

Q3 2021 Earnings Call

Company Participants

- Clovis Poggett, Vice President of Control and Investor Relations
- Marcelo Mello, Vice President of Life, Pension and Asset Management
- Raquel Giglio, Vice President of Health and Odonto
- Ricardo Bottas Dourado dos Santos, Chief Executive Officer

Other Participants

- Flavio Yoshida
- Guilherme Grespan
- Mauricio Cepeda
- Ricardo Boiati
- Samuel Alves
- Vinicius Ribeiro

Presentation

Operator

Good morning. Welcome to the conference call of SulAmerica to announce the results of the second quarter of 2021. Today, with us, we have Mr.Ricardo Bottas, SulAmerica's CEO; and the Vice Presidents of the company. This conference call is being transmitted live through webcast with an audio and slides that can be accessed through the company's Investor Relations website at the address, www.sulamerica.com.br/ir. All participants will be connected in listen-only mode during the conference call, and then we are going to start a question-and-answer session when further instructions will be provided. (Operator Instructions) SulAmerica's conference call is being recorded and the audio will be available right after its end at the company's Investor Relations website.

Now, I would like to turn the conference over to Mr.Ricardo Bottas, SulAmerica's CEO, who's going to start the presentation. Mr.Bottas, please, the floor is yours.

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

Good morning, everyone. I am here at the company with all members of the company's executive committee, who will be with me to talk about the performance of this third quarter, despite a still challenging period in terms of operating results. I will start talking with a message of optimism.

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After more than a year dealing with the pandemic with a significant impact on society and also in our health and life segments, we have significant indications that we are reaching the end of the crisis, reduction of cases, hospitalizations and deaths due to COVID-19, especially after the progress of vaccination in Brazil. So in this manner, we are going back to normal in our lives, and we also hope to go back to more normal levels of return and profitability for our operations, resuming SulAmerica's long track record of sustained growth, so well known to the market.

So here, already focusing attention on the countries that have risks of new waves of COVID-19, especially because vaccination is not evolving satisfactorily. I would like to reinforce the importance of us following in Brazil with the evolution of vaccinations as well as its booster doses until we're completely free of this crisis. This period was not easy for anyone. And it is worth highlighting that, which was, is and will always be the priority of SulAmerica, integral health for all our employees, customers in all aspects.

In health and dental, we prioritized the guarantee of effects of high quality care in a strong and close partnership with our network of healthcare providers. In life, we did not close our eyes to the critical situation still in the beginning of the pandemic and we decided to cover the claims related to COVID-19. The total impacts were significant, totaling more than BRL2 billion since March 20, of which BRL1.2 billion were in 2021, but we are not measuring our efforts. That's our purpose to improve people's lives in all that aspects. We are confident that this crisis is nearing its end, and we believe that that will remain as a positive legacy that we have managed to build and accelerate the development of the company in this period.

Despite the challenging times, we managed to grow, have expanded our product portfolio and have increased our customer base, something that will surely benefit us in coming years. At the same time, the pandemic has accelerated the digitalization process around the world. We have also evolved. SulAmerica is more agile and digital, offering more technology, convenience and innovation to beneficiaries, customers and brokers undoubtedly through the capacity of our teams to innovate.

The recognition that we have received in innovation and our prominent position motivates us to continue evolving this fundamental agenda for the best delivery of integral health. As important as the advancement of this digital transformation is our journey in material terms for the sustainability of SulAmerica, aiming at a better future. We are promoting a cultural transformation in the company.

Our inclusion and diversity program launched in August has had a high rate of engagement and we're building a more plural, diverse and collaborative environment. At the same time, we are aligning our recent fundraising strategy with a ninth issuance of debentures announced in October with an important and unprecedented commitment to promote emotional health, aligned with our purpose of integral health. SulAmerica has also signed with another 17 managers in the country BRL873 billion assets under management, the declaration related to low carbon issuance presented at COP26 and coordinated by the climate investors initiative, of which we are part.

Now, I'd like to turn the conference over to Clovis to continue with the analysis and comments about the businesses in the period together with our leaders of the other business units, Raquel and Marcelo.

