

Q2 20 results teleconference

Operator:

Good afternoon, ladies and gentlemen. Welcome to the teleconference by Alliar – Centro de Imagem Diagnósticos S.A., for discussion of the results from Q2 20. We have the presence of Mr Sami Foguel, CEO and Investor Relations Director; Glauber Carmo, Financial Director; Dr Juan Cevasco, Medical Director; Miguel Alcântara, Technology Director; and Karina Lozano, Investor Relations Manager.

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We also inform you that the participants will only be hearing the teleconference during the company's presentation and, then, we will start the Questions & Answers session, when more instructions will be provided. If anyone needs assistance during the conference, please ask an operator for support, by typing *0.

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I would like to now have the word of Mr. Sami Foguel. Please, Mr. Sami, you may proceed.

Sami Foguel:

Good afternoon to all present here. Thank you very much for participating in the call for disclosure of Alliar results that refer to Q2 20. Once again, I hope that you, your families and friends are well and healthy.

I would like to start the call by sharing a reflection with you. For many, the 2Q of 2013. That we disagree with this statement, the Q2 20 was a quarter to be forgotten. At Alliar, we disagree with this statement. Q2 20 was a quarter never to be forgotten. We worked very hard, and we were capable to adapt in a spectacularly agile manner. We evolved as a company and as management. We lived a few years in a few months, and this may not be forgotten.

We started a real transformation. We broke paradigms and cultural barriers in several aspects. We started new businesses. We made innovative partnerships. We set important records. We reduced costs and became more digital.

Distance, in a way, brought us closer. We created deeper links, we reflected, planned and delivered together. We have had a leading role in health, not only due to COVID tests, that had a crucial role in the control of the pandemic, but also due to the innovation in the exam and procedure portfolio offered to our customers in alternative channels.

We did our best to take care of those who had to be taken care of. We had consistency in the commercial operations, and we already have the first signs of success leading to a healthy growth. We will remember this period as a quarter for lessons learned, transformations and new opportunities.

Starting with our revenue, we reported a gross revenue in the quarter of R\$ 150.8 million, a contraction of 48.7% in comparison with the same period in the previous year. This decline is explained by the strong effect of the crisis in the months of April and May.

In accordance to our transparent attitude with the market, for another quarter we added to our release the management and non-audited information of the weekly evolution of revenue up to around August. I am pleased to share the information that our turnover is practically normalized already.

In our release, we added management data of revenue evolution up to August 15. We practically returned to pre-crisis normality. This accelerated curve in the recovery of revenue on a weekly basis reflects not only a return of demand, but also the tireless work of our team in the several commercial initiatives developed during the last few months.

I would like to share with you the highlights of each one of our main commercial fronts. Starting with iDr, our B2B health tech of technological and innovative solutions. I am immensely pleased in sharing that our turnover in this business already represented 1.5% of our quarter revenue. An impressive achievement for a company that became operational in 2019. We are gaining traction and momentum in this business.

More importantly, we have already practically doubled the size of iDr in volume of new businesses contracted and signed in 2020. And, looking ahead, we have a robust pipeline of new contracts and negotiations.

iDr takes quality and efficiency gains to clinics and hospitals, and the crisis only widens the demand for our services.

I would like to emphasize some evolutions: widening the commercial team and entry in new sales channels. We see a significant space in business development and already have exciting discussions for Q3 and Q4. As I just said, we doubled iDr in volume of signed contracts and, as these contracts are implemented, iDr's revenue will become more and more important.

Another highlight is the geographic reach that this business provides. Through iDr, we are already present in three new states, Piauí, Mato Grosso and Santa Catarina, and new cities where Alliar does not have its own service unit.

The expansion of iDr provides to Alliar a larger, faster reach and with lower investment than the organic expansion logic in our core business.

I would like to announce an important milestone in the expansion of portfolio of solutions offered by iDr. In this quarter, we signed an exclusivity deal with the Israeli company Medic Vision. We will be responsible, in Latin America, for an absolutely innovative product, called iQMR.

iQMR is a solution that uses machine learning algorithms for image exams. This technology allows up to 40% faster resonance scans, while keeping and even improving image quality. Since 2018, iQMR is approved by FDA, the US regulatory agency.

This technology is already used worldwide in more than 300 places of reference. Some excellence centers that already used it are: Massachusetts General Hospital, Cleveland Clinic, Alliance Imaging, Hillel-Yaffe Medical Center, in Israel, University of Kanazawa Medical Center, in Japan, and Health100, in China. Now this technology is also available throughout Latin America with Alliar.

To exemplify the magnitude of the impact of this technology, the tests performed in our resonance machines confirm gains of between 20% and 40% in reduction of the time of the exams. This efficiency gain will immensely benefit Alliar itself in high occupancy resonances. In addition to that, iQMR becomes an important commercial lever for iDr and for Alliar throughout Latin America.

