Operator:

Good afternoon, ladies and gentlemen. Welcome to Alliar – Centro de Imagem Diagnósticos S.A., 2Q19 earnings conference call. Present here Mr. Fernando Terni, CEO and Mr. Frederico de Aguiar Oldani, CFO and Investor Relations Officer.

The live webcast of this call is available at Alliar's investor relations website at ir.alliar.com, 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, we would like to clarify that statements made during this conference call related to the company's business prospects, projections and operational and financial goals are based on beliefs and assumptions of Alliar's Board of Directors, as well as information currently available to the Company.

Future assumptions do not guarantee future results as they involve risks and uncertainties related to future events that depend on circumstances that may or may not occur.

Investors should understand that general economic and industry conditions, in addition to other operating factors may affect the Company's future results that 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. Thank you for joining our 2Q19 earnings conference call.

Before we go into the slides, I would like to point out that Alliar delivered in this quarter, once again, the operating leverage it promised. In 2Q19, we observed again a growth in margins, profits and return that we have been seeking and which have been consistent in recent quarters.

I would like to highlight that for practically six consecutive quarters, since 1Q18, we have increased our margins and profitability. This was done amidst a still quite challenging macroeconomic scenario, which is reflected, as you can, in the downward revisions of the GDP for 2019. And this naturally impacts our growth in certain ways.

Particularly in terms of revenue, we will highlight the growth in same store sales. The growth is still small given the macroeconomic conditions I commented, but it is still consistent growth.

We highlight the good growth in the state of São Paulo, as a result of the maturation of all investments we made in 2016 and 2017.

It is also important to note that the increase in revenues also reflect, during this period, the negative impact from the sale of the operations of Hospital São Rafael in Bahia, where we operated under the Delfin brand, a mega-unit that contributed with revenues in 2018 and is not part of our base, thus affecting the basis of comparison.

All of us here at Alliar remain focused on the purpose of increasing the Company's profitability by maturing the investments already made and focusing on productivity gains with technology and innovation.

That is, we believe this is the right strategy during a period of low economic growth, allowing us to continue to deliver operational leverage, even in such a difficult period; especially in the regions where we operate.

In this current cycle, we also aimed to reduce Alliar's financial leverage, which, along with the reduction in investments, has been important for the Company's free cash generation. Fred will go more into details on this later on.

Now, I invite you all to go to page 3, where we begin to present the highlights for the quarter. Starting with profit, we increased this account by 82% in this quarter, and on a proforma basis the growth was even more significant, increasing by 108%.

EBITDA margin increased by 526 bps, to 26.9%, with an adjusted EBITDA of R$ 73.1 million, up by 23% against 2Q18. On a proforma basis, the increase was smaller, at 2.2%.

Even so, it is important to highlight that on a proforma view, EBITDA increased by 71 bps due to the operating leverage we have been pursuing in recent quarters.

Net revenue was R$272.4 million, with same store sales increasing by 2%, driven by higher demand, especially in São Paulo, and the result was affected by the closing of units I already mentioned, and the sale of the Hospital São Rafael operations in Bahia.

The accumulated revenue in the year was practically stable at R$ 34 million. Our net cash flow reached R$ 68.9 million in the semester, denoting the Company's high cash generation capacity.

I would also like to highlight the recent dividend distribution we made in May, in the amount of R$ 10 million, with a 25% payout ratio for the 2018 base profit of R$ 40 million.

ROIC reached 13.9%, improving by 569 bps, also as a result of our strategy to mature the investments made in previous years.

Finally, we highlight our NPS, indicating the patient satisfaction level with our services, which recorded 76.7% at the end of this period. This was an important increase by 190 bps in the first half of the year.

At the end of this presentation, I will also talk about our new long-term incentive program, which was recently approved by our board of directors, corelating our deliveries and actions with the Company's performance by 2021 and reinforcing not only my confidence but the confidence of our other executives that our Company will substantially improve its results in the coming years.

Having said that, I invite you all to turn to page 4, where we will detail our increase in revenue. Looking initially at the graph on the left side, you can see that the same store sales contributed with a growth of R$ 5.8 million, and the new units, which are highlighted on the age, mainly the IDR initiatives, which is an innovation that we began to disclose at the end of last year, which has already contributed with R$ 2 million.

