

## Q1 2022 Earnings Call

### Company Participants

- Juliana Caligiuri, Vice President of Health and Dental
- Marcelo Mello, Vice President of Life, Pension and Asset Management
- Reinaldo Amorim, Group Chief Financial Officer
- Ricardo Bottas Dourado dos Santos, Vice President, Chief Executive and Investor Relations Officer

### Other Participants

- Marcio Osako, Analyst
- Mauricio Cepeda, Analyst
- Ricardo Boiati, Analyst
- Vinicius Ribeiro, Analyst
- Yan Cesquim, Analyst

### Presentation

#### Operator

Good morning. Welcome to the Conference Call of SulAmerica to announce the Results of the First Quarter of 2022. Today with us, we have Mr. Ricardo Bottas, CEO and IRO of SulAmerica and the Vice President of the Company. This conference call is being broadcast live at the Internet and can be accessed at the Investor Relations website at the address [www.sulamerica.com.br/ri](http://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 the questions-and-answer session when further instructions will be provided. (Operator Instructions) SulAmerica conference call is being recorded and its audio will be available right after its end at the Company's Investor Relations website.

Now we would like to turn the conference over to Mr. Ricardo Bottas, SulAmerica's IRO. Mr. Bottas, please, you may begin.

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

Good morning, everyone. I am here at the Company, gathered with the Executive Committee to talk about the results of the first quarter of '22 in atypical period marked by the impacts of the Omicron variant of COVID-19, which had a strong impact on the results of the Health department and also in the seasonality. As to the pandemic, since March, we have been seeing an improvement in numbers of admissions, which may indicate that, finally, the impact of the pandemic are behind us. However, we're still monitoring all indicators related to that, which are at controlled levels at the time.

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Now, I would like to take the opportunity to give an update about our business combination with Rede D'Or. After the approval of the Board of Directors of both companies, in April, the shareholders of both companies have approved the transaction and on SulAmerica, we are really confident that this transaction will provide major gains to both companies, its shareholders, our members, and business partners, employees and society as a whole, combining two operations that are leaders in each segment and recognize for the quality of their services and capacity of sustainable growth. At the same time, we are still investing on the growth and development of SulAmerica. We have kept a pace of consistent growth of revenues and members despite the challenging scenario, expanding the numbers of members in our Dental and Health businesses.

I would like to highlight, our commercial strength, combined with the control of the pandemic, and the expectation that over the next few quarters we are going to recover our results, which depend on the combination of better and higher control of frequencies necessary to the recognition of our average premiums. We are also expanding our ESG agenda, integrating our strategy and purpose of offering Integral Health and we also have a not-for-profit organization with the aim of providing access to people at situations of social vulnerability and also to provide healthcare information and services, reinforcing our commitments to society and reinforcing our pillar of operating in the pillar of emotional health.

Now, I would like to turn the conference over to Reinaldo Amorim, who since March has been our CFO, and then we are going to give it over to our Health and Dental Vice President, Juliana Caligiuri. Then, Marcelo Mello who is going to talk about our Life Pension and Investments.

## Reinaldo Amorim

Good morning, Bottas. Good morning, everyone. It's a pleasure to be here on my first conference call to talk a little bit about the quarter's numbers. So, on Slide number 2, operational revenues have totaled BRL5.4 billion, approximately 5% higher than the same period in 2021, demonstrating the growth of 6% in Health and Dental revenues, and a little bit more than 19% in our Property and Casualty businesses. Juliana and Marcelo are going to give you more details about the growth mix.

Now, moving to Slide number 3, you can see the main indicators of this quarter and I would like to indicate improvement of all our business lines as compared to Q4 '21. This is a significant gain even though this quarter was challenging. Loss ratio 85.2% is also above usual and was impacted both by the costs related to COVID-19 because of the Omicron variant as Bottas has said, but also because of the seasonality that is still atypical in the Health segment with elective procedures at higher levels than usual. As compared to Q1 '21, the indicator is worst by 4.6 percentage points. And as a reminder, in the beginning of last year, we're still with social distancing and elective procedures have not yet gone back to normal levels, thereby affecting our comparison. As to Q4 '21, we already see an improvement of 3.2 percentage points.

