Operator:

Good afternoon, ladies and gentlemen, and welcome to the conference call of Alliar – Centro de Imagem Diagnósticos S.A., to discuss the results for 3Q19. Mr. Fernando Terni, CEO, and Frederico de Aguiar Oldani, CFO and Investor Relations Officer, are here with us.

This event is being broadcast live and can be accessed on Alliar's Investor relations website, ri.alliar.com, where the presentation is also available for download. Questions may be submitted via phone or the platform.

All participants will be in listen-only mode during the Company's presentation. After the Company's remarks, we will begin the question and answer session, when further instructions will be given. Should any participant need assistance during this conference call, please press *0 to reach the operator.

Before proceeding, we would like to clarify that statements about the Company's business prospects, projections, and financial and operating goals are based on the beliefs and assumptions of Alliar's management and on information currently available to the Company. Forward-looking statements are not a guarantee of performance. They involve risks, uncertainties, and assumptions, because they relate to future events and, therefore, depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions, and other operating factors could also affect the Company's future results and lead to results that materially differ from those expressed in such forward-looking statements.

Now, I would like to pass the floor over to Mr. Fernando Terni. Please, Mr. Terni, you may proceed.

Fernando Terni:

Thank you. Good morning, everyone. Thank you for participating in our 3Q19 earnings release call.

Before starting the presentations, I have some initial remarks. Mainly highlighting that, once again, as you'll see, our Company has continued to deliver the operating leverage proposed since the beginning of this third growth cycle.

In this 3Q19, you'll see, once again, the growth in margins, profits, and returns that we seek, and that has been consistent in the last quarters. I would like to point out that we have seven consecutive quarters, since 1Q18, delivering a net margin expansion, and we are delivering the increase in profitability proposed during this phase in which the macroeconomic scenario is a bit more challenging.

Particularly in terms of revenue, I would like to highlight the same-store sales, which continue to show a positive growth. The growth is still small in truth, given the macroeconomic conditions mentioned but, even so, it is a consistent growth in all these quarters.

I also highlight the good growth that we are achieving, consistently, in the São Paulo regional, and now also in the Minas Gerais regional, mainly in the Axial brand, which has been gaining speed recently.

It should also be noted that the revenue growth also reflects, in this period, the negative impact of the sale of operations at the São Rafael hospital, Bahia, where we operated under the Delfin brand until December 2018. It was a mega unit, which contributed throughout 2018 to our revenue and is no longer in our base, thus affecting the comparison base.

The most important thing is that looking ahead, we can already see, especially in October and November, an important gain in speed for same-stores growth, already at around a mid-single-digit, which is much higher than the 2% growth we reported in 3Q19. October and November have been very good and interesting. This naturally makes us very excited for the coming periods, because we are finally beginning to see a recovery in Brazil's macroeconomic scenario.

The increase in the Company's profitability and the decrease in the pace of investments in the last two years have already led to a significant decrease in the Company's financial leverage, leaving us also in a very solid condition.

With that in mind, I would like to take this opportunity and invite everyone to participate, on November 25th, at our Alliar Day, here in São Paulo, where we will go into details on the Company's new perspectives for a new cycle that we would like to present to you at the event.

We are anticipating in a year what we call the third cycle, which we expected to complete by the end of next year. We have already considered the Company's position as quite solid at this moment, to the point that we have started thinking, as of January 2020, on a new growth cycle for the Company.

After the initial remarks, I invite everyone to go to page three, where we present the highlights of this quarter. Starting with net income, growth of 28% in the quarter, or 44% in the proforma view. Year-to-date, the net income is currently of R$33.9 million.

Margin growth of 446 bps, to 28.5%, and an adjusted EBITDA of R$78.5 million, up by 17% year-on-year. In the proforma view, the margin reached 23.2% in the year-to-date, up by 44 bps.

The net revenue recorded in the period reached R$275.7 million, and, as I said, we had a positive same-store sales of 2%, driven by the greater demand, mainly in the São Paulo and Minas Gerais markets, but still impacted, as I also said, due to the sale of the operations of the São Rafael hospital, Bahia. The final year-to-date revenue is virtually stable at around R$810 million.

Our free cash flow reached R$104.6 million in year-to-date, showing the Company's high cash-generation capacity. Even if we look at the proforma view, the growth is significant, reaching 68.5%, to R$68.4 million of free cash.

