

Y 2021 Earnings Call

Company Participants

- Ricardo Bottas Dourado dos Santos, Chief Executive Officer

Other Participants

- Mauricio Cepeda, Analyst
- Vinicius Ribeiro, Analyst
- Yan Cesquim, Analyst

Presentation

Operator

Good morning. Welcome to the Conference Call of SulAmerica to announce the results of the Fourth Quarter of 2022. Today, with us we have Mr. Ricardo Bottas, SulAmerica's CEO and the Company's Vice Presidents. This conference call is being recorded live through webcast, with an audio and slides that can be accessed at the Investor Relations company website, at the address www.sulamerica.com.br/ri. All participants will be connected in listen-only mode during the Company's presentation and then we are going to start a Q&A session when further instructions will be provided. (Operator Instruction) 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 give the floor to Mr. Ricardo Bottas, SulAmerica's CEO who is going to start the presentation. Mr. Bottas, please, you may start.

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

Thank you all very much. Good morning everyone. I am here with SulAmerica's Executive Officers to share with you our performance in the fourth quarter, but first of all, I would like to welcome Juliana Caligiuri, who has joined our company to head our businesses and the Executive committee, as well as (inaudible), who has joined us to lead the Vice Presidency of Technology and Innovation. It's a pleasure to have you here with us for our first conference call with you.

First of all, I'm going to start talking about the material fact that we announced last night. It's a great satisfaction that we announced the merger of two of the most significant or leading players in the healthcare industry in Brazil. A unique transaction which will provide gains to all our members, clients, employees, brokers, providers and all partners and stakeholders. The union or the merger between SulAmerica and Rede D'Or, we have

been partners for a long time and this is the union of two founding companies with a long-term vision that are committed to the development of the health industry in Brazil.

The merger of the two companies will certainly open opportunities of growth and development, leading health and care of the highest quality to more and more Brazilians. The operations will remain independent and transaction is waiting for the due approvals of transactions of this nature. Most notably, the approval of the shareholders meeting of both companies for the respective regulatory approvals that we must have. And once the transaction is complete, the merger of the two companies will make it possible for us to advance together in building and expanding an increasingly more complete health ecosystem, expanding quality access and paving the way to increase sustainability in our industry. So briefly speaking, talking about the fourth quarter of the year, so that we may move to Q&A, there were challenging times for the healthcare industry that's had the direct, indirect impacts of the pandemic over the last two years. And went through a period of frequency and severity of claims that was unusual impacting especially the fourth quarter in atypical year manner.

So if you remember, usually at the fourth quarter, we have very strong results and lower loss ratio, but they have been affected by the pandemic, combining frequencies coming from the pandemic such as new and dynamic an epidemic situations and also the behavior of customer frequency considering the period of restriction that you were still living. It's important to highlight as part of the dynamic of the last few years and the company we have had, a very severe dynamics with variation in the hospital and medical costs, the medical inflation in Brazil haven't have provided in recent years, more recently, a gradual reduction of our average premiums, which is good for our competitive process but yes, it does affect our performance. And as part of this inflection that took place in 2021, there started being recovery with actions that we have started implementing in 2021, most strongly in the last quarter of 2021 and that is still being monitored as part of our commercial dynamics, it's a necessary adjustment of premiums, which is necessary for our performance.

At the same time, we have had very positive evolution for the future of the company. I would like to highlight the solid base of growth with significant expansion in a number of members along the year. So, and we -- and this happened along the recent year 2021 with more than 350,000 new lives in health and dental in 2021. And we mustn't forget that the impact in loss ratio in our life and health insurance with a small impact of COVID, but materially going back to our usual performance of margin and recovery of the loss ratio. I would also like to highlight the significant evolution of SulAmerica investments that has reached BRL48 billion at the end of 2021, a growth of approximately 5% in terms of assets under management.

