Operator:

Good morning, ladies and gentlemen. Welcome to Alliar - Centro De Imagem Diagnósticos S.A., 4Q17 earnings conference call. Present here are Mr. Fernando Terni, Chief Executive Officer and Mr. Frederico de Aguiar Oldani, Chief Financial Officer and Investor Relations Officer.

The live webcast of this call is available at Alliar´s investor relations website at ir.alliar.com and at the 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:

Thank you. Good morning, everyone and thank you for joining our 2017 earnings release call. I would like to start with a brief 2017 retrospective. At that year we have concluded an important cycle, focused on the expansion of our geographic presence through M&A, the increase of our productivity capacity in the existing brands, the streamlining of our operations, seeking operational improvements and, most importantly, the quality of our medical services.

Let us start on slide number four. In 2017 we invested more than R$ 250 million in expansion. As you can see in this picture, we have opened five new megastores, three of them in São Paulo, as a result of unique market opportunities we have in the city.

And it is also important to reinforce that in 2017 we had anticipated the opening of those megastores that were originally planned for 2018 and 2019. Just as a reminder, each megastore has a revenue potential of R$ 50 million per year.

Furthermore, it is also important to note that we have concluded investments in the RRBD – our PPP, alongside the Bahia State Government –, which will allow us to start 2018 with full monthly revenues until the end of the contract. In 2017 we also made three acquisitions, one of them Multiscan, the leading company in imaging diagnostics in the State of Espírito Santo, where we have already operated under the CDI brand.

With that acquisition we consolidated our presence in the region, with almost 50% market share. The other key acquisitions refer to small clinical analysis labs, an important step to get the accreditation and also the roll-out of our clinical analysis strategy.

If we move on to slide number five, we can see the three strategy pillars of Alliar – patience satisfaction, operational efficiency and medical quality. Let us start with operational efficiency. In 2017 we have directed a great amount of time and effort to these pillars. We concluded the integration of our RIS and ERP into a single drive-based database, providing better quality in the patient journey as well as an effective billing and cancellation control.

We have also centralized our call center operations into a single site here in São Paulo – in Barra Funda –, which granted future cost synergy and greater scheduling efficiency. It is important to highlight that this movement put us in a privileged position to achieve efficiency improvement through automatization and also robotization of our operations.

Regarding patient satisfaction, we have promoted important changes into our data capture methodology and net promoted score. Now we have more robust information on our patient journey. That will allow us to evolve considerably in this matter. Those that have had the opportunity to visit our headquarters in São Paulo could have a closer look on the level of tracking and remote control of this patient journey with the system integrations we have promoted.

To conclude this slide, on the medical quality pillar, I would like to highlight the results that we got on the standardization of our medical protocol in different exams, especially MRI. The result of those efforts in other regions is a reflect of the productivity increase we have in different aspects. As a highlight, the volume of MRI rate per machine has increased 7% in 2017.

Moving on in our presentation, we highlight on slide number six some of the relationship models we have developed in the commercial area. We now offer to some healthcare operators an innovative virtual verticalization model, which enables the utilization of our services network, but also produces mutual benefits.

As an example, the model with Prevent Senior, which grants a higher utilization rate in our equipment and, at the same time, allows the operator to grant better assistant within the legal deadline, avoiding fines and allowing cost reductions to our customers.

We also evolved in commercial partnerships with other big national operators that seek quality services at an attractive cost, so we can expect for 2018 an increase in our exams volumes from those new contracts.

Furthermore, as a result of the innovations in Alliar’s remote operations, such as the command center, in 2017 we began to sell lab-to-lab imaging services to external customers seeking cost optimizations. This new model opens the door for new business with greater and additional revenue streams.

On slide seven, we detail the main actions in the medical front in 2017. One of the most important medical fronts for Alliar has been the re-evaluation of reports by peers. One of the benefits of the large and diverse clinical staff we have is the possibility of internal validation of diagnostics by another physician, alongside the possibility of requesting a second opinion in case of highly complex exams.

Also, through the increased volume of reports from radiologists, it has become possible to increase the offer of exams in different locations through the medical staff’s diverse specializations. Through the command center, now we operate with three major suppliers. We have also expanded to CT scanning.

We have now developed the standardization of medical protocols, meaning that it does not matter in which unit the patient’s exam is being performed, we will deliver the highest standard and quality available in the Company. *

In 2017 we implemented the medical concierge in our main brand, aiming at strengthening the relationship we have with physicians through a differentiated communication channel with Alliar, which allows direct access to our main radiologists. Finally, in an even more innovative way, we are looking for new medical productivity tools in 2017, such as the multisensorial report and also the resolutive diagnostic models in future diagnostics, with greater productivity and lower costs.

