

## Q2 2019 Earnings Call

### Company Participants

- Gabriel Portella Fagundes Filho, Chief Executive Officer
- Raquel Giglio, VP of Health and Odonto
- Ricardo Bottas Dourado dos Santos, Executive Vice President of Control and Investor Relations

### Other Participants

- Eduardo Nishio
- Eduardo Rosman
- Felipe Salomao
- Mariana Hernandez

### Presentation

#### Operator

Good morning, welcome to the conference call of SulAmérica to discuss the Earnings Regarding the Second Quarter 2019. Today with us are Mr. Gabriel Portella, SulAmérica's CEO and the company's VP. We would like to inform you that this event is being broadcast on the webcast with audio and slides that can be accessed on the company's IR website, [www.sulamerica.com.br/ir](http://www.sulamerica.com.br/ir). SulAmérica conference call is being recorded, and the audio will be available soon after its closing on the company's IR website. I'll now turn the call to Mr. Gabriel Portella, SulAmérica's CEO, that will start the presentation. Please, Mr. Portella, you may go on.

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

Good morning, everyone. It is great satisfaction, as usual, that I am here gathered with all SulAmérica's Executive Committee to talk about the performance of the second quarter '19. We continue to grow in a balanced, sustainable manner. We remain focused on operational efficiency, assuring profitability, at the same time, we expand our member base, launch new products, increase customer and broker satisfaction and invest in projects and innovations to ensure future growth. Amongst the highlights of the future period, I would like to mention.

First, Health & Dental. We increase the base of our members in group plans in by almost 12%. Once again, we show our capacity to keep loss ratios controlled, improving numbers compared to the second quarter '18. We had recent news as the launch of regional products, SulAmérica Direto, starting with Rio and Sampa, and about new products in partnership with excellent providers offering more options to customers and brokers.

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Always with high care qualities that we already know in our product and increasingly seeking the promotion of a coordinated tier that will meet the needs for our members. Although not reflected in the numbers of our quarter, in the end of July, we complete the acquisition of Prodent, with our focus on dental and enabling new channels of marketing.

Also, the auto segment that had been increasing the insurance fees by almost 3% compared to June '18, but with the reduction of revenues, mainly because of the market context that it reflects in prices, a lower level in the risk of theft and robbery of vehicles. The loss ratio show deterioration in the second quarter because of strong rains that hit Rio and Sao Paulo, especially in the beginning of the quarter, but remained under control in the half year at the loss ratio levels of 60%.

In asset management, SulAmérica investments hit a record of BRL43 billion of assets under management, BRL27 billion from third parties, with growth of allocated resources in the . The same line in May, we announced an investment, Órama, one of the pioneers to the segment of digital investment platforms. When completed, this will give access to a market that is expanding and has high potential to grow. Still in the segment of equity and financial protection, operations of life and pension continue with growth in revenues, with pension reserves reaching a record BRL7.5 billion.

Also to highlight is the rate of admin expenses over revenues that had a reduction to 8.1%. This is due to suitable management in current expenses, together with investments that we have been making to develop the company. All these operational gains contribute to an improvement in our compound ratio that reach 98.6%, the best performance for our second quarter in more than 10 years.

Finally, net income that had substantial growth of 93%, reaching BRL261 million. So in May, we announced the agreement to divest in the savings bonds portfolio. And also the minority share in Caixa Capitalização, seeking to adapt our portfolio to the segments in which we see more competitive advantage and higher potential for growth. This transaction has not yet been completed and is awaiting approval from the due authorities.

We are really going to digital transformation in SulAmérica. There are many news and and improvements. To mention some, recently, we launched the Médico na Tela, the physician on screen, basically for children up to 12 years old. Members have access in a fast, convenient manner to a pediatrician on video call to clarify doubts and also ask questions about simple symptoms. Also, we have a digital scheduling of appointments.

And, in summary, another quarter of growth and important accomplishment, with consistent profitability, lots of new products and services. We continue to evolve, seizing the best opportunity in markets in which we operate going on to growth with innovation, technology and prepared to benefit of a new cycle of growth in Brazil. Now I'm going to turn the call to Ricardo Bottas, our CFO and IR Officer, that will talk in more detail about financial operating results, and then we are going to open for Q&A.

