recorded and the audio will be available right after its end at the Company's Investor Relations website.

Now I would like to turn the conference over to Mr. Ricardo Bottas, SulAmerica's CEO, who's going to start the presentation. Mr Bottas, please you may start.

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

Thank you. Good morning, everyone. I hope you're all well and in safety. And today we are going to make this conference call with all executive officers of the company. I would like to start highlighting the changes in the organizational structure of the company that our two new executives officers, Clovis Poggetti, an executive with broad experience in finance in publicly traded companies, who is going to be our CFO and IRO; and Mauricio

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Quinze, who has experience in creation of startups and development of businesses in digital environment with a very strong background in innovation technology, to work in strategic projects of the company.

Have also changed the commercial structure of the Company to provide more synergy, with the elimination of one Vice Presidency and migration of commercial activities to the business units, in order to make the sales teams closer to the business areas in order to create more alignment, especially now. This movement to strengthen even further our businesses led by Raquel and Marcelo. We have expanded the scope of the Vice Presidency led by Patricia Coimbra, coordinating all our ESG and human capital, integrating also marketing and communication. And to complete our executive suite, we have Marco Antunes coordinating all operations with claims, also coordinate innovation technology and customer experience. My colleagues of the executive suite along with all other directors of the company and our teams are follow-on engaged to expedite SulAmerica's growth and to improve the lives of people.

In talking about Integral Health, our role goes beyond the care with our members. We have more than BRL1.3 billion since the beginning of the pandemic last year that have been associated to the coverage of COVID-19 and we have expanded once again our contribution to society at such a difficult time. It is an initiative that is providing emotional support to health care professionals and to victims of COVID-19 in addition to investments for the installation of more ICU beds, for -- to patients and oxygen plants in the Amazon, including other initiatives that we are going to develop over the next few months. Even in a scenario that with so much uncertainty and so many challenges, we are once again delivering a solid quarter with very solid operational performance and growth.

Now I'm going to share with you a few of the highlights of the quarter and then I'm going to turn the conference over to Raquel and Marcelo to give you more details. So going to Slide 2. You can see the operational revenues, as a reminder, that first quarter of 2020 considered only continued operations of SulAmerica without auto and P&C which were still booked at that time for the comparison purposes. So, revenues have totaled in Q1 2021, BRL5.2 billion, an increase of 5.4% as compared to the same period in a year before.

The highlights being 6% growth in Health & Dental, keeping the trend of the last quarters. It's important to highlight that we do not have any effect of the adjustments that have been suspended, both voluntarily and as a response to an asset terminations that were booked in the period last year and are being built in 2021, we are billing them, they are under control and without no effect in delinquency, we have had an increase of 5% in pension in the first quarter, continuing the positive trend that we've seen in previous periods.

These performances, both Pension and Health & Dental have more than offset the revenues of Life and Personal Accident, that suffered the impacts of the pandemic in the quarter and also in the segment of Asset Management, influenced by the market context and lower risk appetite in allocation of (Technical Difficulty) a year before. So, more on -- Raquel and Marcelo are going to address with more detail the evolutions of their businesses and they're going to give you more details. The evolution of the revenue, sales and the performance of their business units.

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Now, going to Slide 3. If we start with loss ratio consolidated numbers here too was 80.6%, a gain of 1 percent point -- or rather a reduction of 1 percent point as compared to Q1 2020, driven especially by the better performance in Health & Dental in spite of the significant pressure of costs related to COVID-19, in the portfolio of Life Insurance that have been mentioned and we are going to comment. Because of the debts that occurred in Brazil unfortunately, operational margin has accompanied the growth of revenues and the control of loss ratio with a 22% growth as compared to Q1 2020, reaching BRL484 million. Admin expenses is 7.2% of revenues, also under control and the specific dynamics of the quarter will be mentioned on the slide about admin expenses further on.

On Slide 4, still on the highlights. You can see the EBITDA that we started reporting last year, going beyond the gross margin, reflecting our operational performance, isolating the dynamics of the financial result and other lines such as property results. In the first quarter EBITDA has presented an increase of 48% as compared to Q1 2020. The adjusted EBITDA, taking out some expenses associated to the sale of the operations of Auto and P&C was BRL146 million, an increase of 35%, reflecting the solid operational performance.

In terms of our financial result, we had a better performance as compared to the first quarter of 2020 with a better yield in our own assets portfolio, but still under pressure by the Selic rate and we expect to have more positive result (Technical Difficulty), in the quarters that we consider our allocation in post-fixed assets, which tend to benefit from recent increase in the Selic rate and also the changes in our portfolio, which should also benefit from the scenario of change in basic interest rates.

The financial result of 2020, in that period, we're still booking financial revenues from assets of the -- our business of savings bonds, BRL24 million in the financial result and they are not now being booked because that operation was discontinued and net income here had a reduction of 23% as compared to Q1 2020.

So here in spite of the growth of net income before tax, drop of net income has an impact of over higher income tax and social contribution rate. So, we are not booking interest on equity in the first quarter of 20 -- this quarter which is something that we did in the first quarter of 2020, and because these short-term results associated to COVID that have affected with decision of constituting tax credits this quarter. That is another important point here in the financial result. I may have talked about the operational results related to savings bonds. The result net of investment bonds in the Q1 2020 was BRL14 million, which again is an operation that discontinued and it was not addressed as discontinued, but for analysis it should be excluded from the comparison, because the company no longer has that business.

