

Q2 2021 Earnings Call

Company Participants

- Clovis Poggetti Junior, Vice President of Control and Investor Relations
- Marcelo Mello, Vice President of Life, Pension and Asset Management
- Raquel Giglio, Vice President of Health & Dental
- Ricardo Bottas Dourado dos Santos, Chief Executive Officer

Other Participants

- Mauricio Cepeda, Analyst
- Samuel Alves, Analyst
- Vinicius Ribeiro, Analyst

Presentation

Operator

Good morning. Thank you for standing by. Welcome to the Conference Call of SulAmerica to announce the results of the Second Quarter of 2021. Today with us we have Mr. Ricardo Bottas, SulAmerica's CEO and the Vice President of the Company. This conference call is being transmitted live through webcast with audio and slides that may be accessed at the Company's Investor Relations website at the address, 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 the question-and-answer 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 Investor Relations website.

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

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

Good morning. I am here with all members of the Company's Executive Committee to talk about the results of the last quarter, still an atypical period with relevant volume of treatments, hospitalizations and unfortunately deaths caused by COVID-19. Between April and June, more than BRL500 million related to COVID-19 in the Health and Life portfolios, a total of about BRL1.8 billion since the beginning of the pandemic. The impact on the results of the segments will be better explored in detail later by my colleagues in the presentation.

But it is very important to highlight that this is -- we are seeing a consistent drop in the hospitalization, that -- due to COVID in recent weeks, also following the acceleration of vaccination in the country, which indicates the beginning of the pandemic and a more positive scenario for the end of the second, third and fourth quarters. But maybe indicating that we are going back to normal in 2022 after two atypical and asymmetric years of results.

Despite the short-term results in which we guarantee the protection of our customers, we have many good things to tell you about the past few months. In the first half of the year when we had a consistent growth in the number of members in Health & Dental, we expanded our market participation as we've been doing for many years. We are the second top health carrier in the country in revenue and we are still growing number of members for the fifth year in a row, a growth that is superior to that of our competitors.

Considering just affinity portfolios of Health & Dental, we have added more than 500,000 lives, which represent a growth of 13.6% as compared to Q1 2020, this even with new expansion vectors, our line of projects that is expanding access. SulAmerica Direct has been growing exponentially since the end of 2020 and we have had very good numbers of sales with Parana Clinicas. Adding organic growth and acquisitions, we have more than 150,000 lives in this new low and average ticket. In life, after many difficult quarters because of the pandemic, we are growing again with the same expansion in revenues that we saw in pension and investments.

Another thing that is worth mentioning is the acceleration of our digital and cultural transformation. In addition towards going back to the hybrid mode of work, making the most of flexibility and respecting the new moments when live and present work, we are sure that this is going to help the Company. This team and the development of new projects, products, service and solutions has 40 multi-disciplinary squads with about 360 people working innovative solutions as the ones we have been launching over the past few years, and they make a difference in the experience of SulAmerica's members.

As compared to our competitors, we have excellent satisfaction rates. The health app had record scores in evaluation and we had the best grades in the complain here in all our segments. So, the delivery of integral health with innovation and quality, this is our purpose, so with the objective of improving the lives of people.

We are also looking at innovation with direct investments in startups and platforms as we did in Docway, Sharecare and in Orama too. This week, we have announced the injection of funds from a venture capital managed by third parties focusing on technology and dedicated to health, at Aggir Ventures Health, which created the first independent outlet of this type in Brazil, bringing together a very special group of investors specialized in health and technology, and SulAmerica is an institutional investor, and this is another path for us to take part in the development of health decks. And this is very important to contribute for the evolution of health and technologies. And now, what I had to say with a positive message of the continuity and acceleration of our growth for future quarters, keeping our good operational trajectory along years making the most of the expected resumption and recovery of the Brazilian economy combined with us going back to normal.

FINAL

Bloomberg Transcript

Now I give the floor to Mr. Clovis Poggetti, our CFO and IRO, to talk about consolidated results. Then Raquel Giglio, Health & Dental VP; and then Marcelo Mello, Life and Pension and Asset Management VP.