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

Thank you, Gabriel. Good morning, everyone. As usual, going briefly through some presentation that you have on the slides, that you have available on the webcast.

Slide 2, you can see the consolidated revenue with a BRL5.4 million, and the second quarter, an increase of 7% as compared to the previous period. And the highlight here is the segment of the Dental and Health, with an 11% growth, a combination of consistent increase in the number of members, plus the adjustments in the respective portfolios. In Automobiles, there was a reduction of 9.3% in revenue and bringing with the market scenario, we will lower risk in this quarter. And throughout first half of the year, and I'll comment this further ahead when I talk specifically about the auto insurance, property and casualty, there was an increase of 6%, driven specially about other projects of travel in life and personal accident. We also grew 11% especially because of the VGBL.

Now going to Slide number 3, where you can see our distribution of each business line in terms of revenue, Health and Dental accounted for approximately 79% of our revenues, with an expansion as compared to the year before. Automobile and Property & Casualty accounted for about 15% share of our total revenues.

Now moving to Slide number 4, we can see the summary of the main indicators of the company. In the second quarter, in the first half of the year, going to the third line, as we mentioned this before, loss ratio consolidated is at 77.4% in the quarter, with an increase of 0.6 percentage points, demonstrating our efforts in claims management. And I will mention more about the efforts we are making to control loss ratio and claims in our business lines. Gross margin improved 0.5 percentage points, and it's BRL560 million in absolute terms, a growth of approximately 13%, and this is a combination of the growth in revenue, plus gains of operational efficiency that we have been seeking in the company.

In this manner, admin expenses that Gabriel mentioned, 8.1%. There's an important comment regarding expense in absolute terms. They grew 1.3% as compare to the second quarter last year and in the first quarter, 7.4% if compared to the first half of the year of 2018. And as a reminder, we saw this performance in expenses and they also capture important strategic investments that the company has made demonstrating our capacity to have a good management and control of our expenses. So we have technology, innovation, improvement of processes, investment in new product services that were launched, which are essential for the evolution of the company, and most of them are recorded as admin expenses.

In terms of personnel associated to admin expenses, closed at -- the second quarter at about 5,300 employees, similar to the second quarter, 3% above in terms of headcount as compared to the year before, so the loss ratio in the consolidate numbers, there was a slight reduction in commercialization costs and main expenses combined -- contributed to the combined ratio reaching 98.6% in the period, an improvement of 0.3 percentage points.

In terms of net income, a reduction of 5.2% in the period, with more debt in terms of financial performance because of the seventh issuance of debentures of the company in the second quarter within our strategy that has already -- had already been mentioned of

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preserving a certain level of leverage for the company. So this was in agreement with the strategy and also recorded a slight reduction in revenues from the fractionation financial revenue associate to the payment in installments for automobile, which is strongly related to auto premium. So we will see a reduction in auto premiums. There's an impact in the financial revenues associated to the revenues from payment in installments.

Also, return on equity, which is the main indicator of this financial group with a growth of 11.4%. And so this is a combination of a higher level of assets of the company, a higher yield in our portfolio, which evolved from 111.6% to 114% of the CDI, approximately in the second quarter. In this manner, net income totaled BRL261 million, a 93% increase. There were 2 important events that we should highlight. One of them is positive related to a reversal of a deferred tax liabilities because of tax issues amounting to BRL77 million in the second because the effect was announced considering the transaction of a sale of the portfolio of the savings bonds. And here, in this case, especially the sale of our minority shareholdings interest in Caixa Cap, whose base date is December 2018 and this went out this quarter. So considering base date of the transaction presented an effect in the second quarter of offsetting and knowing the effect amounting to BRL14 million regarding the equity equivalents of the transaction.

Even so, the net income of the company would have grown 46% as compared to the previous period, demonstrating the consistency of our performance. And so the average return on equity of the company in the last 12 months ending at the end of the first half of the year was 17.6%, a 2.5% increase as compared to the same period that ended in June 2018. Once again, for analysis purposes, even if we discount the 2 effects that I'm mentioning, the average return on equity would have been 16.6% superior to the 15.1% return that we had in the second quarter of 2018.