We mustn't forget that dealing with an unprecedented pandemic, we did not measure our efforts to a play our role and to assure coverage to our members with our purpose of giving good quality health, which is our number one priority. Our purpose of integral health is still something important for us and this is going to be leveraged in the near future, in spite of all uncertainties. I think that this transaction which is transformational that we announced yesterday will contribute for the industry as a whole and for us, particularly at SulAmerica we feel stronger. The results of Q4 2021 and for the whole year of 2021

certainly does not reflect the entire operational performance that we had in recent years with engagement of our teams and leadership of the company. The strength of our sales force here highlighting the role and relevance of insurance brokers and as we continue to relate to all of them as we have evolved in gaining market share.

I would also like to highlight the important structure of our model that is not vertical with an open network and the partnership with more than 20,000 health providers, with more than 1,200 hospitals did assure the delivery of good healthcare to our 2.5 million members. It was a very challenging period for everyone, but we assure that our strategy and plans are very well defined and help us to hold our position of leadership in the markets we operate.

So considering timing, we move on to the Q&A, and thank you all very much.

Questions And Answers

Operator

Ladies and gentlemen, we are now going to start the Q&A session (Operator Instruction)

The first question comes from Yan Cesquim from BTG Pactual.

Q - Yan Cesquim

Good morning Bottas. Good morning, everyone. Can you hear me?

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

Yes, we can hear you.

Q - Yan Cesquim

Good. I have two questions, first about the transaction with Rede D'Or. Could you please tell us more about the corporate governance of the deal, is there -- are you going to participate in the Board of Rede D'Or. Is it going to be separated management structures? And also about loss ratio. Even without COVID, the MLR of SulAmerica in the first half was higher. There are some on-off effects that you pointed out, so more days in the years, seasonality, but I would like to understand how it has evolved considering the beginning of the year and what do you anticipate for 2022? Thank you.

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

Thank you Cesquim. I have here the executive team with me, but I would like to start addressing your points concerning the transaction. What we can tell so far, it is still pending the votes of shareholders and with majority capital, we have already seen by the Board of Directors, it has been approved on both sides and also our audit committee at SulAmerica has approved it, but everything that we can say so far is part of the material fact reported yesterday, a joint report made by our two companies.

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Please bear in mind that this process will take a few months to go through the general meetings of shareholders and also the time that it takes to have it into action, the businesses will be run independently according to the nature and complementarity, but concerning governance, our agreement agrees that in addition to migration of participation in which SulAmerica shareholders will have 13.5% interest of this combined operation through issuance of shares and also one sit in the Board of Directors, which would be taken by the Board, the Chairman of the Board of SulAmerica who would then have a seat, which is Patrick Larragoiti would have a seat there.

For the management of SulAmerica, it is amazing group of executives, we would maintain our firm position, managing businesses on health, dental, prevention, plan, and asset management. We are not, of course, the only points that matter, I would like to emphasize the strength of our operation and the commitment that we have with our brokers, with our providers, physicians, staff, clients and customers. This is a very important aspect to be constantly emphasize in terms of continuity of businesses.

You see Cesquim, I tried to just give some colors about that, because there had been some atypical behaviors and we had the impression that there would be just some pickup of the normal behavior and let's say, a regular life in terms of frequency of use, or service and we've seen really changes in terms of visits to the ER, also performance of complementary tests. There has been some pressure on the operation of telemedicine and combine with the aspect that I mentioned in my opening speech, the effect of more loss ratio and average premiums that have been really adjusted to try to capture all the on-off effect of the whole year of 2021. Since the end of 2020, there has been that huge variation of frequency throughout the whole year of 2021.

And please bear in mind that the company does not provide guidance, but we centered 2021 under a lot of pressure, still dealing with the restrictions and social isolation of the pandemic and also the Omicron variant, but in the end of January, beginning of February, we started seeing people resuming their, let's say, normal range frequency.