I also want to highlight that we have successfully concluded our second issue of debentures, within the total amount we were looking for, of R$350 million, funds that were used mainly to optimize our capital structure.

ROIC continues to advance, reaching 14.3% in the period, up by 243 bps, due to our strategy to mature investments and increase the Company's profitability.

Last but not least, I also highlight the net promoter score (NPS), the indicator we use to measure the patient's satisfaction with our services, which reached 66.3% at the end of 9M, an important growth of 100 bps in the year.

Later on, in the final remarks, I also talk again about the new amendment that was signed by the shareholders and entered into last month. I'll be back at the end with more details on this agreement.

I invite everyone to go now to page four, where I will talk about revenue growth. As I said, same-store sales contributed with R$5.7 million, and the new units also represented an increase of R$2 million, mainly from our IBR initiative, which is starting to pick up speed. Again, on our Alliar Day, we will go into much more detail on IBR's progress and our vision for this initiative in the next years.

We also had the impact of the hospital's sale, as I mentioned, which will affect us until the last quarter of this year, which means that the net revenue shows a small decrease, of around 1% when compared to the previous period.

In the chart on the right, the decreases shown reflect the effects I already mentioned. However, it should be noted the small recovery in what we are calling image excluding MRIs, which is, above all, mainly ultrasound. In this period, we have achieved a small increase in the average ticket and in the provision mix, which has favored ultrasound. It is very important for our operations.

This industry movement seems to be accommodating in our revenue, either due to higher volumes or lower pressure to trade down tickets and should return soon with the expected improvement in the economy. As I said, we have seen good signs of this in the October and November movements, and we believe that it is already beginning to be the result of the improvements in CAGED that we have seen in recent months. This, for us, is very important, because it opens up excellent prospects and outlooks for 2020.

To conclude, the last bullet on this page comments on the positive 2.3% growth of the Company's image revenue in the year, when excluding the effect of the São Rafael hospital. I highlight here, above all, the revenue growth close to 5% year-to-date of our São Paulo regional, which is the Company's largest brand. Minas Gerais is also a highlight, accelerating the growth in recent months.

Having said that, I conclude my initial remarks and now turn the call over to Fred, our CFO, and IRO, who will give more details on the Company's performance in the last quarter. After his presentation, I'll return for the final remarks and questions.

That's it, thank you. Fred, it's up to you.

Frederico de Aguiar Oldani:

Good afternoon, everyone. I will begin my presentation on slide number five. As we have shown, and as Terni said, since the start of 2018 the Company has entered a new cycle, where the main focus would not be expansion but on organically growing the units in which we have already invested, also using a lot of technology and innovation to improve efficiency, with this leading to a lower revenue growth in this cycle but with a very strong impact, especially in the bottom line, that is, in net profit, and also a positive effect of EBITDA margin growth.

This is what we have been consistently delivering since we entered this new cycle. 3Q is another quarter in which this has been confirmed. Even with a very modest performance in revenue growth, we achieved a small margin expansion. Even considering the changes in accounting rules, we had a small expansion of the EBITDA margin and a large profit growth; 28% year-on-year and 44.3% in the quarter, excluding the effects of IFRS 16.

Going to slide number six, we'll look at the year's performance, which is very similar to the 3Q performance. We have a small decrease in revenue, but as we go down to the P&L items, due to a 0.9 decrease in net revenue, we ended up growing the adjusted EBITDA by 1% on a comparable basis, and this generates a 44 bps growth in the EBITDA margin and a 65% growth in profit, that is, a solid increase compared to last year.

Going to slide number seven, let's talk a little about the main factors behind this performance, starting with EBITDA. Here, the Company has been making a very big effort to focus on technology and innovation, seeking efficiency gains that allow us to achieve a margin expansion despite a scenario that proved to be quite challenging in terms of revenue this quarter.

Here, it is worth noting that this quarter had two effects that did not occur in previous quarters, so they should be highlighted. One of them was the new restricted stock program, which had a negative impact this quarter compared to previous quarters. With this new program, we started to have an additional expense of around R$1.5 million, R$1.6 million per quarter. Even so, from all the efficiency gains we managed to implement, this effect was offset and had a small expansion of EBITDA margin in the quarter.

