Operator:

Good morning, ladies and gentlemen. Welcome to Alliar - Centro De Imagem Diagnósticos S.A., 2Q17 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 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 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. Terni, you may proceed.

Fernando Terni:

Good morning, everyone, and thank you for joining our earnings release call. As you will see, we had another quarter of strong growth and good news. I invite you to go to page three and see our highlights.

Let's start with net revenue, which grew 20% year-to-date and 13% in the quarter. Out of this growth, same stores sales accounted for 13% in the semester and 11% in the quarter. Our adjusted EBITDA reached R$ 108.8 million in the semester, a growth of 16%, and R$59.2 million in the quarter, a growth of 13%.

With this, LTM EBITDA has reached R$218.8 million, or R$ 227.5 million, if we annualize the acquisitions. Our net income grew by 224% in the semester, and in the quarter, we reverted the loss posted last year.

Net income after minority interest reached R$9.7 million in the semester, versus a net loss of R$1.8 million in 2016. In this quarter our net income was R$ 4.0 million in the quarter which compares to a net loss of R$9.3 million in 2016.

Our operational cash flow presented strong growth, growing 69% in the semester, and 77% in the quarter.

As a result, cash conversion reached 67% in the semester and 85% in the quarter, an improvement of 2.105 b.p., and 3.057 b.p. respectively.

The return over invested capital reached 15.8%, and our net promoter score reached 75%, an improvement of 448 b.p. compared to the previous quarter.

Lastly, due to some good market opportunities which came up at the end of 2016, we have anticipated the 2017-2018 expansion plan by inaugurating another two mega stores this quarter, for a total of four openings in 2017, as you can see on the next slide, on page four.

In addition to the openings of CDB Morumbi and of Axial Bernardo Monteiro mega stores, which took place during the 1Q17, we have now opened two new mega stores, one in São Paulo, São Bernardo do Campo, and another one in Mooca.

These are all large-size units that offer a complete exam portfolio and that can reach up to R$50 million in revenues after the ramp-up is completed.

It’s worth noticing that, with five mega stores opened during the last 10 months, alongside with another mega store to open this month in São Jose dos Campos, we will complete a strong investment cycle in Alliar. Now we're having a perfectly adequate installed capacity in key-cities, sufficient to support our growth rhythm for the next years.

On page five we can see the result of our expansion efforts. By the end of the 2Q, Alliar had 122 stores, having added six mega stores and 17 collection sites during the last year. We have also closed four low performance standard stores, transferring their equipment to cities with pent-up demand.

During the same period, we have added 10 MRIs and continued to expand the clinical analysis offering, with the addition of 113 new collection rooms. As a result, we now offer clinical analysis in 51 or our stores.

With that, I will hand over to Carlos Araujo, Alliar’s IR Officer, who will discuss in more detail the Company’s quarterly results. After the presentation, I’ll be available for questions. Thank you.

Carlos Araujo:

Thank you Terni, good morning everyone.

Starting on page 6, we have the gross revenue ex-construction, which grew 21% YTD, reaching R$547 million, and 14% in the quarter, totaling R$281 million. In both periods, it is worth to highlight the strong growth of clinical analysis (39%), with this service now accounting for 13% of total revenues. Also important was the evolution of MRI exams, which grew 22% YTD and 15% in the quarter.

Moving on to page 7, we explore in more detail the MRI revenue. YTD, the number of exams grew 17%, while the average price increased 4%, in line with inflation. In the quarter, volume grew 11%, while prices increased 3%.

The volume growth, higher than the expansion in installed capacity, led to productivity gains. Each equipment did, on average 23.1 exams per day in the semester, and 24.0 exams per day in the quarter. This result was possible due to the continuous ramp-up of existing equipment, to the acquisitions of Delfin and Multiscan and to the ramp-up of RBD.

Moving on to page 8, we have the same information for clinical analysis. The YTD and quarterly numbers are very similar. Volume grew close to 25%, and price increased 11%. This result can be explained by the acquisition of Multilab and by the ramp-up of clinical analysis rooms in existing stores.