And in closing, we have the return on equity, ROAE which was about 12%, taking out the gains that we had with the sale of Auto and P&C that was booked in Q3 2020 and this ROAE is here 12 months, to exclude significant FX off capital surplus, especially non-operational capital of SulAmerica Group, we are demonstrating the return on regulatory capital of our Health & Dental business is which was 23% over the past 12 months, 1 percent points greater than last year and it's a good proxy to eliminate the effects of any

capital surplus that is more structural and not associated to our Health operation is specific analysis of that operation that accounts for about 93% of our revenues.

So next slide. I'm going to turn the conference over to Raquel Giglio, who's going to present the results of Health & Dental to you.

Raquel Giglio {BIO 21963986 <GO>}

Thank you Bottas. Good morning, everyone. Hope everyone is doing fine. Slide 5, which is somewhat well known access arch which shows monitoring and coordinator of the beneficiaries journey from the -- all the entry points to the health system, all based on our Coordinated Care strategy, which has been part of our operations for many years. We fully believe that we as health operators, health care carriers are in the best position to coordinate this process, aligning the industry interest and ensure greater predictability and sustainability for this system, as we can have a complete holistic view of the beneficiaries journey. Our initiatives in this regard, continue to evolve even more so considering the worsening of the pandemic in the first months of 2021, which have made and required equipment effective follow-up, whether for demands regarding COVID-19 or for all essential treatments that continued to be provided. They were never interrupted.

We have to highlight once again, one of the great advances of the last -- the past 12 months, which is the adoption of digital health tools supported by Docway, our health app. With a very high degree of satisfaction and resoluteness, avoiding unnecessary exposure to hospital units, to visit the emergency, at the same time we provided appropriate care. Whenever a face-to-face care is required and digital is not enough, we expanded the fast track initiatives. Now we have 32 partnering hospitals to ensure quick hospital referral without the need to take queues or take a triage in ER, and also providing a good welcoming environment which is essential. This has been key during the peak periods of the pandemic, especially in the first quarter 2021.

Slide 6, we give more details about the progression of Digital Care, which continued to expand and have reached a record of 141,000 visits in March 2021, almost 1 million consultation since January last year, 300,000 just in the first three months of 2021, including tele consultation, tele therapies and also telephone medical advice and education. With the continuous increase in the use of digital tools and advance of our Coordinated Care strategy, we have expanded the number of active beneficiaries reaching 660,000 and continue to grow. All of that providing high levels of satisfaction with an NPS that is within the zone of excellence, with very high levels of resolution, increasing the engagement of beneficiaries and health professionals, which is an absolutely a requirement to success of this strategy.

Slide 7, we can see the results of claim management, health and wellness, as well as Coordinated Care. As of March 2021, 660,000 active beneficiaries in Coordinated Care represented 27% of the total base. There has been an increase compared to March and December 2020. Our expectation is to continue to the pace of expansion, touching more and more beneficiaries, more important, those people we've already touched represent more than 50% of our claims going through Coordinated Care. So the 27% beneficiary

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interact with that 50% of the volume of claims generated, which means we've been following up on them closely and providing a virtual verticalization.

At the same time, our initiatives in claim management, continue to be essential for control of loss ratio, bringing more gains and predictability that translate into lower prices and lower readjust -- price adjustments. We ended the first quarter with 42% of claims going through one of these models, alternative payment models. So bundles, packages, globalized daily rates, material management and management among others and they continue to bring important savings to our operations, but primarily alignment of different proposals with our system.

Now going into Slide 8. I'm going to talk about some recent acquisitions in the South of the country, a highly strategic region for us that has been the focus of our regional growth and the mid-ticket strategy. Parana Clinicas for some months under our management has started the year quite well, now endorsed by SulAmerica brand with record of new sales more than 4,000 lives in gross sales. We have also extended services to SulAmerica beneficiaries in the region, who can now go to any of Parana Clinicas medical centers and we have also opened another unit in Sao Jose dos Pinhais. I had already mentioned in the previous call, the unit is four times larger than the one operating in the region, increasing the capacity of care from 5,000 to 32,000 appointments per month in addition to expanding also the option of specialties and services.

To add to good performance of Parana Clinicas, we have announced an agreement to acquire the portfolio of the health plans of Santa Casa de Ponta Grossa, through Parana Clinicas, it's in the same region and once it's completed, it will give 25,000 beneficiaries to our operation in the region. It's another inorganic movement in mid-ticket at accessible level, affordable prices with good quality of care and synergies that we will definitely capture from Parana Clinicas. In little more than six months, we have 6% market share in Parana and we will keep on growing. At the same time, we continue to paying attention to additional opportunities in strategic regions, focusing on growing, also inorganically.

Now going on to Slide 9. I'll talk about the acceleration of the organic strategy in mid-ticket with our more affordable regional product line called Direto, which has showing a very strong growth since the end of 2020. We have more than doubled the number of beneficiaries of Direto in December, ending the quarter with almost 26,000 lives, most of them are new beneficiaries, new sales and not request for downgrades. So the request for downgrades amount to less than 3% of these lives. So it shows a new addressable market, the strength of our brand and the value proposition of Direto. Part of this great performance comes from the maturation of products launched earlier, a process that had been delayed by the pandemic. But at the same time, the fact that we are visiting new markets such as Joinville, where in February we had over 5,000 lives, now we are present with Direto in seven regions of the country and there is more to come.