So now I'm going to give you more details about each our business lines, especially in terms of revenues. On Slide number 5, in Health & Dental, operating revenues grew approximately 11% with BRL4.2 billion. And here is the highlight. Also consistent with what we had in the previous period is the growth in our Dental and Health and small businesses, respectively, 26% and 18%. There was a significant reduction in loss ratio this quarter to 81.8%, a gain of 1 percentage points as compare to the previous period, the best result since last year. So we also had an improvement, 1.3 percentage points in the 6-month loss ratio. And we always like to highlight here that in spite of the improvements within these shorter periods of 3 and 6 months, it's important to look at the large periods, so that we have a better idea of the loss ratio and how it's been behaving in terms of a time trend than what may happen to this portfolio. And just as an example, the loss ratio in the past 12 months ending in June 2019, has also presented a consistent reduction of 0.7 percentage points, smaller than the loss ratio of the 12 months ending in the first 6 months of 2018.

Now gross margin, so we had an improvement of approximately 11% over the past 12 months. So if we compare just collective plans with the highlight of -- in dental. In the first half of 2019, just making a comment on the evolution about the portfolios, all the collective portfolios have grown in the past 3 months, with a growth of 1.3% in terms of number of members. So it's important to highlight that our corporate and affinity health portfolio that suffer the most during the peak of the crisis, notably in 2016, as you can see

in our institutional presentation with slightly longer series of 5 years, but it's still recovering with an organic growth for the seventh quarter in a row.

The other highlight that these numbers do not yet capture, as Gabriel mentioned, the effects of life and dental with the acquisition of broadband that we completed just 2 weeks ago, and they will be shown in our numbers as of the third quarter of 2019. Gross margin ended the quarter at BRL387 million, a 30% growth, as a reflex of the positive performance in revenue, aligned with a better loss ratio in the period.

The last slide, I would like to mention, in Automobile, Automobile has presented a revenue of BRL826 million, reflecting a lower risk in the market with better indications in public securities, especially for robbery and theft of vehicles in the main regions of the country, which is reflected in an opportunity for us to adjust and reduce a face price in the market as a whole.

Just as an example, showing to you some more recent data that are also in our institutional presentation. The rates, according to the Public Security Department of Rio and Sao Paulo, a reduction in the second quarter of 2019 of approximately 15% in the volume of our robbery and theft in Rio De Janerio as compared to the second quarter of 2018 and a reduction of approximately 11% in robbery effect in Sao Paulo in second quarter as compared to the second quarter of 2018. In these two regions, as I said before, we have approximately 50% of our shared fleet. Loss ratio of automobile was 61.7% in the quarter, 1.3 percentage points worse as compared to the same period last year and, here, the significant impact of the strong rains, especially in the Southeast of Brazil in April and May this year, the year-to-date loss ratio.

However, with a good performance, with an improvement of 0.6 percentage points as compare to the first half of 2018, the insurance fleet closed June with 1.6 million vehicles, 2.6% above the fleet that we closed the same period in the year before. In the second quarter, we had a slight reduction of 1% especially as a consequence of this usually competitive environment that can be explored further ahead in the Q&A session.

So I would like to close my presentation, and it can go to the questions-and-answer session.

## Questions And Answers

### Operator

(Question And Answer)

(Operator Instructions) Our first question comes from Credit Suisse, Mariana Hernandes.

### Q - Mariana Hernandes {BIO 20281325 <GO>}

Hello, everyone. Good morning. Thanks for taking my question. Congratulations on the results. I have a question about the Health segment, specifically about the direct plan that

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you launched in Sao Paulo and Rio. There are three things I would understand about the plan. First, what do you think the EBITDA loss ratio is going to be all about when you launch a plan? Can you launch a plan that has a dilutive loss ratio with capacity of growth? How do you equate growth and loss ratio?