Throughout the last 12 months, the number of clinical analysis rooms increased 65%. For this reason, despite the strong volume growth, the productivity per room decreased 24% on a year over year basis. This decrease, however, generates no losses, as clinical analysis costs are 100% variable.

As we can see on page nine, after deductions, our net revenue ex-construction grew 20% YTD, surpassing R$500 million. Meanwhile, the growth in the quarter was of 13%, reaching R$261 million.

Let’s now move to page ten, to discuss the evolution of cost of services. Excluding construction costs, which are canceled by net construction revenues, we have a 23% increase YTD and a 17% increase in the quarter.

The key cost line, medical services, has grown a little below imaging revenues, leading to a small margin improvement. On the other hand, the employees and occupancy lines have grown above revenues, impacted by the opening of the four new mega stores.

The supplies and support labs line grew 25% YTD and 23% in the quarter, as a result of the strong growth in clinical analysis (39%) and of acquisitions, especially Multilab and Multiscan.

The Maintenance line grew in line with revenues, and the same happened to third party services and others during the semester. However, in the quarter, third party services decreased 4% due to the capture of Delfin’s post-integration synergies.

Lastly, the depreciation and amortization line grew 30% YTD and 20% in the quarter. The evolution of this line is due to the Company’s strong expansion rhythm, which led to a significant increase in fixed assets over the last 12 months.

I’d like to note that, to improve its depreciation policy, the Company is conducting a physical inventory process on its recently acquired companies. This will allow the MRI and CAT scan equipment of these companies to be depreciated over 20 years, in line with Alliar’s policy, effectively reducing the quarterly depreciation rate.

On to the next page, number 11, we have the evolution of operating expenses, which grew 12% YTD and decreased 6% on the quarter, leading to relevant margin improvement.

The key line, employees, grew above revenues, impacted by 3 factors. First, the increase in the accounting, legal and IR teams to handle the workload of a public company. Second, the internalization of the M&A team. And third, the call-center centralization project.

Meanwhile, the occupancy and third-party services line grew 11% YTD, chiefly due to the ramp-up of RBD and to marketing expenses related to the new stores. In the quarter, this line decreased 25%, benefitting from a provision reversal related to Delfin and to other post-integration synergies.

Lastly, the long-term incentive line reflects the provision of the 1st restricted stock grant, with an amount that will be repeated throughout the next quarters. It's important to remember that under the restricted stock program the Company has to buy shares in the market. It creates an expense but does not dilute the shareholder base.

On the other hand, in 2016 we had the stock options program, which led to minimal expenses but did dilute the shareholder base.

Moving on to page 12, we can see our EBITDA evolution. The adjusted EBITDA has reached R$ 108.8 million YTD, or R$ 110.4 million if we consider Multiscan as having being acquired on January 1st. Meanwhile, in the quarter, the adjusted EBITDA grew 13%, reaching R$59.2 million.

When comparing to 2016, the adjusted EBITDA was negatively impacted by three factors. The first, as I've just mentioned, was the substitution of stock options for restricted shares, exchanging shareholder dilution for a R$ 4.7 million expense YTD and for a R$2.3 million expense in the quarter.

The second relates to the opening cost of the new mega stores (mainly advertising, employees and occupation), which impacted R$3.2 million YTD and R$2.9 million in the quarter.

And the third refers to the call-center centralization project, in which we incur in personnel duplicity and layoff costs, amounting R$1.0 million YTD and R$ 0.7 million in the quarter.

Altogether, these 3 effects have reduced the adjusted EBITDA by R$8.8 million YTD and by R$5.9 million in the quarter.

I'd also like to highlight that we have only one EBITDA adjustment: the write-down of RBD's financial assets, which is in fact this business unit's depreciation according to public concession accounting policies.

On page 13, we have the adjusted EBITDA margin, which reached 21.5% YTD or 21.6%, considering Multiscan since the beginning of the year. Meanwhile, in the quarter we had a 22.7% EBITDA margin, in line with the same period in 2016.