Next week, there is going to be the launch of Direto Brazilia, which is a product in partnership with Daza [ph], and soon after another Direto in a different strategic region. Thus adding up organic, inorganic growth then are about 150,000 lives in products in the mid-ticket segment with a regional strategy, a number of that already shows its representativeness and now our ability to penetrate in a new promising segment.

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Now let's take a look at Slide 10. I will briefly talk about the quarter's performance, operating revenues were 6% higher than what we observed in the first quarter 2020, maintaining the pace of growth of previous periods, as Bottas talked about, without any positive effect of a controlled price adjustment which had already been accounted for, we reached 4.3 million beneficiaries in Health & Dental with growth of more than 395,000 beneficiaries in group plans in March 2020, both organic and inorganically.

As to new sales, we must highlight the strong growth since the end of last year with the support of Direto of course, but with excellent performance in other products in all the Group portfolios. There were 134,000 net additions, 57,000 beneficiaries in Health and 77,000 in Dental, just in the first three months of 2021. We strongly believe in the continuity of sales performance observed over the last few months, always with discipline in underwriting, focused on long-term profitability and we have also been building more and more levers for this growth with the expansion of our portfolio, acceleration of mid-ticker strategy and more recently, as Bottas pointed out in the beginning, the restructuring of the commercial area, now it works even closer to the business, it works from within the business, which gives us more agility to accelerate growth in partnership with our brokers.

Slide 11 shows us just to wrap up the loss ratio. In the chart, on the top, we can see the loss ratio of the first quarter 2021, of 80.6%, 1.8 percentage point improvement over the first quarter 2020. Despite the pressure of cost of COVID-19, which added BRL384 million in the quarter and the frequency, which is not fully normalized yet, but somewhat close in most of the period, we had a reduction of other elective and on emergency frequency use, as of the second half of March because of the worsening of the pandemic and also because of the social distancing and the restrictive measures of the operations, but they were all above what we observed in the beginning of the pandemic in March 2020.

It's important to focus on long term of the indicator, based on all our initiatives of Health and Coordinated Care, as well as our trust in the new sales force and the expansion of beneficiaries. Despite the seasonality changes that have been impacted by the dynamic of the pandemic in the recent year, we have maintained a consistent journey for this indicator, as we can see in the 12 month series, the bottom of the slide. And this is key, there is nothing that has changed in our strategy and positive journey and we have been showing that over the years. Quite to the contrary, we are very excited about the future possibilities and recent changes of telemedicine, connective medicine, greater integration among all the partners in private health, innovation, data sharing, technology, et cetera.

I also highlight the unification of the commercial area into the business area, and also the return of Health & Dental operations, concerning our regulatory capital of 23% in the last 12 months, as another piece of evidence of our correct strategic position of SulAmerica. Our competitive advantage and capacity for growth. We continue with the purpose of delivering extremely high quality products to our customers through our processes and practices, always looking for inclusion and access.

In relation to the pandemic, we continued to monitor the progression of cases, as well as the progress of vaccinating, immunization of the population. It is absolutely essential for effective control of the pandemic that we emphasize on immunization. But above all,

we've been showing our resilience and our capacity to grow profitably, even in challenging periods.

I'm going to close now Health & Dental and I'm going to hand it over to Marcelo Mello, our VP of Life Pension and Asset Management to make comments about the results of the segment. Marcelo?

Marcelo Mello {BIO 21963995 <GO>}

Thank you Raquel, good morning, everyone. And now continuing our presentation on Slide 12 please. You will be seeing the operational revenues of Life & Personal Accident that demonstrated a reduction of 12% in the quarter, especially because of travel insurance dynamic and directly influenced by the worsening of the pandemic earlier in the beginning of the loss ratio is still impacted by the pandemic, even more severely because the continuity of coverage of claims related to COVID that we have done since the beginning of the pandemic with a considerable increase of deaths in the first months of the year, we had an effect of about BRL30 million in claims with about 700 cases covered. Taking out or dis-considering this effect, the loss ratio will go down from 81% to 56%, an impact that can still be reviewed considering that these potential under reporting of cases related to COVID-19.

Moving to Slide number 13, talking about Pension. Here the revenues have followed the positive trajectory, as Bottas mentioned, an increase of 5% in revenues and 22% in reserves that have reached almost BRL10 billion. Here we should highlight a growth well above the industry, not just in terms of contributions, and also the growth in our reserves. And we should also highlight that in this quarter we have launched several Pension products, expanding even further our portfolio. We have been noticing a growing interest in the product with a growth, not just in contributions, but also in net portability.

Now on Slide number 14 and in talking about Asset Management. We closed the quarter with volume under management amounting to about BRL45 million, a reduction explained because of redemptions, especially by corporate investors, cash resources and operational revenues were 18% smaller as compared to Q1 2021, especially because of, Bottas said, was the migration of investors of more sophisticated products to more conservative products that have lower rates, or lower fees.

We should also highlight in terms of asset management, the launch of several products and a special highlight to many credit products and also some stock fund, especially because of investments that we made with our investment teams, which were reinforced. More specific highlight this quarter regarding our investment in Orama, but we should highlight that our referral program for insurance brokers IndicaSAS that we launched at the end of last year has already 3,000 brokers listed, which has been very well received by brokers with potential of generating a flow for Orama, that is interesting for them.

Now back to Bottas.

