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# EDITED TRANSCRIPT

GTS - Triple-S Management Corp at Barclays Global Healthcare Conference

EVENT DATE/TIME: MARCH 14, 2019 / 1:30PM GMT



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## CORPORATE PARTICIPANTS

**Roberto García-Rodríguez** *Triple-S Management Corporation - President, CEO & Director*

## CONFERENCE CALL PARTICIPANTS

**Steven James Valiquette** *Barclays Bank PLC, Research Division - Research Analyst*

## PRESENTATION

**Steven James Valiquette** - *Barclays Bank PLC, Research Division - Research Analyst*

Okay. Good morning. We're going to keep things cracking here on day 3 of the Barclays Global Healthcare Conference. I'm Steven Valiquette, health care services analyst here at Barclays.

Next company up is Triple-S Management. This is a small-cap managed care company. For the -- this will be a formal presentation, not a fireside chat. With us for the presentation is Roberto García Rodríguez. He's the President and CEO. We also have Juan Jose Román-Jiménez, company's CFO, will be here for the breakout as well.

With this, let me turn it over to Roberto.

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**Roberto García-Rodríguez** - *Triple-S Management Corporation - President, CEO & Director*

Thank you very much, and it's a real pleasure to be here. Since we just recently came out with our quarterly results, and you all have access to that information, today, what I'd like to do is just give you a little bit of a background, give you some context, tell you our story because we think it is an interesting story and one that you should take a hard look at, some interesting investment thesis and a company that's been around now for 60 years. So again, an interesting story to look at.

Who we are. Triple-S is a blue company. We're a part of the Blue Cross Blue Shield system since 1965. We've been around since 1959 and started as a not-for-profit. It went for-profit in the 1990s and then went public in 2007. We've been in Puerto Rico in -- principally, in health care and managed care, one of the earliest health insurers. And over the years, we also got into life business and the P&C business. So at this stage, we are the largest insurance company on the island.

We're also one of the leading managed care companies, and we are the one company that service all segments. We're in managed -- in Medicare. We're in Medicaid. We're in Commercial space. And went to Commercial -- within Commercial, we have all the different products.

We've got a solid balance sheet with a very low debt-to-equity ratio. We'll go through some of the numbers at a high level today. We also have been engaged for the last 3 years in a -- in what we call our strategic transformation. We think that what's made Triple-S successful over the years is not necessarily what's going to make us successful in the future, given all the changes taking place across the industry, across the nation but also uniquely in Puerto Rico. So again, we will discuss some of that during our conversation today.

Most recently, it's important to note that we've made a lot of progress, especially on our Medicare Advantage business where we think we have a large potential for growth over the next several years. Most importantly, with our stars, we've made a huge jump. In 2016, we're at 3 stars. We're now at 4.5 for 2020. And there's a lot of work, a lot of hard work that's gone into making that happen. So again, this is what we believe is the essence of our investment highlights. As I said, a strong balance sheet. We have a repurchase program in place that's been there for a number of years now to make sure that we are deploying our capital wisely.

It's a well-regulated business. We work within the same regulatory framework as the rest of the United States, so we are in the main federal programs, Medicaid and Medicare Advantage. Interestingly, a difference in Puerto Rico is that Medicare and Medicaid are really the largest markets. We have a -- 48% of our Medicare program is dual. 75% of all Medicare eligibles are in the Medicare Advantage program. And when you combine Medicare



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and Medicaid, it's about 70% of the market. So it's a little bit different than across the nation and also some particular applications or differences in the way the regulations work. So that makes for some unique markets as well.

We have been heavily engaged in transforming our infrastructure. We'll talk a little bit about that. We've done some of that work with Optum but also some investments with other companies to make sure we have a robust platform for everything from back-office claims and IT to analytics. We are working now with a new management team that's been in place since 2016. Juan Jose rejoined our company. He had been there since the '90s, so he knows the programs very well.

This is the time line. I won't go through it in detail. You have it in the Investor Relations page of Triple-S. And what you'll see there is that journey from what was that nonprofit company to a company that's now trading on the New York Stock Exchange since 2007. We've gone from a large, typical nonprofit board down to 10 members now. We're going to 9 this coming April. We have made a number of investments in people, and we are now focused on what is our 3-year plan, our 3-year strategy, which is to improve our operations, attain organizational excellence, attain clinical excellence, so that we can then position the company for more aggressive growth.

This is our market share. We have about 34% of the market right now. We compete mostly with local players. As you'll see there, we've got -- 2 of the largest players are MMM and MCS. They compete mainly in the Medicare market. They're the largest players in Medicare. We are the largest in Medicaid and in Commercial. And then we have several other players national with Molina and Humana, that have relatively small market shares in Puerto Rico.

A little bit on the update of the island. Everyone thinks about Maria in Puerto Rico as a transcendental event, and so I have a note on my desk that says, "If your name is Maria, don't mention it because everyone is tired of Maria." And so we're at a point now where the things are back to normal. All energy is up. Telecom is up. Our water systems are up, and we're looking forward.

Part of our most recent conversations with investors are about our P&C business, which is a small segment, but it created significant losses last year as a result of the spillovers. We're at a point now where we feel that's all behind us. We had a good solid quarter when you exclude the hurricane effect, so we think the underlying business continues to improve across all segments.