Clovis Poggett {BIO 16529642 <GO>}

Now, going to Slide number 2 with operational results, which totaled BRL5.2 billion in the quarter, BRL15.6 billion in year-to-date numbers, a growth of 4% and 6%, respectively, as compared to the same period in the year before and good performance in health and dental and life more than offsetting the lower pension and asset management contributions.

In dental and health, the increase of the base of beneficiaries of collective plans has boosted the growth of 5% in revenues, more than offsetting the negative effects of the negative adjustment of individual plans that began to be felt this quarter in addition to the reduction of the number of members in this modality, which we haven't sold for many years. ASO plans follow the pace of growth in recent periods, up by 9% in the third quarter as compared to the third quarter last year. It's worth mentioning here the continuity of recovery in life and personal accidents with an 11% increase in revenues, which my colleague Marcelo will comment later.

Now, moving to Slide number 3, a few points that I would like to highlight in the quarter. Starting with the gross margin, which was BRL357 million in Q3 '21, 27% higher than the second quarter this year, portraying the beginning of the recovery that Bottas has mentioned. But we cannot help, but point out, that was still a challenging period with impacts of COVID-19 still present, combined with a normalization of frequencies of other health claims, leading to a consolidated loss ratio of 84.6% in this quarter, worse than the regular third quarter, but already 1.3 percentage points better than the second quarter of this year.

It is worth mentioning that the third quarter of last year had benefited from the measures of social distancing last year and presented the lower than normal loss ratio for the end period and the comparison between the two periods. This dynamic will be discussed in greater detail by Raquel Giglio further ahead.

In the other business lines, I would like to report the adjusted index of admin expenses of 7.4% in the quarter and 7.1% in the year. Both levels under control, reflecting the focus on operational efficiency that a company has. Specifically, in this quarter, the index showed a slight increase compared to the third quarter last year, which I will comment further forward in the presentation.

On Slide number 4, you can see in the EBITDA the reflection of the points mentioned in previous slides, meaning still impacted by the costs related to the pandemic of COVID-19, which in this quarter totaled to BRL268 million in terms of claims combined with a normalization of frequencies of elective procedures in health. Despite the impact on EBITDA, we see a significant improvement in financial results, one of the highlights of the quarter, with an increase of more than 660% compared to the third quarter last year and

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220% compared to the second quarter this year. This good performance is mainly related to the increase and is certainly a great move that should continue in the future periods, in addition to the good performance of assets tagged by the inflation.

I would like to end this slide talking about the net income, which totaled BRL280 million in the quarter, here reflecting mainly the decision of the Supreme Court of the unconstitutionality of collection of income tax and social contribution on the correction of Selic in tax dispute, so with a positive impact in tax and financial result lines, amounting to BRL260 million booked at our best estimate, fully-backed by our legal advisers and aligned with IBRACON's interpretation.

Now, I would like to give the floor to Raquel Giglio to give you more details about our performance in health and dental.

Raquel Giglio {BIO 21963986 <GO>}

Thank you, Clovis. Good morning, everyone. To start at Slide 5, I'm going to talk about Coordinated Care and our digital initiatives. We at SulAmerica have always encouraged the use of technology as a way to expand access to healthcare, and it's an essential part of Coordinated Care strategy. We can see that this focal investment has paid off. The use of Health app has reached record access every quarter. And our telemedicine doctor-on-screen, Medico na Tela, has become part of the beneficiaries' journey. We reached more than 1 million remote consultations in 2021, and we are close to reaching 2 million digital interactions since the beginning of 2020, maintaining high rates of resolution in the first virtual consultation.

Coordinate Care strategy has continued to move on. At the end of September, there were 786,000 coordinated beneficiaries. 31% of the total base representing more than half of the claims. There are also over 4,000 doctors and healthcare professionals, who help us provide quality healthcare and several specialties, which are absolutely fundamental pillars of this more agile, welcoming, sustainable follow-up for the system. At the same time, we continue to develop new options for the healthcare arch.