Still talking about loss ratio, I would like to highlight the importance of our price adjustments, both in renewals and new sales. These adjustments are already being

applied and they are necessary to rebuild the economic balance of our contracts. It's important to remember that adjustments are more concentrated after the second half of the year and in this manner, this effect will be clearer after the third quarter this year. This dynamic is fundamental so that we can gradually recover our profitability after an atypical period of high cost that we've been seeing since 2021.

Now, moving to Slide 4. When we compare the result of this quarter with Q4 '21, we see an improvement of all indicators. The financial result is still a highlight, totaling BRL138 million, in line with a higher average Selic rate considering our exposure to both fixed assets, and also our performance with assets pegged to the inflation. Lastly, our net income this quarter totaled BRL24 million, still below our usual levels for Q1, but basically following the dynamics of our high loss ratio, but reversing the loss that we had in Q4 '21.

Now, I would like to turn it over to Juliana to talk about Health and Dental.

## Juliana Caligiuri

Thank you, Reinaldo. Good morning, everyone. I'm very happy to be here taking part in my first conference call with my Orange Dream Team. But, focusing on the numbers of the quarter, I'm going to talk about our growth dynamics, both of organic and inorganic growth and also our mid-ticket strategy. Starting with our Direto product, our regional line with more affordable prices has been having a great performance. We already have more than 60,000 members in 11 regions with the ramp-up of these products accelerating since last year. We are focusing on the maturation of the products that we have already launched, but this -- we are going to have novelties in the pipeline still this year. We also have a focus of launching the Direto national still this year, expanding and improving our domestic portfolio and giving more options to our customers and brokers.

I would also like to give you an update on Parana Clinicas. We are expanding this operation. We already have 114,000 members in an organic mode as a result of our commercial strategy that has proven to be right. And now we are expanding the semi-vertical model in Parana, with expansion of the model in the cities of Londrina, Maringa and Cascavel still this year. We are also advancing towards Ponta Grossa and Telemaco Borba with the recent incorporation of the portfolios of the Ponta Grossa Santa Casa with an additional 20,000 new lives. So this is a new growth of border for the Company. And in talking about expansion, we are finalizing the acquisition of Sompó Saúde which should take place over the next few months, thereby adding another 115 new lives to our Sao Paulo operation. A consistent organic and inorganic expansion, exploring new tickets and regions is our focus.

Now on Slide 6, I'll talk about our operational performance. The revenues have increased 6% in the quarter, reflecting prime areas increasing number of beneficiaries of Group Plans and also price adjustments in all our price lists, more than offsetting the effects of the portfolio mix. But as Reinaldo said, it's something that takes time to roll out to the whole portfolio. It's going to be more concentrated as of the third quarter. The positive performance in increased number of beneficiaries presented throughout 2021 was also maintained in the first months of the year. We have expanded our base of clients and reached 4.5 million beneficiaries in Group Plans, adding 239,000 more lives, which is an

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organic growth. It's over 120,000 net additions, plus 118,000 lives in Dental, which is a performance consistent and above the average of the market.

Now going into loss ratio on Slide 7. As Bottas and Reinaldo pointed out, it was still an atypical period. In addition to price adjustments, we should not fail to mention the inflation. So the first months of the year, there was a very relevant impact also of the Omicron variant of COVID-19, which was an offender in the period with estimated cost of BRL200 million. Combined with elective treatments which were somewhat normal, there is an indicator of loss ratio of 86.5%, above what used to be the loss ratio in previous quarters. But comparing to the fourth quarter '21, it means an improvement of 2.9 percentage points. These effects of loss ratio have impact directly our gross margin with near 52% over the first quarter '21, but an improvement of 90% compared to the fourth quarter '21.

Despite those atypical periods in the last years and the results below what we expected, we are going to really move towards normalization with the end of the pandemic. We are going to resume really the track record of SulAmerica. And since I joined the Company, we've been really focusing on having a very robust operation with a very strong strategic growth, which has been right.

And now, I would like to hand it over to Marcelo Mello, VP of Life, Pension and Asset Management.

### **Marcelo Mello** {BIO 21963995 <GO>}

Good morning, Juliana. Hello, everyone. I will start on Slide 8, talking about Life which follow that recovery trend that we've observed in the first quarters, with a growth of 19% over the same period last year. Following this good performance of our Group and also our Credit Life portfolio, with recovery of safe trip, which have been really impacted due to restrictions to travel in the past two years. Loss ratio has maintained a positive trend as a result of the decrease of death related to COVID-19 and Omicron has not impacted significantly our Life portfolio. Now, we are really resuming our regular levels of profitability. Therefore, loss ratio in the quarter was 42.4%, an improvement of 38.7 percentage points over the previous quarter, and 11.7 percentage points over the first quarter '21. Our gross margin follow the dynamics of revenues and loss ratio, adding up to BRL33 million in the quarter, reverting the negative margin observed in the first quarter '21.