Clovis Poggetti Junior

Thank you, Bottas. Good morning, everyone. I'll start my comments on slide two, talking about operating revenues which had -- grew of almost 9% in the quarter, reaching BRL5.2 billion and 7% in the year half to reaching to BRL10.4 billion.

Just a reminder, the results for 2020 refer only to Company's continued operations on the same comparative basis, not considering the segment of automobile and P&C which were still part of SulAmerica's results in the first six months of last year. As can be observed, all segments contributed to the acceleration of the growth observed, with some highlights to increase of more than 7% in Health & Dental in the second quarter following the solid growth in the beneficiary base.

The same positive dynamic was observed in health care plans, which were managed reaching over 18%. It's also important to highlight that Life & Personal Accident segment has picked up again with an increase of 12% compared over the second quarter last year and more than 30% in the first quarter this year as a result of better performance of all our products in the portfolio following the reopening of the Company.

Expansion of approximately 60% investment funds in the quarter following the positive path of the previous periods and growth of 78% in asset management in the second quarter of 2021 and over 27% year to date following the improvement in the capital market scenario, a performance that Marcelo Mello will comment in details later.

Moving on to slide 3, I will start with a consolidated loss ratio of 85.8% for the quarter. As indicated by Bottas, it was extraordinarily impact by the very high cost of -- due to COVID associated cases, both Health and Life, combined with the frequency of procedures that resumed its normal operation in the quarter. Raquel Giglio will make comments about how it worked in health just after me.

I would like to anticipate two important points that deserve to be highlighted. First, we should bear in mind that the second quarter of last year had been benefited significantly by lower frequency of claims due to social distancing measures and also the restrictions that were imposed to the population.

As part of the first wave of the pandemic, and of course it hinders comparison between periods. As we had said at that time, the results shouldn't have been extrapolated into future periods. And the same applies to this right -- moment in 2021 which reflects an atypical dynamic that should begin to get more normal once the pandemic is under control.

The second point we would like to highlight is that there has been a reduction in cases of COVID and that was observed as of July. They're still at not insignificant levels, but still

FINAL

Bloomberg Transcript

FINAL

indicate a more positive scenario for upcoming quarters. There has been a gradual reduction of procedures associated with COVID in Health and also fear -- fewer deaths in Life.

Following the main lines of the results, one of the positive highlights of the quarter was administrative expenses. Even adjusted by extraordinary facts, of which I will comment later, it reached 6.7% in the second quarter 2021 showing gains of 0.5 percentage point in relation to the same period last year.

Looking at half year, it was 7%, a very consistent level. It reinforces the Company's commitment to gains in operational efficiency, keeping this indicator at appropriate levels.

Going into the next slide, we can see company's EBITDA and once again, it's important mentioning that it's not comparable to the second quarter last year because of all the pandemic and what it entailed. In the second quarter 2021, EBITDA was BRL15 million, below what would be a normal number considering the loss ratio that I had just alluded to.

Remember once again that if on the one side there were BRL530 million in costs associated with COVID-19, in this quarter adding Health and Life, which had a negative impact on result, on the other hand in Health the second quarter still had not shown normal frequencies of elective procedures, and that was throughout the whole period and there was a process that picked up again and recovery of the procedures between April and June.

As to financial results, it showed a positive evolution in relation to the first quarter 2021, reflecting mainly the improvement obtained from investments with good performance of inflation-based assets and pre-fixed assets in addition to the higher interest rate Selic. On the other hand, it's worth mentioning the negative impact on the financial result of pension plan, which prevented an even stronger improvement in this line due to extraordinary mismatch between IGPM and IPCA.

Looking ahead, we expect this mismatch to reduce over time, reducing the impact. Even though looking at longer series of many years, the two index tend to converge over time.

Looking ahead, it's possible to say that financial results which had suffered a lot in last years with sequential drops of Selic rate should probably present a better performance of the Company's result, just following improvements to the interest rates that are now being increased by Brazilian Central Bank.