The Easy PS, an evolution of the Fast Track COVID launched during the pandemic, allows quick referral of cases that need the urgent care after remote interactions with us, now expanded beyond COVID with 150 partner hospitals in 17 cities. We are also expanding Lab IN, our digital lab project, with home collection partners that enable sharing of exam data and is already in 13 cities in the state of Sao Paulo, which will soon reach also new regions. All of that with high levels of satisfaction. NPS in the zone of excellence for the Coordinated Care as a whole, as well as for physicians, both virtual and on-site.

Let me talk about the mid-ticket strategy on Slide 6. It has gained share in our sales, contributing to our growth. Starting from SulAmerica Direto, which has shown enormous potential since the end of last year, reaching 42,000 beneficiaries at the end of the third quarter and maintaining very accelerated expansion. Several regions have had positive surprises, and I give you great news today of Direto Salvador complementing our offer in one of the most important metropolitan regions in the Northeast with excellent provider,

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OS. We are confident in the success of this product and we have another launch planned for this year, besides a pipeline of regions for 2022.

Our mid-ticket strategy also has inorganic component to accelerate this growth. In October, we concluded the acquisition of Santa Casa de Ponta Grossa portfolio, just adding 25,000 beneficiaries to Parana Clinicas, which already has more than 120,000 beneficiaries in the region and continues to grow. We have also -- have mapped an organic expansion of Parana Clinicas in its strategic clusters prospecting process to start the operation. We are working extensively with our M&A team, evaluating opportunities to acquire operators and portfolios that can further contribute. We are absolutely optimistic with this movement and we believe that soon, we will be able to share more news.

Let me now talk about operating performance as of Slide 7. Revenues grew 5% in the quarter and 6% year-to-date, mainly following the growth in number of beneficiaries in our group plans. In terms of organic growth as we are not considering the lives of Santa Casa de Ponta Grossa, we added 133,000 beneficiaries in health, 80,000 in corporate and affinity and 50,000 in SME in addition to 200,000 in dental over the third quarter '20. Compared to June '21, the performance was great, growing more than 70,000 lives in dental and 47,000 in health, accelerating the number of net adds over the previous quarter.

This excellent performance makes us even more confident that our growth strategy has been effective. The combination of creating more affordable product options accelerate the expansion of mid-ticket, the strength of our brand associated with delivery of quality healthcare, and an increasing partnership with the players has given us confidence that we will continue on positive trajectory in upcoming years.

Slide 8, I'm going to talk about the loss ratio. Claims rate in the second quarter still suffered impacts from the pandemic. Estimated costs of COVID were BRL212 million in the quarter and over BRL1 billion year-to-date. Combined with that, we have observed the frequency of elective procedures at practically normal levels, which has contributed to the claims ratio, reaching 84% in the quarter, 8.9 percentage points higher in comparison with the third quarter '20.

As Clovis pointed out, it was a period, which was benefited by the social distancing measures in 2020. And we believe that despite the short-term pressure, the SulAmerica results stand out in relation to the market's performance, which is a reflection of all the claims management initiatives we adopt, and especially the Coordinated Care, which combine efficiency and quality in health management of our beneficiaries, always in partnership with our healthcare providers.

Excluding claims referring to COVID-19, claims ratio or loss ratio would have been 79.7%, a level very close to our historical levels. Just for comparison purposes, looking to the third quarter '19 with no pandemic effect, if we disregard COVID-19 in the third quarter '21, we were at levels quite close to normal. Year-to-date, 12 months loss ratio was 82.6% and 75.9% if we disregard effects of the pandemic. Looking at the chart, we can see the effect

of frequencies in atypical scenarios both in 2020 and 2021, and we expect to slowly normalize these curves for upcoming quarters.

Now, speaking specifically about COVID, we have observed the relevant reduction in costs compared to the second quarter '21 with a drop of more than 50% in claims and an important drop in the number of hospitalized case and beneficiaries. It has shown a gain of 1.6 percent point over the second quarter '21, with improvement of more than 30% in gross margin, showing a gradual recovery of profitability.

With that, I close health and dental. And I would like now to hand it over to Marcelo Mello, VP of Life, Pension and Asset Management, to talk about the results.

