Operator:

Good morning, ladies and gentlemen. Welcome to Alliar - Centro de Imagem Diagnósticos S.A., 1Q17 earnings conference call. Present here are Mr. Fernando Terni, Chief Executive Officer, Mr. Fernando Pereira, Chief Financial Officer and Head of Expansion, and Mr. Carlos Araujo, Investor Relations Officer.

The live webcast of this call is available at Alliar's Investor Relations website at ir.alliar.com and platform Engage-x, where the presentation is also available for download.

As a reminder, questions will be taken by the 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 section. 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 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'll turn the conference over to Mr. Fernando Terni. Mr. Fernando, you may begin your conference.

Fernando Terni:

Thank you and good morning, everyone. Thank you for joining our earnings release call. As you will see in this presentation as a whole, our operational result was very positive. It is important to remember that, due to seasonality, this is the year's weakest quarter, historically accounting for about 20% of the annual result.

With this, I would like you to go to page three. These are the highlights for 1Q17.

We will start with net revenue, which grew 32%. Out of this growth, 13% came from same stores, a rate that is 30% above our historical average.

Our adjusted EBITDA reached R$49.7 million, growing 18%, with a 20.1% margin. Our operational cash flow also presented a strong expansion, growing 29%, reaching R$24 million. The return on invested capital reached 17.2%, a 141 b.p. improvement.

To complete our performance overview, from now on we will start publishing the Alliar Net Promoter Score. Our NPS was 70.5%.

Moving on to the next page, I would like to highlight some of our recent expansion in recent periods.

In March, we inaugurated two megastores, one in São Paulo, the CDB plant, and another one in Belo Horizonte, in the Axial brand.

These stores opened up already options in one-stop-shop concept. With that allocated, it reaches with a high concentration of our project guidance.

This is a concept present in São Paulo, but innovative in Belo Horizonte. This Axial store is the first one to offer at the same place all imaging exams, clinical analysis, graphic methods, and etc. Without a doubt, it will provide more comfort and convenience to our Belo Horizonte patients.

As we have previously announced in March, we concluded the acquisition of Multiscan, the leader in diagnostic imaging in the state of Espírito Santo. With this acquisition, Alliar has substantially expanded its market share in this state. With significant synergy potential between Multiscan and CDI, our Alliar brand since 2013.

Multiscan was valued at 6.9x EV/EBITDA and 9.2x P/E. And the acquisition will be paid in five years.

Considering the Company's high profitability and synergy potential, we are convinced that this acquisition will deliver excellent returns to Alliar.

Moving on to page five, we can see the results of our expansion efforts.

By the end of 1Q, Alliar had 116 stores, with four megastores and 11 collection rooms being added during the last year. It is worth mentioning that during this period we have also closed four local performance standard stores.

During the same period, we have added six MRIs and had strong clinical analysis expansion. We have added 80 new rooms. With this, we are now offering clinical analysis in 42 out of these 116 stores.

I will now hand over to Carlos Araujo, our IR officer, who will present in details the Company's quarterly results. After this presentation, I will be available for questions. Thank you. Carlos.

Carlos Araujo:

Thank you, Terni. Good morning, everyone.

Starting on page six, we have the gross revenue ex-construction, which grew 30%, reaching over R$265 million. The highlight here is the clinical analysis revenue, which grew 40%, becoming 14% of the Company's total revenue. MRIs and other imaging exams have also presented strong growth, with the ratio between the revenue of other imaging exams and the revenue of MRIs remaining close to 1.3x.

On page seven, we explore in more detail the MRI revenue drivers.

The number of exams grew 28%, reaching almost 170,000, while the average price increased 2%, result of price increases and trade down of healthcare plans, with lower cost plans growing above average.

As a result, equipment occupation had an expressive increase, with each machine doing on average 22.6 exams per day, a 22% increase. Contributing to the sector's positive results, the signing of new contracts, Delfin acquisition and the ramp-up of RBD.