As highlighted in the previous slide, the EBITDA margin was also impacted by the change in the stock-based incentive program, by the opening of new stores and by the call-center centralization project. In total, these effects had a negative impact of 180 basis points YTD and 239 b.p. in the quarter.

Moving on to page 14, we have the financial results numbers. As a highlight, we had in the 1st half of the year the interest of the IPO proceeds, and on the 2nd quarter a significant improvement in financial expenses, due to the decrease of Brazil's risk-free interest rate.

Regarding FX, we had deeply negative variations between the periods: -R$ 9.1 million between the 1H17 and the 1H16, and -R$ 17.3 million between the 2nd quarter of 2017 and the same period of the previous year.

It is worth to note that, during this quarter, the Company's FX exposition was reduced by 40%, following the conversion of a US$10 million debt into equity. In total, the financial result has worsened by 15% YTD and by 6% on the quarter.

Moving on to page 15, we can see the evolution of our taxes. At a consolidated level, the YTD effective tax rate decreased by 32 p.p., reaching 46%. Meanwhile, on the quarter, there was a 208 p.p. decrease, with the effective rate being 52%.

As we can see in the breakdown tables, the subsidiaries have presented a tax rate close to 30%, while the holding company, which had a net loss due to the cost of corporate debt, has generated tax credits.

However, this credit was not sufficient to fully offset the subsidiaries' income tax, resulting in a consolidated rate above 34%.

To solve this issue, Alliar expects to incorporate into the parent company some profitable subsidiaries (such as CDB and Delfin). The resulting company will have a positive earnings before taxes, effectively eliminating the current distortion and allowing it to use its accumulated tax credits. As a result, after these incorporations (which should occur in 2018), the Company expects to achieve an accounting consolidated tax rate of 34%, and a consolidated cash rate close to 24%.

In parallel, the Company has been conducting short-term initiatives that should result in a gradual reduction of the tax rate still in 2017.

Moving on to page 16, we get to the net income after minority interests. YTD we see the reversal of a R$1.8 million loss to a profit of R$9.7 million, or R$ 10.7 million if we consider Multiscan since January 1st.

Meanwhile, on the quarter, there was an even larger improvement. A net loss of R$ 9.3 million became a R$4.0 million profit.

It is worth to note that these positive variations of about R$ 13 million where achieved in spite of the EBITDA impacts and of the negative FX variation of R$9.1 million between the first half of 2017 and 2016, and of R$17.3 million between quarters. The net income was also impacted by a higher depreciation level and by lower tax rates.

Let's go now to page 17, to discuss cash generation and cash conversion. Year to date, the operating cash flow grew 69%, reaching R$72.6 million, with a cash conversion of 67%, a 2,105 b.p. improvement.

Meanwhile on the quarter, the growth was 77%, with operating cash flow of R$ 50.4 million and cash conversion of 85%, a 3,057 b.p. improvement.

Besides the strong operational performance, these results were boosted by the reduction in the tax rate and by savings related to M&A fees, following the internalization of the M&A team.

Moving on to page 18, we have our investments. As expected, the 2Q was another period of heavy investments, with CAPEX totaling R$125.4 million in the year.

Of this amount, R$75.7 million was used for organic expansion and R$23.9 million was invested at RBD. Maintenance required R$14.4 million and other investments used R$11.3 million. An additional R$45 million were ALSO spent in M&A, with the Multiscan acquisition.

Due to market opportunities, the Company has opted to accelerate its expansion plan, concentrating in the 1H17 almost all investments planned for 2017 as well as part of the amount planned for 2018.

As a result, the Company believes that it now has enough installed capacity in key-cities to ensure the continuity of its strong growth rhythm for the foreseeable future.

Finally, on page 19 we talk about our debt. Through the quarter, there was no relevant change in the debt level, with leverage of 2.1x net debt/EBITDA.

It is worth to note that the USD denominated debt has been reduced by 40%, as a result of the IFC debt-into-equity conversion. At the end of the quarter, only 9% of the Company's debts were denominated in foreign currency.