Marcelo Mello {BIO 21963995 <GO>}

Thank you, Raquel. Good morning, everyone. I'm going to start with Slide 9, where you can see revenues from the life. For the second consecutive quarter, it has shown recovery, showing growth of 11%. It's worth highlighting the resumption of travel product, travel insurance, which was highly impacted, but it has shown now growth in revenues of 148% over the same period last year and over 80% increase over the second quarter '21 following now that we have less restriction of traveling, both national, domestic and international.

In September, we started offering additional coverage for COVID-19 in our travel products, just anticipating market demand. On the other hand, the segment's claim was still heavily impacted, staying over 100% due to the high impact from the second wave of COVID. We estimated impact of BRL56 million COVID in the quarter, but it's still possible to have some under-reporting, considering the declaration of cause of death, still affecting the analysis. As mentioned, after a very difficult period for this portfolio with the significant drop in the number of deaths that we have observed in the country, we can expect better results as of coming quarters, gradually returning to our normal profitability levels.

Now, Slide 10, I would like to talk about pension, which posted 20% drop in revenues compared to the third quarter of '20 due to lower contributions from VGBL and PGBL products in the period. It's worth noting that we continue to expand our portfolio of pension products by bringing new managers into our products. This year, we are going to launch 13 products in different strategies. At the same time, reserves reached BRL9.3 billion, 7 % increase over the same period last year, continuing to a show positive trend shown throughout 2021.

Now, Slide 11 shows that asset management ended September '21 with BRL42 billion in volume of managed assets, a 9% reduction, which can be explained mainly by the partial redemption of resources referring to automobile in massified operation, P&L, which are third-party resources since our disinvestment or sales of the segment in July '20. Operating revenues in the quarter were 18% lower compared to the third quarter '20, following this lower AUM. But year-to-date performance, we have maintained a solid

performance, 12% year-over-year growth driven by higher performance fees in the nine-month period.

It's also worth highlighting our performance in fixed income and private credit products. We have one of the largest credit funds product with ESG processes and we are well positioned in fixed income strategies. These strategies have a very positive flow in upcoming quarters due to this macro economic scenario with higher interest rate of Selic.

Let me now hand it back to Clovis for the conclusion of this presentation.

Clovis Poggett {BIO 16529642 <GO>}

Thank you, Mello. Slide 12, let me talk about administrative, expenses in detail. The administrative expense to revenue ratio was 7.8% in the quarter and 7% year-to-date. As usual, we are also showing the adjusted index, disregarding extraordinary effects of the period, which in the quarters refer to expenses of service rendered to Allianz Group related to temporary support for the automobile and massified operation with a positive counterpart in revenues, totaling BRL19 million in the third quarter '21 million and BRL23 million in the third quarter '20.

We also consider the extraordinary effects, the positive reversal of BRL65 million of fee provisions for an ANS accounted for the second quarter '21, and the expenses from the separation of our previous operations, which amounted to BRL45 million in the nine months last year. If we disregard all these effects, administrative expense ratio was 7.4% in the quarter, an increase of 0.8 percentage point mainly due to one-off expenses with advertising campaigns, with our new brand positioning and also the commercial launches in the mid-ticket segment, totaling approximately BRL22 million impact, which should not be repeated at the same level.

Additionally, we have had the internationalization of some processes, which used to be provided by third-parties, and it increased our headcount and impacted personnel in comparison with the third quarter last year. However, it has benefited the cost with third-party services and which would generate value in the long-term. Year-to-date, the adjusted ratio was 7.1%, a very controlled level, demonstrating the company's focus on keeping cost and expense levels under control, seeking efficiency even with all the investments required for the company's growth.

Now, moving on to Slide 13, I will make some very brief comment about the portfolio allocation of our company's own portfolio, highlighting the participation of Selic/CDI-indexed assets, which totaled 64%. Looking further, we can say that the financial result, which has suffered a lot in recent years with sequential falls in the Selic interest rate, is now going to present a better performance, also in the company's result, following the increases in the basic interest rate that are being conducted by the Brazilian Central Bank.

I close here the initial considerations, and we can now move on to the Q&A session. Thank you.

Questions And Answers

Operator

(Question And Answer)

Ladies and gentlemen, we are now going to start our questions-and-answer session.
(Operator Instructions) Our first question comes from Mr.Vinicius Ribeiro from UBS.