Moving on to page eight, we have the same information for clinical analysis. Volume grew 26%, reaching 2.2 million exams in the quarter, while average ticket increased 11%.

Despite the strong volume growth, we had an even larger expansion in number of collection rooms, so the average number of exams per room per day grew about 14%, to 140.3. This increase did not cause us any loss, since all of our clinical analysis costs are variable.

The positive result increase from analysis can be explained by new contracts signed by the CDB brand, by the acquisition of Multilab and by the ramp-up of collection rooms on existing floors.

As we can see on page nine, our growth efforts led the net revenue ex-construction to reach R$247 million, a 29% increase.

Let's now move to page ten, to discuss the evolution of cost of services.

Excluding construction costs, which are cancelled by net construction revenues, we had a 29% increase, in line with overall revenue growth. But medical services line presented a margin improvement, driven by a proportional higher growth of MRIs versus other imaging exams.

The same happened to supplies and support labs. This line grew at a lower rate than imaging and clinical analysis volumes. On the other hand, the employees and third-party services lines were negatively impacted, growing due to the acquisition of Delfin and Multiscan and to the opening of the new stores, which are still ramping-up.

I would also like to highlight the depreciation line, which grew 42%. The evolution of this line is due to the Company's strong investments, which led fixed assets to increase by R$132 million during the last 12 months. These investments allowed us to open new stores and to add a lot of installed capacity, which should start bearing fruits from 2Q onwards.

On to the next page, number 11, we have the evolution of operational expenses. The employees line was impacted by four factors: the recent acquisitions, an increase in the size of the accounting, legal and IR teams to handle the workload of our total Company, the internalization of the M&A team, and the start-up of the call center centralization project.

This is the initiative through which we will centralize our existing 12 call centers, leading to productivity gains and savings. However, throughout the project, we will at times incur in duplicity of personnel and lay-off costs.

If we exclude these four factors, the employees expense grew in line with inflation.

Other lines that increased substantially were occupancy, third-party services and others. Beside the acquisitions, we had here the ramp-up of RBD, the upgrade of the shared-services center IT systems and advertising costs related to the opening of new stores.

Lastly, long-term incentive programs reflect the provision of the first grant of the restricted stocks program, with an amount that should be repeated throughout the other quarters of this year.

Here, it is important to highlight that, under the restricted stocks program, the Company has to buy shares in the market, impacting the expenses line, but not leading to shareholder dilution. On the other hand, under the stock options program, active in 1Q16, there was manageable PNL impact, with the effective cost of the program and shareholder dilution.

Moving on to page 12, we can see our EBITDA evolution.

The adjusted EBITDA reached R$49.7 million, or R$51.3 million if we consider the Multiscan acquisition as having appeared on January 1.

As I have just mentioned, 1Q17 was reduced by R$2.3 million of restricted stock while in the 1Q16 the long-term incentive program did not cause EBITDA impact.

I would also like to highlight that here, we have only one EBITDA adjustment: the write-down of RBD's financial assets, which affect the Company's depreciation.

The write-down of parts, reaching through the fourth quarter, which should be a relevant adjustment, is now accounted for directly in the depreciation line, no longer being an adjustment.

On page 13, we have the adjusted EBITDA margin, which reached 20.1%, or 20.3% considering Multiscan since the beginning of the quarter.

Besides the restricted stocks, this quarter's margin was impacted by the opening of new stores and by the cost of the call center centralization project.

Moving on to page 14, we have the financial results numbers.

First of all, I would like to highlight that we have adopted the hedge-accounting methodology. As a result, our 4131 debt is once again denominated in Brazilian reais, and no longer exposed to FX variation.

We have improved both our financial revenues and expenses, with income from the IPO proceeds, a lower Brazilian risk-free rate and a lower Company debt level. On the other hand, we had the last positive contribution coming from foreign exchange, which was down R$7.3 million versus 1Q16.