We were also impacted by the sale of Hospital São Rafael and the closing of units over the last 12 quarters, which led to a slight reduction in net revenues of around 1% when compared to the previous quarters of 2018.

On the graph on the right, the reductions reflect these events already mentioned, and in the very short term we were impacted by the trade-down of the plans observed in the sector. This was also over the past year, which affected the Company's average tickets.

We believe this sector movement is already being accommodated and our revenue, whether because of higher volumes or pressures on plan and ticket trade-down, should soon recovery with the expected improvement in the economy.

And finally, in the last bullet point I mention the positive 2.4% growth in the Company's margin revenue, accumulated in the last 12 months, when excluding the effect from Hospital São Rafael. We highlight our revenue growth near 6% so far this year for the region of São Paulo.

Now I wrap up my opening remarks and pass the presentation over to Fred, who will get into detail on our numbers.

Frederico Oldani:

Good afternoon everyone. I will start on slide 5 where I will comment on the consolidated financial results. First of all, I would like to remind you that this year's figures were impacted by IFRS 16, which makes it difficult to compare the numbers with last year.

So, we prepared a proforma results column to make it easier to compare this year's results with the results in 2018.

On slide 5, the main point is to reinforce is something that we have been talking about for a long time, since the end of 2017, when the Company changed its short-term strategy a little after a period of major investments. The focus then became to mature the investments made, improving operational performance and this would be very clearly reflected in the P&L format we presented from that moment on.

So, for those who have been following the Company for a longer time, you will remember that, until 2017, the Company's first line grew very quickly but this growth was not necessarily accompanied by the other lines, especially EBITDA and net profit, mainly due to the business profile in which we operate, in which investments take a reasonably long time to mature.

We are at a moment of accelerated growth, so it’s natural that the results would take a while to appear, but from the time we slowed our expansion pace, we would see a very positive impact that would turn into a relevant operating leverage in the Company's results. In other words, for revenues to grow, we expected EBITDA and net profit to grow even more.

Here, once again, you can see that regardless of the accounting criteria used, whether if it's the old or the new rule, this is happening. That is, EBITDA margins grow, even in a scenario in which revenue does not grow, and profit grows because of our efforts in reducing leverage and also due to improved effective prices.

We will comment on this in more details in the slides ahead, but here, the important thing is to show that we delivered quite consistent results in recent quarters, always ensuring this substantial improvement in EBITDA, EBITDA margin, profit and net margin.

Now on slide 6, we also show the accumulated results for the year and the numbers are very similar to what we saw in the second half, that is, it is a bit more of the same story and it's what we hope to continue to deliver over the next few years.

So, the focus is not on short-term goals, but on what we expect to delivery after several years of improvement, both in operational performance and bottom-line growth.

Going to slide 7, we comment in a little more detail our EBITDA and EBITDA margin. Here, I think the first point to highlight is the growth in gross margin.

We had a small growth in gross margin, reminding you that our business has a relatively large fixed cost structure and so small growth makes gross margin expansion quite challenging.

Yet, we have been able to maintain a margin growth, mainly due to improvements in our productivity through technology and innovation. We have been working hard on call center automation, reception automation, contract renegotiations and efficiency gains in virtually all the Company's income statement accounts.

So, there has been a relatively big effort being made to improve results, but it was smaller than what we would like it to be, mainly due to the challenging scenario we see in the top line.

We estimate that results could be substantially better in terms of growth levels, above what we have seen, so one thing we are very confident about is that as the economy improves, we have a very large potential for improving operating results.

Regarding EBITDA, our adjusted EBITDA reached R$ 73.1 million in this quarter, which represents a 23% growth compared to last year, but of course, this growth was affected by the adoption of IFRS16.

Reanalyzing these same numbers on a comparable basis, that is, as a proforma compared to last year, EBITDA would be R$ 60.8 million, a 2.2% growth, which gives a slight gross margin expansion, somewhere around 70 bps, but that's quite important given the top line scenario.

Now on slide 8, I will comment a bit on financial results and debt. The financial result was also significantly impacted by IFRS 16, where we now have a non-existent line that is lease interest. This was created by IFRS16. So, the comparison with the previous year is not possible.