Q - Vinicius Ribeiro {BIO 19720178 <GO>}

Good morning, everyone. Thank you very much for taking my question. I have a question about health plans. What is the commercial strategy for 2022? At other times of difficulty you could navigate very well the market with a good portfolio of products. What should we expect in terms of commercial strategy in future both in terms of retention and new sales? And the second question is about loss ratio. We see a gradual recovery of usual levels, but in talking about 2022, considering the statistic actual effect should we expect that it will continue the same and now with COVID becoming endemic rather than pandemic. Do you still see an effect related to that? That's all. Thank you very much.

A - Raquel Giglio {BIO 21963986 <GO>}

Hi, Vinicius. This is Raquel. Thank you for your question. Now about the commercial strategy for 2022. So we have a very clear and consistent strategy that we have had for a few years. We are acknowledged for having an average time of our members that is very high, it's even longer than 13 years in some categories. Just as in other crisis, that is what we have been doing since the beginning of the COVID crisis and we have no intention of changing it. Our intention is to keep our fishbowl with as many fishes as possible. And whenever, there is something new, and there is some organic growth, we will grow again with them. Of course, last year was completely atypical, in terms of performance and bottom line, in terms of loss ratio and cash, which is the main points that we'll look at in terms of adjustments, more than 90% of corporate customers have this dynamic of adjustment looking at loss ratio cash.

Now, in 2021 especially, we felt that we -- rather we have been feeling a recovery and the need of the gradual recovery in adjustment rates that will address the reality that we are seeing here. And that I will call post-COVID even though the COVID has not yet gone away, but we see a scenario more normal level. And now going into your second question, I think that we need to celebrate good news, whenever we have good news. And in Brazil today, we have an excellent news in a COVID arena.

So talking about SulAmerica scenario more specifically. We have 159 people hospitalized. We have had as many as 3,000 people hospitalized due to COVID. So there is a clear trend for improvement, but it's not just by change. We already have a share of the population vaccinated in Brazil, 75% with at least one dose higher than the U.K. and Israel. More than half of the population has already two doses, 58% of the population with two doses, states like Sao Paulo that you know, that represents a considerable share in our portfolio has more than 70% of the persons vaccinated.

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In addition, the weather is also helping and we are transitioning from the spring to summer and unlike Europe, where the winter is starting and we see some worsening in a few countries, but I think that's a scenario in Brazil is very favorable.

Still and answering your first question about commercial strategy, we should talk about new sales. But we are keeping a commercial dynamic that will address the need of course, to face claims, which makes it possible to have a long-term relationship. So we want to have a sustainable relationship with very conscious pricing, regardless of movement in terms of commercial dynamics.

That might be slightly more aggressive where we do not see any justification. And lastly, you mentioned Piona [ph]. Over the last few periods in this, everything that happened during the COVID, we used to have a very high degree of uncertainty. And as the pandemic is stabilizing and as vaccination rates improve and we are more normalized in terms of claims, so we are okay in terms of Piona, and it is fully adjusted and correct for the reality. Thank you very much. I hope I have answered your question.

Q - Vinicius Ribeiro {BIO 19720178 <GO>}

Great, Raquel. Thank you.

Operator

The next question comes from Samuel Alves of BTG Pactual.

Q - Samuel Alves {BIO 18720076 <GO>}

Good morning, everyone. I have three quick questions. First, about health loss ratio. Could you please tell us what was the medical audition in September? It was -- was it much lower for your average especially for recurrent claims? What is the profitability of mid-ticket ex-COVID? Is it really impacting your final results or not? And thirdly, about SPVR [ph] receivables. Last year, the federal justice just saw some of these cases, but there is still an increase in the balance of amounts receivables. Please update us on that and what else you can say to add? I'm sorry his mic was breaking up.