The second point, if you could give us a bit more idea of what was the negotiation with providers that are covered, like how long you had to talk to them? What was the most difficult points in the negotiations? So I would like to know a bit of the history. And the third question is, what's the next step for you to further lower the ticket? That is, what are the barriers for the ticket to be even lower than it is? So 3 questions with regard to that. Thank you.

### **A - Raquel Giglio** {BIO 21963986 <GO>}

Hi, Mariana, this is Raquel speaking. Good morning. Thanks for your question. I'm going to start from the end. And then little by little, I am going to ask you to repeat the beginning of the question because the audio was not totally clear to us.

We started the launch of our new line of products, a new family of products. The first product is , launched in a bit more than a month ago. And this week, we launched the Direto Sampa for Sao Paulo. So this is a strategy that focuses on the sustainability of the industry, aligning interests and purposes between the healthcare company, providers and end consumers.

The idea is to have the customer in the center of care and support the whole journey of care, focused on health and sickness. And when we talk about aligning purposes, and this has to do with your second question that regards the negotiation with providers, I think that, fortunately, we are going through a period in which most providers are looking into this challenge that we see in the industry and our thinking of innovative ways to negotiate. So there is not a single model of pricing that apply to it all. It's not one size fits all, and the Direct Rio and Sampa, we work with apportionments, we work with bundles, so there are different compensation models that bring together this alignment of purpose.

As for Direct Rio, we have a strong partnership with that has units established in Sao Paulo, many of them operating on weekends for primary care, outpatient care, focus on primary care. And when we're talking about secondary, tertiary care, we have other partners that are renowned, including Hospital Oswaldo Cruz in Vergueiro district that takes part with all its local and clinical staff of excellence that is absolutely renown in the city of Sao Paulo. All this strategy aims at us absorbing more and more share of the market. We know that this market is going to grow. 33% of the population has supplementary here, and this is the room that enables us to get a larger share of this population.

### **Q - Mariana Hernandes** {BIO 20281325 <GO>}

Okay, Raquel. Thank you very much. Just to repeat the first question, I would like to know, in your mind, what is this equation about, potential growth and profitability? That is, is it possible to launch a plan that has a dilutive loss ratio for the base because you're thinking

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of larger base? So how does it work, and how is Direct positioned within your chain of loss ratio?

**A - Raquel Giglio** {BIO 21963986 <GO>}

Okay. I got your question. Thanks for repeating. Our aimed profitability when we are launching new products is always the same. So that does not change. All products that are launch, these 2 and others to come, will always have the same target in terms of profitability. Thank you very much.

**Q - Mariana Hernandez** {BIO 20281325 <GO>}

Thank you.

**Operator**

Our next question comes from Eduardo Rosman from BTG Pactual.

**Q - Eduardo Rosman** {BIO 16314825 <GO>}

Hi, good morning everyone. I have a few questions. First of all, I would like to know if there is any novelty regarding your material factory? These are the -- last month, about your negotiations with Allianz about the potential sale of your automobile business. So are you still in negotiations, are you still talking to them? Is there a deadline for you to give an answer on that? This is question number one.

Number two, the second, how do you see the company as a whole? I think that ROI is very strong in the past 12 months, about 17%, a lot greater than 2 or 3 years ago with a much lower Selic. But I would like to understand how you look ROI per segment. So could you break it down and tell us which segments are performing better? I would imagine that Health, that has improve a lot, must have an ROI better than SulAmérica's average as a whole. And I would like you to tell me whether this is true. And in closing, I would like -- finally, I would like to ask you whether you are interested in operating with hospitals. So people are discussing more and more, which business model is the best, whether it's the vertical or non-vertical. I think these discussions have increase. You've always been very clear that you wouldn't be interested in doing that, that you have a different line of business. Now do you think that could change? Or do you see that as a possibility?

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

This is Bottas. Answering about your first question, as we said in a material fact, we don't have much to say, but the process continues along the same lines as we published in the material fact. The company only discloses or publishes transactions or deals after they've been closed and naturally transactions such as this are protected by secrecy, which limit us, and we cannot make any comments about the transactions or negotiations.

