

## Y 2020 Earnings Call

### Company Participants

- Gabriel Portella, Former Chief Executive Officer
- Marcelo Mello, Vice President of Life Pension and Asset Management
- Rachel Giglio, Vice President of Health & Dental
- Raquel Giglio, SulAmerica S.A. VP of Health and Odonto
- Ricardo Bottas Dourado dos Santos, Chief Executive Officer
- Unidentified Speaker

### Other Participants

- Giovanna Rosa
- Mario Eugenia Bicudo
- Mauricio Cepeda

### Presentation

#### Operator

Good morning. Welcome to SulAmerica Teleconference for the Discussion of Results regarding the Fourth Quarter of 2020. We have here with us Mr.Gabriel Portella, President of SulAmerica and the Vice President of the company. This event is being broadcast via webcast with audio and slides, which can be accessed through the Investor Relations website [www.sulamerica.com.br.ri](http://www.sulamerica.com.br.ri). All participants will be in the listen-only mode during the presentation which will be followed by the Q&A session when additional instructions will be provided. (Operator Instructions) This teleconference is being recorded and the audio will be available right after its closure at the end -- at the IR website of the company. Will turn over to Mr.Gabriel Portella, CEO of SulAmerica and he'll start his presentation. You may proceed, sir.

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

Good morning, everyone. I am here with the Board of SulAmerica safely in the middle of the pandemic that affects us. We will comment the results of the fourth quarter and also the results of the whole year. When we present the results of 2020, we need to make a longer report of the relationship that we have developed during our history, but also more recently. We have had unimaginable challenges this year and all of them have influence positive or negatively our results, but the actions we implemented during the pandemic have reinforced our strategic positioning even further.

Let me give you some examples. In a few years, we have become one of the largest operators of dental plans investing in two acquisitions which are now mature and

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integrated, which allowed us to have great synergy and leverage not only our health business, but also to use our health base to explore synergy and also cross-sell actions. We have created a new line of more affordable health products, and if it wasn't for the pandemic, I am sure we have already surpassed much higher penetration levels, although the recent figures that we will communicate will show a very strong acceleration in the second half of 2020.

We have made natural adjustments in innovative processes but we did not change our strategy quite the opposite. We have new places where we are scheduled to move to this year and we are convinced that this is the path to take by exploring new market niches. Similarly, we have excellent results we have ripped through Parana Clinicas which confirmed the three pillars that based our decision of investments and they proved to be right, reinforcing our position in Parana, being the driver of an organic growth and in the strategic region. Learn from the integrated vertical model which is new to us and that should leverage our knowledge in these strategy of Coordinated Care and also primary care. And through this new driver, we can create a new and excellent path of inorganic growth in a new segment and in a new market niche. We have also shown along the years recurrently and consistently that we have a good ability of managing health costs, which is a result of countless initiatives we implemented many of them pioneers.

Now, moving more to the health value chain with the new approach of Coordinated Care of specialized structured. We've elevated in growing number of users that use our platform. Through this strategy, we're able to follow-up members that represent half of our claims. We have also been successful in exploring our funds through practically all platforms of market of investments in the market. And also the successful investment in Orama, whose performance and growth has been extremely positive as we'll show next. I would like to particularly thank the insurance brokers who not only have helped to our growth, but whom also provide a new opportunity of investment through training in sales and fund management. We have also been obsessed in following up all our processes and keep a permanent investment in technology to provide an improved experience of our members and also earning a permanent increase in productivity.

Our health app has been ranked as one of the best by our customers and also it provides more usability and resources that are more convenient to our beneficiaries. We are more prepared to keep our (inaudible) development and profitability, this is what we've been doing along these years and in this year that is so difficult. And also in the quarter, that is a typical in this period is associated to the seasonality of our health activity, because of the frequency that was different in the previous two quarters, but it was above normal levels, without compromising our continuous trajectory in evolution of claims. Traditionally, the last quarter has always been the best of all, because of the low frequency of use in health services. But this year, there was a major inversion in the seasonality of the quarters, because of the pandemic. They've all been captured, because of the rigor that we use and the methodology of technical provisions, using consistent and coherent basis with the previous season. So, this is why we say that the analysis of a picture -- of a movie is better than the analysis just of a snapshot.