When we look at our net financial result on a comparable basis, we see a significant reduction, of around 16.5% versus last year, with a combination of both a reduction in financial expense, mainly interest, but also a small exchange variation effect that we had in 2Q18 and we did not have this year.

The table below shows the evolution of the Company's debt. We are talking about a net debt that reached R$ 587 million in the quarter, with a leverage close to 2x EBITDA.

Of course, this index also has a benchmark issue, but the important point here is that regardless of the benchmark, if we look at the previous criteria, our leverage is 2.3x.

We remind you that we had higher levels, such as 2.7x at the end of 2017, and we have been consistently reducing leverage in recent quarters due to the improvement in EBITDA as well as the reduction in debt. That means that these two points are being addressed so we are not only focused on better results but also on how we use the cash we generate and thus we have prioritized a reduction in leverage.

Going to slide 9, where I will comment on net income. Here net income was the highlight of this earnings season. Proforma net income, that is, on a comparable basis, grew by 108%. After the effect from IFRS 16, that is, in a comparison that is not the fairest but ends up being delivered with the new accounting method, our net income grew by 82%.

So, regardless of the accounting rule that we look at, the top line growth is quite good. Here it is worth highlighting some points that led to this result. Firstly, the growth in EBITDA that we already discussed. Secondly, the reduction in financial expenses due to lower leverage and interest rates. And, the main discount effect was the reduction in effective tax rates where we reached 23.5% in the first six months, which is a very good level. Even without all the simplifications implemented in our corporate structure, we have been able to reach a normalized tax rate.

We still see possibilities for further improvement when we conclude the simplifications in our corporate structure that will allow us to distribute results by using Interest on Equity and thus we will have an even greater reduction in the effective tax rate. This was my concern when I joined Company, how we would be able to normalize this.

I think it's a point that has already been addressed. Concerns about our effective tax rate are already completely over and we still have great opportunities on this matter, even though we have made substantial reductions in recent years.

Following the slide 10, where we show our investments. Here, you can see a substantial drop in investments over the previous year, something we have been insisting on for a long time and now that our new phase does not require major investment needs, given that the bulk of expanding investment were made at the end of 2016 and 2017, we have room to grow in the next few years without expansion CAPEX. This is what we have delivered over the last two years.

This year, we expect total investment to be very similar or below what we had last year. This shows the real effectiveness of the Company's investments in a normalized growth scenario, because when we analyzed the Company's investments until 2017, we were always investing far ahead of our results for that moment.

So, the fact that we built an entire operational platform, with investments in technology, new units, PPP and they eventually distorted the Company's cash flow during a while, now I think it will be quite clear for investors to see how Alliar's cash generation profile looks like in a more normalized scenario.

Going to slide 11, we have shown this very clearly, that is, in the first six months of the year we reached an operating cash generation of R$ 103 million, a cash conversion rate of 71%. Cash conversion is something the Company has always delivered, and it is quite consistent at the Company's levels.

The biggest change is that we can see, in the indicators of the chart on the right side, that free cash flow, given the Company's investments, started to increase.

So, in the first six months of this year we generated around R$ 70 million in cash. This also has the affects for a comparison base, but it still shows an increase in cash generation, which demonstrates the ability to convert our business model into cash results, something that was once also a question but no longer a concern.

I think our numbers make it clear how resilient Alliar's business model is, how strong our cash-generating capacity and earnings improvement are. We are still in a scenario in which we think our performance is far below that we believe we can deliver in the coming years.

With that, I end my part of the presentation and give the floor back to Terni for his final remarks and to discuss the restricted shares program.

Fernando Terni:

Thank you, Fred. Before my final considerations, I will briefly comment on this new plan we approved. We are very pleased that we have been able to reach an agreement with the Company's shareholders that aligns the interests with the Company's stakeholders.

Both executives, shareholders and board members came to a conclusion that it was important to simplify the previous plan into this new plan, which is quite simple. The idea is that we will distribute up to 1.66% of the Company's capital stock if goals are met. This goal is also very clear and objective, which is the Company's net income in 2021.