Lastly, the Company is issuing up to R$270 million in bonds. The proceeds will be used to improve the capital structure, paying down 2017 debt and advancing 2018 amortizations.

As a result, Alliar expects to reduce its financial expenses and to lengthen its debt profile.

I will now return to our CEO for his final remarks.

Fernando Terni:

Thank you, Carlos.

As you can see, Alliar had another quarter of good results. Our operations continue to evolve and grow in spite of short-term margin pressure related to the opening of new Mega Stores.

We continue to conduct important projects, both short-to-medium term, as is the case of the command center roll out, as well as long-term, seeking innovation and the maintenance of our technological leadership.

We are aware that there is still a lot of work to be done, especially in the lines between EBITDA and net income. As detailed by Carlos, we have several initiatives in this area. I can mention some of them, such as the incorporation of subsidiaries with the objective of reducing the consolidated tax rate, the issuance of bonds aiming to reduce our financial expenses and, also, the adjustment of newly acquired companies' depreciation rates in accordance with Alliar's standard, focused on reducing the total depreciation cost of the Company's assets. We are confident that we will achieve significant results with relevant impact on the Company's net income in the coming months.

To lead our financial area, and especially to reinforce the attention given to the points I have just mentioned, we have hired Mr. Frederico Oldani, who, after board approval, will take over the role of CFO and IR Officer. Fernando Pereira, our current CFO, will focus on M&A efforts and on organic expansion, while Carlos Araujo, our current IR Officer, will resume his Strategic Planning and Project Officer functions. Frederico was CFO of Cia. Hering for the last eight years and brings a significant financial baggage to our executive group. I wish him a lot of success in our Company.

To conclude, I would like to reinforce the message that Alliar has today a lot of installed capacity, a continuous focus on the ramp-up of the installed base and a special attention to net profit drivers. We are well prepared for a 2H of more growth and better results.

Thank you for your attention and we are open for further questions.

Roberto Otero, Bank of America:

Good morning, everyone. Actually, is Gustavo here. I have two questions and the first one is on cash generation. We saw higher cutbacks in this semester, as you mention, anticipating the full year CAPEX in part of 2018 guidance. So, I was wondering how do you see cash generation for the next semester in 2018, giving a lower CAPEX commitment?

The second question is on clinical analysis. You had a 113 new collection points in the last twelve months and expended the offer into 51 units. So, I would like to know how is the run pump of the segment versus your initial expectation and, also the expansion strategy for the future. Thank you.

Carlos Araujo:

Thank you for your questions. Yes, regarding the cash generation we did accelerate a lot of our expansion plans, as Terni has mentioned some good market opportunities popped up end of last year, early this year. So, we took these opportunities and we invested more than we invested in the last few years and the first semester.

We did concentrate almost all, if not all, of the expansion CAPEX on the 1H17 and, we did accelerate and anticipate the expansion plans for 2018. Our original plan was to open two new mega stores for year.

In fact, besides the two original stores which we expect to open this year we already opened one late last year and, we opened an additional two, which were the two planned for 2018.

In fact, we have another one which is due to open this month in São José dos Campos, with a Plani brand. So, looking forward to the 2S18, what we expect is to have a strong cash flow generation even that most of the investments at RDB are already done.

All of these operating and main expansions are done, so what we have for the coming semester really is maintenance CAPEX, which has been around R$32/ R$40 million per year. That is what we expect.

And then, obviously, if some good opportunity appears, for example, in one of our facilities who have a lot of demand. We need to install new machines which can be profitable in the short term; we obviously evaluate that kind of opportunity and once we have a lot of focus as well as to evaluate the performance of all our existent stores.

So, If you find out there is a specific store in which the ramp up, for example, is not according to our brand what we can do, what we have done in the past is to move in a line between stores as well. So, that can also help us to increase our short term results and solve the problems in specific stores without having to invest much more on capital.

Fernando Terni:

Very well. What is the other question related to clinical analysis?

Roberto Otero:

I was just wondering, how is the run pump of the segment versus your initial expectation and also the expansion strategy for the future in the meaning of rolling out to the other units?