So, 2020 although had very sad records because of adversity and sorrow, in terms of results has shown that we are very resilient in our company. 2020 was also marked by a

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125 years of SulAmerica. If we can all celebrate together as we usually do, at least we had significant accomplishment that made us very pleased with an year like that. Crucial strategic movements for the future of the companies were completed we faced the pandemic, and will be even stronger, connected and more digital to provide an integral health to all. Amidst adversities and uncertainties, we were able to grow organically and inorganically and after this period we are sure -- I'm sorry about that. Can you hear me? I guess you can. So, we are we are able to grow, amidst adversities and uncertainties organically and inorganically. And after this period, we are sure that we are prepared to grow even more in 2021 and in the following years.

Now, I turn over to Ricardo Bottas, who will bring you the results of 2020. Then Raquel Giglio will talk about the major advances in health and dental. And then Marcelo Mello is going to comment on the results of strategy in life, pension and asset management that are under his leadership.

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

Thank you, Gabriel. Good morning, everyone. Now, rapidly going over to Slide number 2, where you can see revenues. And here, I'm not going to dwell very long here, because we are going to hear more about that by Raquel and Marcelo. but I would like to highlight the growth of approximately 7% in the quarter and it's consistent with the growth that we're presenting during the year and we're going to give you more details about the growth in membership, which is quite significant and important. And we are going to talk about numbers that are in our press release saying that this quarter has also had a more significant impact of the booking of revenues following the adjustments of 2020 which had been postponed for some portfolios as per the recommendation instruction of the government in Brazil. And so, we have total BRL228 million and we also have a provision for bad debts because the level slightly higher than usual for the company, but we are not seeing anything atypical that might justify more intense worsening than we originally expected. So, we don't have a detachment in terms of our usual default rates standards or patterns.

On Slide number 3, here I've think it's important to make an overall comment, as Gabriel said about all results involving a different behavior in seasonality for the fourth quarter because of the pandemic and also regarding frequencies as we had said before, especially in the second quarter, they behave differently because of (inaudible) and a strong reduction in frequencies that took place in the second quarter that started coming back in the third quarter. But in the third quarter, we also had lower frequencies and in the fourth quarter with a composition of returning frequencies which did not take place and also because of extraordinary frequencies related to COVID, we have completely atypical fourth quarter without completely changing our consistent trajectory of increasing efficiency in terms of control of costs and claims and our operational performance.

So the loss ratio was that 76.4%, so with an improvement and here unconsolidated for the year but you can see the seasonal behavior in health and dental loss ratio that Raquel is going to comment. So this increase in loss ratio in Q4 as compared to Q4 '19 was all concentrated on this explanation of seasonality in health and within the year, the trajectory is of recovery also presenting even in spite of a significant share and we can't really

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determine. And Raquel is going to give you more details, it's very difficult for us to separate the frequencies that we are having now, in terms of what is -- what held frequencies -- COVID is easier to analyze because we can analyze separately and for the first time we are showing SulAmerica's COVID numbers for 2020 but it's important to see the movie. And if we look on the longer horizon intent in terms of loss ratio, we have a consistent behavior as compared to the previous year, even considering that this number still considers the ordinary course of COVID which were 4.4% points. So effectively, this is a trajectory that provides us the confidence that we are in line with our -- the performance that we have had over the past few years at least for the past 12 years of gradual performance and recovery of loss ratio. Operating gross margin with BRL2.6 billion so a gain of 3.3% points as compared to net revenue driven by the better loss ratio and the consolidated numbers as compared to the year before.

It's also important to highlight on the last slide, the combined ratio that was 0.5% point better than 2019. If we go to Slide number 4 and here we have separated the highlights into two tables of indicators. So we are showing EBITDA for the first time here to assess our operational result, regardless of the -- our investment income which is really pressured by (inaudible) and volatility levels, especially in the beginning of the pandemic in terms of the stock market and also at the end of the third quarter, and beginning of the fourth quarter, especially because of effects of marketing and post fixed positions, especially LRTs that were down in the spirit because of market volatility and which affected the investment income. Here you can see the EBITDA, so it's gross margin deducted of admin expenses, excluding amortization, in fact, which more and more as we make investments in technology, it may account for a larger share. So that the company operational result is very solid EBITDA also ex one-off admin expenses that we encouraging to for many different reasons that grew 35% as compared to the year before. And so I think that it's important to make this highlight here. So here we are attributing the drop in that income of 2020 as compared to 2019 and recurring income taking out the sale of auto and P&C. There was a drop and this drop is very much concentrated the effect of the investment income, and that's why I mentioned the drop in the select rate and volatility in the financial market in 2020.