In February, we've seen some behavior quite similar to what had been in previous years, despite the variation of the Carnival being a bank holiday or not, which does bring some level of uncertainty. So the first quarter, I have to say still be kind of erratic compared to what would be expected for a regular first quarter. But we are maintaining our commercial journey, we can see the market is very competitive, very strong, but we are maintaining our journey of underwriting, understanding that the average premium should also be recovered. I've just tried to give a broader answer to, also maybe anticipate some further questions. Thank you.

Operator

The next question comes from Mauricio Cepeda of Credit Suisse.

Q - Mauricio Cepeda {BIO 21783651 <GO>}

Hello Bottas, good morning. Hello all, the officers of the company, thank you for the opportunity. I have some questions and I'll go back to loss ratio and MLR from a different

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perspective. Yes, there was a refrained demand. We've already talked about that COVID impact. But my question is about the structured different, so to speak. Do you think it's possible that the lower average premium might have changed directorial balance, so it's no longer that historical discipline that you used to have or have something very well balanced. And what are the perspectives of recovering your average ticket or do you expect to trade off with volume?

The second question about providers. What is the negotiation with your providers, how have you been able to renegotiate? And also about denials, has it been as expected? Has there been any impact of appeals to denials and about the integration of Rede D'Or, how far are you from the ideal -- the optimal situation, without having the operating integration plans such as Direto, would they be -- how far are they from the ideal situation when you operate as one single company? Thank you very much.

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

Thank you Cepeda. Well, I think there are some structural aspects to emphasize review based on what you've just asked. We cannot see anyone from a structure perspective that would impact the average premium, I think it's just a erratic behavior, and much has been said in the reports and in our individual talks as well. We compared our variation, not the absolute number of MLR with some peers of Southern America.

I think there is a behavior that has to be understood with other elements, such as reserve and not only what has been paid in terms of loss ratio, but there has been a frequency in -- on loss ratio which is different, combined with the premiums, it does -- it has provided that kind of one-off effect, it's not structural at all and we are very convinced with our underwriting process and this is how confident we are.

Of course when there is that variation and you have to make a adjustment to premiums. It is more challenging in terms of negotiation and competitive market, but we are still very confident with trust on our brand. We have been close to our brokers, to our clients to understand their specific needs. So, no, there is no strategic decision of trading off volume, because it makes no sense. We have an operation and we always think long-term, our company has always been like that, nothing is changing, and nothing is changing with the transaction either, which is a very important point to emphasize.

Along the same lines, I think the company has taken a number of steps towards that and maybe some other competitors will follow along in recovering costs that we have lost because of the pandemic. In terms of provider, it has been a challenging year, but I would like to share with you the first challenge we all have, which is inflation, inflation rates, it does bring an additional layer and of the negotiation with our providers, but said that, it has been a atypical year in terms of inflation rate, but a very typical year in our negotiations, in our fair relationship that we have with our providers whenever we are negotiating and interacting. We are satisfied with the results and it has been a dry year to everyone because of the interest rates and everything that we were all subject to. Concerning denials, nothing has been atypical. There has been no additional were different pressure resulting from our agreements or anything that have brought any adverse events to loss ratio.

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Now concerning your question about integration, I'm concerned about the wood integration, because after all, they are going to be complementary synergistic operation, but integration, not quite, our strategy, which is still ongoing is of providing vertical products such as Direto, which depends on important agreements with our service providers to support the strategy of having more competitive prices in a very independent fashion, but in partnership, all Direto were based on alternative models of hiring our providers network, Rede D'Or is a very important partners that we have in Direto, as well as on others and the partnership will be sustained.

I think we are going more to support, to sustain the understanding that we are not verticalized. There are some concrete strategies which are proving to be successful and Direto is now present in over 11 cities 52,000 lives in partnership with healthcare providers all over Brazil. This is something that shows our capability, our strength and how well we can keep on interacting with providers. I don't know what you mean an optimal or an ideal operations, but our deal size, we are going to keep on operating independently, of course, we are bringing together two health ecosystem and we are going to look for synergies and the potential of doing that, but we are maintaining both operations fully separated.

