Operator:

Good morning, ladies and gentlemen. Welcome to Alliar - Centro de Imagem Diagnósticos S.A., 3Q17 earnings conference call. Present, here, are Mr. Fernando Terni, Chief Executive Officer and Mr. Frederico de Aguiar Oldani, Chief Financial and Investor Relations Officer.

The live webcast of this call is available at ALLIAR’s investor relations website at ir.alliar.com and platform MZiQ, where the presentation is also available for download.

As a reminder, questions will be taken by telephone and by the platform.

Also, this event is being recorded and all participants will be in listen-only mode during the Company’s presentation. After the Company’s remarks are completed, there will be a question-and-answer session. At that time further instructions will be given. Should any participant need assistance during this call, please press *0 to reach the operator.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of Alliar’s Management, and on information currently available to the Company. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Alliar and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to Mr. Fernando Terni. Mr. Terni, you may proceed.

Fernando Terni:

Good morning, everyone, and thank you for joining us in our earnings release call. We had a quarter with strong growth and also concluded an important investment case.

So let us move on to page three to see our highlights. Starting by net revenues, Alliar has grown 14% in the quarter and 18% year to date. This was supported by a robust same-store sales growth of 7% in the quarter and 11% in the year.

I would like to highlight the conclusion of an important investment cycle, with the opening of a couple megastores which were originally planned for 2018. This is a result of good market opportunities in both 2016 and 2017.

All in all, during the last months, we have inaugurated four new megastores in the city of São Paulo, one in the city of São José dos Campos and another one in the city of Belo Horizonte.
It is also important to note that we have concluded the investment in 11 public hospitals operated by our PPP alongside Bahia’s state Government.

Our EBITDA has grown 9.1% in the quarter while adjusted EBITDA has reached R$62.4 million, a 2.3% growth. In the last nine months, adjusted EBITDA has reached R$171.3 billion. Our net income after minority interest has grown 1.811% in the quarter, to R$10.3 million. Operating cash flow continued to post strong growth – 85% in the quarter, with a cash conversion of 73%.

Last month, in October, we included the issuance of R$270 million in bonds, with R$168.5 million due in three years at a cost of 116% of CDI. And R$101.5 million due in five years at a cost of 118% of CDI. Finally, our net promoter score has reached 74% in the quarter.

Moving to page four, we highlight our recent opening megastores under the planning brand in São José dos Campos. With this, we have now opened six new megastores in the last twelve months.

As I have mentioned, we have anticipated investments that we had planned for 2018, allowing the Company to benefit earlier from the additional capacity and from these investments we have done and to significantly reduce future CAPEX requirements.

Finally, we have also completed our investments in RBD, our PPP, as I said, in 11 hospitals in Bahia, which will, now, generate full revenue until the end of the contract in the year 2026.

Moving on to page five, you can see how investments have impacted our key assets. Versus the previous year, we have added 19 new stores, which is a combination of megastores and collection points. We have stores in nine MRIs, and 116 clinical analyses launched. With this, we have now offered clinical analysis most in August in half of our stores.

With that said, I will turn the floor over to Rodrigo Oldani, our new Chief Financial and Investor Relations Officer, to discuss in more details the quarter results and, subsequently, we will begin the question-and-answer session. Thank you.

Frederico de Aguiar Oldani:

Hi, everyone. Let us move on to page six, on gross revenue and construction, which grew 16% in the quarter, reaching R$302 million, a growth of 20% year to date, totaling R$849 million.

In both periods, it is important to highlight the double-digit growth in both MRI and other imaging exams, all imaging exams now have reached a ratio of 1.3 made exams for each MRI exam. On clinical analysis, we have grown 26% and now it has reached 13.2% of total revenues.

Moving to page seven, on MRI exams, MRI exams growth reflects the combination of higher volume per equipment and also an increase in tickets of 4.3% and a small gain of productivity of normal exams per day of 0.8%.

It is important to highlight that we have been able to sustain and even growth the number of exams per equipment even when we decreased the number of equipment in a comparable basis.

Moving on to page eight, on clinical analysis. The clinical analysis volume grew 29% in the quarter and 27% in the year. It is important to highlight the contribution of the acquisition of Multilab to the growth of clinical analysis, which has helped us to acquire new contracts, a strategy that we are also using in other places, which has helped us to accelerate the growth in clinical analysis.