As to the return -- average return on equity for the company, so we had a sale of auto and P&C, which we completed in the beginning of beginning of the Q3. So ROAE is 12%. So again, a smaller return because of the investment income considering that materially the funds of the additional investment income and the effect on the ROAE and extraordinary gain in capital were materially disclosed to the market as discussed in terms of the allocation of the funds more notably in terms of payout of dividends and buyback options that were included. So the impact or the reduction of return is very much concentrated because of the effect on in the drop in investment income. So, for the first time even though you have already done the math. So, we are showing here, the consistency and substance and resilience of our operation most notably in health presenting here, our return on health and dental operations calculated over the regulation capital, which today is a measured by the solvency margin, and it's related to the risk-based capital was 22.7% for the whole year.

That said, I'm going to give the floor to Raquel to talk about health and dental operation. Thank you very much. And I'll come back further ahead to talk about admin expenses.

## Rachel Giglio

Thank you, Bottas, and good morning to everyone. Now starting on Slide 5, again, I would like to talk about something that represents our access, you are familiar with that. And all possible entry points of our members to the health system. It's our arch of access that allows us to touch our members and address each of their needs. In our coordinated care strategy, there are several specific OKRs that try to intend and to promote a special service to our members so that they will become more loyal. We also try to intervene very safely in this journey to provide better follow-up, better care and a much more accurate perspective of claims so that our operations can be more sustainable and as efficient as we have had for the past years.

Some of these initiatives evolved in 2020 accelerated by the pandemic, and they were crucial to assure service to all our members, both COVID-19 cases as well as other treatments that could not be interrupted. The use of telemedicine has increased financially, both in visits provided by Docway, a health stack of SulAmerica Group that provides digital solutions in health, as well as OMT, a medical guidance through telephone that is operated by Sharecare that had over 100,000 telemedicine visits, a joint venture of SulAmerica Group, and it had a very important role in this increased number of telemedicine visits. So we also -- we had triage for COVID-19 through the app and WhatsApp fast track with over 30 partner hospitals, also the digital lab service launched in a partnership with Fleury and DASA groups very swiftly, and SulAmerica was a leader in this sector and coordinated the health of our members.

Now moving to Slide 6, I would like to update a few of the figures we have already disclosed in 2020. There were over 635 remote visits, telemedicine visits since March 2020. And almost 530,000 tele-visits with high degree of solution, almost 90% of the interactions did not require a face-to-face visit. And what's ascension. The quality of the customer satisfaction measured by NPS in the excellent zones, as you could see, were very high. That makes us very confident to permanently adopt digital tools such as telemedicine for health access. And again, another way of reaching uncoordinated services to our members.

Now talking about the strategy of Coordinated Care as a whole. We have almost 600,000 active members. So this disregards the one -- those that are not ready -- are not in our database anymore. This was significant growth year-over-year. Our strategy to approach physicians and to engage them, even paying them differently according to the clinical outcome, is moving towards the value-based medicine direction and it advances. Now we have over 2,000 -- 2,300 physicians in Coordinated Care. We are very confident about this strategy that started to be built a few years ago. This made sure that our members were followed up. Even in this unexpected pandemic situation that reinforces our confidence of having lower impacts on our basis for the post-pandemic period.

Now moving to Slide 7, I would like to share with you more results related to our claim management initiatives, health and well-being initiatives and Coordinated Care. Almost 600,000 members in Coordinated Care represent 25% of our total basis of members. This number has grown year after year, as you can see on the chart on the right-hand side. In this process, those that are affected are the ones that generate most of the

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claims, because this population of 25% of our member base accounted for 53% of the total claims. That increases our level of conviction that this closer, welcoming a more effective follow-up is indeed effective and ensures better control. In parallel, we have had claims management initiatives as we've had for the past few years, but they keep evolving in a closer partnership with our network of service providers.

On the left-hand side, you can see on the chart that 42% of our total claims has already been covered by some sort of alternative model of payment or as we call internally special control tools, such as packages, bundles, overall hospital stays and other initiatives that provide significant savings and more predictability. At the same time, we are working to leverage models of remuneration that are more advanced, such as the capitation model that gradually align the interest of all market agents in this health chain. I would like to highlight that for direct products line, 100% of the claims are based in these alternative models of service provides hiring.

