

## Q3 2019 Earnings Call

### Company Participants

- Gabriel Portella Fagundes Filho, Chief Executive Officer & Member of Board of Executive Officers
- Raquel Giglio, VP of Health and Odonto
- Ricardo Bottas, Chief Financial Officer & IRO

### Other Participants

- Felipe Salomao
- Henrique Navarro

### Presentation

#### Operator

Good morning. Welcome to the Conference Call of SulAmrica to release the Results of the Third Quarter of 2019. Today with us, we have Mr.Gabriel Portella, SulAmrica's CEO; and all the Vice Presidents of the company. This conference call is being transmitted live through a webcast with audio and a slide deck that may be accessed at the company's Investor Relations website at the address, [www.sulamerica.com.br/ir](http://www.sulamerica.com.br/ir).

All participants will be connected in listen-only mode during the conference presentation. And then we're going to start questions-and-answer session. (Operator Instructions)

SulAmrica'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.Gabriel Portella, SulAmrica's CEO, who's going to start the presentation. Mr.Portella, please, you may start.

#### **Gabriel Portella Fagundes Filho** {BIO 18012687 <GO>}

Good morning, everyone. As usual, in our conference call, I am here along with the entire executive committee of SulAmrica to talk about our performance in the third quarter of 2019. It was another period of consistent results, an important novelty for SulAmrica.

We announced the agreement to sell our Motor and P&C operations to Allianz, one of the most important transactions in the recent history of the Brazilian insurance market. The operation reinforces the potential of one of the leading groups in the world sits in Brazil and recognized our operational model and our work in these segments.

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When complete, the transaction will provide significant liquidity to our development in future years, consolidating a new strategic position of the company. After the transaction, we are going to concentrate our efforts in people insurance, health, dental life and pension, in addition to asset management.

More specifically about the results of the quarter, I would like to highlight a few points. First, we are keeping the results in the segment of Health & Dental, all -- the revenue growth of almost 11%, keeping the growth pace in terms of number of members in organic terms in our portfolio are connected, blends with a high level of retention and new sales. In dental, we have reached 1.7 billion beneficiaries as we completed the acquisition of Prodent, reinforcing our strategy of growing in this high potential modality.

Loss ratio is still under control. And in spite of an increase in this quarter as compared to last year, the positive trend of the portfolio remains the same. We have still an improvement in indicators and year-to-date numbers in line of the development we have presented over the past five years. All of this is a result of appropriate underwriting, a good sales force, quality of our brokers, the quality of our products and services, all of that combined with our long-term initiatives in claims management, health and well-being and more recently, through the platform that we have developed for coordinated care.

In the segment of automobile, we again are presenting good performance in revenues, balance in growth and loss ratio under control as a result of our commercial efforts in partnership with insurance brokers. The insurance fleet is still growing, almost 4% compared to last year.

In asset management, SulAmrica Investimentos was one of the leading independent managers in the country, had closed the quarter with a record of BRL45 billion assets under management, an 18% growth driven especially by third-party assets, which represents 63% of our portfolio.

In Life, we keep our trajectory of growth in revenues, just as in pension, with increase of contribution, significant increase in our business that have reached BRL7.8 billion. In savings bonds, with our transaction of sale to grupo Icatu, which will be complete over the next few months, we're still presenting good performance evolving in revenues and profitability.

Another highlight in the quarter was the improvement of one percentage point in our admin expense rate, once again giving evidence of our constant efforts and in the pursuit of efficiency. Everything combined led to a net income of BRL245 million in the quarter, a 5% increase as compared to the same period in the year before. Year-to-date numbers, our income was BRL730 million, a 43% increase compared to the previous period.

One of our strategic pillars is our management and our concern with sustainability of our operation. More than indicators, the agenda includes the whole work and operation of the company. We have been recognized for the second year in a row in the Dow Jones Sustainability Emerging Markets Index. Another pillar of the company is digital

transformation, which is a cultural transformation that we are implementing in our company.