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

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Thank you. Mello. Now continuing, I'm going to briefly go through the last two slides, Slide 15 on admin expenses. So here on this chart, you can see the evolution of administrative expenses, current and adjusted by extraordinary effects associated to the sale of Auto and P&C operations, both in Q1 2020 and in 2021. In 2021 the effects regard the contract that we still have with Allianz for service provision and that we had mentioned before that amounted to BRL16 million, basically in this comparison, that are eliminated for the analysis of recurring expenses. So, if we take out this effect, admin expenses as compared to revenue is 7.2%. It's important to highlight here, a nominal increase in admin expenses as compared to continued operations and these comparisons even though we've been emphasizing this concept of continued and discontinued operation, it might not be perfect, especially in terms of the line of personnel.

So in the line of personnel, there were salary adjustments. So when they come into effect, so there is something that carries over from one quarter to the other and increase in average headcount comparing between periods, this is one of the imperfections, although this is within expected, was the change in the commercial structure at the time of the spin-off, as compared to last year. So we had the spin-off and we transferred, the operation was a significant part of the commercial structure, this is something that we had already decided and we were reconfiguring the structure of which represented hiring of a significant number of people especially in regional branches or offices. And this is according to our expected, but this is not considering the equivalent structure in the comparison basis and it looks like an increase, but it's actually, it's a re-composition.

On the other hand, at the end of the quarter, we have had a reduction of approximately 120 people in our structure and 200 positions are still vacant, considering the structuring and after the sale of Automobile and P&C, seeking better productivity rates in the company. And this is related to these specific adjustment.

Lastly, we have also had the impact of termination of contracts with the Executive Officers and investments and attraction and retention of other executive officers that had an impact because the Health market is very much busy with lots of transactions going on. So this last measures in personnel are both to adapt the size of our structure and also to increase our productivity in our basis for the growth, attracting and retaining key people.

At the same time, we should highlight and we talked about it last year, we have not stopped our pace of investment in projects like digital information, Coordinated Care and we have new regions in the first quarter, we are going to launch another two Diretos in the next few weeks. This is very important, we are investing a lot in product, as Mello mentioned, new products, new funds that we are launching also as part of our investment strategy, also seeking to attract new strategies through new management teams. So these are lines we are investing a lot on, because we believe they are very promising to contribute to our growth and development.

Slide 16, we have the portfolio allocation. So here it's an important highlight, which is a recent movement. It was a trend last year already, but it's become more intense this year, reducing our both fixed exposure and significant allocation using movement of assets, prefixed this quarter which reduced our allocation from 94% to 71% of our assets in both fixed products. This allocation is still significant for the company. The 71% and we think it's

going to benefit from this higher Selic trend. And we also have a significant level of liquidity to make use of new movements in the market with additional allocations in order to improve even further the performance of this portfolio.

Now we end the introduction and we may move to the Q&A session.

Questions And Answers

Operator

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

Q - Vinicius Ribeiro {BIO 19720178 <GO>}

Good morning, everyone. Thank you very much for the question. Two points to explore. First, can you please talk about the claims, so BRL343 million of impact that you mentioned, does it have some kind of savings that those that postponed the procedures in the end of March and how can we think about that volume in terms of structure, as telemedicine and Coordinated Care means important cost savings, if any of this cost avoidance will be translated into prices and no products?

The second question about ROAE, you've mentioned a number of extraordinary events, things that happened in the past 12 months. But I would like to take the topic to ask what is the level that you see as restructured and after one year of Direto, do we have a track record to say that it's possible to maintain the same return on investment with low prices? And how can we think about the new organizational design that you have recently announced. Is there any change or are going to maintain with in-line with what you've done so far? Thank you.

A - Raquel Giglio {BIO 21963986 <GO>}

Hi Vinicius, this is Raquel speaking. Thank you very much for your question. So you've asked, how we can bring together BRL384 million, I mean, in the first quarter with the other elective procedures. We've seen, primarily in March, a reduction in the number of elective procedures, and also a reduction over level which was very close to the pre-pandemic level, especially in elective procedures, some urgent procedures were still somewhat lower than we used to have pre-COVID. But we have to bear in mind that physicians are almost all immunized, so procedures were naturally being restarted as of the second half of last year and the first quarter of this year.

So we have obtained a reduction that may bring some kind of compensation in the BRL384 million from COVID, but a very much smaller compensation or offset than what we observed last year. In addition to that, since the beginning of the pandemic, when we started adopting digital tools, telemedicine, and everything, we have been focusing on activating beneficiaries, especially the ones that need to perform a physical examination or monitoring, especially chronic cases, so that they do not fail to monitor their health conditions that inevitably generate claims. So this is something important to bear in mind.

I'm going to ask Bottas to address the second part of your question.

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

Vinicius, concerning the return, let me talk about two points. We calculated and we showed the return ROAE emphasizing that it has an important benefit and it has an item of correcting the market asymmetry which is the model of migration of solvency margin to a risk-based model we approved in the end of the first quarter last year. So for us, there has been, let's say, a freezing of the solvency margin which brings a positive effect combined with our profitability, it brings an effect where we maintain profitability at levels that we believe are sustainable.