Slide 9 now, which talk about Pension. There was a decrease in revenues in the first quarter as a result of fewer contributions in VGBL which was similarly observed in the end of last year. Our reserves were BRL9.4 billion, a slight reduction of 2% over March '21 following fewer contributions in addition to a negative balance, because of portability. Despite those challenging scenario in Pension observed throughout the industry, we've been working on expanding our portfolio of products and strategies, which still maintains long term good foundation.

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Slide 10 shows Asset Management and we have got to manage the amount of nearly BRL50 billion, driven by the growth in our own assets and third-party assets resulting from our good performance with credit funds, confirming effectiveness of our strategies and the reinforcement we have made in our teams throughout the year of 2021. Operating revenues grew 2%, with an increase in administration fees and performance fees, fees really following all of the credit fund movement, with gross margin expanding to the same level of what we had in the first quarter of '21.

Let me now hand it back to Reinaldo, who is going to close the presentation.

## **Reinaldo Amorim**

Thank you. Now Slide 11, we can observe that the index of administrative expenses, SG&A was 7.5% in the quarter excluding service provision to Group Allianz, which is related to P&C and car. It was a 9% increase explained due to expenses with advertising and third-party services. Despite increase compared to the first quarter '21, the expenses showed a similar level of improvement compared to the fourth quarter last year, presenting a gain of almost 1 percentage point in its index. We are still focused on maintaining this level in control of our SG&A, as well as gaining more in operational efficiency and we still maintain our important investments to further development of the Company.

Now in Slide 12, let me briefly tell you about the allocation of our own assets. In March, 70% of our assets were allocated in Selic/CDI related with the floating interest rate, with a positive, positive in public securities and private securities and this is going to positively contribute to results in future cycles. In addition, we have allocation of 19% and reflects inflation with fixed rates, inflation-linked, and also 1% in shares.

With that, I close my initial considerations and we can go into the Q&A session. Thank you very much.

## **Questions And Answers**

### **Operator**

Ladies and gentlemen, we are going to now start our Q&A session. (Operator Instructions) Our first question comes from Yan Cesquim of BTG Pactual. Please go ahead.

### **Q - Yan Cesquim**

Good morning, everyone. I would like to touch more on the theme of organic growth and we see that in Q1, the Company's organic growth was under pressure. There was -- you terminated a few ASO contracts. But what has impacted your organic growth?

And also about an outlook for the year, do you expect growth to go back to the levels that we used to see in the last quarters? That's it. Thank you very much.

### **A - Juliana Caligiuri**

Hi, Yan. This is Juliana. First, I will talk about organic growth. In 2021, we saw a more aggressive market and of course we did not join the price war and we had to adapt our portfolio. And so, we focused on retaining our portfolio and growing new sales in a sustainable way. I think that the market this year is still very busy. There is a lot going on. Everyone wants to expand their portfolios. But we are very solid in terms of sustaining our growth. I think that our portfolio is very good in terms of meeting the needs of our customers. We are very close to our clients. So, I think that we still have a relevant space for growth.

## Operator

Thank you very much. Our next question comes from Mauricio Cepeda from Credit Suisse.

### Q - Mauricio Cepeda {BIO 21783651 <GO>}

Hi, everyone. Bottas, Juliana, Marcelo, Reinaldo, good morning. Thank you for taking my question. And I have a -- I also have a question on growth. I would like to talk about SMB. I think that the market has a lot of SMB investors, everyone are trying to explore that vertical. So, my question is about your plans, what is your intention in terms of SMB? What is your intention, do you wanted to explore other channels, the banking channel or something like that, in order to be able to use this as a form of organic growth, considering the apparent difficulty that you are having in big Corporates segment?