Now moving to Slide 8. I'll give you a brief update on Parana Clinicas. This was a very fortunate movement in the first months. We have had very positive impressions, and we are very excited about the potential of that operation. Parana Clinicas provides an excellent quality, very good cost benefit ratio. And that's a value proposition that is very interesting is based on a different service and clinical centers. And now they can also provide service to SulAmerica members in the region. So Parana Clinicas since the beginning of the month are already serving the SulAmerica members of the region. They are also -- now we have (inaudible) Santa Cruz, which is a reference hospital in Curitiba. We're also going to open another clinical center in April in Sao Jose dos Pinhais, where the Curitiba Airport is located. That will have 32,000 visits a month, over 13 offices, over 2,000 square meters in area. That's a very important expansion to better service our members and to provide a wider range of options for first service. Talking about expansion, we see in Parana Clinicas a platform for a quick expansion in Paran? and in the southern area of the country that will expedite our growth strategy, including in the mid-ticket segment with a preserved business model. We see a path of growth here.

Now moving to Slide 9, let's talk about mid-ticket. You have asked some of the figures for SulAmerica Direto. As it is evident here in the chart, the curve is very positive. The product has gained traction since the last month of 2020, even during the pandemic. In December, Direto accounted for 10% of new sales and has reached the total number of 12,000 lives, accelerating the growth vis-a-vis September. In February, we have already completed 20,000 lives in Direto, including Direto Joinville that was launched yesterday. That sets our arrival in another important region in the southern area of the country. Even more than absolute numbers of lives we have so far, we are very excited about the growth curve that starts to mature and gain momentum with clients and brokers, less than 1 year after its launch in the channels that have a better fit with the products such as SME and Affinity.

And we launched these channels in March last year. And again, we had a pandemic in the middle of the way, which definitely has delayed a process, but now is showing consistent growth each month. We will continue to roll out this product to different regions in 2021, pursuing an interesting competitive value proposition with providers that are recognized and of high quality. We see new opportunities of partnerships and growth. And little by

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little, our mid-ticket strategy is improving. And if you combine Diretos and Parana Clinicas, we have over 110,000 lives in this segment. The growth perspectives are very positive, including the movements of expansion of strategic providers. We are very confident about the growth of this segment.

Now moving to Slide 10. This chart summarizes the performance of SulAmerica in the past years. Since 2014 in all types of scenario, even in a market that has not shown any growth, and that's an important point when you look at the total number of members, the total number of people who have access to supplementary health, we see that SulAmerica has increased its market share significantly adding lives year after year with a performance that is significantly above the market and compared to our direct competitors, which translates in sustainable gains in market share. We believe that we will keep on this trajectory as we did in 2020, and we will accelerate that in the next cycles, balancing growth and profitability, which is a strong characteristic of the company.

Now moving to Slide 11. I will share with you the results of health and dental for the fourth quarter and the year. Regarding the total revenue in the segment, the result was 7%, keeping a positive trend. And in terms of members, we reached 4.2 members, considering both health and dental. And the fourth quarter has already demonstrated a more positive dynamic in terms of new members with new sales that were very strong. The highlight here is SMB, and we have kept high levels of retention of customers superior to 90% in our corporate segment. As to September, we added 22,000 new lives in health with a highlight of 18,000 lives for SME, 55,000 lives for dental.

So it's a significant growth and a significant sequence of growth which indicates a good scenario for 2021. As compared to 2019, December, we had an addition of 131,000 lives in health, here including Parana Clinicas. So this effect refers to about 41,000 lives that are purely organic, which is important to highlight. So for example, we have the work of our brokers and everything. In dental, in spite of the impact in retail operations in the middle of the year that you already know, we also have grown as compared to 2019 after good recovery at the end of the year. So once again, all of this is an evidence of the strength of our distribution of our commercial agencies and agents and brokers and our capacity to grow.

Now moving to number 12, you can see loss ratio. In Q4 '20, in line with the previous expectations, and as we announced at the end of Q2, we had quite a typical seasonality for the period. So considering the strong reduction in frequencies in Q2, which had an improvement of 12% points and also in the third quarter with an improvement of 5.1% points, and the continuation of the process of resumption of procedures that had been delayed in this period. So we had December, which historically has a much lower frequency of procedures, we had a frequency level that was quite above usual. So when we combine that to the second wave of COVID cases that had an impact on the quarter and did not lead to the same movement of significant reduction in elective procedures as we had seen in the first wave, it explains the quarter with a higher loss ratio with an increase of 5.8% points, up to 80.2% loss ratio. Still completely under control and very close to what we see in regular quarters, as the chart on the upper part of the slide shows, indicating our control, although it was higher than usual for our fourth quarter.