But I would like also to consider another point and I'm going to talk about the pricing governance. Brazil has experienced an important reduction in capital cost. So as you price new products, they end up capturing the lower capital costs in place today compared to what we used to have when the cost of capital was much higher. Of course, it brings a lower nominal return without harming the spread over capital and we do not launch a product that is more affordable, that has a lower price, that has high quality because our network has the same quality, I'm talking about Direto, but with different characteristics and as such, it can be offered at more affordable levels of prices, but when we work in underwriting, we want to have a spread level, which is equivalent in terms of return compared to our traditional products. So it's the same level of spread over the cost of capital, but the products are launched at a capital cost, which is lower today than what it used to be in the past, which is good because it includes more access, inclusion and possibility of growth. So less of nominal return, but rather the spread and the return of over capital as the opportunity.

As to the second question about our organizational chart, we have a strategy in our company and we have a strategic advantage which is to combine growth with profitability and sustainability of profitable levels and this logic has been maintained. Our organizational flow and I think Raquel and Mello, who are two leaders today, not only provide corporate commercial area, but also retail we expect the growth to be accelerated, maintaining our strategy of growing with profitability. We are not going into any adventure, wild attempts, but really working faster and more efficient. Is it going to improve our return on investment? That's what we bet for, but we have to wait for it. So, yes, our organizational flow chart, once we speed up growth but always with profitability.

Q - Vinicius Ribeiro {BIO 19720178 <GO>}

Great, thank you very much for your answers.

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

Thank you.

Operator

The next question comes from Samuel Alves of BTG Pactual.

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Q - Samuel Alves {BIO 18720076 <GO>}

Good morning Bottas, Raquel, Mello. Good morning, everyone. I have one question within the loss ratio. We've observed a performance, which was somewhat different among all different health care providers, some showed an increase in loss ratio, others showed a very significant increase in loss ratio, in SulAmerica with a reduction. So I'd like to hear from you, what are the series behind it? How could we explain that, maybe because of technical non-provisions with company talked about that in the past, so maybe you have some more provisions than the others or have you adopted a more conservative guideline as Raquel pointed out.

And thirdly, maybe COVID has impacted less the profile of clients that you had in SulAmerica. So I'd like to hear your thoughts about it? Thank you.

A - Raquel Giglio {BIO 21963986 <GO>}

Hi, Samuel, this is Raquel speaking. Well, that's a good thing to us, right. I think to some extent it is a mirror of everything that we've been doing throughout the years. And for sizing the point of virtual verticalization, Coordinated Care, supporting our beneficiaries in their journey and all the other clean management actions that you are very well familiar with it. So new of models engaging service providers in the care, so we have to have a win-win situation, evolving healthcare providers, brokers, customers and the company. For over five or six years, we've been working and structuring it and as a consequence, it generates 42% of our claims with some alternative model of compensation and 660,000 beneficiaries under Coordinated Care.

During the pandemic, we never interrupted any action of Coordinated Care. And as I've emphasized in a number of situations, in some of them we activated claims that wouldn't necessarily take place at that time. So Preventive Task, especially for oncology cases, oncology follow-up and we've been doing that with the support of our partners to have early detection, because this is something that has a positive impact on the cost that it may -- like that has, but primarily to the life of the person, to life expectancy and quality of life. So it has not changed at all.

Another point, which I think we should emphasize is our policy of underwriting. We are very conservative, we always privilege a very serious, well planned long term underwriting, thinking about five -- one to five-year contract. Our average remain of in-house clients is 13 years. So it's a long-term relationship with corporate clients. So it does make a difference and it's coherent.

And finally, concerning the question about provisions. We haven't changed our methodology at all. We have the same methodology, of course we've been adjusting the variables that are part of that, according to the reality as we see it. In the last period, we have seen some longer length of stay, maintaining that length of stay more in the ICU than in patient rooms, but with younger people. Younger people who had to be more time in the hospital and that's expected because elderly patients are now being vaccinated. So there are a fewer severe cases of elderly patients, but we haven't made any change whatsoever, always being seriously -- not being conservative, but serious really in what we calculate when setting our provisions. And something quite interesting

for you to know, mortality rate of our patients and our beneficiaries which were really admitted to the hospital is 6.93%, below 7%, that's the mortality rate of our COVID cases.

Q - Samuel Alves {BIO 18720076 <GO>}

Thank you very much. Raquel.

Operator

Our next question comes from Guilherme Grespan from JPMorgan.

Q - Grespan Guilherme

Good morning, Bottas, and Mello, and Raquel. So I have just two updates about your vision regarding two topics, which I find important for the business model in your industry. Number one, regards the verticalization model, so you are, have to test in Parana Clinicas, and it's been going on for a while.

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

Yes, we can hear you.

Q - Grespan Guilherme

There are two topics and I would just like to get an update from you. The first one regards the real verticalization model and you've been investing in Parana Clinicas for a while. And it your vision today in terms of experience regarding the new service models. So your appetite after the experience, I know it's just a few months, but everything that you've been doing at Parana Clinicas, SulAmerica's appetite in terms of pursuing a true vertical model, is it bigger or smaller than it was in the past?

And also, touching on the topic regards customization. We've been witnessing a significant movement from providers, hospitals, competitors in your industry. So, what is your appetite in the environment of insurance companies and how likely are you in terms of consolidation, and what is SulAmerica's appetite in this environment?