Fernando Terni:

On clinical analysis with the acquisition of three small companies, one in Centro-Oeste Multilab, another one in Vitória and a third one in Belo Horizonte. I think we have closed most of the big cities in that we were not offering that services.

With that, it explains the big investments we did, not so big, because investments are very low, but some of these investments we did open up new collection points. Once we saw the number there, both 113 collection points, roughly 50% of our units are offering that kind of services. And the ramp up has been very much in line with our expectations, took a while to get the accreditations from the patients, but soon after getting them and with a little bit of investments in marketing, we already see the customers coming.

Of course we are not focused in clinical analysis as our main line for growth, but we see it as an add-on to our services portfolio, people that are coming to do their exams, some of them already based, also a request for clinical analysis. So, the share of quality is important there.

That is what we are focused. We are not focused in opening collecting points where we don't have an imaging exam installed there. We are pretty much following what we planned 13 year ago when we acquired these businesses in Brazil. The results have been very positive, as you saw the numbers there, we had to be close to 12%, 13% of the total revenue coming from clinical analysis, so it is very much in line with our expectations.

Roberto Otero:

Thank you, that was very clear.

Bruno Giardino, Santander:

Good afternoon, everyone. My first question is on the call center, if you could share with us how is the progress of the project of unification? How far has it followed your initial plans? And, what is the potential going forward of this measure?

Secondly, if you could share with us your expectations for EBITDA margin in the 2H, if you foresee an expansion compared to previous year. Thank you.

Fernando Terni:

We already have a location for the CDB call center as well as the Axial Belo Horizonte call center. So, we completed this at the end of the 1Q. we waited a little bit before the centralization, because we want to measure the impact on cost. The result we anticipate is very positive in all the KPIs we have for the call center.

So, we are very happy with the outcome and we expect this to be very good this year, and see the next year, but we are now evaluating the possibility of accelerating this because the results has been very good.

Of course, as you know, there is a lot of technology to breakthrough in call center like robots and things like that and we are evaluating, testing and running some pilots. We may have some very good news for next year when this technologies mature.

So, we anticipate a very good outcome for our call center, and by that I mean some very important cost reductions there. Of course, the technology is not 100% mature but it is improving very fast. We have some projects running right now and I would say some surprises in these results. This is a talk for next year.

Carlos Araujo:

Regarding your second question, the 2H of the year it is more favorable in terms of seasonality, so this brings up our margins, and when we look at what has impacted on our numbers for this quarter, especially the new stores and even the call center projects, I believe that those two impacts were more concentrated on this quarter, so they should not be as relevant in the coming quarters.

The impact of the fixed stock program versus stock option program should remain, but despite that, we are seeing good results in our new stores and we continue to convey our cost reduction initiative. I did not expect the EBITDA margins to increase, just to give you some flavor on what we are doing, besides the revenue side.

In terms of cost initiatives, we have some of the sources, we see it going, and we already see some results on the 3Q, again, we are looking at every line of our P&L, we are going to discuss with all of our suppliers, so that includes clinical analysis, it includes all kinds of suppliers.

We expect that most results should be (reflected next year, but we still expect some of it to impact this year, and besides EBITDA, we have mentioned a lot of other initiatives going on to improve net income, we expect to change the level at which we are delivering the net income numbers, we have all these initiatives and I believe everything is coming together on the operational front and we have been giving a lot of focus to the net income and the financial aspect of the business as well.

I really believe these two aspects combined will provide very good results in the coming quarters.

Bruno Giardino:

Thank you very much, Carlos and Fernando.

Operator:

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

Fernando Terni:

Thank you very much. Thank you for your attention. As Carlos just said, we are doing a lot of effort in the next months to come, especially on those lines regarding EBITDA to improve our net income. We have a lot of projects already started and under way. So, we expect the results to start coming already in 2017, and some very good results in 2018.

Having said that, thank you very much for your attention and I am looking forward for the next call in three months. Thank you very much.

Operator:

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