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In the lower part of the slide, in talking about annual loss ratio, so the longer view is always better to portray a loss ratio. As Gabriel says, it's better to look at the movie rather than a snapshot. So we had a loss ratio of 76.92 percentage points below that of 2019, the best rate of this indicator in 12 years, which indicates an extremely positive performance for the year. This is a reflex of the continuation of all our initiatives of management and Coordinated Care, which have kept the indicator under a positive trajectory, but also with the different dynamics of utilization along the year because of the pandemic as we've been seeing. On the other hand, we should highlight here that along 2020, we have had a relevant impact of BRL810 million related to COVID admissions, both in hospital admissions, appointments and tests, which represents 4.4% in consolidated indicators for the year.

Now I have finished my part. I'm going to give the floor to Marcelo Mello, our Vice President of Life Pension and Asset Management.

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

Thank you, Raquel. Good morning, everyone. Now moving on to Slide number 13. You can see that revenues of life and pension have totaled BRL130 million in Q4 and almost BRL500 million in 2020. In the year, we still had a 2% reduction, which is a reflex of the pandemic, especially in travel insurance, which suffered from limitations of travel along the year. But in the last quarter, we already saw a significant recovery with a 7% growth year-on-year. The loss ratio is still suffering the impact of the pandemic in Q4, considering the higher volume of claims associated to COVID-19, which we have decided to include voluntarily in our policies, but already at a lower level than what we saw in the third quarter. If we see the numbers for the whole year already considering the recoverable amount of reinsurance, we had an impact of BRL30 million in claims related to COVID, which represents almost 6 PP of impact in loss ratio.

Now on Slide number 14. We have had a very strong year of gross collection net and growth of reserves in pension as a result of a very competitive product portfolio and an expansion of our distribution channels. Here the highlight is our growth that is very positive as compared to the market.

Now moving to Slide number 15, you can see asset management. The volume under management of SulAmerica was almost BRL46 billion in December, practically stable as compared to the year before as well as stable if we look at third-party assets under management. Now in revenues, we have witnessed a reduction in the last quarter that is significant. This is basically the impact of performance rate rather than revenue from administration fees because the year of 2020 was a slightly weaker year for markets as compared to 2019. But the highlight here is our growth in 2020 in higher value-added strategies such as multi-market share and assets.

On Slide 16, I think it's worthwhile sharing with you a few numbers that show the potential for growth and development of Orama, which is a minority interest that SulAmerica has acquired. So talking about numbers closed -- Orama closed the year with BRL11 billion of AUC, a significant growth of 37% as compared to the year before in addition to a significant growth of almost 70% in the number of accounts opened, reaching more than

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170,000 accounts opened. I think it's also worth mentioning that late last year, we launched Indika SAS, which is a platform of referral to Orama which is available in SulAmerica brokers portal, which makes available to brokers a robust program of training and incentive for them to refer customers to Orama and as a journey of consultants and brokers and even independent financial agents. So our intention here is to value more and more the role of brokers, and we're really excited about the strategy because of the performance it has already demonstrated.

Now I give the floor back to Bottas for him to talk about our last lines of results.

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

Thank you, Mello. Because of the setback that we have had the minor tech glitch, I'm going to be brief. I'm going to go to Slide 17. I think it's important to mention here in transparency in terms of some information, as a reminder, admin expenses, this is just expenses of continued operations. And in Q4, we have had some extraordinary highlights as we had, had in previous quarters, and we placed emphasis on them and disclosed for you to be familiar with it and so that analysts can see it. Number one thing is the highlight of the release in Q4 '19. We had a reversal of tax, which went back to the comparison basis and something that didn't happen again in Q4. We also had a significant higher amount of expenses as part of our branding strategy to have a significant campaign of integral health, totaling BRL14 million. We also had the reassessment, but that provided some significant impact to some old labor lawsuits that we don't see as recurring. The amount was BRL14 million.