A - Raquel Giglio {BIO 21963986 <GO>}

This is Raquel. Thank you very much for your question. I'm going to start with your first question, and I'm going to share the second one with Bottas. So first, Parana Clinicas model. Parana Clinicas is a semi vertical carrier, it had some service units with the own service with primary care and secondary care. And then no hypothesis, Parana Clinicas clinical centers replace tertiary care in hospitals. So whether it is in total SulAmerica model or Coordinated Care and the more recent one or Parana Clinicas providers are essential partners for us to succeed in the model. So in the case of Panama Clinicas, our partner provider that enables our strategy is not just one, but it's Hospital Santa Cruz which was part of the transaction. When we did it together with Rede D'Or and the primary and secondary care, most of them and the office visits, almost 78% of appointments are done in the clinical centers with our own doctors for this population of members of Parana

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Clinicas and if necessary, if they need any surgery or any more complex care, our partner will do that.

So it's a win-win equation. I am absolutely sure of that. We should remember there is not just one model that is right, the vertical model, it's good for the market and on vertical is also good for the market, there is space for everyone. And with this investment that we have made in the South region of the country, we have opened a new road for growth. We are paving a new road growth. Same thing with our Direto product. So what we've been using with Rede D'Or and other providers. So this is reflected in an alignment. So for good and for worse, we wanted to have sustainable products. So in order to meet the needs of our member base.

Bottas, you're going to continue?

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

I think that you have already addressed a part of the second question. So yes, we have this discussion. Actually, the strengthening of health care providers concentrated in hospitals, but also laboratories in the market. This strengthens the non-vertical model. So this demonstrates, as Raquel accurately mentioned, that there is a possibility of these two things coexisting with different addressable markets. It's important to mention that for sure this thing, there is no doubt about verticalization. Our relationship with health care operator, this partnership there or our partners, they mentioned Rede D'Or, Daza and we have partnership with other hospitals that have come to the capital markets such as (inaudible) and others. So this strengthens the non-vertical model, the issue here and right from the beginning, our virtual verticalization strategy was an enabler for us to go into a different mid-ticket segment, we believed in that and we are confirming that, just as our model that we have with Parana Clinicas.

It's not a strategy of verticalizing SulAmerica, it's a strategy of growing a new segment with more inclusion, more access generating, more opportunity that we need to do different from the traditional non-vertical model in a segment that has more high quality of the traditional segment in the market where we operate. So, we are confirming the strategy of enabling a mid-ticket product flow vertical verticalization, number one, because it's full virtual verticalization to enable the products of Direto, but it's partially physical, always in partnership, all to enable the new acquisitions that will be similar to Parana Clinicas and to structure other Direto products.

And also the speed, we have seven, and we have two on the pipeline for the next few weeks. It depends on the speed with which we can make the partnerships with our health care providers. And this is increasingly true in our business model, the confirmation that -- yes, it is possible to have different regional products aligned with the interests of health care providers. So the consolidation is positive. The growth of health care partners and hospitals and providers, it is positive to stand on our strategy which is aligned with their strategies.

Q - Grespan Guilherme

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If you allow me a quick follow-up, as part of the discussion. You have made a disclosure last year of new compensation models within claims. Do you have any vision to what level you can get in the short term, is there any room to increase penetration in the short term?

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

So, it is a goal that agrees with sustainability and it's related to our products. So, is it a dream? Yes, very much so. But it's day-to-day detailed work and undoubtedly we have been demonstrating consistent growth along the first few years in terms of the management contract and in terms of new products. So, in terms of free choice and a Selic [ph] or non-condition for the launch of new products. So due to the launch of the Direto product, they have a different compensation model that is way above the average.

Q - Grespan Guilherme

Okay. Thank you very much.

Operator

Our next question comes from Mauricio Cepeda from Credit Suisse.

Q - Mauricio Cepeda {BIO 21783651 <GO>}

Good morning, Bottas, Raquel, and Mello. Number one, congratulations on your result, your level of transparency and it's really excellent. I have two questions. The issue of optimization, in terms of COVID it has reflected a much lower loss ratio than usual. What have you seen at the end of Q1? Do you think that those -- are you going to go back to those levels or this could be reflected in any other point in the year?

And my second question regards the pressures in terms of price increases for health plans. I know, that you don't have many individual plans and as part of our strategy. But there is an attempt of making equal individual and collective plans. So, what are you planning from now on into the future?

A - Raquel Giglio {BIO 21963986 <GO>}

Hi, Cepeda, this is Raquel. How are you? Thank you for your question. Okay, as to the utilization. In Q2 last year, as you noted very accurately, it was completely atypical and it was really a one-off, we've seen that, really unprecedented. So, the frequency of elective procedures and also emergency procedures went way down, it really slumped and when is that coming back, isn't it already back, there is a lot held up. So we're sure that along the year, a significant part of what should have happened back then and didn't happen has already been done, but we are also sure that there is another significant portion that did not happen, that and will not happen ever. So this is to have full sides of the cut that is opening horizons for the health care industry that there are other ways of taking care of oneself and have interactions with doctors rather than running to an emergency room. So what we saw last year and when we see in isolation is still below and maybe the level has changed forever, is people going to EGs according to the Brazilian culture and we are all witnesses of that.

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In a very relaxed way and now we see emergency rooms being used for what they should be used for what is necessary. Has the tally appointment really replaced the part of the demand that would rush to the emergency room? I personally believe so. So, what happened in Q2 last year was really a one-off. No one know what we were dealing with physicians included very fearful, not vaccinated, but today doctors have already taken their vaccine. So, part of it was held up, there is still a part of that to recover, but some of what was not then will not happen because they were not emergencies in fact and people decided to have a softer, so to speak, care.