We understand that this is not the most important goal, there are a number of other important goals of the Company, but they are met in the short-term result programs which are included in the bonuses paid to the Company's executives.

In the bonus payment, we reflect all the very short-term goals, and of course the biggest and most important are NPS, which is customer service, the quality of service we deliver, financial results as well. But we wanted to make the Restricted Shares Program as simple as possible and thus we focused it on the net income goal.

We set a minimum goal of R$ 100 million in 2021, with a cap of R$ 200 million. So, if we reach R$ 200 million, the Company will distribute 1.63% of its share capital. If we reach the minimum amount of R$ 100 million, we will distribute 50% of that amount.

And, the other R$ 100 million of the R$ 200 million that is the aligned goal of the Board of Directors will be delivered proportionally as number of shares.

With this, we understand that we align all the Company's stakeholders with the same objective of delivering, in 2021, an adjusted net income of at least R$ 100 million but with a perspective of reaching up to R$ 200 million. So that was the approved plan and it is in effect as of now.

Finally, I ask you to go to slide 13 for our final remarks. As we saw at the end of the presentation, the executives remain committed in the objected to guide the Company's profitability.

I would like to highlight the ramp up of the megaunits, especially in the most important location for us, which is the city of São Paulo, which continues at a good pace. I also highlight the new accreditations that are important for these units to grow. We were able to achieve important accreditations in these megaunits this past quarter.

I also highlight the higher productivity of the MRI machines, which are a major focus of the Company. We reached an average of 25.5 exams per machine/day in this semester. This is a 7% increase over the same period last year. This is an extremely important number for the Company's profitability, and it is also important because it ends the need for new machines.

I think our investments in technology have allowed us to increase the number of exams done by the same machine. That is, we can get much more out of our assets without having to increase our costs. This is extremely important. It was important so far and it will also be important going forward.

I would also like to highlight here that, although we had a smaller revenue this quarter, the major trends in which the Company is going through were present in this last quarter. I want to recall the increase in EBITDA margin, even in a very challenging scenario, we have seen GDP being consistently marked down, formal employment has not advanced in the country, yet we managed to expand margins and increase the Company's net income.

And here we have increased free cash generation, which is the most important indicator for everyone lately.

For the coming periods, we will continue to intensively use of technology and innovation to seek efficiency for the Company. All this will greatly contribute to the growth of the Company's operating leverage.

That said, we can now start our Q&A session where Fred and I are available to answer your questions.

Marco Calvi, Itaú BBA:

Hello everyone. Good Morning. Can you please give an overview of how the scenario is regarding exam prices with operators, for both AC and images? And how is the scenario for accreditation at new units?

I am referring specifically to the city of São Paulo. Can you comment a bit on how the latest negotiations were? Are you seeing any changes to this topic specifically? Thank you.

Fernando Terni:

Thank you for your question, Marco. I like to think the worst is over. We had a very difficult year in 2017. Clearly, this is reflected in our numbers this year. Negotiations are quite difficult indeed, but this year we are already beginning to feel an improvement.

I cannot go into much detail with you upon their request, but we have already managed to advance with some important accreditations, especially in the city of Sao Paulo. We had a very important accreditation at the Morumbi unit, which will bring us important growth.

We clearly noticed a change in mood in the city of São Paulo and in Minas Gerais, in the mid-west region. I like to think that we don't know what it will be like, how Brazil will behave from now on. You know, we always make this comment.

We heavy rely on formal employment. And this number has been lagging for the past two, at most three quarters. So every time you see formal job growth in the next two or three quarters, we experience a growth in insured lives, we see a growth in the use of health insurance.

So, this movement is natural. You saw that the growth in informal jobs, which is what we have seen in the past two or three quarters, did not reflect this growth. This is our difficulty. We begin to clearly see a positive trend to this curve. And we are starting to see, of course, lower productions from the operators' point of view. I think the worst is over.

Marco Calvi:

Perfect, Terni. Thank you.

Guilherme Palhares, BTG:

Good morning, everyone. I have two questions. The first is specifically about the machine efficiency we see rising once again. I would like to try to understand a little what we can expect from this line, especially looking forward to next year, in 2020, which is where you are really hitting the issue of efficiency and margin gain.