Finally, on slide number eight, a brief summary of Alliar’s growth strategy. In 2014 we have merged with CDB, our brand in Sao Paulo). In 2015 we started a private-public partnership in Bahia. In 2016 we concluded the acquisition of Delfin, the leading company in the Northeastern region of Brazil and in 2017 we completed the cycle of expansion with the opening of five mega units, the acquisition of Multiscan and the acquisition of small labs of clinical analysis.

It is important to notice that, in addition to the expansion seen, we have maintained the focus on technology, medical quality and patient experience, seeking to strengthen the foundation of Alliar’s differentiated business model. We have achieved significant advances with integration and increased operational productivity through the physical centralization of our call center and the new command center, now operating to GE and Philips’ MRIs.

With that, I invite Frederico Oldani, our CFO, to discuss in more detail the quarter's and year's results. After his presentation I will be back for the Q&A. Thank you.

Frederico de Aguiar Oldani:

Hi. Good morning, everyone. I will start my presentation on slide number ten, where I am going to comment on the quarter and year results. First, I would like to highlight the great performance of revenues, both in the quarter and in the year. In the quarter, we reached 13.17%; in the year, 16.9%. impacted by same-store sales of 6% in the quarter and 9% in the year, driving the continuous growth of existing units at the same time that the company adds new-mega units.

On the EBITDA side, our EBITDA reached R$51.5 million in the quarter – 7.2% higher than the previous quarter, and R$222.8 million in the year – a 9.6% growth compared to last year. It is important to highlight that adjusted EBITDA was negatively impacted by the fact that we had six megaunits opened since the 3Q16 and those megaunits had some important negative impact on our short-term margins. Certainly, we have compromised 75% of the fixed costs over there whereas their revenue level typically take three to five years to reach the full potential.

On net income, recurring net income reached R$4.7 million in the quarter and R$24.6 million in the year. On operating cash flow, it is important to highlight that the Company continues to generate a lot of cash – R$65.3 million in the quarter, 107% of EBITDA cash conversion. In the year, cash generation was R$176.3 million, a growth of 17.1% compared to last year.

Growth in recurring operating cash flow highlights the Company's business model works and has a lot of potential to generate operating cash flow, even in a tough environment. We would also like to highlight the centralization of call centers. Now all call centers are centralized in the new contact center in the city of Sao Paulo, which opens a lot of room for us to explore benefits from automatization and robotization in the future, with a lot of benefits in both cost reduction and also in the reduction of call times.

I would also like to highlight NPS, which reached 68.9% at the end of the quarter. It is important to mention that, during the quarter, the Company increased a lot its opportunities and methodology of capturing data, which now reflects much better the real satisfaction of patients than the previous model did. As a result, we continue to post very strong numbers on NPS.

Finally, we would like to highlight the implementation of the new ERP, which is now in all Alliar brands, running under the same database in the cloud. This is very important, because it allows us to improve a lot in our internal control processes and also in our order-to-cash process, with significant benefits that we will start to capture in the future, in terms of reducing losses throughout these processes that are related to this new consolidated IT products here.

Moving on to slide number 11, I would like to comment on our growth throughout the year. In the year, we added six new stores, but these stores were a combination of six new megastores plus some closure of operations where we changed less productive MRI machines to more productive locations – locations where we see much better profit to use all the MRI contract.

When we look at MRI in the year, we only added six machines, but actually we ended up moving 12 machines, because we relocated some to better locations. On the clinical analysis, we added six new rooms in the year. It is important to say that we are still ramping up those rooms. We can see that the productivity of those new rooms are still way below our average, but it is very much in line with our business plan.

And it is important to highlight as well that variable cost associated with running those clinical analysis room are low and the Company invested very little to open those rooms, so the positive impact will be very important as we mature them.

Moving on to slide 12, we are going to comment on revenues. Revenues in the quarter grew 12% and 17% in the year. MRI is now our most important exam, grew 11.7% in the quarter and 16.8% in the year, mostly driven by increased productivity, which is very important, at the same time that we keep adding new machines.

Clinical analysis also increased significantly in the quarter and in the year. In the quarter, it reached 18.1% and in the year 13.9%, showing that the Company's strategy of offering clinical analysis and cross-sell at existing units is going pretty well, as planned.

Moving to slide 13, we see common costs and expenses. As we have mentioned, the impact of the new megastores and also investments on the PPP had an impact, especially on the cost line. In the year, we ended up having the cost of construction and depreciation of amortization growing higher than revenues, leading to a small contraction in the gross margins for the year.

But until the end of the investment cycle we can also see that during the 4Q we had costs grow below revenues, which is something we expect to continue happening throughout 2018 and 2019, especially after the disinvestment cycles are over.

On the expenses side, it is important to mention that in the quarter there were a lot of one-off effects. Both in 2016 and 2017 there were important one-offs, but there was one specifically that I will comment a little bit further on, which is the write-off of receivables. Throughout the quarter, the Company launched a very important improvement in internal controls and in reconciling some of balance sheets accounts, Alliar improved the IT platform and created new processes of order-to-cash control.