A - Raquel Giglio {BIO 21963986 <GO>}

Well, Samuel, this is Raquel speaking. Let me start with the first two questions and then Bottas can talk about SFH. Well, loss ratio. I'm just going to show you the trend. As we can see, a lower represented amount of COVID claims on the every year mix, we can see a positive trend curve. So September better than August, and so on and so forth. So yes, there is a gradual reduction of the cases of COVID. As to mid-ticket loss ratio ex-COVID, it has been exceptional even with the impact of COVID, the mid-ticket loss ratio has been better than the loss ratio of our portfolio at large. So it really makes us very confidence with there is a significant mass especially when we considered the products direct over 40,000 lives coming from that and our mid-ticket strategy with Parana, Ponta Grossa's portfolio and we have very robust results. So if we add up, it's over 160,000 lives like that and Bottas, please? Thank you.

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

Well, Samuel, thank you for your question. The receiver was for SFH despite the impact in our balance and receivables and even though it does not reflect the positive impact of the decision of the Supreme Court. This is a result of active losses which were ongoing and there is an aging involved, they tend to be in place for a while and there was a historical basis, which was very subject to decisions at the state level.

There are some recent statistics which meant 40% increase of now new lawsuits, which goes straight to federal justice, which is very good because then there is a significant decrease of the average cost of these lawsuits. However, the legal framework along this topic has really improved, and we can have reimbursement of receivables, much faster than initially thought. So the treasury fund has hired it and all the reimbursement is calculated by them.

So we have two initiatives, one, which is a positive consequence making these lawsuits be directed straight to federal courts with a very significant expectations that the federal courts with the inclusion of Caixa can pay straight to us, so then the insurance wouldn't have to apply together in (inaudible) and all of that. And at the same time, a much more efficient procedure because then Caixa would automatically process the reimbursements to insurance companies and that would mean faster, more efficient. So the increasing balance has not been much, but we can see some stabilization and we have expectations to start getting recovery, but it's going to take a long time.

Now, you had also asked whether we could really set apart receivables? They are as part of our regulated corporate the insurance company that had been operating our automobile business or used to operate our automobile business. It's part of SulAmerica holding, it's a subsidiary company of the group. It's part of a company, which is no longer operation, which does not have active insurance, they are just run-off portfolio only. And we have shown that in our balance sheet. We are going to separate the impact of this receivables on the total profitability of the company. These receivables probably impact return on average equity between 3 and 4 percentage point of our total number. So it's important to -- from the managerial perspective shows this in fact and keep on working as is at the Federal Court, really encouraging the fun to ask Caixa to make direct agreements. And at the same time, expecting the reimbursements to be expedite.

Q - Samuel Alves {BIO 18720076 <GO>}

Thank you, Bottas. Thank you, Raquel.

Operator

Our next question comes from Mr.Flavio Yoshida from the Bank of America.

Q - Flavio Yoshida {BIO 22302090 <GO>}

Hello. Good morning, everyone. Thank you very much for taking my question. What is the growth dynamics? When we see the growth of revenues year-on-year comparing the third quarter against the second quarter we see a slowdown of the growth of from 8% to

almost 6% now. So I can imagine that the growth in the number of members is associated to that. But could you give us some more color on this competition scenario as a whole? Still on that theme and related to that, can you tell me, how are negotiations for the Affinity plans going on? So that our adjustments we see a scenario of inflation putting pressure on your cost base. And the same time there's a challenging scenario for next year. What leads us to imagine that it must be very difficult to negotiate. So you could comment a little bit on that, I would appreciate.

A - Raquel Giglio {BIO 21963986 <GO>}

Hi, Flavio. Raquel answering your question. Thank you for your question. Now talking about premiums in Affinity plans. Number one thing that we need to consider is the portfolio mix in Affinity plans. We have some Affinity plans that are historically, slightly more leveraged. Their sales performance is not as good as it could be. Now corporate as a whole we are growing in lines, but we also need to consider the entry mix of these new lines as the rattle [ph] is successful, somehow it depresses the average or the mid-ticket.

Adjustments are still impacted by what I mentioned a few minutes ago, considering the dynamics of negotiating adjustments looking at loss ratio cash. So along these last few months that we are negotiating. I'm negotiating adjustments for January. So I get the track record for the last few months. It stops in October. So it takes still a significant share of what happened when we had a higher impact of the pandemic, so yes, it has an impact. If negotiations are difficult, well, they're very difficult. Now we are having a rise in interest rates that is disseminated puts pressure on that and the recovery of the medical inflation and we were having a drop in the medical inflation in the past few years and there is a reversal of this curve.