In the year, our adjusted EBITDA reached R$224 million, 27.7% EBITDA margin, or 23.2%, excluding the effects of IFRS 16.

Going to slide number eight, we will talk about the Company's financial result and indebtedness. Here, we continue on a path that we have been tracing since the beginning of 2018, with a very strong focus on reducing the Company's leverage. As a result, we reached 3Q with a net debt of around R$557 million, resulting in a net debt/EBITDA ratio just below 2.3x.

Excluding the effect of IFRS 16, this indicator would be around 2x, showing the Company's efforts to improve the cash generation and use this surplus cash (17:33 AUDIO GLITCH).

As a result, our financial expenses fell by around 16% quarter-over-quarter, excluding the effects of IFRS 16, and this is due to both the debt decrease and decrease of interest rates in our indebtedness, given the reduced spreads that the Company is currently paying, arising from the many actions that the Company took to improve its debt profile and also the positive impact of the decreased Selic rate this year.

Going to slide number nine, let's talk about income tax and profit. For another quarter, we had a very good performance, reducing the actual rate. In other words, we managed to reach a little below 23% of the actual rate in the year-to-date. Specifically, in 3Q, we reached an actual rate of 21.3%; that is, a very positive performance, especially considering that we have not yet concluded the merger process. This should happen over the next year. We have already started this merger process, but we don't have yet any benefit in the actual rate from this process.

We should only be able to effectively see additional benefits due to the merger at the end of 2020, the start of 2021, depending on when we effectively finish this implementation schedule.

In any case, the current levels are already very good, and I think they remove any kind of worry regarding our actual tax rate.

Concerning the profit, as Terni has said, we had a very good performance in the quarter, both in the quarter and continuing this in the year-to-date; and the comparison accounting base doesn't matter, with or without IFRS 16. In all cases, the Company has shown a significant profit growth, in line with the goals set for Alliar's third cycle.

Moving on to slide number ten, let's talk about investments. Investments remain at very controlled levels. The Company should end the year with a CAPEX between R$70 million and R$80 million. Bearing in mind that this investment had a substantial decrease when compared to investments between 2014 and 2017, and this has had a very positive impact on the Company's cash generation levels.

It should be noted that, despite this decrease in investment, the Company continues to invest in expansion; of course, at a much lower level, but we remain largely focused on investing in technology and also one-off expansions, where we have already started to see growth potentials that help us to see, in the future, a more positive growth scenario than we saw throughout 2019.

Moving on to slide number 11, we will show the cash generation, both operational and free cash flow. Our operating cash generation reached R$160 million in the quarter, a cash conversion of around 71%.

Here, there is still an important effect of the change in the accounting rule. However, regardless of the accounting rule, when looking at the free cash flow not significantly impacted by these effects, we have an increase of almost 70% in the cash generation for the year-to-date. That is, we had a cash generation of around R$40 million in 2018, reaching almost R$70 million in 2019, a 70% increase in cash generation year-on-year.

And this is what we have consistently shown, as Terni said, over the past seven quarters. However, as Terni said, now, at the end of the year, we are already beginning to see a slightly different scenario, and the Company is starting to see opportunities to resume the growth. And, as Terni said, we are going to discuss some of these opportunities on our Alliar Day, on the 25th, and we expect all of you there to discuss a little bit about the possibilities that we see entering the new Alliar's cycle.

With that, I conclude my part and give the floor back to Terni, who will make the final remarks.

Fernando Terni:

Thank you, Fred. Now on to slide 12. Before the final remarks, a brief comment on the renewal of the amendment signed to the shareholders' agreement, excluding the Company's majority shareholders - Pátria, Dr. Roberto and Dr. Sérgio - who decided that (24:16) in the lead for over five years since the incorporation, when Alliar merged with CDB in November 2015.

They extended, through this amendment, the agreement that already existed. The terms and conditions are basically the same. The only noteworthy change here refers to the exit condition of one of the shareholders, which is the drag-along clause. Which, in my opinion, in no way affects the Company's governance. It is basically exactly the same.

On my side, what is most important to say to you here is that we see a perceive a quite harmonious Board with a very clear understanding of the Company's challenges. We had a very intense discussion in the last few months, as I mentioned, to anticipate the end of this third cycle, planned for next year, now towards the end of this year.