Q - Mauricio Cepeda {BIO 21783651 <GO>}

Great, great. I see that. So (Technical Difficulty) there are potential synergies between the business and do you think you can optimize the commercial offer of Direto in terms of margins, well, Direto is a strategy that can really develop similarly to our model, and I can point out to you one very successful strategy of Parana Clinicas, which we can call a semi-vertical model and our partnership with Hospital Santa Cruz compliments this business model which is sustainable.

And this is how we believe we can keep on working and we had announced that in the end of last year, this is a model that we believe to be sustainable and viable also within the association of Rede D'Or. It's a model that strengthen this position, we can maintain our inorganic growth and that always depends on partnering with the providers, also to acquire more portfolio of verticalized products. Great, thank you very much, Bottas.

Operator

Our next question comes from Vinicius Ribeiro from UBS.

Q - Vinicius Ribeiro {BIO 19720178 <GO>}

Good morning, everyone. Thank you very much for taking my question. I would like to continue on the issue of the merger. Over the past few years in SulAmerica we have seen many changes in the business model with new arrangements with providers, new mechanisms of cost containment, coordinated care, Parana Clinicas and this places SulAmerica in a very differentiated position when we think of other players in this industry.

So I have two questions. Number one, we think that 49% premium versus the Friday's quote is interesting. But could you give us some light as to how did you come to this amount because the feeling that we have is that what the company has built is very

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differentiated too. And number three, thinking of the trends you were talking, how can the merger with Rede D'Or will help you in the next step to launching even cheaper products and also to support a more aggressive M&A strategy. Maybe you can go into markets coordinating with the network of hospitals? Thank you.

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

Thank you Vinicius. Well, first of all, thank you very much for the compliments that are included in your questions and we agree with the evolution of the company over the past few years, not just the last year. And together with my colleagues, I would like to praise and we talk about this with the Board of Directors, we think, how important our strategic planning that was recent, that started in 2012, 2013. This has been very important for everything that we did to face the pandemic, which was not part of our strategic plan. And we are very happy with the recognition of our differentiation, the quality of our operation, which in turn is no more than the quality of our team. So I would like to thank the entire Americas team, Orange blood and they know how much I admire them.

So thinking about our differentiated position, and in relation to the 49% premium, Vinicius, there is an issue here and I know whether you are implicitly asking whether this premium could be bigger or whether it's too big, I didn't really understand your question, but what I can tell you is that, this premium is different from what we've seen in recent premiums in market transaction. So we are very happy with the agreement between the controlling shareholders of the two companies and assessed by the Board of Directors of the two companies.

And secondly, we believe strongly that the combined operation has significant capacity of unlocking value. So, shareholders will go in with 13% share in the combined operation. If this was your question, yes, this is going to be captured as part of this association that we are talking about. And as a reminder, I can't speak on behalf of SulAmerica not Rede D'Or, but I can tell you that we assured that we have a major alignment, major strategic alignment. This is a merger to unlock value for strategic developments and we still have a lot to talk. And while I can't say much more about this and about the premium.

As to mergers and more strategic aspects that you have mentioned, I would like to stress how much our strategy is being executed and everything you have said, there is a greater capacity of alignment with our providers and we have already published that 43% of our claims are already based in alternative compensation models for future services, this is reality already. And I can highlight Rede D'Or is one of the providers in our network. As a reminder, we have 1,200 hospitals in our network. They are significant commercial partners that stand out in how they accept and work with alternative compensation models. So this is already a model with a -- as part of our non-vertical model that we are going to stick to.

On the other hand, it is also our partner in Parana Clinicas is one example of that potential, just as other health providers, a potential partners for the acquisition of hospitals that might combine structures of portfolios and structures of interest. So our strategy of keep growing both organically and non-organically is going on. So we are strengthened with the existing capital structure and now with the announcement of the

transaction, we are even stronger with our M&A and inorganic growth agenda for new acquisitions.