Well, what worsens the situation is the commercial dynamic that we have with the market, with the reality that we have been doing with some players. But on the whole, the after sales team is doing excellent work with our customers. The most important thing is for us to simulate and see what will be the loss ratio scenario for future years. And we work with them both in terms of adjustments and also in the proposals that they may receive from the market, 110 loss ratio, and then there is an adjustment and they come up with a proposal from the competition that is well below. So next year we are going to have adjustments at about 50%. So we have been working a lot on in terms of education. Conversion of adjustments has been growing up in the past few months and I consider the scenario very favorable, for us to have increasingly more conscious negotiations with our customers. So we have long-term sustainable relationships, this is the most important thing. Thank you very much.

Operator

Our next -- the next question comes from Ricardo Boiati from Banks of Safra.

Q - Ricardo Boiati {BIO 16528742 <GO>}

Good morning, everyone. I have a question concerning the product Direto. Raquel, can you please elaborate concerning the performance of Direto portfolio, the most mature cities? And as opposed to the cities, you are joining now, any relevant improvement in

terms of sales, compliance with the product. And where have you got clients from, our clients which are trading down from traditional products, from the competition. Are they coming from verticalized products? What is the kind of trade down that you have got within SulAmerica? So if you could please shed some light on the progression of Direto. I think it would be very useful? In terms of competition has your margins improved, are the aggressive players maintained their aggressive margins, are they impacting it more or less? Thank you.

A - Raquel Giglio {BIO 21963986 <GO>}

Hello. Thank you for the question. I'm going to start from the end. We still see an erratic behavior. In our last call, I think I mentioned, I was kind of optimistic, we've a collective awareness of the market, especially in terms of pricing of new clients and new products. For the past two months, I've seen a somewhat fiercer competition. So I still think it's a very erratic behavior. Our strategy though was not going to change in terms of pricing strategies observed by other players.

Regardless of being direct, non-verticalize competitors or those which are verticalized product suppliers. We can still see fierce competition. The answer that I have just given to Flavia talking about a client of a loss ratio for 110 and a competitor was offering a discount, well unbelievable. Well, concerning Direto I mentioned in my presentation that Rio is well where the product started, it's more mature and that are more sales, more lives, very good conversion. Pernambuco has also shown great performance, Sao Paulo is also peaking up, Joinville has been helping a lot and something interesting about Joinville, the launch of direct (inaudible) allow really levered its sales, but also of Parana Vidas [ph] there are some negotiations that the commercial areas of both units carry out together and the clients can define where they have a better fit.

So three companies were negotiating this week and they could go for Parana Clinicas or Direto, so one stating Direto, two went to Parana Clinicas. So to some extent, it drives not only -- did I just put all mid-ticket products. There are some communist coming from full verticalized products, the examples of Joinville for example, and one of them is for unimed [ph]. There are clients also coming from other players in the market, downgrading the products and a very small product coming from SulAmerica, which is as you mentioned cannibalization, but still, that would be positive because we want to have options and we want to maintain a client with us and at profitable levels, but that's not most of them quite to the contrary. Exactly the smallest portion of sales.

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

Great, Raquel. Well, if I may, based on your question, and speaking of competition, the aggressive competition has a price to pay and when we analyze the relative competition and the loss ratio of this extremely aggressive players, we are talking about 10 percentage points more in loss ratio. So this is important when we talk about balance consistent growth and maintaining profitability as an important component of our strategy.

Q - Flavio Yoshida {BIO 22302090 <GO>}

Clear. Thank you very much.

Operator

Our next question comes from Mr. Guilherme from JP Morgan.

Q - Guilherme Grespan {BIO 19926617 <GO>}

Good morning, everyone. Thank you very much for taking questions. It's -- my question is more long-term strategies about it. So your main insurance peer. There was an Investor Day, focusing and launching a significant (inaudible), a significant investment in acquisitions and construction of hospitals. I would like to hear from you, how do you understand this movement of insurance companies moving towards that direction in this industry, going towards the side of hospitals? And what are the implications for you within the competitive environment? Thank you.