And here again, we should highlight it also in this period, we had expenses associated to service provision that was part of the agreement with Allianz related to the support agreement, especially concentrated in technology to be able to meet the needs of Allianz during the transition after the completion of the transaction. In this quarter, it totaled BRL21 million, but this is compensated or offset by revenue, which is not yet the revenue of premiums. So there is an asymmetrical comparison here, but it tends to neutrality for us. Lastly, added to all these effects, we have also had, and we had mentioned this before, we had BRL40 million associated to the spin-off process, which was one of the conditions for the completion of the sale and transfer of automobile operations.

Also, additionally, in order to be more transparent and providing you more information and Marcelo, Raquel spoke a little bit about it and Marcelo spoke about Orama. And we are going to give you more information. This is how we are going to show the information to you from now on. The highlight is the share and admin expenses that we have with strategic investments basically as part of innovation, digitalization and the launch of products, which during the 12-month period was BRL188 million. It's very concentrated in our operations, concentrated in health and dental was BRL146 million and another BRL25 million in commercial fronts and diversification of channels and the strengthening of our commercial structure after the spin-off, which also had an effect in our commercial structure in terms of our intention and dedication to brokers and our broker structure.

So, we have not saved efforts to invest in diversification of channels, more tools -- more training tools as well as the structure of commercial services of SulAmerica. I would like to

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highlight the relevance of the strategic investments. We had BRL188 million as part of the administrative expenses that are represented here with a high concentration in health, dental, about BRL146 million out of the BRL188 million related also to digitation and BRL25 million that were concentrated in our development of sales were extremes development of channels and the strengthening of our structure to service to brokers after the separation we had that led to different branches in the retail operation. So we invested a lot in this diversification.

So I think that now we can move to the Q&A session. Thank you.

## Questions And Answers

### Operator

(Question And Answer)

Ladies and gentlemen, we will now start the Q&A session. (Operator Instructions) Our first question is from Mario Eugenia Bicudo from UBS.

### Q - Mario Eugenia Bicudo {BIO 19387345 <GO>}

Hello, and thank you for taking my question. Regarding the postponement of price adjustments and the cash accumulation in the second and the fourth quarters, did you see a lot of need to change prices? What about (inaudible)? Do you think that their operations change your scenario? Thank you.

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

Hello, Mario Eugenia. Yes, thank you for your question. This is Raquel. So regarding the freeze of the price adjustments, even before that, because of the pandemic in 2020, SulAmerica voluntarily suspended price adjustments in May, June and July and then there was a mandatory freeze determined by the regulator. So according to ANS, we could start collecting price adjustments as of January. The delinquency rates are under control. So we don't have any negative bias related to that. Regarding your question that relates to prices, of course, the prices derived from our reality related to claims in this period. The number of claims was a little bit lower in the second half of the year; this could be seen more competitive -- something more competitive, but this could have an impact on prices.

Regarding your second question, I suggest Bottas, who is responsible for M&A, to give his input.

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

Thank you. Raquel, and thank you, Mario Eugenia for your question. The transaction that was announced this possible merger. I understand that this could be understood. Well, let me rephrase what I'm saying. Not all assets in the pipeline of these two companies that you mentioned that are whose merger is being discussed, will be all the assets of SulAmerica's pipelines. There are some hospitals that could be included in their pipeline

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and that will not be obvious assets and not necessarily will be part of our pipeline. Our pipeline has to do with operations, such as health portfolios, similar to ours or not, as well as assets, such as Parana Clinicas. As Raquel mentioned, during her presentation related to our strategy moving into this new segment with the lower mid ticket. Processes as complexes this of course, bring focus to transactions like that. At the same time, I don't think that there would be a significant change regarding competition or price pressure that was taking place when these companies were separate. So, I don't see any short-term changes regarding this potential merger, but maybe some difficulties in differences in price.

**Q - Mario Eugenia Bicudo** {BIO 19387345 <GO>}

Thank you.

## Operator

Our next question is from Giovanna Rosa from Bank of America.

**Q - Giovanna Rosa** {BIO 21036371 <GO>}

Good morning. Thank you for this opportunity of asking a question. I have two questions. Could you tell me about this trend you're observing in the beginning of the year? And how loss ratio is going to evolve this year? Could you comment on some structural changes you expect to take place because of the pandemic, too? My second question has to do with expenses. Expenses were already very high. So I would like to understand if we could consider those level of expenses as recurrent or if you expect G&A expenses to be reduced in the future?