All included, our net financial result was a negative R$9.8 million, down 41%.

Moving to page 15, we can see the evolution of our taxes.

At a consolidated level, the effective tax rate increased 4 p.p., reaching 42%. This increase can be explained by a higher portion of the subsidiaries' results coming from companies under the real profit scheme.

The result of RBD moving from deemed profit to real profit into its increased revenue. We continue to expect an effective tax rate below 34% by the year's end, as we have multiple ongoing initiatives which should contribute to this line.

Moving on to page 16, we get to the net income, which reached R$8.8 million, or R$9.8 million, if we consider Multiscan since January 1.

In the quarter, net income was impacted by the lower FX contribution of R$7.3 million, by an increase in depreciation, which reflects recent investments in capacity extension, and by a higher tax rate.

On page 17, we discuss cash generation and cash conversion. The recurring operating cash flow grew 29%, while the EBITDA to cash conversion reached 48%, a 415 b.p. increase.

It is worth to highlight the low level of cancellation and PDA, which accounted for only 1.5 p.p. of revenue, and an improvement in cash conversion in this, which is the weakest quarter of the year.

Moving on to page 18, we have our investments.

The first quarter concentrated the largest portion of this year's CAPEX, amounting to R$59.4 million. Most of this, R$36.5 million, was spent on organic expansion, R$9.6 million was invested on RBD, a project which will still require approximately R$20 million, R$7.3 million was dedicated to maintenance, and R$6.1 million was invested in other projects, including IT.

Besides this amount, R$45 million was spent on M&A activities, with the acquisition of Multiscan. All of this money recently invested, we ensure the continuity of Alliar's strong growth rates.

Finally, on page 19, we talk about our debt. To the quarter, gross debt decreased 5%, but net debt increased, leading to leverage of 2x net debt/EBITDA. It is important to remember that this is the weakest quarter of the year, that we have concentrated most of the CAPEX on it and that the BNDES credit lines worked on the reimbursement model, meaning that investments made in the 1Q will be reimbursed during the 2Q, improving our cash position.

The 2x net debt/EBITDA should be the Company's highest leverage level, as we will see a decrease again from the 2Q on.

It is worth to highlight that this is the debt position at the end of the 1Q before the IFC debt conversion. This conversion, notified by the end of April will result in US$10 million being converted into approximately 3.4 million shares issued by the Company.

Additionally, between April and May, we have already received R$30 million in BNDES reimbursements. Now I would like to turn the floor over to our CEO for his final remarks.

Fernando Terni:

Thank you, Carlos.

As you could see, Alliar had a very good 1Q, we kept strong pace growth and made important investments in our capacity expansion. These investments like the opening of new megastores and installation of new equipment on RBD, our PPP project in Bahia will allow us to sustain a strong growth during 2017.

We have also important projects under development, which should bear fruits throughout the year like the call center centralization, the rollout of the command center to all our MRIs and the strategic sourcing initiatives, besides the opening of three new additional megastores during the first half of the year.
Finally, we keep on investing time and resources to prepare Alliar for the technological evolution, which should benefit the sector on a non-distant future. We have an Innovation Committee in place, which has designed the Company for beyond 2020.

With this, we continue to combine medical leadership, management discipline and technology to offer the best to our patients, doctors and investors. So to summarize this call, considering that this was the 1Q of the year – the weakest one – we are very happy to have posted topline and also EBITDA margins.

I would like thank you for your attention and we are open for questions.

Roberto Otero, Bank of America:

Hi. Good morning, everyone. I would like to ask you about your cash position this quarter. I noted a contraction directly R$60 million, we do know that your organic expansion plan and Multiscan acquisition impacted cash generation, but I would like to understand how CAPEX should behave throughout the year and if this R$60 million is a comfortable cash position given your investment plan for both organic and inorganic expansion plan. Thank you.