About the ROI, it's important to highlight, and we always put emphasis, the company performs a capital management through which we try to optimize. And for this reason, we don't try to think of the return for each business unit, considering our capital management

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in the main companies or carrier that operates within the big umbrella of the holding company. So we published the results per business unit. And the best way to answer your question, you could analyze results or the performance. All of the business units always bear in mind the solvency and capital reserve requirements for each line of business. But what we want you to do is to pay addition at our consolidated combine numbers because this is how we want you to see our business and our portfolio rather than by business units.

Also, we are very happy when we're able to deliver an operational performance that in spite of the reduction in Selic, we were able to deliver -- rather, I said Selic, the Selic rate, interest rate, although it's dropped over the past 3 years, quite strong. We were very happy that we were able to find ways after the work of many, many years. This is not a short-term thing. This is really a result of long-term work in order to improve our operating margins, in order to believe a growth in return and in spite of the drop of the Selic interest rate over the past few years. So I think growth, wow, that this is something that we are delivering, what you said in the beginning of the question. This is the result of our capacity emphasizing what I mean. In the consolidated terms of been able to consistently deliver return on capital to our shareholders. Now I'm going to turn it over to Raquel to answer your third question.

#### **A - Raquel Giglio {BIO 21963986 <GO>}**

As to your question about verticalization, whether we are interested in buying hospital assets, I think we've been talking about this for quite a while. The strategy is well defined both in the short and in the long term. This is not part of our concern. This is not in our radar. But we are thinking very much of virtual verticalization, so we don't think we need to have a brick-and-mortar hospital in order to have providers with us and to have a product with more aggressive pricing where -- to which the providers will be paid to based on performance, in line with what we have been addressing in coordinated care. So the key to all of this is information.

The product that we have just launched on the direct family in Rio here with Dr.Consulta and Oswaldo Cruz, Sabará. And so it is the translation of our attempt in terms of having virtual verticalization without reimbursement. So we can concentrate care in these providers with information, and the members' journey is shared between all of us. Just to give you some numbers on how we are seeing this strategy, we have more than 326,000 appointments within the coordinate care, more than 182 members participating in this and 1,500 physicians. Now the direct family is bringing in hospital providers, clinics, laboratories to take part in our coordinated care strategy. So the answer is no.

#### **Q - Eduardo Rosman {BIO 16314825 <GO>}**

Well kinds of -- thank you very much.

#### **Operator**

Our next question comes from Felipe Salomao from Citibank.

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## Q - Felipe Salomao {BIO 20899985 <GO>}

Hello, good morning, everyone -- and the -- thanks for taking my question. Congratulations on your results. I have 2 questions. The first, with regards of growth of members in the health segment. When we look at the options in the quarter for health alone, the number was 4,000 new members. In the first quarter this year, net additions were 3,600 new members. I would like to understand what is behind the slight deceleration and how we're looking at this number of net additions for the next quarters taking into consideration the launch of SulAmérica Direct in Sao Paulo and Rio.

My second question is with regards of health loss ratios. The trough of loss ratio was quite steep this quarter, 100 basis points compared to the second quarter last year; year-to-date, even better, 130 basis points vis-à-vis the same period last year. My question is do you think this level of improved loss ratio, 100, 130 basis points year-on-year, is it something sustainable until the end of this year. Or do you believe that given the business dynamics, it may be that at some quarter, you have a specific concentration of payments to providers, and therefore, this improve loss ratio of 130 bps is affected but still delivering an improvement year-on-year, as you have been doing consistently for 4 years? And I asked you because in the fourth quarter last year, the loss ratio compared to the fourth quarter '17 grew by 180 bps, so I would like to know your mindset for the remainder of the year. And again thanks for taking my call.

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

Hello, thanks for your question. Well, with regards to the growth of members, when you compare quarters, what I can say that is in terms of strategies and underwriting, we continue very consistently following on with our strategy, that the strategy started 2012. Prices are more and more realistic or compare to the reality of our members which lets us keep our member base for a long time. We don't have major hiccups when we are negotiating readjustments. So of course, you have the market reality, the economic scenario, but we don't see anything that really can change the movement or leads to any drop.