Moving on to slide nine, on cost of services. Both cost of services and SG&A have been significantly impacted by the impact of the six new megastores added over the last twelve months and also the ramp-up of the RBD operations. The costs had a negative impact of 430 bps on EBITDA margins, which was partially offset by gains in the PPP assets.

Total expenses, this is a short-term impact in our margins because we are seeing that once we start the maturity of this new investment, we understand that we can recover our margin to the previous levels.

I would also like to highlight that in the 3Q16, we had a negative one-off of R$8.4 million due to the termination of the previous long-term incentive plan, which also created difficulties to the comparison of the quarter-over-quarter expenses comparison, because the new incentive plan has had an impact of R$2.3 million and from now on this new incentive plan will no longer be adjusted in the EBITDA.

Moving to page ten, we are going to comment on the EBITDA evolution. The modest growth in EBITDA and adjusted EBITDA reflected the acceleration of the investments over the last twelve months. The total impact on margins, as we have mentioned, is relevant and we understand that once we start to getting the investments mature, higher on the new megastores and on the PPP, we are going to start recovering margins and that should return to the previous levels.

Moving on to slide 11, we are going to comment on the financial results, which improved in the quarter because of the foreign exchange impact. Foreign effects in the 3Q16 had a negative impact of R$1 million, while in the current quarter, we had a benefit of R$1.8 million.

Now we only have a small portion of our debt linked to USD and that is why financial expenses are pretty much in line with the previous quarters, since we implemented the new hedge accounting prospect in the beginning of this year.

On income taxes, we had a good result in the quarter, with effective tax rates reaching 30.2%, below the 34%. It is important to mention that our effective tax rate in the short term will not necessarily come in line with EBT because we have around 70% of sales done to companies in the full corporate taxes while the remaining of it affects the income and those companies, with the current income, will pay between R$2.5 and R$3 million of taxes every quarter regardless of their EBT levels.

That is specially a problem when EBT is below 8% of revenues. Once EBT goes ahead of these levels, we should see effective tax rates below the 24% level. It is important to mention that there are several initiatives in place to eliminate this problem and that will go along 2018 and 2019 and we understand that once we have a simplification of our corporate structure with those entities, we will therefore be able to sustain and keep an effective tax rate below the 34% level – a consistency overtime.

Moving on to slide 12, we are going to comment on net income after minority interest. We have reached R$10.2 million of net income in the quarter compared with the R$0.5 million in the previous quarters, which is a significant increase not just in the quarter, but also if you compare it year-to-date, where last year, we had a net loss of R$1.3 million moving in to almost R$20 million of profits in the full year.

This result is a combination of improved performance and operations given by the EBITDA growth, but also an improvement in the EBITDA line, which helped to increase our conversion from EBITDA into earnings.

Moving on to slide 13, on cash flow, as Terni mentioned, cash flow conversion reached 73% on the quarter – a significant improvement over the same quarter last year, reaching R$45.3 million and R$111.4 million in the full year. It is important to highlight the gains in especially on the supplier levels and the good cash conversion ratios for the quarter and, also, the full year.

Moving on to slide 14, on investment, as you can see, the year was a year of very important investments – a combination of strong investments in both organic growth, through the opening of the new megastores, we also invested a lot on the PPP and on RBD, almost R$90 million and also to almost R$50 million on acquisitions.

This totals R$280 million on acquisition, in the year, just for the first nine months and those investments are the consequence of very good opportunities we faced in investments front that will significantly help our growth in the future and, also, given the anticipation of investment that we made this year, we are not going to need the same levels of investment and we can even reduce the level of investment for the next year.

Going on to slide 15, on EBITDA, commenting our debt. Our net debt for the quarter reached R$582.9 million, a growth of 10% compared to the same period of last year.

It is important to highlight that when we have issued new debentures, these new debentures will have a benefit of increasing the length of our debt, the maturity, and, also, reduce the cost that we are paying in our current debt. Also, the debt is in BRL, there is no impact of IOF, which makes this issuance cheaper than the debt we take from local banks.

That is what I had to comment about the results. I will turn to Fernando Terni for his final remarks. Thank you.

Fernando Terni:

As you could see, we are now concluding a strong investment cycle that started at the end of last year. So, during the last 9M17, we spent R$208 million, which was invested in three major fronts: one, opening six megastores, a result of fantastic opportunities we had in the market, especially in São Paulo.

As you know, the brand of PPP is very strong, we were able to gain market shares in key HMOs in the São Paulo city. Another cycle we are concluding is the investment we have done in the PPP in Bahia. We have concluded this month’s, the reforms we had to do in hospitals there, this is also completed now.