Carlos Araujo:

Hello, Roberto, thank you for your question. Yes, this cash position we have at this point, we consider that this is the lowest cash position we are going to have over the year and probably over the next few years. As mentioned, we have already seen in April and May R$30 more million from BNDES from reimbursement and we are going to continue to see these reimbursements throughout the year.

Besides that – once again this is absolutely the weakest quarter of the year – so throughout the next quarters, the operating cash flow should continue positively for our cash position.

In terms of CAPEX, as mentioned, this was the quarter in which we concentrated a lot of our investments. There are, too, some investments to be made in the 2Q and probably in the first semester of the year, we will concentrate roughly our 90% CAPEX of the year and when we look at what we are doing in terms of negotiating our debt, we have some very interesting initiatives going on, which will allow us to reduce our financial cost, maintaining our debt profile and plus the contribution of the new stores and the overall operating cash flow, we are pretty confident that for the time being we will have sufficient cash for both organic and inorganic expansion.

Roberto Otero:

OK. Great. Thank you.

Bruno Giardino, Santander:

Hello. Good afternoon, everyone. I have two questions. The first one is regarding the stores that you closed in the quarter. Were these stores replaced by other types of stores? Or did you close that because you found a profitable condition or suboptimal conditions for profitability?

And the second question is regarding tax rate, how fast do you expect tax rates to converge to the 24% level you predict? Thank you.

Carlos Araujo:

Thank you for the question, Bruno. First of all, the four stores that we closed during the quarters were small stores located in very small cities under which the ramp-up throughout the last month did not follow our plan, so while managing our assets we decided that this could be a better option to move the MRI and other expensive equipment for new stores and other stores in which we would be able to get a higher number of exams per machine. So it is mostly a movement to maximize returns on our assets.

And regarding the tax rate, what I can tell you right now is that we are very advanced in some very specific discussions that we will positively impact our financial results – as I mentioned – and that we will also improve our tax shield, helping us to concentrate debt in companies which are operating under the real profit scheme, so what I can say at this point is that we are working on it and we expect to have it real soon.

Bruno Giardino:

Thank you, Carlos.

Thiago Macruz, Itaú BBA:

Hi, guys. Good morning. Could you please comment on the current competition environment of the city of São Paulo? How do you see the CDB performing specifically this quarter in terms of numbers of patients, equipment? Thank you.

Carlos Araujo:

Hello, Thiago. Thank you for your question. This is a very good quarter for São Paulo and CDB as a whole. When we look at the performance of the brands, I can say that CDB has outperformed the other brands. So despite the fact that São Paulo is a more competitive market what we are seeing here is that CDB is a very strong brand and has a very captive target public which comes to our facilities and might even be positively impacted by the trade down of plans. So we continue to obtain new contracts in São Paulo, CDB for both imaging and clinical analysis.

As you know, we have already opened one new megastore, first in São Paulo – in fact, in the 1Q, we opened one new megastore. Now in the 2Q we opened a second new megastore, and we are about to open a third one, so CDB has been doing very well and what it seems so far out of these new stores has been very encouraging.

Thiago Macruz:

Thank you.

Operator:

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

Fernando Terni:

So, thank you very much, everybody, to attended our call and, as I said, considering that this 1Q is the weakest of the year, we are very happy with the topline – growing 32% and also our margins, 20.1%, no adjustments, so we are very happy with the performance of the Company. We are very well positioned for the end of the year. As Carlos has just said, we have inaugurated some megastores in São Paulo and Belo Horizonte and the performance of those new stores is very good – we are very happy with their performance.

We have just completed some new units that will be inaugurated during the 2Q of the year. I think that the Company is very well positioned for the end of this year. Also as mentioned, all the initiatives we have to control the costs, new projects on the sourcing, the centralization of the call center, there's a lot of things going on in the Company. So we are very confident that we will be meeting all the targets that we have set to ourselves in these years.

With that, I thank you very much and I am looking forward to our next call.

Operator:

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