As for loss ratio, you already asked the question and in a way gave us the answer. You have to look at things in the long term. Everything that we do, our strategies started more than 5 years ago. So direct purchase of materials, working with providers, auditing, that goes on. And of course, we are always looking at the quarters with attention. We are always happy with the results that we have today, but our strategy is thinking of the longer term so thinking of half year but also looking at the year, as Bottas mentioned in his remarks, and this is fundamental.

## Q - Felipe Salomao {BIO 20899985 <GO>}

Thanks Raquel for your answer.

## Operator

(Operator Instructions) Our next question comes from Eduardo Nishio from Plural -- Banco Plural.

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**Q - Eduardo Nishio** {BIO 15333200 <GO>}

Hello, good morning everyone thanks you for the opportunity. I would like to know more about SulAmérica Direct. Could you tell us -- the average ticket with BRL190, this is in a press, and could you compare your peers in this industry, which would be Hapvida and Intermédica, how you are positioned as compared to them? And could you also talk more about the addressable market that you are expanding? What is the average ticket that you want to reach? Thank you.

**A - Raquel Giglio** {BIO 21963986 <GO>}

Hi, Nishio, this is Raquel. Thank you for your question. Well, the direct family, as I said, has come to expand more and more our capacity to take in new members. What you have heard in the media, the prices, and our goal is always to go one step below from our product on the shop, so both in Rio and Sao Paulo. I'm not going to say numbers, but I'm going to tell you on percentage, on average, 20% below the first shelf product we have today. So compared to the products of any competitor here, it would be impossible, but I can tell you that we can expand considerably our proposal or proposition to work.

And so we want to expand our brand. And we have services available that are very innovative and provide flexibility to members both right there and then in the format or present whenever they need. So we have an app, we have a chart, and we have a position on the screen for children under 12 years of age. So this is a differential as compared to the market, what the market offers today. So without going into numbers and -- but I can tell you that without any doubt, there's an extra layer of market for our products.

**Q - Eduardo Nishio** {BIO 15333200 <GO>}

Thank you. Any idea of addressable market?

**A - Raquel Giglio** {BIO 21963986 <GO>}

No. We don't have that number. I'm sorry.

**Q - Eduardo Nishio** {BIO 15333200 <GO>}

Thank you.

**Operator**

(Operator Instructions) Our next question comes from Felipe Salomao from Citibank.

**Q - Felipe Salomao** {BIO 20899985 <GO>}

Hi, thanks for give me the chance for asking my question. I have a question about dividends. The company has been maintaining its numbers in a sustainable manner even with the drop of Selic, as Bottas mentioned in his presentation. And today, you are at 17%. Is there room for the company to pay a bit more of dividends to its shareholders since we

see the expansion of profitability, and therefore, you can continue to grow, and also the percentage of interest -- of dividends paid as a percentage of the profit is going down?

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

Well, Salomao, I'm going to use your question to reinforce our positioning in terms of capital structure. And we have a very well-defined capital structure in consolidated terms to preserve the level of indebtedness that can go from 20% to 25% compare to leverage, that is debt compared to net worth. And we have a dividend policy established at 25%. Our belief is that within our models and estimates, this capital policy is suitable to support our organic growth. In some situations, it can also support a movement that is inorganic but not relevant. So I can say that the capital structure is quite adequate, and there are no signs of changes in the short-term with regard to our dividend policy.

**Q - Felipe Salomao** {BIO 20899985 <GO>}

Okay, thank you very much about it.

**Operator**

Since there are no further questions, I'm going to turn the call back to Mr.Portella for his final considerations.

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

Once again, it's quite gratifying to all of us to see things that we talk -- confirmed a long time: sustainable growth; continuous investment in innovation in the company; always seeking to have a better company. That would not be possible without the engagement of our more than 5,000 employees; the constant support of our 36,000 active brokers and the involvement of our business partners particularly all partners that embarked with us on this new journey of awareness for supplementary health with quality and with different prospects; and our service providers that service our population of more than 3.5 million members and our 1.6 million vehicles; and the support of our shareholders and other stakeholders. So we thank you all for joining us and wish you a good day.

**Operator**

SulAmérica's conference call is now closed. We thank you very much and wish you a good day.

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