Finally, it's important to observe the net income and return on investment as well as EBITDA are affected by the lack of comparability with the same period last year. The second quarter this year, net income totaled almost BRL13 million for an accumulated result of BRL84 million. Even with all this atypical period, the main operation of our Company Health & Dental which corresponds to approximately 93% of our revenues had a return on minimum capital requirements of around 15% in the last 12 months.

I would like now to give the floor to Raquel Giglio, VP of Health & Dental.

Raquel Giglio {BIO 21963986 <GO>}

Thank you, Clovis. Good morning, everyone. Well, I'm going to start with the already known arc [ph] of access, which materialized our journey to address always that our members seek access in health care. The core of coordinated care strategies to have a positive interference in monitoring members, providing more appropriate use, and higher quality and satisfaction.

All these strategies augmented with the pandemic and will be seen as a positive legacy once we walk out for good from this crisis. We are still -- even closer to our members with the health app being more used than ever and with higher satisfaction rates than ever. Records of emergency and elective steady appointments which already total more than 1.2 million in the last 12 months. In addition, Coordinated Care has proven to be effective, especially in alignment with providers. In addition to all advances that we have implemented in compensation models and formatting of new products, we see a very good evolution in the sense of providing better care.

I can highlight the expansion of our fast-track service in the City of Sao Paulo in partnership with more than 40 providers, providing care not just to cases related to COVID-19 but anyone who needs an urgent in-person care after, a telemedicine appointment, thus expediting care without lines of screening (inaudible) our vertical -- virtual verticalization in practice with a very welcoming environment.

Now as to our digital initiatives in Coordinated Care, the numbers confirm what I said in the previous slides. With remote care and convenience being increasingly more used, our resolution rates are about 90%. We had more than 1.3 million digital appointments, including tele appointments and telephone care, from -- since January last year, with more than 670,000 appointments or encounters just in the first 6 months of this year. At the same time, Coordinated Care advanced fast. It provides innovative solutions and joint delivery of health, providing a differential value to customers and providers, and assuring the sustainability of the model.

Today, we have almost 730,000 members being coordinated, something close to our -- 30% of our total base. And more importantly, they represent more than half of our total claims, indicating a better monitoring of the journey of members but also most of the part of cost involved in our operations.

On slide seven, this is all about our mid-ticket strategy that is getting stronger and stronger. Among the novelties of the quarter, we launched Direto in two new regions, Brazilia and (inaudible). With these two new markets, we have Direto in nine regions in Brazil, reaching more than 33,000 members. We are going to continue to advance to other strategic locations until the end of the year, making the most of increasingly closer relationship with our partners, providers, which permits new models of compensation, new product structures and growth in other regions of Brazil, and not -- other than just the main centers where we are present today.

FINAL

Another avenue for the growth of mid-ticket are acquisitions of carriers and portfolios. As you see, we are accelerating the performance of new sales at Parana Clinicas and we are soon to incorporate another 25,000 members from the portfolio of Santa Casa from Ponta Grossa also in the State of Parana. At the same time, we are working to expand the model of Parana Clinicas to other regions in the country.

In April, we opened another medicine integrated center in (inaudible) in Parana and we have also included a new dental clinic to the operation, which undoubtedly will contribute to the acceleration of cross-selling opportunities, reaching an even better sales performance. Just as a reminder, Parana Clinicas didn't have dental operations, didn't sell dental insurance for their members.

Now on slide 8, I will briefly talk about the main numbers of the quarter. Operating revenues grew 8% in the quarter and 7% year to date. The good performance in revenues, especially due to the continuation of growth and affinity plans, we have reached 4.2 million members in Health & Dental. We had net inclusions of more than 500,000 lives as compared to June 2020, 177,000 in Health and 327,000 in Dental. If we take out the lives from Parana Clinicas, we have also had a very good organic performance with the inclusion of more than 400,000 new lives in the period.