Now, talking about clinical analyses, the focus on clinical analyses growth has been proving itself fruitful. In Q2, we had a 6.3% drop in comparison to the same period in the previous year. We practically doubled the share on total revenue. This quarter, clinical analyses represented 24% of the average revenue, vs. the historic average of only 13%.

I would like to emphasize some levers of permanent gains in clinical analyses. We were able to accredit several units in all states and brands to provide AC services. We launched the residential service channel, *Alliar na Sua Casa* [Alliar in Your Home]. The residential service is already bigger than our largest physical unit, and it puts us in a privileged position for asset light expansion.

In this quarter, the residential service represented 11% of the clinical analyses revenue, already excluding the non-recurrent effect resulting from COVID tests.

We came from a very small volume to a very representative level, showing our agility and capacity of commercial and operational performance. Through the residential service channel, we may increase our revenue from lower investments, making our balance sheet lighter.

Besides these initiatives, the drive-thru deserves emphasis. From 125,000 COVID tests performed until now, 116,000 were collected through this channel, a 93% share. This is a channel that had excellent acceptance and remains active.

It is important to highlight again Alliar's pioneering in implementing the drive-thru, taking, at the same time, comfort to our customers and more safety to the clinics' environment, mitigating the risk of suspected cases of COVID. In August 2020, we have been increasing significantly our clinical analyses line, in comparison with August 2017, especially in COVID exams, too.

Now talking about private, we specified the evolution of the private segment. Private customers represented more than 20% of the revenue this quarter. As I already commented, we continue to explore alternatives to attract customers and obtain their loyalty, and we are very satisfied with the delivered advancements. In August, to date, this segment presented a growth of more than 50% vs. 2019, very influenced by the COVID exams. However, even when excluding their effect, we are growing in comparison to the same period last year. Always having in mind that all data referring to 3Q are from management and not audited.

We have observed that, more and more, Alliar is attracting new customers. This is very beneficial also in the long term, as we delight these customers with the medical quality of the services we provide.

Finally, it is worth emphasizing that the largest share in this segment is an important advancement in our diversification strategy of paying sources.

In regards to EBITDA, in this quarter we had an adjusted EBITDA in the value of R\$-26.5 million, vs. a total of R\$ 73.1 million in the same period of the previous year. The reduction that was observed in the EBITDA is directly correlated to the revenue reduction in the period.

I would like to highlight the work performed in the control of costs and expenses. We have always been an austere company from a financial point of view and, even so, we were able to have one of the most expressive reductions in the sector.

We had a total reduction of 16% in comparison to the previous year, highlighting: costs with medical fees and personnel were reduced in 32%; costs with third party services presented savings of 30%, resulting from successful renegotiations with our suppliers; occupation costs had savings of 29%, also resulting from favorable renegotiations.

I will use the costs and expenses session to say that we keep advancing with an agenda of additional efficiency gains in our entire operation. We have initiatives that not only will bring a reduction in expenses, but also benefits to our customers' experience.

We started a project to review our maintenance model, looking for more availability of the network and less total maintenance cost, in an important expense line. We adopted an agile methodology in the development of our projects. I would like to highlight the importance of Miguel, here with us, in this transformation of culture and form of working.

Among the initiatives, it is worth emphasizing the self-scheduling of exams. We launched this functionality in April and, with only four months of existence, this channel already gets around 7% of the entire volume of scheduled exams in our brands.

Digitalization of interfaces with the main operators. We reduced several bureaucratic procedures in our receptions, making the billing process faster. Digitalization of our internal processes. Development of a new call center IVR, which is becoming humanized. In addition to increasing our NPS, we reduced the unit cost of scheduling.

Change of telecommunications infrastructure in our call center, with a cost gain and, mainly, quality. Expansion of the multichannel agenda to serve our customers in their preferred channels. And development of an end-to-end digital journey of the customers.

We started a new moment in support to Alliar's customers, generating successive and sequential gains throughout the next months and years.

In regards to our net profit, in this quarter we had a loss in the value of R\$ 85 million, vs. a profit of R\$ 11.8 in the same period of the previous year. Once more, the loss of the company is directly correlated to the revenue reduction in the period. Even so, we had a generation of operational cash flow of R\$ 34 million in the quarter, showing our capacity to generate cash flow. We ended the period with a robust cash flow, in the value of R\$ 325 million.

To end the first session of our results call, I would like to reinforce the importance of Q2 20 in the history of Alliar. The last months brought us lessons learned, operational transformations and acceleration in business opportunities, which, in a normal situation, would take considerably longer to happen.

I would like to highlight the consistency of execution in the areas of revenue growth that we embraced. iDr grows, clinical analyses grow, and the private segment grows. This renewed focus of commercial execution will be kept and widened.