So once again, I think that the strategy remains the same, and it is strengthened. So this is the main statement that I need to make to you. Okay, Vinicius, thank you for the question.

Q - Vinicius Ribeiro {BIO 19720178 <GO>}

Well, if you allow me a quick follow-up. I understand that the continuation of the strategy by itself brings some consequences, but may be more detail about these arrangements with Rede D'Or, would it make possible for you to have considerably cheaper prices with Direto or have you already reached an interesting price balance with Direto?

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

Well, good question and I'm grateful to you that you gave me the opportunity to go back to that issue. We believe that this combination of forces can first bring the confirmation of our -- the high quality of our care, which is very important in terms of the value that is delivered by both operations. But yes, we do believe that this operation may provide very good opportunities in terms of expanding access. So there has been a significant reduction after we reach more than 50 million members in the supplemental health.

Now we are going back to 49% after four years suffering significant reduction and yes, we do believe that this combination of forces may add capacity in terms of access, and in the design of new products, but we still need to wait a little bit longer. So in our case, concretely we already have initiatives to do that, which is our the Direto product and our strategy to have inorganic acquisitions and operations, such as, for example, we did with Parana Clinic.

I'm going to give you an example, Parana Clinicas shows again and this is a coincidence and this is a coincidence with Rede D'Or also, how it is possible to make acquisitions without motivation, there is an issue that we have already been talking about of two expansion models, which once again are still forced in, one is the inorganic model in itself and then we're going to map opportunities and in Brazil that are more than 700 health operators operating in the supplemental health market, but we need to understand quality of asset, sizes of operation, geographies and so on and so forth and we have talked about this before and how we define our M&A pipeline. This is one point.

And the other strategy is the Direto model with strategic geographies that we still need more agreements with providers because Direto is based on Coordinated Care and configuration of a more agile and lighter product with high care quality, but we need partnerships with a long-term vision would have providers us to support our strategy in the Direto model. And as a reminder, we have already announced and this is a strategy, both for the Southeast and South regions of Brazil and we have the model of expansion, which is the expansion of Parana Clinicas to other regions in a set of clusters that have already been mapped.

So we have started this expansion to another four regions going with the model of Parana Clinicas, a model that we are calling greenfield, so life goes on, the strategy goes on and I hope I have answered your last question. I think this strengthens our position in the mid-ticket market and also strengthens our feasibility in terms of providing more access.

Q - Vinicius Ribeiro {BIO 19720178 <GO>}

Thank you very much Bottas. Thank you and congratulations on your transaction.

Operator

(Operator Instructions) And now I would like to give the floor back to Mr. Bottas for his closing remarks.

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

So I'm going to close our conference call and I thank everyone for your participation. I would like to reinforce my trust in the value of the transaction to shareholders and other stakeholders in the company to lever the continuity of growth of the company in the future few years as I am confident in the growth of the company and our trust in vaccination and I have said it before and I would like to stress how important it is for us to face the recent worsening of the pandemic, and I'm sure this will benefit our industry as a whole and SulAmerica which has been able to combine the support to our customers and members and partnership with our providers, significant growth in our member base or in membership, which we had along this period. Now we are strengthened by the recently announced transaction and the future with Rede D'Or and this indicates the long-term commitment that we have with the country and all our members and all our business partners.

And finally, I would like to extend our special thanks to our more than 7 million customers and members for the longstanding and strong relationship to our employees for their engagement and reaffirmed commitment. So, our -- my thanks to our orange blood members, our 20,000 providers, more than 1,200 hospitals of our network all over Brazil that are together with us on this journey. Of course, in addition to the partnership with more than 36,000 brokers who were, are, and will be fundamental for our growth.

Thank you all very much and always ahead. Thank you very much.

Operator

The conference call of SulAmerica has now ended. Thank you very much for your attendance and have a good day.

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