One of the things that we've done this last year starting now January 1 is the consolidation of our PBM. We used to have 2 principal PBMs: 1 for our managed -- for our Commercial business and 1 for our Medicare Advantage business because Medicaid has its own PBM that works contracts directly with the government. Starting January 1, we consolidated our Pharmacy Benefits Management under a single company, and we believe that will bring significant savings and also some interesting opportunities for combined clinical management programs working very closely with the PBM Abarca. This is a local player that also has been serving several states and was a significant part of our increase in stars over the course of the last several years.

Just a brief update on the hurricane losses in P&C. We are now at a point where we have closed around 94% of all claims. That's 85% of commercial and 98% of all personal claims. We have paid out about \$589 million, so there's \$379 million pending. We have increased our reinsurance program, so we are now at around 1:250. So that means we have coverage for events recurring once every 250 years. Our new claims are down to a minimal, so I would say we now believe we have all of the claims well analyzed. And we are covered not just for Maria but also for future events with our new reinsurance program.

Sorry for the -- there you go. All right. So moving forward, what we've done with P&C is that we have acquired additional reinsurance, so we're now at \$905 million from the prior levels, which is about \$720 million, \$725 million in the reinsurance program. And the idea there is to, first, decrease our total insured value, so that we've modified our underwriting guidelines. It allows us to be more selective given that the market has changed significantly since the hurricane. At this point, there are fewer players. We have a hard market, so we've been able to increase rates across the board, and we are much better positioned to capture the business in that segment.

As I said earlier at the very beginning, we have a very strong balance sheet. We have an investment portfolio of \$1.6 billion, about \$61.9 million in interest alone last year, which is about a 3.9% return. We have no exposure in Puerto Rico government bonds. We have approximately \$118 million



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in cash, cash equivalents with a long-term debt of about \$29 million, which means we have a very, very low debt-to-equity ratio that's about less than 4% of our total equity in debt.

For some reason -- my apologies because I'm having a little problems here with the -- transferring the -- there you go.

Okay. So I wanted to talk now briefly about Medicare Advantage. Medicare Advantage in Puerto Rico, as I said at the beginning, is the vast majority of the Medicare market. We do not opt in to part -- we do not opt out of Part B. We opt in to Part B. So if you look at the total eligibles being A plus B participants, it's 90% of the Medicare market. So it's a very important segment for us. And so what we've been doing is we've been investing heavily in our capabilities in the MA market.

In 2016, we were at 3 stars, and that meant we were at least 1 star behind our main competitors. And since then, 2016, with all the work that's been put into this effort, we're now at 4 stars for 2019 moving up to 4.5 stars in 2020 for our main product, which is the HMO product. And for our PPO product, which is a much smaller portion across the entire market, we're now at 4 stars for 2020. So that puts us on a level playing field with all the main competitors in the HMO product, and then PPO will be 0.5 star above our next most important competitor.

In Commercial, what I'd like to mention, Puerto Rico has been contracting for the last 12 years, and so what we've seen is a flat commercial market. But in addition, we've also decided in the last 3 years to apply a much more strict underwriting discipline. So what you see in the commercial market is we have lost membership, and this is mostly by design. Our attrition levels are similar to what they have been over the course of the last years, but we decided that we wanted to increase the profitability of that portfolio, rationalize products, and so we can be in a better position to start growing again over the course of the coming several years.

With respect to infrastructure, we entered a 10-year strategic partnership from Optum, so we've outsourced all of our claims processing to Optum. We've also put our IT as a Service in their hands. So what that has done is it's given us synthetic access to scale. So now we have stronger platforms that are leveraging the work they've done across The States, and also, it's avoided what was an impending need to upgrade our systems. So we had made a large investment around 2007 to 2010 in our own claims platform, and this has allowed us to avoid that additional expense and focus on IT as a Service using Optum as our main partner and then allowing us to focus on what we know best, which is the local market and our go-to-market strategies.

What this is telling us is that as we do all these things, as we improve our organization, we improve our operations, we engage in new clinical models, these things are enabling us to get back into a position of growth. Growth, we believe, will come mostly from Medicare Advantage but also by integrating products and by integrating services. And that's why we've also decided to get into ambulatory care. So our idea is that we need to develop products, benefits and network design, they go accompanied with clinical models and selectively get into ambulatory care and other delivery assets, so that we can offer seamless products to our customers with innovative clinical models. We started with 1 clinic several years ago. We have now operating 3. We have also acquired 3 more in the process, and we expect to take that clinic network up to about 15 over the course of the next couple of years.

So back again to the investment highlights. What we have is a company that's been around for 60 years, well positioned in the Puerto Rico market. We know the market very well. We're part of the Blue Cross Blue Shield system. We have a very strong balance sheet. We're in a regulated market that has high barriers to entry. We know that market very well. Over the course of the last years, through a strategic plan, we've been investing in people, in process, in technology and in understanding our market better as it moves forward. So we believe this will allow us, over the course of the next few years, to start growing the business again more aggressively with better margins.

We've built a strong management team to make this happen. We know the island well. We believe it's a unique market in The States, and so we are well positioned to take advantage that -- of that market going forward.

So again, thank you for your time. That's what I'd like to cover today, and we will be in a breakout session in the next 5 to 10 minutes. And hopefully, we'll see you there, so we can answer any questions.

Thank you very much.



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**Steven James Valiquette** - *Barclays Bank PLC, Research Division - Research Analyst*

All right. Great. Thank you. The breakout will be in the Poinciana 3 room. Thanks, Roberto.

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