And I'm not really sure I understand your question about intervention of (Technical Difficulty) this is something that it's not really cyclical because it never goes away. The truth is that we see regulators respecting the rules that have been agreed with the market. Last year we had a one-off effect with the discontinuation of adjustments. But the continuing of collection by health carriers and even before what the A&S determined many insurance companies voluntarily suspended the price adjustments. So I'm not seeing anything that could change this market dynamics.

Q - Mauricio Cepeda {BIO 21783651 <GO>}

Thank you very much.

Operator

The next question comes from Ricardo Boiati of Banco Safra.

Q - Ricardo Boiati {BIO 16528742 <GO>}

Hi, good morning. How are you doing? Thank you very much for the opportunity to ask a question. Raquel, I would like to insist somewhat in the loss ratio. Because I think it's a very important point. We expected a worst loss ratio in the first quarter and even a marked deterioration quarter-over-quarter and it's not -- it doesn't seem to happen. That was a result of the second wave. So when we saw your figures, we were wondering, wow, what is that? Is it low utilization? Has the company managed elective procedures with different elements?

And hearing you, I had the impression that there had been an improvement from a structural perception, a 72.7% excluding the impact of COVID, it's still somewhat below what would be considered standard. You said elective, especially emergency procedures are still below what is your history, but you've said that emergency departments have really observed a change and it might be something structural basic. So I'd like to understand that structural loss ratio of the company for now, I know we don't set guidance, but can you please help us understand that, because in our forecast and most of us, we were dealing with a loss ratio somewhat aligned with the history, somewhat below 80% for the mid and long term. And if there is a structural improvement, I understand that we should be working with something like 75% considering there had been a decrease in use of emergency. And also with the importance of Coordinated Care, almost one-third of your portfolio, telemedicine use et cetera. So, please help us, help us understand the loss ratio and how we can see it from now on?

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A - Raquel Giglio {BIO 21963986 <GO>}

Hi, Ricardo. Let me tell you about the past, not the future, and you can just try to bring together the data. I know that some other health care providers shared some -- for example, they prohibited performance of surgeries during the pandemic, because there were no beds available when really there was shortage of oxygen et cetera. SulAmerica, however, never interrupted the performance of elective procedures. So answering your questions. We have never changed anything.

We have interacted and talked to physicians, beneficiary, hospitals and corporate clients, understanding and making clear how serious the situation was, and physicians, the attending physicians ultimately are the right people to consider to what extent the procedures should be performed or not. So attending physician and the patients, whether it's something that can be held for a while and maybe try alternative treatment and wait or whether it's something that really had to be performed. That was the only support we offered, physicians are absolutely free to decide what they want. We didn't change anything in previous validation, authorization. We didn't change anything in our practice.

Of course, based on what Cepeda has just said, something that we expected to happen last year. Well, it's not over yet, there are many unanswered questions. Is there some kind of diagnosis that didn't use to be -- that was not made last year and now it's going to be maybe back and we'll start diagnosing again? We don't know, nobody knows and that we will all depend on the immunization as well. But looking for the first quarter, we didn't change anything, we never forbidden the performance of procedures. So the number you see, pictures, the reality and the dynamic of how we work at SulAmerica and what do you are very much used to doing it.

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

Now this is Bottas speaking, you see, Ricardo, there is an important structural issue. Yes. We cannot give you any guidance and still there are a lot of uncertainties about how long the crisis will take and what will be the consequences after the pandemic. We are sharing some achieved results and Raquel showed that, last year in the first half, we had a decrease of frequency and we told you the frequencies are within that perception of social distancing and all of that and we expected it to resume. And if and at that time we were not sure when or how much, have we thought that it would be a 100%. I said, no, probably not, but we had to understand what would come and then access and inclusion are two important thing, because this is a characteristic of our brand. This is the purpose of our integral health, quality and access. This is a very important concept that we are reinforcing when you listen to Raquel talking about our (inaudible), they are just crystal clear.

And in terms of provisions and how careful we are. It all depends on the level of uncertainty and volatility because of the duration of the pandemic, because we don't know whether there is going to be a third wave or not, because of length of stay, there is so much unknown things and we are working to manage them. What we know is that, we are prepared to deal with the future, no matter what, because considering how technology had been included in our process and how much we levered them, we really expect important positive structural changes. And this is something good. This is

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something good that's going to generate more access, more portability, so we are glad. So 75% loss ratio.

Well, wouldn't it be wonderful if we could really use that to provide competitive advantage over our competitors and especially improving the perception of our clients. So this is the message, there are some issues concerning, breakthroughs and technology and telemedicine was one of them because of the number of digital consultations we had, but the investment in technology that we've been making over the years, the cultural transformation in the company, the purpose of Integral health, all depend on being put together and delivering structural improvements.

Q - Ricardo Boiati {BIO 16528742 <GO>}

Great, thank you very much. If I can make a very quick follow-up. Do you think that structural gains or gains of efficiency of reduction of structural claims could be translated into price adjustments, may be to improve your organic growth. So based on what you said, I can assume you were probably going to say yes. Because part of what you gain will be reinvested to accelerate growth. Can you please tell us about some ballpark figure? What is the reduction that you've noticed so far in number of ED visits?

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

Not necessary serious trauma or accident. But you see this visits to an ED because the person was feeling overall sick and did not know what to do and maybe it's always easier to go to the ED, whereas now people are probably using telemedicine for those visit, something that will become permanent.