We continue to implement innovations to use technology more and more in coordinated care, and the health journey has expanded the physician on the screen. We have expensive physician at home to more cities, we have started final project with our employee psychologists on the screen, focusing on mental health. We also want to engage more our beneficiaries with a virtual assistant using artificial intelligence with text and voice messages. In short, this was another quarter with sound result in performance in many strategic fronts by the company.

Now I would like to turn the conference over to Ricardo Bottas, CFO and IRO, who's going to give more details about the main operational and financial results of the company. And then we're going to have a Q&A session.

### **Ricardo Bottas** {BIO 18071813 <GO>}

Thank you, Gabriel. Good morning, everyone. And so very briefly, let's take a look at the slides. So starting with Slide Number 2, talking about the consolidated revenue. Our revenue have reached BRL5.9 billion in Q3, an 11% growth as compared to Q3 last year. In Health & Dental, we also had a growth of almost 11% along with the combination in a higher number of beneficiaries and the annual price adjustments which are necessary for the economic balance of policies which are concentrated in the end of Q3 and in the beginning of -- at the end of the second quarter beginning of the third quarter each year.

We should also highlight our efforts in SulAmrica so that as a result of our many initiatives in an attempt to control costs, price adjustments have been going down and down in the past two years.

In automobile, we have also had a growth in revenue of 8.4% with a highlight to the increase of the fleet in a period, which grew 3.7%. In life and personal accidents, a growth of almost 6%, a result of a good performance in travel products and credit life. In pension we have had an increase of 37%, especially driven by VGBL products which grew the most in this segment with revenues growing 63.4% and reserves growing 33.7%.

In savings bonds, as Gabriel mentioned, in terms of investments, it's important to highlight the results of the portfolio are ours. We're going to report them as ours until we complete the transaction, and they grew more than 10% in the period.

In asset management and administration with almost 40% growth as compared to the same period last year, reinforcing the good performance of SulAmrica Investments in 2019, and as we've been seeing, reaping the benefits of a scenario with low interest rates in the pursuit as customers seek more sophisticated investment products with higher return to our customers. Slide three, consolidated revenue comparing the charts between the two periods. We have an expansion of the segment in health & dental as compared to last year. It currently accounts for 77% of our total revenues, where 16% refers to the segment of automobile and P&C.

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We should also highlight talking about the share of our revenues. We are undergoing our transactions with Allianz, as announced before. So in some points between the second and third quarter next year, we are going to complete it. And until then the businesses of motor insurance and P&C belong to SulAmrica. We have obtained the first approval of the Antitrust Agency in Brazil and the first approval of SUSEP for the split-off of the company.

And then we're going to receive the approval of the final approval, SUSEP for the sale of the company. And so soon as we complete these two transactions, health & dental will account for approximately 93% of our revenues and the rest will be concentrated life pension and asset management.

Now on Slide Number 4, the main indicators consolidated numbers for the third quarter. On the third line, we have the consolidated loss ratio of 76.1%, an increase of 1.9 percentage points as compared to Q3 '18 and 76.2% increase in the year, practically stable as compared to last year. Further on, we will say more about the effects in our main business lines, notably the loss ratio effect in the consolidated numbers.

The highlight was a good performance of our admin expenses reaching 7.6% of total revenues, a gain of one percentage point as compared to Q3 as a result of everything that we have done over the past few quarters trying to control our expenses and investments. In absolute terms, we have also had an improvement of 1.7% even though we closed the quarter with 5,300 employees, an increase of almost 150 people in our head count as of September 2018.

Most of these people allocated in innovation, digital transformation and coordinated care projects. Our aim is to balance the investments that are necessary with an endless pursuit for higher efficiency and operational leverage. Our admin rate in nine months was 8%, better by 0.4 percentage points the best rate in a series of at least five years.