This would not be possible without our employees. I thank here those who contributed in the front line, and those who continued to work efficiently and tirelessly from their homes.

Now let's open the space for questions and answers.

Gustavo Tiseo, Bradesco:

Thank you for taking my question. I have two questions, the first one is about the competitive environment, how do you see the competitive environment in different places?

And the second one is about the tests. You talked about the COVID tests, and I would like to understand how the ramp-up is, the quantity of tests per day. What are you expecting for the next months? Just so we can have a view on what their impact could be, please. Thank you very much.

Sami Foguel:

Good afternoon, Gustavo. Thank you. The first one, on the competitive environment, firstly, we are already extremely competitive in radiology; I think this is something that Alliar brings in terms of competitiveness to the market. The difference is that we have become more and more competitive also in clinical analyses. In all the exams, in the traditional clinical analysis, from the crisis we started to be even more competitive, with new channels, with drive-thru, with *Alliar na Sua Casa*, with a delivery capacity in all the places where we operate from very early on. There has never been a lack of tests, lack of capacity, be it PCR or serologic.

We created our footprint through iDr, widening our capacity to serve customers beyond where we traditionally operated. So, I think the competitive environment became harder exactly because of Alliar's gain in competitiveness when entering the clinical analyses sector.

In regards to the tests, it remains an important line in our revenue. Our customers remain satisfied. I believe the issue of serologic test, now within health plans, brings a new potential wave of utilization. We remain very positive in regards to the serologic test especially.

Gustavo Tiseo:

Great. If I may follow from the first one, when you say that [AUDIO FAILURE 20:42] end up harder, even due to the issue being a focus in the crisis, do you see a competition such as "I will offer you the COVID test and you give the [20:54] to me", something more degrading, or not? I don't know if it makes sense either.

Sami Foguel:

I don't think the question is clear. Could you repeat it, please?

Gustavo Tiseo:

Sure. If there is something, an environment a bit more degrading in competition. As there is a bigger competition for clinical tests, and you are pursuing this, because at the moment there are more clinical tests than image ones. Do you see any approach by a competitor that is a bit stronger? It is more about how you are acting with competition really. I don't know if it is clear.

Sami Foguel:

It is clear. We do not feel that. In fact, our focus has been on traditional and private customers. Maybe in the lab to lab sector, where we do not operate, there is an abundance, but this does not affect us really.

Gustavo Tiseo:

Perfect, Sami. Thank you very much for the answers.

Ian Cesquin, BTG:

Good morning. Three questions from us. First, I would like to ask about iQMR, I would like to know more about how you intend to execute this implementation of machine learning in the operation. I would like, perhaps, clarity in the sense of which places you should start with, what the scope of the project in the long term is, if you expect to implement this machine learning to the entire network, increasing productivity. That is the first question.

The second is about image. Your recovery of normalized demand is very clear to us now in August, but I would like to know more specifically about the volumes in image, how you see these volumes in July and August, and what the perspective of normalization is for this segment.

And, finally, in clinical analyses, I would like to know about how the cross-sell initiatives are, and ask, post-COVID, what volume growth would you pursue? That's it. Thank you.

Juan Cevalco:

In regards to iQMR, we made initial implementations at the beginning of the year. As we have all our machines operating via command center, we were able to deliver to our staff all the training for the implementation of the machine learning tool during the months of crisis, and now we are rolling out the implementation of these algorithms in our machines, from the highest productivity to the lowest.

We were doing this in an extremely conservative way in regards to the quality of the image and, for our surprise, the efficiency gain has been astonishing. Because we thought, as we already had standardized protocols, with an efficiency that was much superior to the market, that this would not have such a positive effect in our environment. And, to our surprise, the machine learning operates in a different angle, using mathematical repeatability that exist in magnetic resonance technology, and the result has been very astonishing.

Yes, we intend to implement it in almost our entire network, as it is multivenu we are able to implement it in any equipment. We have seen already the interest from existing iDr customers, and also from our iDr sales channels in Latin America for its implementation in more customers.

It is obvious that we shall wait for the regulatory frameworks to do so, but we are rushing with this, and shall be able to implement it with our next customers very soon.

In regards to the volume of image, we are not able to have a futurology exercise there, but I can tell you that, from the clinical point of view, we see this in the entire health sector, not only here at Alliar, but by talking to colleagues in various sectors, there is a repressed demand from the clinical point of view.

How so? The exams that we performed in April and May were more complex and urgent. This bar has been lowering, but there is not a normal complexity yet. That is, there is a lot of people waiting

to have their exams and to take care of themselves, not only to have their exams, but to go to clinics, in a more favorable time in the pandemic. And, at this moment, we see that, probably, there is a big repressed demand, that may take us to higher volumes.

In regards to clinical analyses and cross-sell, I believe it is a good question for Sami to answer.