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

Guilherme, thank you very much for your question. I'm going to begin here and then Raquel will complement my answer. So we are in a way in the mid-ticket strategy and we are not operating on another segment lower than that. It is a combination, there is no virtual verticalization. So similar to the Direto, but a Direto is really an entry point for this going into the vertical strategy, Direto is 100% based on sharing an alternative using, rather than in traditional model that is based on frequency only, so there is a strong partnership of SulAmerica with health care providers, and most notably hospitals demonstrating this strategy.

And the other thing that we are doing in terms of going to mid-ticket through the acquisition of portfolios and carriers that we call -- that are semi-vertical. Semi-vertical, this is another element to increase our partnership with health care providers, most notably hospital administrators and here would like to mention our partnership with Parana Clinicas. There is a large concentration and resolution rate in terms of primary care, in terms of outpatient and diagnostic and partnership with hospitals that are part of that regional area. So we have the example of Parana Clinicas, which is an example that we have the intention of replicating. So our mid-ticket and long-term strategy is very much based on the strategy of virtual verticalization in semi-verticalization. For both of them this is based on the assumption of a strengthening of our relationship with providers especially hospitals. So we don't want to compete with our providers the hospitals. When more sharing strategies for long-term orientation. So Raquel, please feel free.

A - Raquel Giglio {BIO 21963986 <GO>}

Yes, that's it, Bottas. You said it perfectly.

Q - Guilherme Grespan {BIO 19926617 <GO>}

Thank you very much, Bottas.

Operator

The next question comes from Mauricio Cepeda with Credit Suisse.

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Q - Mauricio Cepeda {BIO 21783651 <GO>}

Hello, good morning, Ricardo, Raquel, everyone. In terms of service providers, hospitals, diagnostic centers are now complaining of the inflation of material price, occupancy rate has dropped in the hospitals, there is a still a -- kind of a reboot demand. Have you seen any pressure of renegotiating prices? Are you afraid of having that? How are you negotiating with the service providers for next year?

A - Raquel Giglio {BIO 21963986 <GO>}

Thank you, Cepeda for your answer. This is Raquel speaking. Oh, yes, very complex moment of renegotiating -- negotiation with clients and also with providers. The inflation rates have really impacted strongly. We used to have a completely different scenario 12 or 24 months ago. It's not an easy negotiation, but there is a very relevant point for any negotiation which is bargaining power of relevance. We rarely represent less than 25%, 30% of the business of our main provider. So it really take us to a different negotiation terms, especially because it's a win-win situation. So while our negotiations go from what we used to have of some purchase of buyers, simply buyer trying to get the best prices to negotiations. That are really -- let's say, a composition of a better demand or creation of a giant product with diluted risks on both sides. So yes, it has been complex, complex negotiations, but we are moving ahead, everything under control, bringing about innovations and initiatives, that really make a sense to sustainability of our sector.

Q - Mauricio Cepeda {BIO 21783651 <GO>}

Thank you. Very clear.

Operator

If there are no further questions, I would like to give conference back over to Mr.Bottas, for his closing remarks.

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

Well, just as I started this meeting, I would like to close reinforcing my optimistic vision of the important indications that we see that show that we are closer to the end of the pandemic. So furthermore, we continue with our development agenda based on our operational strength, recognition of the value of our brand and our capacity for innovation, both by brokers and our customers and members. Added to our strong capitalization, we are very well positioned to take advantage and develop new business opportunities.

Thank you all for your attendance in our conference call, to my colleagues and other executive here with me, my special thank you to the 7 million members and customers for our strong relationship with the company at difficult times, it also important for us to appreciate that. Our more than 4,000 employees for the engagement, our more than 20,000 medical providers and health care workers and the teams of 1,200 hospitals, part of our network throughout Brazil, who made all efforts to ensure quality of care to all our members during this difficult period in addition to the partnership with more than 36,000 brokers who are instrumental for us to grow in a relevant way at these very challenging times.

But as I said, they -- we're leaving them behind. And finally, our more than 115,000 shareholders for your trust. Thank you very much. And have a great day.

Operator

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

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