Finally, least, but not last important, was the acquisition of Multiscan, consolidating our presence in Vitória, where we have almost 60% market share.

That was an important cycle we had in the Company, of course, we had costs and we are suffering a little bit on the cost of our mega units, we invested in their operations, but the outcome has been very positive and we are very confident in in the future, the outcome of those units.

It is also important to mention that with those investments, we have anticipated some of the projects for 2018 and with those units already operating, we have set our best organic growth until 2020. So, we are very confident on those investments.

With that, we conclude our speech and I would like to invite everybody to participate on our Alliar Day, that is in São Paulo, in the first week of December, more details will follow on our website.

We do hope to see you there, during that day we are going to present new details, the result of the investments we have done and the impact it will have on the future of the Company, and some of the initiatives we have done, also in automation, in some other aspects of our business units.

With that, I conclude our part here. Thank you very much for your attention and we are available for the Q&A.

Marco Calvi, Itaú BBA:

Good morning, everyone. Three questions on my side, the first one regarding the working capital. We saw some improvement in the working capital trend, if you could comment on that and what we can expect for 2018 in terms of the main lines of the working capital.

The second question would be on the occupation and third party expenses. We saw some spike in this line, specifically, I am seeing here the numbers, it grew 85% year-over-year, could you please give us some details on this line?

Third question would be on the effective tax rate. We heard some of the initiatives you are taking in order to bring these to a more normalized rate. My question is: when can we expect the effective tax rate to go down to something more normalized or, as Fred said, something like 24%?

Frederico de Aguiar Oldani:

Hello. First thing I am going to comment on is the working capital improvement. On the quarter, we had an important impact on working capital related to some of our CAPEX that we made it into pass and was booked as payables, which was reimbursed by finance and this is a supplier that we should have paid, but this accounts for around R$17 million of gains in the quarter and helped improve our working capital. But with regards to this impact, you will see that working capital was not predefined in the quarter.

For the near future, we do not expect any major change on working capital dynamics. So, for next year, the same dynamics we are seeing this year, we could expect the same.

On the cost side, occupation cost had a significant impact on the new units, on the quarter, the ratio of the new six mega units impacted not just the occupation line, but several other lines, occupation, third party services are the most impacted lines when we open new mega units, but, also, we have a small impact on royalties, we pay for hospitals that were not booked in the same way in the previous quarters.

Technically, those lines, now on, we should not expect any major change from now on because we do not expect to maintain the same pace of opening units in the future, so, we could expect this occupancy line to grow now much more in line with inflation than we saw over the last quarters when investments done had a significant impact on those lines.

On the effective tax rate, we do expect an improvement for 2018 already. We think on 2018 we can already have an effective tax rate below 24%. We are pretty sure that in 2019 we will improve even further, but before we seek consistently and effective tax rate around 25%, we need to simplify our corporate structure and to eliminate some entities and concentrate profits and debt in the same entities.

This, we think, will likely be in place sometime around 2019. Until then, we will have several fronts that will help us to sustain an effective tax rate below 24%, the problem is that we will only be solved for good once those simplifications of our corporate entities and incorporation of some companies are actually in place.

Marco Calvi:

Thank you, Fred. Just a follow-up on the last question. What I understood is that you expect in 2018 an effective tax rate on a more normalized level, which you understand is something like 34% and from 2019 on you can get this efficiency in terms of corporate structure and get this effective tax rate to a normalized level of 24% or below, am I right with my understanding from your answer? Thank you.

Frederico de Aguiar Oldani:

Well, I think for 2018, you can certainly expect below 34%, but I do not think it will be possible to go below 30%. So, something between 30% to 34% is a fair assumption for next year. For 2019, then we should be below 30%, something between25% to 30% and once we have the business incorporations done, then, something between 20% to 24% is feasible, provided we are still going to have IOC in place.

Marco Calvi:

Got it. Thank you.

Operator:

This concludes the question and answer session. At this time, I would like to turn the floor back to Mr. Fernando Terni for any closing remarks.

Fernando Terni:

Thank you everybody for these months, and, again, I just want to emphasize Alliar's Day, which will take place in a month and during that day we will present a lot of details of our plans for the future and open some of our numbers for 2018.

Thank you very much and I look forward to seeing you there.

Operator:

Thank you. This does conclude today's presentation. You may disconnect your line at this time and have a nice day.

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