The financial results will get a reduction of 4.9% in the quarter, especially as a result of additional fractionation-related profile installments of motor insurance with more installments without interest in addition to higher expenses in new services of the debt related to the fixed issuance of debentures of the company, which we completed in April 2019, as part of our structure of preserve our capital structure.

And then in spite of this, our -- the results of our investments, the most important line in the financial results reflects the return on our own assets with an increase of almost 4%, reflecting a good return of 108% in CDI in the quarter and also our own assets in spite of the reduction of the interest rate in the quarter with a confirmed effect in Q4. So the net profit in the quarter added BRL245 million, 4.6 % above the same quarter last year, including also an effect on the third quarter '19 of our own -- interest on own equity of BRL60 million, which did not happen in the same period last year

but following the strategy of the company of annually reporting, part of our dividends as interest on the equity. It's just a difference in quarters, because, normally, we tend to concentrate them on the fourth quarter. Now following the good results in the year-to-date, the results on average equity has reached 17.2%.

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Now going to Slide 5. I'm going to make comments about Health & Dental. Operating revenue increased about 11%, totaling BRL4.5 billion. All our portfolios of collective plans have presented good performance: 30% in dental small and mid-sized business 16%; and affinity and corporate 10%.

We have also started realizing the results of Prodent and the final consolidation was the end of July. So we just have included one month result of the company. Gross margin was 2.3% in the segment below what was observed in the previous period, especially because of higher loss ratio within this period. But in the year-to-date, our gross margin reached 18% increase, reaching BRL1.3 billion.

Our base of beneficiaries in Dental & Health has maintained its trend of growth, reaching approximately 4 million people, especially dental, where we had 4% growth. And here we can see a very important movement of incorporating beneficiaries from Prodent, so with a 40% increase. But it's also important to emphasize our organic growth in dental without the effect of Prodent, still had 18% growth; and also in our portfolio of health, small and mid-sized business, 5%; and affinity and corporate, 4% increase, still presenting a positive performance with net additions and growing organically more than the market.

Slide 6, we have a loss ratio panorama of the company in terms of half year and also year-to-date. We can see the difference of quarter-over-quarter. The loss ratio in the third quarter '19 was 80.2%, the second best index we ever had in this very long series above the last -- the third quarter '18 of 1.3 percentage points, which was the best ever and had the impact of some specific events that happened at that time and will not recur this quarter.

Below, we have the loss ratio year-to-date nine months, a longer period, which is usually what we like to emphasize because this is the best way of analyzing our results, excluding seasonal or short-term variations. In the first nine months '19, our loss ratio was controlled within 80.5%. Our strongest result because of the seasonality is focused on the fourth quarter, but we still have 0.4 percentage points compared to 2018 and the best index ever year-to-date since 2011. It's important to emphasize the consistency of the results and the relevance of this progression in terms of margins and profitability.

Finally, I would like to highlight our automobile segment BRL982 million revenue in the third quarter, 8.4% increase, changing the behavior of the market in the first half of the year, which is with the drop of average premium and showing growth of the company above that of the market. Our loss ratio was 60.6% in the third quarter and year-to-date, maintained at a controlled level and within our expectations considering the competitiveness. Our insured fleet presented growth in the quarter, totaling 1.7 million automobiles in September with an increase of 3.7% or 60,000 new vehicles compared to the same period last year.

With that, I close my comments about the highlights of the financial results, and now we can go for the Q&A session. Thank you very much.

(Question And Answer)

## Operator

Ladies and gentleman, we are now going to start our Q&A session. (Operator Instructions) Our first question comes from Felipe Salomao of Citibank.

### Felipe Salomao {BIO 19237023 <GO>}

Hi. Good morning, Gabriel, Bottas, and all participants of the call. Thank you very much for answering my question. I have two questions actually. The first one concerns this increase in loss ratio of health in the first half of this year over last year's. You mentioned that it was caused by seasonal variation and some isolated effect, if I understood you properly. So I'd like to ask you whether you could shed some light on these issue telling, exactly what has caused it. I totally understand it's something seasonal and temporary. I just wanted to understand further about the history of the year half. Secondly, would you please update us on SulAmrica direct. What about sales? How well has it been received by the market? What can you tell us about it? Thank you.