Everyone agreed, and, as we have said several times here, we will present to you on Alliar Day a new proposal for a new cycle. What we see as the potential in the Company. This new phase, again, as I said, is fully aligned between all members of the Board and the Company's shareholders.

We are very confident in this new moment. We are very hopeful that the country has been through the worst. We are starting to see a recovery in CAGED that is important for our business, and we are very excited. This is beginning to impact now, October and November; December, we still don't know. But we are very excited about the Company's new prospects for next year, and that is what we'll discuss with you two weeks from now, here in São Paulo.

Finally, go to page 13, the final remarks. As we have seen throughout this presentation, we remain firmly committed to increasing the Company's profitability.

We are also excited about the ramp-up of new units, which remain solid, and now with a very interesting resumption in the Minas Gerais region.

The higher productivity of the machines remains a highlight, leading us to reach a level, in the year, of over 26 MRIs per day per machine, on the average for the year, a gain of nearly 7% year-on-year. This has been the Company's focus, and this will not change even in the fourth cycle. We must have an ongoing focus on improving the profitability and use of the Company's assets.

Finally, we also see this growth in the Company's EBITDA margin, net income, and free cash, both in this quarter and in 9M19. If we look back, too, this has been the hallmark of the Company's third cycle.

We continue to be strongly supported in the use of technology. This has only intensified in recent months. Innovation remains a priority on our agendas. Those with us on the 25th will see how much we have evolved and how much is yet to come.

When we imagine that we have already taken everything out of technology, a new possibility appears, a new focus for the Company, and a new gain pocket that we can access for the future.

Also, as I said at the beginning, we see this 4Q with a significant gain in speed. We will also talk about this on the 25th. This has placed the Company on a different level, which is quite interesting.

With that, we cover all the points. I invite you to the event on the 25th. Whoever is interested, go to our IR website and register, and we will meet to discuss in detail this new focus starting in 2020.

That said, we end the presentation and place ourselves at your disposal for questions and answers.

Emerson, Itaú BBA:

Good afternoon. Two questions. First of all, can you share with us the performance in the São Paulo region? We saw in the year-to-date that the 1H grew 5.6%, and now it has grown slightly less, 4.8% in 9M. What is the performance in the São Paulo market, with the CDB brand? What was the performance this quarter?

And I would like to understand a little in terms of ticket, if you can already see an improvement in 4Q, in addition to an improvement in demand. That's it. Thank you.

Frederico de Aguiar Oldani:

The performance in São Paulo remains solid. The 3Q slowed the growth a little compared to previous quarters, and the reason has a lot to do with the fact that the mega units are already at a point where the 3Q18 base starts to get a little more difficult than the base from 1Q to 2Q. But this impact was very small; it is a very small slowdown that we saw.

But when we enter the 4Q, we see a performance, mainly in São Paulo, substantially better than the 3Q performance. We saw this in all regions, but São Paulo was where that number surprised even more positively than we imagined.

São Paulo remains the region where we have the largest growth prospects. We have units that are already quite full, and we have even discussed opportunities to make one-off expansions in the city of São Paulo to address this increased demand that we are starting to see.

So, when we look at São Paulo, we have a very high level of confidence in relation to performance in the coming years.

Regarding the second question, on the ticket, in 4Q, we probably will not see any relevant changes in this. What I can say on the ticket is that, at the margin, there are no further price reductions. Price reductions that needed to happen have already happened. We saw this until June, July. Since then, what we have are price transfers within what would be usual, in our understanding something close to 70%, 80% of inflation.

Now, we may still have, perhaps, another one or two quarters of the negative impact of the ticket, due to the history of price adjustments up to 1H19.

Emerson:

OK. Very clear. Thank you.

Bruno Giardino, Bank of America:

Good afternoon. You have repeatedly talked about the potential for capacity use, about increasing the volume of scans per machine. And, as I understand, there is still a very large dispersion in the volume of MRI scans per day and per unit within the Group's portfolio. I think that there would still have, perhaps, room to capture growth within the same units. And now you are already talking about presenting a plan, perhaps a new growth cycle.

Could you explain to us a little better how the two things fit together, and what is your motivation for adding capacity at this point? Thank you.