### A - Juliana Caligiuri

Hi, Mauricio. Thank you for your question. So, obviously SMBs were not SulAmerica's focus. It's a segment there's still a lot of opportunity for us to explore and I think that in terms of portfolio, Direto is here to fit into this segment, providing a more affordable offer to this segment in addition to all other lines that we already have. And our main focus in growth is through our brokers. We are really close to our brokers and this is a fundamental channel for us. This is one of differential SulAmerica's capacity, yes, its relationship with brokers and we want to move in that direction. We also have an opportunity of growing Dental in SMB and we have other customers. So definitely SMB is one of our main focuses.

### Q - Mauricio Cepeda {BIO 21783651 <GO>}

Great. Very clear. Are you thinking of any specific product design addition to the channel?

### A - Juliana Caligiuri

Well, as I said, the Direto in the many regions where we have already launched it, we still see many opportunities for growth and we are going to combine this to provide a bigger scope. So, in my understanding, the balance that we have in the portfolio, we can reach different sizes of companies in different segments and we are very well positioned to operate in this bracket, but mid-ticket is what reinforces really our strategy for the SMB.

### Q - Mauricio Cepeda {BIO 21783651 <GO>}

Thank you very much, Juliana.

## Operator

The next question comes from Vinicius Ribeiro, UBS.

### Q - Vinicius Ribeiro {BIO 19720178 <GO>}

Good morning. And I have two quick questions. First, about loss ratio. We wouldn't expect the ex-COVID loss ratio to have resumed the levels that you used to have in 2019. But I would like to hear more from you, how do you expect it's behavior? What are the most important variables, from price adjustments up to regular frequency back to hospitals?

Concerning organic growth, please tell us more about the market prices? In price negotiations, are -- do you think that the tickets are coming back to healthy levels or do you think that competition is still very fierce as it used to be in previous years?

### A - Juliana Caligiuri

Hi, Vinicius. Thank you for the question. I'm going to start with the second part. We see that the market is following a high -- still higher levels. I think 2021 was harder you see. This year, I think the market has understood the importance of having some price adjustments. We have made significant adjustments and we see that competitors are following along, some want to gain market, others tend to reduce a little bit, but this is something absolutely necessary in the industry. The effect of the price adjustments are gradual. I think you are going to see that coming in the second half of the year, but we've seen the market following along.

Concerning loss ratio, I cannot really anticipate what's going to happen throughout the year, but we still see higher frequency because COVID levels are going down, which is wonderful. But elective surgeries have a higher frequency than they used to have. But -- and we are putting together a number of actions to manage that. But with the effect of the price adjustments in the second half of the year and if everything moves as is, we will probably have better controlled loss ratio.

### Q - Vinicius Ribeiro {BIO 19720178 <GO>}

That's great, Juliana. Can you share with us what is the level of price adjustments you've been working on? Just for us to have an idea of that number and what the market is working on.

### A - Juliana Caligiuri

For SME or SMB, that are --- the level expected are used. Of course for Group, plans of large Groups, it's on a one-to-one cases. Sometimes there is a risk of downgrading or loss of lives, but we've been managing very closely our portfolio to strike a good balance. Our churn rate has been below what we have expected. So I think the market has realized that these price adjustments is absolutely needed. What I can tell you is that, SME is following along the categories as expected.

### Q - Vinicius Ribeiro {BIO 19720178 <GO>}

That's great. Thank you.

## Operator

Our next question comes from Ricardo Boiati of Banco Safra.

### Q - Ricardo Boiati {BIO 16528742 <GO>}

Hi, good morning. Thank you for the opportunity. It is a follow-up concerning the previous questions about price adjustments. And you see Juliana, just to make it clear, in your opinion, the opinion of the Company, do you think that the price adjustments made so far are enough in your opinion, to have loss ratio aligned with your track record in the Company? And of course, I am already excluding the COVID-19 impact which we all face throughout time and also the price adjustments of individual plan of course, the individual book. But I want to understand whether the price adjustments that you were working on with your clients, do you think they are enough and then you can just go into regular price adjustments as part of the routine or do you still expect something else to happen, especially because of the high inflation rates in Brazil?

Now concerning that, I have a second question. How do you see the affordability of companies and families which have been impacted by the high inflation rates? You've talked about the risk of downgrading of some plans going into more affordable options. Do you think this is going to -- is it a trend? Do you think affordability is becoming a more latent issue, because companies do not have much space in terms of operating room, because the costs are increasing?

And one last question. Do you still anticipate the impact of that proposal of having a standardized national wage for nursing staff if this proposal is really passed and approved? Have you already started assessing the impact that this is going to have to SulAmerica and to the industry as a whole?