### Raquel Giglio {BIO 21963986 <GO>}

Hi. This is Raquel. Thank you very much for your question. Concerning the loss ratio of health, the impact has been caused by the more working days in the third quarter '18 --'19 compared to '19, two more working days actually. And last year, there were two non-recurring effects that impacted the natural segment. So the World Cup and the truck drivers' strike. If we bring together all these three elements, this is what impacts the loss ratio last year. Therefore, when we have a head-to-head comparison, they had been, in fact, worsened. In terms of macro strategy, whatever we've been doing and sharing with you, especially in coordinated care strategy, which is to effectively interfere in a very positive way in our beneficiaries' journey of health.

In 2018, we had 110,000 beneficiaries in the platform. On November '17, we had 260,000 beneficiaries in the same platform. So there have been just two more working days, no World Cup, no strike. Therefore, our strategy has been maintained and this is what accounts for the difference. When we look the year-to-date, this is the best figure ever since 2011. Concerning family direct product launched in the beginning of this year, it has been following our expectations. It's a roll out strategy where we will go stronger now. Don't need additional portfolios. And let me announce to you today direct Corretora , it's a regional product, building partnership with DASA and Hospital Santa Cruz in Curitiba and also some additional service providers in the region.

### Felipe Salomao {BIO 19237023 <GO>}

Wonderful. Thank you. Quite clear. Thank you. And congrats on launching one more product in the region. Thank you so much.

### Raquel Giglio {BIO 21963986 <GO>}

Thank you.

## Operator

Our next question comes from Henrique Navarro from Santander.

### Henrique Navarro {BIO 16188960 <GO>}

Hi, good morning, everyone. Thank you for the opportunity to ask a question. I have questions about the number of members. There was 4% increase over one-year, but the number that you published concerns a snapshot of what's going on. We really don't know about how many have left, how many have come into the plan. Can you please make some clarifications there so that we can understand the healthcare market competition, et cetera?

Now if there's been 4% increase in number of beneficiary, the growth of premium has been much stronger. The second half of the year is the period during which your policies are repriced. So should I expect that 11% growth in premium prices compared to the 4% increase in number of beneficiaries? Does it mean that you've been successful in your attempts to increase the prices of premiums? Thank you.

### Raquel Giglio {BIO 21963986 <GO>}

Thank you for the question. This is Rachel speaking. Yes, you can understand that our strategy of growth and profitability of the portfolio has proved to be very robust. Thanks to our post sales teams, commercial teams, we have added the necessary price adjustments in our base of customers.

Concerning sales cancellations and all of that, the market is highly competitive. As you very well know. Number of sales are quite relevant, and combined with the retention rate, which is historically very high, we have generated a positive impact in our portfolio. One additional point about dental. Thanks to our commercial teams and post sale monitoring, we've been leveraging the correlation between health and dental, which is something that makes us very happy.

### Henrique Navarro {BIO 16188960 <GO>}

Thank you. Thank you very much.

## Operator

(Operator Instructions) If there are no further questions, let me now turn it over to Gabriel Portella for his closing remarks.

### Gabriel Portella Fagundes Filho {BIO 18012687 <GO>}

I would like to thank once again the engagement of our team over 5,300 employees who have a common goal to make SulAmerica better every single day. We have over 36,000 insurance agents, now 38,000 in the last statistics. We have been increasing the number

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of brokers supporting us. I would like to thank all our service providers and partners, our shareholders and all stakeholders of SulAmrica, who really provide the necessary conditions for us to work. Thank you all very much, and have a great day.

## Operator

The conference call of SulAmrica to present the earnings is closed now. Thank you very much for your participation. Have a nice day.

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