In addition, I would also like to ask about the IBR issue. Can you give us an update and how are the prospects in terms of closing new contracts? Something like that. Thank you.

Fernando Terni:

Thanks for the questions, Guilherme. The first question, regarding a growth indicator, this a fast-growing number because we have 116 or 117 resonance machines.

When we talk on average, we talk about the average amount of equipment. Not a number that will make a big leap. It's not something you will see a quarter on quarter growth by 5% or 10%. That does not exist. This number grows slowly.

It is important to observe this number and the consistency in growth. That is, you have the same asset base being used more times. Just to illustrate better, this morning I was passing by our panel and observing that today we units, in the state of São Paulo, where we have consistently done more than 50 exams per machine per day.

This is a very important data for you to note, that an average of five to eight machines doing 50 exams gives a dimension of what that number is. We have already commented with you that we have done tests, of course not in replicable conditions, that on a daily basis we have done more than 100 exams.

So it is a number that will continue to grow and should grow a lot. It is a very predictable point. Like I said, there's a machine doing 50 exams a day today. So, you can consider that this number will continue to grow steadily going forward.

Of course you can have one quarter or another, December is clearly a weaker month, that this number won't grow that much in a given month, but there is trend to this indicator.

Regarding IDR, we launched it as an idea last year. The Company formalized this company earlier this year. We have already signed some important contracts. We are already starting to see, still gradually, its contribution to our revenues.

Now, the most important thing to mention is that we have concluded, in this second quarter, some very reasonably priced pilots. We have not signed these contracts yet, but the most important thing for me here is to tell you that it is a concept that was and is being very well accepted in the resonance and tomography market.

I am quite confident. We have a dedicated team working at IDR. We will probably, by the end of this quarter, bring in their office, which will be equivalent to the "Cube" at HC. Then this company will have headquarters with other innovation companies. We have even talked with companies overseas and presented this project.

I am quite confident that we have a business model that will prove to be quite positive and appropriate for sure. It is a new idea. You know, we deal with doctors who, due to their training and careers are very conservative people and they should be, because they deal with human life.

So it's a slow movement, but it's a move in the right direction. So I would say that it is not a question of whether it will work or not, it is much more in terms of time for its implementation. The direction is correct, but the intensity of the movement depends on acceptance by the medical staff and other entities.

Guilherme Palhares:

Perfect. Terni. Going back to the question of efficiency per machine, can you share with us the specific number you are achieving with the operational hours of the units? Are we already seeing a greater use of this capacity, in terms of hours that these machines operate per day? Other than that, it's all very clear. Thank you.

Fernando Terni:

Our goal, as I told you, is to work with 85% of the agenda. So we have been adjusting the schedules as needed because, I would say it is like a plane fleet, if the plane is on the ground it is because I did not fill the seats. Here, same thing with the machines.

I am less concerned with generating schedules. Our units are opening from 6 am and closing at midnight. Unfortunately, I have no demand for all of this. So, I think the least concern is the schedules, because the cost variation is almost marginal, the important thing is the indicator, which has to be pointing in the right direction.

We have a fairly large asset base of almost 120 machines in operation, and I need to get the most out of the equipment. The same thing goes for tomography: we talk less about it, but we make the same measurements. Same thing for ultrasound, and so on.

So the focus is on increasing the use of equipment. Changing schedules is an almost marginal cost.

Frederico de Aguiar Oldani:

But in that sense, what I can tell you is that last year, on average, we didn't increase unit hours. We have been able to fill more available slots. We didn't make any major moves to increase last year's schedule.

On the contrary, what we did, which had a very important effect, was to reduce the gaps between schedules in several units thanks to all the efficiency we are getting with the command center and with protocol revision at most units. We schedule resonance exams every 15 minutes. Last year, most units scheduled them every 20 minutes. So it's a pretty substantial gain.

Fernando Terni:

We've been doing a very important job, too. Fred commented some efforts and there's another element, which is the call center algorithms. We have also made key investments in understanding and developing these algorithms, and this has already resulted in important reflections for this year's plan as well.

We can now schedule patients correctly according to machine, schedule and region. We have done a great job in developing these algorithms.

Guilherme Palhares:

Great. Thank you.

Operator:

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