Let me hand it back to Raquel, but this situation has a reality and it has been so for some years. In our presentation, you can see how we've been observing the price adjustment of SMG and how we can maintain product profitability, but having better and better price strategies and this is exactly our strategy to maintain margin, but always to share as much of an efficiency in costs and results of investments and Coordinated Care, and the use of technology as much as possible. Something that Raquel introduced to us in the art of access. So more access, more portability, better access. Really I think that's really.

Raquel, would you like to build upon them?

A - Raquel Giglio {BIO 21963986 <GO>}

Well, Bottas has answered to some extent. Our interest is always to expand our basis of beneficiary and it involves not only our policy of price adjustment negotiations with our clients, really using our benefits to maintain our base of clients and always we expect our underwriting criteria of course. And also in pricing new contracts, this is not something that we are going to do, it's a reality, an existing reality where we have had in place for some years. As we noticed the improvement in our process and improved results, we share that with customers as much as possible, thinking about expanding the number of beneficiaries, and the numbers we showed you for the first quarter really picture that.

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Concerning the use of ED, the emergency numbers, please bear in mind that we are still - we still have the pandemic on, we don't know how that would be from now on after the pandemic. In the emergency department, especially in recent months, the average of reduction has been a 34%, reduction of use of ED visits and I think this number really shows that Brazilians are changing the culture, they used to go to an ED and now they just think twice. This is usually what we observe and tele consultation is a possibility of replacing that unnecessary visits to the ED. We've been talking about COVID, but there is meningitis, H1N1 and so many communicable diseases which are equally serious and if you go to the ED, you are more prone really to be affected by them. So there has been a recent reduction of 23%.

Q - Ricardo Boiati {BIO 16528742 <GO>}

Great, thank you. Thank you all very much.

Operator

Our next question comes from the webcast by Mr. Eduardo Nishio from Genial Investments.

Q - Eduardo Nishio {BIO 15333200 <GO>}

Thank you for the presentation. Question to Ricardo Bottas. Congratulations on your new position and wish you success. How do you see SulAmerica's strategy under your management? Any changes? The competition has been growing a lot through M&A. Do you think we are going to have more inorganic growth in your term?

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

Thank you Nishio. I think that the company's strategy is very well consolidated, so actually what we have here in the execution of the strategy. And as a reminder, the strategy is always open and can be revisited. We have revisited when we decided to sell the Automobile and P&C lines of the businesses, we reviewed our strategy when we decided to go to mid-ticket segment only two years ago and today adding inorganic and organic with Direto and Parana Clinicas that have a penetration strategy in that segment with almost 150,000 lives with the recent acquisition of Santa Casa de Ponta Grossa, so in less than two years. And based on a recent decision of going into a new segment of price tickets, we have 150,000 new lives. If you take the advancements, we're talking about one year.

So we are very confident, both myself and all my fellow Executive Officers, but we see a set of opportunities based on the use of technology, based on the basis of almost 40,000 active brokers working with the company, more than 20,000 health care providers and all the opportunities that we developed in our technology complex and our App with the greatest usability in our health portfolio that we have in Brazil, a volume of opportunities in the future, that is really amazing and we are not going to fail to use any opportunity that will drive and leverage the company's growth.

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The companies has designed affecting [ph] to try to find ways to adjust forms for us to grow, combining growth and profitability. New strategies, new initiatives, tactics something more structural, whenever they come up they will be communicated or disclosed in due time. And we are very much guided towards the mid-ticket, our proposal of Integral Health, the alignment of interest with us, opportunity of generating more financial education. Mello mentioned our products and investments and how much we're investing in more in new with more sophisticated products with new teams, very solid investment strategies based on ESG and also promoting ESG in the companies that we invest in through our Investment management and with the Pension still very much in the beginning.

But the Pension has demonstrated solid growth that is also going to -- related to the economic growth until the economic recovery that we hope will be as soon as possible. So this is something that we're already doing and still are doing. So, we wanted to grow, want to grow in a sensible way and there are new roads to grow. With the acquisition and investment as it matures as part of our model in Parana Clinicas, but generating growth based on our model. So whenever we make the acquisition of a model based on Parana Clinicas, that has the concentration in terms of primary and secondary care, and has a very sound partnership with a tertiary care, there is a new avenue for growth.

Are the Parana Clinicas that are similar our strategies and their opportunities that we are stressing in order to develop, especially our growth strategy in the segment that we call mid-ticket. And also the strengthening as part of the questions that we had of our partners, health care providers that also have a quite significant inorganic pipeline, provide additional opportunities for us as some hospitals in some networks, also have associated health plans and carriers. So inorganic opportunities has always been in SulAmerica's mind, and we want to find the way to accelerate this growth as part of our strategy.

Operator

We have now ended our Q&A session. The questions asked through the webcast that have not be answered during the conference call will be answered afterwards through the email. I give the floor back to Mr Bottas, for his closing remarks.

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

I would like to thank once again your presence here today and to thank everyone that has asked questions, and to give you a little bit more information in a quarter (Technical Difficulty) all our almost 4,000 employees, amazing, the strength of more than 36,000 brokers, in a company more than 20,000 providers, physicians and healthcare providers. Tireless -- today is Nurses Day, I would like to congratulate all nurses that have been tirelessly working through the pandemic. Our more than 70,000 shareholders that are part of our journey for growth. Thank you all very much, and we wish you all a very good day.

Operator

The conference call of SulAmerica has now ended. We thank you very much for your participation, and wish you a very good day.

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