As compared to March 2021, we also grew, so we added -- sorry, 11,000 lives to our base and in Health and 17,000 lives in Dental. In the quarter, we had more than 145,000 members in net inclusions, 65,000 just in health. So we are improving our mid-ticket strategy and this indicates that we have the right commercial strategy, all with very good quality of care which is the -- for which SulAmerica is already well known.

Now on slide 9, the loss ratio; as said before by Bottas and Clovis, the indicator was highly impacted by the atypical period that we're going through. Still a pandemic is still pressure in the second quarter with high numbers of cases and hospitalizations related to COVID-19 combined to a frequency of elective and non-urgent procedures that is very close to pre-pandemic levels in most of the period, especially after May and June.

With the -- when the social isolation measures were flexibilized -- so if we take out the cost, the loss ratio of Q2 2021 would be approximately 76%, still a little bit below normal but reflecting the low other frequencies that are not yet fully normal. It's very important to remember here that the comparison with the second quarter last year should not be taken into consideration because that period was atypical too in the opposite way with an extraordinarily low loss ratio -- because of the social isolation measures and lower mobility of the population with a frequency of elective procedures that was significantly below normal.

As to Q2 2019, a period that was relatively more comparable, loss ratio was 3.8 percentage points [ph], as Bottas and Clovis said, when -- even though the pandemic is not yet over, the advance in the vaccination has contributed towards low improvement in a number of cases and hospitalizations due to COVID-19 since the beginning of July.

FINAL

We are going to continue monitoring the scenario that is still very uncertain, but we have an indication that it's more positive in terms of higher control of the pandemic and undoubtedly a gradual normalization of regular seasonality of our results.

In the lower part of the slide, you can see the indicator performance in moving windows for 12 months, always more appropriate to analyze loss ratio and to isolate short-term effects, whether positive or negative. In the last 12 months, our loss ratio was 80.4%, a well-controlled level and better than the performance of our direct competitors in spite of all cost pressure since the beginning of the pandemic that add already BRL1.7 billion since March 2020.

We are closer and closer to the end of this crisis and we assure that we will not only walk out better having accelerated important initiatives, just Coordinated Care and the use of technology and connected medicine, and we are going to recover, to resume our solid trajectory that has been our mark in the market for many years, a good base of organic growth seeking to expedite it more and more. We want to keep our loss ratio at appropriate levels.

I end here Health & Dental part and I give the conference to Marcelo Mello, VP of Life, Pension and Asset Management.

Marcelo Mello {BIO 21963995 <GO>}

Thank you. Raquel. Good morning, everyone. Let me start with the operating revenues of Life, slide 10. The highlight is that the portfolio has picked up its growth, as Bottas and Clovis pointed out, but it suffered because of the pandemic since last year. Revenues in the quarter grew almost 12% compared to the second quarter 2020, offsetting the reduction observed in the previous quarter.

Compared to the first quarter 2021, growth also was accelerated with revenues up to 32%. Conversely, in a very similar situation to the whole insurance market, we have been suffering in terms of profitability due to the record numbers of COVID-19 related deaths during the severe second wave we faced in the first half of the year. There were about 1,400 deaths just in the second quarter alone, bringing our claims -- loss ratio to 90.6% in the quarter and 74.4% year to date.

Disregarding the cost related to COVID-19 of BRL63 million in the quarter and BRL104 million in the past 12 months, the rates would have been 44.3% and 53% respectively, levels which were more aligned with what would be expected for the portfolio. As Raquel pointed out, we are confident in a gradually more positive scenario with the -- advancing the control of the pandemic in the second half of the year, which tends to be translated into fewer deaths and consequently we expect to return our profitability of the portfolio.

Slide 11, I'm going to talk about Pension. This segment maintained its pace of growth with higher revenues, both in the quarter with a 16% increase and in the year-half of 9% expansion. Once again, let me highlight VGBL product. It's important to highlight that we've had a number of launches of new products adopting different strategies,

Bloomberg Transcript

complementing our pension plan portfolio. Results reached almost BRL10 billion, growth of 19% year-on-year, maintaining the pace of previous periods, resulting mainly from the profitability of pension fund balances.