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

I would start by asking the second question. I'll try to be brief. About the administrative expenses, the answer is no. This is not something to be expected. We have a lot of one-off expenses that were captured in this period. And the gear itself was very atypical. Even the spinoff that was very complex that took place, that still carries some effect. But we are confident that we can dilute administrative expenses as we have in the past years. Similarly, if you consider our administrative expenses during the year, such as in the life portfolios where revenues were pressured because of the effects of the pandemic and even reductions in the average premium because of the gradual reduction in medical inflation.

So those are some of the items that should be taken into perspective in our projections, but we are confident that we will be able to keep operating our administrative expenses as we have before. In terms of movements or changes in structures, redesigns, we cannot anticipate any of these actions at this point, but we are constantly looking for improvements in efficiency, digitization, even the pandemic has prompted us to be more efficient. And of course, those issues will be captured and observed from now on. Raquel?

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

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Thank you, Bottas. Giovanna, thank you for your questions. Let me try to give you some sort of a heat map about our plans. First, we are still in the middle of the pandemic. It's even scary to see the figures we've had in terms of hospital occupancy rates. We see a second wave in many states. And a vaccine distribution that is related to that and that distribution is lower than we would like to see. Only 3% of the Brazilian population have been vaccinated so far. Why is that I bring this point up? 2021 will still feel significant impact of the pandemic and because of everything that is going on and all the uncertainties involved. In terms of positive aspects, I see that members are now more focused in self-care.

In 2020, we had the highest number of apps, health apps and health awareness being apps being downloaded. This means that people are concerned and they're invested in self-care. So the pandemic might change the way that people relate to health products. The mere use of telemedicine and the high adoption it has shown over the figures you've seen, 90% resolution rate in telemedicine visits and a number of visits in the thousands. So that's something to be considered. I am sure that the pandemic will leave some legacy in the sense that people will probably start behaving differently related to health consumption. Overall, that's what it is.

## Operator

Our next question comes from Mauricio Cepeda from Credit Suisse.

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

Good morning, everyone, Gabrielle, Bottas, Raquel and Marcelo, well aware of the net margin. Is it under pressure in any way and is it affected with the reduction that you have from investment income? Shouldn't you review your commercial policies, work with premiums maybe? We're having something of a more stricter policy and not the extreme as director, different design or maybe you could try in terms of admin expenses to reduce them even further by some reason.

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

I'm going to share the answer with Raquel. I think I can talk to you about the financial structure and capital and other sources of subsidy and transfer between business lines, which is the essence of your question and to seek and change the dynamics. Well, before, talking about the investment income as it's -- we are really confident that the investment income is very positive for 2021. So in 2021, we are optimistic. We see that there is a consensus in the carryover of our positions and we have space to take up risks. We have left post-fixed and having into -- towards more prefixed position. So we are well prepared to use the opportunities that are coming up for 2021. So you really believe that this is going to be a year when we are going to start to see a recovery of our financial performance.

But really, 2020 was a year when we had a lot of pressure, when we think and Raquel reminded this very well, we're still in the middle of the pandemic. What you suggested is really compromised when we have unemployment going up, economic crisis, the GDP and many other political and economic uncertainties that have a more challenging financial

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dynamics. So let's raise prices to offset our investment income that is lower. So we are being very strict. We are using the opportunities.

I think (inaudible) up, as Raquel showed, and there is a major opportunity for growth and the reduction of capital costs that be impacting the financial -- smaller investment income provides us an additional modality for us to have a higher appetite and more capacity to be more aggressive in organic operations. And Mario Gene also asked a question before. So the economic scenario, although it has an effect in the investment income performance, it's positive. Well, in terms of admin expenses, there's always room. We have opportunities. But we are showing, too, as we have always shown that our admin expenses really funds or drives the company's growth.

So another thing that is important to highlight how much we can stand out in terms of positioning services that we deliver to our customers, functionality of our app, digitalization of the company. We are pioneers in telemedicine. We already had doctor on screen services well before the pandemic. So it was easy to escalate. We had digital services, digital reimbursement, Dr.At Home through the app. So the many innovations that have been funded along years through admin expenses. So effectively, we see that, yes, there is an opportunity to dilute even further admin expenses as compared to revenue. But we believe that revenue can grow more strongly than it's been growing, that we can control admin expenses, and we continue investing in digitalization and technology and innovation. So Raquel, I think maybe you can talk about our competitive environment and pricing spend.