Sami Foguel:

Thank you for the question, Ian. In clinical analyses, historically, we are very strong in São Paulo, at CDB, and less relevant in other brands, due to historical issues. With time, we acquired really strong laboratories, traditional in image.

We already had been doing for two years a very important work of physical and regulatory adjustment and accreditation. This has been very positive in our availability of tests from the very beginning of the pandemic, and it allowed us to accredit and bridge a gap in the accreditation of clinical analyses that is very important in Brazil, among all brands of several clinics. This is something really important. It was almost an initial cross-sell from the accreditation point of view, which will bring long-lasting gains with time.

The second theme is, in fact, there is a cross-sell, which is perhaps your main question. People who have ultrasound, resonance, CT scan, x-ray, also have clinical analyses. And we have been investing a lot in the various brands, and in CDB as well, to take this opportunity.

And the customers, more and more, know that Axial, Delfin, Multiscan, all our brands perform clinical analyses of excellent quality. And we have been working in this cross-sell proactively; we started a marketing strategy with our social media, we have been exploring this extensively. So, customers know, both private and the ones with health plans, from the proactivity of our own scheduling channels, through the call center and digital channels, this is offered.

So there is a huge cross-sell opportunity. The important thing is that we are prepared, and we are already getting results from this, as our management numbers show.

Ian Cesquin:

Thank you.

Mariana Ferraz, Eleven:

Good afternoon. Thank you for taking my questions. There are two points. We noticed that you grew a lot in the out of pocket strategy, which has a clear blue ocean for you to navigate on. If you are able to talk a bit about the provisioning and ticket strategy, and how this approach has been with these customers.

And the other is about residential exams, which we understand that have a more complex logistics, and that was benefitted now by this pandemic. If you see this growth, and how you see this logistics for you from now on.

Sami Foguel:

Thank you, Mariana. If we think about the strategy that I have been discussing here, quarter by quarter, we have been discussing iDr, clinical analyses, private. In the end, we have been pursuing a diversification of paying sources.

In iDr, those who pay are the clinics and hospitals, it is our B2B. Clinical analyses is another product, and private is another paying source. The important thing is that we have been executing, quarter after quarter, this growth vision.

Specifically in out of pocket, there are some initiatives. The company was already growing in out of pocket, with some packages, and we continue to do so.

I commented a little about our whole social media, social channels and marketing strategy that has approached these segments. It is something that we are strongly doing, we increased it a lot and have been getting results.

Our value proposition is wonderful, and I would say it is unique in the post-crisis period, because we have an outstanding service quality, it is second to none, but out of pocket customers do not need to pay for the brand, so they can use our services with quality, with the service, with NTS, with all the care and medical quality of our clinical staff, our equipment, without having to pay for the brand. So, I would say that our position is the best in the market for this post-crisis segment with more recession.

And a series of more specific pilots and tests, which we have not been disclosing yet, we will do so in the appropriate moment when the matter is more mature, but we are very optimistic. We are very optimistic, working on a series of initiatives and, in the right time, we will announce them to the market.

The second one is about residential exams. I think this also helps in the private ones, without doubt. *Alliar na Sua Casa*, currently, is already our largest service unit. It is larger than Marselhesa, larger than Tatuapé, which are units with 15, 20 years of existence, with an incredible, impressive volume.

We started this, in fact, during the crises, and rapidly we able to transform it in a large unit. We still have good opportunities to refine our operation and be even more efficient, but we are already efficient, which is already very positive.

What makes us different from the competition is that we don't have a legacy of enormous PAs. So, in reality, this new world allows us to be very aggressive from a perspective of expansion of clinical analyses without the need to create new service points, new clinics or new services here.

So, we will continue to invest in this channel, and we are very positive.

Mariana Ferraz:

Perfect. Thank you.

Operator:

I would like to have the word of Mr Sami Foguel for his final considerations. Please, Mr Foguel, you may proceed.

Sami Foguel:

I would like to thank all of you who participated in our results call through telephone and our webcast. We had an audience of more than 100 people interested in getting to know a little bit more about Alliar.

I would like to congratulate the team for the excellent work that was performed, for the promptness and assertiveness in the execution of the defined plans, and for the tireless work to serve our customers. I am satisfied in seeing that our challenges were faced and that the focus in building the future has not stopped.

2Q 20 being part of Alliar's history. We will remember this period as a quarter for lessons learned, transformation and new opportunities.

I would like to finish this by emphasizing that medical quality is a core pillar for Alliar. We are proud of our clinical staff, and we work daily to maintain and enhance our quality. I also thank the whole medical community and our shareholders. It was an intense first, with a lot of work, and together we are able to proceed towards a robust future.

Thank you very much, and a good afternoon to everyone.

Operator:

We are ending at this moment Alliar's teleconference. We thank the participation of everyone, and have a good day.

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