### A - Juliana Caligiuri

Well, thank you, Ricardo. I just kept note of them so that I wouldn't get lost. Now concerning the price adjustments being enough or not, well, there have been two years of COVID-19 pandemic and those two years have really changed the whole dynamic of our industry. So we have been making some price adjustments, but gradually we are going to redistribute everything. To get to a good loss ratio, we also have to get to regular frequencies and this quarter has a lot of seasonality. The second quarter tends to be more impacted. So, yes, I think we are going to get to a healthy alignment, but it takes some time, probably by the fourth quarter, first quarter '23. So that's my best answer to you. We are on track of sufficiency, but still a long hard working option.

Concerning affordability, we haven't seen expressive downgrading or migration to other plans, the growth of Direto results from new sales, much more than exchange to downgrade into a plan. But this is a possibility we always concern. We understand that the economy is under a lot of pressure, as well as we are, our providers are, clients are under pressure. So we still do not see any significant movement towards that. But we are prepared, should it comes to that.



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Finally, about the regular price wages in nursing, that is a topic of concern. It's not something that impacts us directly, but it certainly impacts us, let's say, with the relationship with our providers, it's a constant concern with the whole industry. And we really have to understand how this is going to become a reality. But yes, it does bring some additional pressure to our industry.

**Q - Ricardo Boiati** {BIO 16528742 <GO>}

That's great. Thank you very much.

**A - Juliana Caligiuri**

Thank you.

**Operator**

(Operator Instructions) Our next question comes from Marcio Osako from Bradesco BBl.

**Q - Marcio Osako** {BIO 6748109 <GO>}

Good morning, everyone. I have two questions too. Number one is about the frequency of elective procedures. The question is, whether this higher levels that you're seeing contrast with historical levels, is this generalized in all products or is it more concentrated in higher ticket products for example?

And number two, in term of the adjustments that you are implementing for Corporate contracts, are -- do you see or do you find that you need to make more adjustments in products in contrast with history, in order to adjust to the loss ratio? So in terms of network, dental plans, contract terms and whether this is happening, how much does this affect in terms of percentage? And how smaller is it because of the adjustments in the product? Thank you very much.

**A - Juliana Caligiuri**

Thank you for your question, Osako. Well, now talking about the frequency, we see it in a broader way of -- we are not breaking it down by portfolio, of course different portfolios have different behaviors. So, some plans have more reimbursements, but the use of elective procedures is still high all over the Board. It's something that -- and the behavior of the population after the pandemic is still there.

About adjustments, obviously we review our product portfolio very frequently. And especially, business plans we adapted to our customers' needs. There are many different ways of us keeping the balance in terms of co-pay, adjusting the network or different models and other things that may help us to control the claims. I do not see that this is going to significantly impact our premiums. And we make these adjustments to gain efficiency and not necessarily to reduce premiums. So our sales logic is still to have the best premiums possible, but to have an efficiency in terms of claims.

**Q - Marcio Osako** {BIO 6748109 <GO>}

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Thank you very much.

## Operator

We are now ending our questions-and-answer session. Now I would like to give the floor back to Mr. Ricardo Bottas for his closing remarks.

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

Thank you very much. I'm going to give Juliana some time for her to breathe. Many questions asked to her, beautiful first time, very challenging. And I would like to pay our tribute on the International Day of Nursing, the day of nurses, to say that we are recognized and I am grateful to these front-line professionals and they are an important part of our Group of more than 1200 hospitals and the thousands of employees spread throughout Brazil. And I would like to acknowledge these professionals who are so special.

So once again, I would like to thank the high level of engagement in our employees, the trust and dedication of our thousands of insurance brokers, healthcare providers, business partners, suppliers, shareholders and other stakeholders who support us on this journey in a period that is still atypical in the first months of this year and we are going to keep working, so that together we can bring our businesses back to normal and our performance too.

At the same time, we are very confident to advance with the new phases of approval, so we have better retention and high quality of our product and we are still confident to get to the new phases for the approval of our merger with Rede D'Or as announced in February. And once again, this is a historical transaction in the healthcare industry in Brazil and for it to happen so that it is complete as soon as possible.

Thank you all very much. Have a nice day.

## Operator

SulAmerica's conference call has now ended. Thank you very much and have a good day.

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