Fernando Terni:

The answer can be found in your question. We have a very large dispersion in different regions, different brands, and different units. Evidently, if you have a machine with 20 scans in a region, this machine already has a good return, far from bad, it brings an interesting return for the Company. We would never consider removing this machine from that location to place it in another location.

But we have locations, and I can mention one in particular, which is Mogi das Cruzes, where we have 65 scans. Sometimes we have 65 scans on the same day, in the same machine, often closing the unit at 2 a.m., etc. It is not comfortable for the patient. Not that it's impossible to have 70 scans per day, but you end up imposing discomfort on the patient that doesn't make sense.

So, as Fred said, there are some very specific regions where we have over 50 scans per day, and where we have to consider placing a second machine.

All those machines that had ten, 12, 14 scans, in one way or another, we solved this problem. Either because the demand reacted, and we managed to ramp-up the unit or because we moved the machine to another region. This year, we had two or three machines moved. We no longer have this alternative, thank God, because all machines are at a very satisfactory production level.

So, it is an answer, but it can be found in your question. We have a very large dispersion between different units. There are places where we still have to deal with machines below 25 scans a day, and there are places with more than 50. And in these places, we will make some investment.

Bruno Giardino:

Understood. Thank you, Terni. Good afternoon.

Yasmin Brandão, Credit Suisse:

Good morning. Thank you for choosing my question. I have two questions. I understand that you will give a little more color on the IBR again at the Investor Day, but I would like to know what you can talk about the pipeline, maybe even new contracts that you are already working on for 2020.

And the second question, some time ago, you shared some expectations you had regarding productivity gains in relation to technology. If I remember correctly, I think that 100 bps should come from the automation of the call center over three years. So, I would like to understand, regarding the timeline, do you think that a more relevant part of this should be coming now, throughout 2020? And how can we expect to split that over time? Thank you.

Fernando Terni:

Yasmin, unfortunately, I have to make you curious, because if I answer this here, the event will be empty. To find the answer to the first question, you will have to go there on the 25th. It will be a pleasure to have you.

We will talk, yes, about IBR, we will position you on what has been done and what has to be done. There's a lot of cool stuff going on at IBR. It was definitely a wise move. The Company is less than a year old, but it has already contributed to the Company's results, and the prospects could not be better.

The fourth cycle goes through this, goes through IBR initiatives. But, unfortunately, you will have to go there to listen, interact with us, and understand. Otherwise, I will spend a good part of the call just talking about it.

It is a concept, much more than a business. It is important for everyone to understand what we are thinking and where we are directing this effort.

As for the second part, Fred will talk about it.

Frederico de Aguiar Oldani:

I will talk briefly, but it is a point that we will also talk about on the 25th. What I can anticipate is that 2019 was a year in which we worked hard internally to develop the base we need to start capturing these technology gains. But, at the end of the day, very little of that has already arrived at the customer.

It was a year in which we worked hard to get the entire infrastructure up and running, to effectively start gaining speed with this, probably in early 2020.

What we can say is that we already have the web check-in working. This is the first point regarding the technology that will provide substantial savings, but we are still testing it very slowly. Today we should have around 4% to 5% of appointments through the web check-in.

Why don't we speed this up? Because we are effectively testing. We are directing patients to the channel, and we are seeing how interactions work, we are creating a reliable database to understand what still needs to be improved in the tool.

Anyway, we are still improving the model, and we have not yet gained speed, because we still think that there are some important adjustments we have to make to effectively be able to scale this.

But, as you will see on the 25th, we already have some very interesting things going on, and we continue to see a very large possibility to improve the margin and patient experience, which are two things that have equal weight in our decision. We are not looking to simply save money; at the same time, we want to save money and greatly improve the patient experience. That's why we haven't rolled out all of this yet because we're effectively focused on making these two things happen together.

Again, I invite everyone to go there on the 25th, because we will show how far up we are. We will even show you some things that are already working in some places that are even revolutionary in terms of how things are done currently.

What I can say is that there is very little of the gain already captured. In 2019, we captured very little, but we worked hard internally to get the technologies and processes up and running, to effectively start scaling this as of 2020.

Yasmin Brandão:

That’s great. Very clear. Thank you.

Operator:

We now end the Q&A session, and, therefore, Alliar’s conference call is over. Thank you for participating. Have a good afternoon.