Now slide 12 and talking about asset management, this segment ended the second quarter with BRL45 billion in managed assets and showed a great performance in revenue, 78% growth in the quarter, following the higher performance fees reflecting the performance of variable income funds in the period, which more than offset the slight reduction in management fees.

Now, I'd like to hand it back to Clovis once again to finish the presentation. Thank you.

Clovis Poggetti Junior

Thank you, Mello. Now go into slide 13, I'm going to give you some more details about the administrative expenses in the period. The administrative expense to revenue ratio was 5.8% in the quarter and 6.7% year to date, with positive evolutions of 2.1 percentage points and 0.6 percentage points, respectively. However, it's worth highlighting some important extraordinary effects for a better analysis of the indicator.

In the second quarter 2021, we had a positive one-off impact of around BRL65 million, referring to reversal of provisions of ANS fees. The collection was being discussed in court and after a favorable final decision, we are able to reverse this provisioned amounts. It's one -- first impact that we are calling extraordinary.

In addition, as mentioned, since the second half of last year, we are experienced -- incurring expenses from service rendered for Alliance [ph] Group related to temporary support for the operation of automobiles and P&C with a positive counterpart in other operating income amounted to something BRL20 million per quarter.

In the second quarter last year, it's also worth pointing out that as disclosed at that time, we had expenses of about BRL31 million related to the process of spinning off the operations of automobile and P&C, and if it is -- we got all these effects in the period, the administrative expense rate reached 6.7% in the second quarter 2021, a gain of 0.5 percentage point compared to the same period last year, a very positive result showing evolution in our search for operational efficiency. Year-to-date the index would be at 7%, also at a consistent controlled level, considering all strategic investments and projects which are essential for the future of the Company.

The next slide, just to close our presentation, I'll briefly approach the portfolio allocation. It's worth mentioning that since last year, we have made moves to take advantage of opening of rates of prefixed assets and we bought 26% stake of the total portfolio. Selic and CDI still represent most of our portfolio amounting to 65%. This majority position allocating in CDI will benefit from the recent Selic increases in a stronger way, which should contribute to the growth of this line in our results. But even so, we are very attentive to new potential distortions in the market.

With that, I close our initial remarks, and now we are ready to go for the Q&A session.
Thank you very much.

Questions And Answers

Operator

Thank you. Ladies and gentlemen, we are now going to start our question-and-answer session. (Operator Instructions) Our first question comes from Samuel Alves from BTG Pactual. Please, Mr. Alves.

Q - Samuel Alves {BIO 18720076 <GO>}

Thank you. Good morning, everyone. Good morning, Bottas and other officers. I have two questions. First one, about organic growth, you were highlighting the good performance of your mid-ticket segment getting to 150,000 lives. But we see that it's relatively low still because you still have many cancellations. I would like to analyze this with you. How do you see your member base? Which are the main moving parts? This is the first question.

And my second question is about your M&A appetite. So, how are your projects going? What are the profiles of your targets? So, what are you looking at in terms of M&A?

A - Clovis Poggetti Junior

Hi, Samuel, this is Clovis speaking. Thank you for your question. I'm going to start from the second one and then obviously, considering the limitation when we talk about M&A, and I hope you understand, I've been in the Company for a little bit more than 3 months. And in the first Board meeting, we changed a features -- filters, which increased our focus so that we can assess more businesses. I am personally very excited, the Company is very excited, and today we have seven opportunities on the pipeline, on the table for us to assess, and maybe and in helping to make it more tangible and said before, it's part of my mandate. And this is where we invest -- a significant portion of my time is to support the company's growth.

So I hope I helped you. And now, I'll give it to Raquel to answer to you about organic growth.

A - Raquel Giglio {BIO 21963986 <GO>}

Hi, Samuel. Good morning. I hope you're well. Well, actually we are seeing an organic growth and very good sales and going to new regions. So leaving just Rio and Sao Paulo and going to more and more regions, either through direct or through Parana Clinicas platform, that you already know.