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

Thank you for your question. Of course, the pandemic time is really unique, but we have been through other times of economic crisis. But now our strategy has always been the same, and we have always shared that with you. We have a very clear strategy of keeping, retaining and increasing membership. So thinking in terms of that, our entire commercial team, sales team, customer relationship has a clear driver, retain customers, keep our fishbowl full because the country will grow again after the pandemic. We are going to see a growth that is going to be more leveraged in terms of our membership. There is a loyalty, which is something very important that Bottas has already mentioned.

So SulAmerica really has many initiatives as health on screen, providing full support for our members who are at home. So when the customer area goes out on the streets to negotiate an adjustment, for example, their aim is not to just increased premium. We want to retain customers. So if we extend this for two or three years, if there is a different logic in terms of leverage participation and here, if we include dental and dental has evolved greatly this year. When we look at the membership in health and within our basis, we went from 23% in December '19 to 37% in December 2020. So we add the product, and we shield customers from the attack of the competition. This has been very important for the team.

So our focus is on customer retention, and we want to have tools that will bring customers closer to SulAmerica with many different strategies, keeping them in the long term. When we talk about sales, there's a competition scenario, which is very important for us to

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observe. And in the past few months, we have seen a very consistent growth in sales volumes with a very positive trends curve even for Direto, which makes us even happier and based on the membership of almost 40,000 lives. And this makes us very confident that this is the right strategy, that this needs to be the driver of both of the commercial team and customer service team, too.

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

Thank you. Thank you, Raquel and Bottas.

**Operator**

Our next question comes from the webcast from a Henrique Navarro from Santander. How much do you think -- when do you think health loss ratio will stabilize and go back to historical levels?

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

And Henrique thank you for your question. So I think then here, a considerable part of the answer has already been given to Giovanna and Mario Gene. So we are still in the pandemic. It's not over. We are far from herd immunity. In spite of the vaccination that we had seen, the penetration of vaccination is still very low and with very high COVID numbers. So we are still very far away from going back to the new normal. And something that I mentioned in my other answer is everyone has rethought their relationship with self-care during this period. So the bias is absolutely positive that people will take better care of themselves and even have better health, they are more likely to use the benefit in the right way, to use digital channels. And this has grown a lot during the pandemic, this type of care. Digital channels have been very well received and with a high level of adoption. This makes us confident in terms of the use of our health products. And this is what I wanted to say.

**A - Unidentified Speaker**

We have another question from the webcast from Eduardo Nishio from (inaudible). Could you tell us about the loss ratio of what on Parana Clinicas

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

No. Parana Clinicas loss ratio revolves around 73% a year. That was the level for 2020. It has given us great insight and giving us the opportunity to understand more about Coordinated Care. We have shielded the team of the Parana Clinicas because we need to learn from them and exchange learnings and knowledge with them. Another important point is that more than 70% of the first visits are made with GPs, and they are conducted at those clinical centers. This kind of opens the funnel, allows us to know more about our members from day 1, and you can put them into the correct line of care. And this is aligned with everything that we are doing in Coordinated Care. So this annual vertical -- virtual verticalization and the semi-verticalization we have at Parana Clinicas supported by tertiary care in partner providers are complementary systems.

## Operator

(Operator Instructions) If there are no further questions, I will turn over to the Gabriel Portella for his final remarks. You have the floor, sir.

### A - Gabriel Portella {BIO 18012687 <GO>}

I'd like to thank everyone who attended this conference. Once again, I apologize for the glitches we had during this teleconference. I'd like to thank Portas -- Bottas, Marcelo, Raquel for all the clarifications they've made. We should be very thankful to many people this year, and we thank all health professionals and also essential workers who are responsible for a recovery of over 9 million people who have recovered from COVID-19. I'd also like to thank our employees who, even work remotely, they were able to keep all SulAmerica processes running.

And overall, all the plans and our efforts that we'll continue to make sure that we are going to have even a better future. This movie of 2020, as I mentioned, in terms of strategy was something of a positioning -- reinforcement of our positioning. We overcame the difficulties, and we will keep investing even despite these one-off difficulties that were mentioned, like the one mentioned by Bottas related to G&A. We want to look for opportunities to improve the growth of our business and to keep doing what we've been doing for the past 125 days. Have a good day, and be healthy and safe.

## Operator

SulAmerica results conference is adjourned. Thank you very much for participating and have a good day.

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