And to illustrate this a little bit further, in our positive expectations for growth recently about 2 weeks ago, we had the expansion -- the approval of the expansion plan using the model of Parana Clinicas as a platform for growth. Obviously, I'm not going to give you details of the cities and regions. But I can tell you that there are 28 clusters that have been

mapped to expand the semi-vertical model with primary and secondary care clinics depending on the number of members and the potential of the region, which might be small, medium or large.

And for the first wave of expansion that has already been approved, there are four properties being prospected in these locations, three of those are in the South region of Brazil and one outside the South of the country. So in these regions, we have the prospects of more than 60,000 lives in terms of market to address. In fact, we are suffering pressures, as you said, and in some portfolios more or less, but sales are very positive. They're going very well. Thank you very much.

A - Marcelo Mello {BIO 21963995 <GO>}

Samuel, this is Marcelo Mello speaking. Just -- as you asked about organic growth, we've been following up or seeing a very positive evolution of individual life as we saw here with a significant growth as compared to the last quarter. And this is the result of many initiatives that we have been implementing, not just to improve more and more the customer journey, brokers journey, but also adding new coverages and new products to our portfolio and negotiating new channels, even digital channels, for us to increase the capillarity of our distribution.

In terms of pension, we should mention that this year we have had record launch of new projects, just for you to -- for comparison, last year we added to the pension portfolio three products, this year we have already added more than two of -- new products to our pension portfolio. And we have also increased our penetration in the digital platforms that offer this product.

We should also highlight our travel product. We know over the past few months this was very difficult, but we are seeing many countries opening with the protocols and we can see in the volumes of travel insurance a growth. As to asset management, many investments have been made, especially investment teams adding new strategies such as, for example, the team that we've built, that is very robust in terms of structured credit operations, that is already presenting a quite fast growth with many products being launched, such as SulAmerica Credit ESG, which is ESG in the segment of credit.

Q - Samuel Alves {BIO 18720076 <GO>}

Thank you, Mello, Clovis and Raquel. And have a good day.

Operator

Our next question comes from Mauricio Cepeda from Credit Suisse. Please, Mauricio, you may ask your question.

Q - Mauricio Cepeda {BIO 21783651 <GO>}

Hello Bottas, Raquel, Mello, good morning. I have two questions. One, about your commercial strategy. So the companies that buy your plans, do you see an economic recovery? Are you seeing that already, an increase in the number of employees in the

companies? Do you think it makes any sense to upgrade your plans already? But -- what is your churn like? What has driven the churn in your portfolio? What are the drivers for the churn? This is my question, my first question.

And the second question is about the ex-COVID loss ratio. It was low in the first half of the year, lower than usual. In the second quarter, it's closer to normal. Even so, for the first 6 months, it looks like it's slightly lower. Are you anticipating any backlog, any repressed demand in terms of oncology or cardiology and this might lead to more expensive procedures in the future? Thank you.

A - Raquel Giglio {BIO 21963986 <GO>}

Hi, Cepeda. This is Raquel answering your question. So first, for the second part talking about the loss ratio of the first ex-COVID, so with the ex-COVID loss ratio, this doesn't reflect a normal scenario. So, there is a significant resumption of elective procedures which were repressed last year, as you saw, but it does not yet reflect normal rates.

Now, as vaccination is advancing and as more strict social isolation rules are lifted, we are seeing the light at the end of that tunnel for us to walk out from the pandemic and in terms of having a more optimistic look into the future, undoubtedly. As the oncology, cardiology or chronic diseases that cannot -- you cannot suspend care, not even during the pandemic, one of our main efforts during this period, we have activated claims in the cases where we know there was a need to do something.

For example, women that need screening for breast cancer and uterus cancer, cervical cancer for men, prostate cancer, so we are activating those people because this is the type of thing that cannot wait. So if you wait, it costs much more later on, especially in terms of quality of life and the cost of care involved. This was one of the main focus of our work since the beginning of the pandemic.

Now talking about commercial dynamics, I think that we have started having a visibility of the economic scenario that is positive. But unemployment is still very high. But depending on the industry and region, we are already seeing some growth and we want to keep our fish bowl full and not, because when members, the number of members grow, we grow back with them again. So, I think that the outlook is very positive.

As to churn, we are seeing -- and we must have said this in the last two or three calls, the market is very aggressive. We are not the only ones talking about this. This is cyclic. It's part of the market dynamics. But this more aggressive market puts pressure on churn and nothing that is too unusual, we've seen it before. Thank you.

Q - Mauricio Cepeda {BIO 21783651 <GO>}

Thank you.

Operator

The next question comes from Vinicius Ribeiro of UBS. Vinicius, please.

Q - Vinicius Ribeiro {BIO 19720178 <GO>}

Good morning, everyone. Thank you for taking my question. I have two topics that I would like to explore further, not very different from what we've heard before. First, loss ratio, we understand there are a number of exogenous service utilization, backlog, et cetera, but you've been showing a number of structuring initiatives, so increase of contracts outside fee for service, coordinated care and also a mix of product that has been changing. So thinking about all these factors which are under your control, should we expect some gains and loss ratio when we compare to pre-COVID time?

And secondly, this same verticalized model described by Raquel, could you give us further details about what are the price points? What are agreements with service providers? Do you have any specific modeling similar to that of the Direto [ph] product? So give us some more details about what we can expect in terms of products from this initiative. Thank you.

A - Raquel Giglio {BIO 21963986 <GO>}

Hi, Vinicius, Raquel speaking. Good morning. Let me start with the second question first. Some verticalized model, which is a model we learned from Parana Clinicas, follows the intention of always working with our providers and partners. We have no intention whatsoever of going fully vertical. Secondary care and 100% of tertiary care is provided by our partners who are service providers. And this is a basic condition really to help us expand our initiatives. It's not only one region which tends to be interesting from a commercial perspective. We really need partners and providers who are willing to expand together with us.

Those who want to go into sustainable compensation models or want to do something differently from fee-for-service who have a long-term sustainable idea in mind, and this is what drives our analysis to think about further expansion. This is something that has worked very successfully in Parana Clinicas. It's a model we worked with Hospital Santa Cruz by (inaudible), and everything we've learned from the Direto product. So, it really makes us very confident to move on along this path.

Our integrated health centers, we have the need or the willingness of really trying to detect the needs of our clients and really make the right referral, right steering to what can be treated internally and what necessarily needs some third party. A differentiated compensation model is also a basic requirement for the success of the model.

Now concerning the first question, you've helped me already because we've been working on health management, coordinated care, loss ratio management for 2 years or 3 years. You've been witnessing all our reports about all the projects and really having it as the basis of our strategy. And right now, it's a one-off market reality. So, last year it was somewhat positive, this year not that much. However, we should always try to see a film and not a snapshot, a specific picture.

We have to understand everything that we've been doing from many times, having a beneficiary centered model, thinking about the whole supply chain, this is what drives us

and what determines our strategy so that we can be steps had when we are talking about health management and loss ratio management. Thank you, Vinicius.

Q - Vinicius Ribeiro {BIO 19720178 <GO>}

Thank you, Raquel. Thank you for your answers.

Operator

(Operator Instructions) If there are no further questions, I would like now to hand it over to Ricardo Bottas for his closing remarks.

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

Well, to conclude the cycle -- when our conference call, I would like to share with you our message of optimism. The pandemic is getting into control. But this is not the right time really to stop doing what we are doing. Let's move ahead. Let's keep on getting vaccinated and be confident about market recovery.

Thank you all very much for everyone, especially our 20,000 providers, our own staff members and over 1,200 hospitals, all of them is essential to fight the pandemic, our 36,000 brokers who helped us to keep on growing and over the 7 million beneficiaries and clients of -- and our 19,000 shareholders. Thank you for your confidence. Thank you very much. Have a great day.

Operator

The conference call of SulAmerica is now closed. Thank you all very much for your participation. Have a great day. You may disconnect now. Thank you.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.