We identified around R$50 million in receivables that the current management understands are not billable. We understand that there was a need to impair those assets and incur the loss of R$50 million in the quarter. We also had the positive impact of around R$4 million in the quarter. It is important to mention that the losses do not necessarily reflect any relevant impact on the future revenue growth.

We understand that our current level of provisioning for losses is pretty much in line with the scenario we are seeing today. When we look at provisions of 1.2% of revenues for losses. We revised that level to 1.8%, starting on the 4Q17 and we are seeing that this new level is very adequate to reflect this losses scenario.

Also, the new order-to-cash process that were implemented throughout the quarter guarantee that we have much better control over processes now and guarantee that in the future we will not suffer this kind of problem again.

Moving to slide 14, commenting on adjusted EBITDA: it was R$51.5 million in the quarter, R$222.8 million. In the year, adjusted EBITDA margin reached 21.4%. This is still way below what the Company understands is our potential for recurring EBITDA, impacted by the fact that we had a lot of capacity over the last year and specifically the maturity of those investments will happen in the next three-to-five years.

We are very confident that the current EBITDA margins do not reflect all the assets that the Company currently holds in its balance sheet. Moving on to slide 16, I will comment on financial results and taxes. Financial results were around 19% higher than in previous years.

This is mostly explained by higher debt compared to last year and also some differences in the basis of comparison from 4Q16 to 4Q17. In 4Q16 there was some interest that were capitalized, whereas there was no interest capitalized in 4Q17.

If it were not for those effects, we would expect the lower levels of interest rates to have a more positive impact on the 4Q17, but it did not happen because of these differences in the basis of comparison. For the year, our financial expenses reached recurring R$71.5 million.

The total financial expenses were higher. There was a moderate impact of R$6.7 million in the quarter once the Company issued new debentures and those debentures were used to pre-pay existing debt.

This existing debt had market-value different from the current value and also there were some pre-payment fees associated, generating a negative one-off impact of R$10.5 million in the quarter, which was somewhat compensated by a R$3.8 million of gains in the correction of some judicial deposits.

Income tax was significantly impacted non-recurring events in the quarter. There were two main impacts. One of them was associated with the write-down of deferred tax liabilities, associated with the fact that acquisitions made before 2014 and not incorporated until the end of 2017.

Now we cannot pay this kind of deferred taxes anymore, because as of 2017 the tax and accounting basis must be equal, so there was a need to account for this write-down of liabilities.

Also, we had nearly R$16 million of deferred tax assets recorded in the quarter, based on past losses of past periods, which had not been recognized. Even the new study that the Company did, which allowed us to increase the total of deferred tax assets, it was around R$92 million and now is around R$120 million, which allows us to recognize these deferred tax assets and those R$16 million. The Company actually expects to reduce tax payment in the future, different from the deferred tax liability, which was only on accounting.

Now moving to slide 16, net income reached R$4.7 million in the quarter, R$24.6 million in the year. Net income was lower than in the previous year, but it is important to mention that this was somewhat impacted as the Company accelerated significantly its investments and it had a consequence in debt levels, which remained very high throughout the year; and very high interest rates as well.

As the Company is going into a new investment phase, in which we expect to invest way less than we did in the past and also mature investments made in the previous cycle, we understand that we have very positive prospects for net income growth in the near future.

Going into slide 17, cash flow was a very positive highlight, both in the quarter and in the year. In the year, R$176 million of recurring operating cash flow, which is very positive. 79% of cash conversion, showing the strength of the Company's business model and, combined with the reduction in the investment plans for the next cycle from 2018 to 2020, the Company actually expects to reach operating cash flow from now on, actually turning it into profit free cash flow as well.

Debt, as a consequence of all investments made in the year, ended up reaching R$706 million in total, R$611 million net debt. The net debt represents 2.7x EBITDA, which is consistent with the Company's covenant, but it is ahead of what the Company understands would be a normalized leverage level. It is important to mention that in 2018 the Company expects to use most of its free cash flow generation to reduce debt.

Finally, going into investments. The investments for the year, when we account for organic investments, acquisitions and investments on the PPP, ended up reaching over R$260 million, 41% higher than in the previous year, when we invested R$189 million. It is important to mention that, in the 4Q, we came to the end of the investment phase, when our investments were almost 50% lower than that of 4Q16, but we are still investing on organic capacity.

This year we expect CAPEX to be significantly lower and the Company is not planning any relevant acquisition through the year, ensuring that, with a reduction in investments, in free cash flow is expected to be very positive in the year and this is something that is very different from what we had throughout the last cycles.

We created an asset base that will guarantee that in the next cycle we have a very good platform for short-term growth, margin expansion and value creation.

Now I am going to move back to Terni for our Q&A. Thank you.

Vinícius, Itaú BBA:

Thanks for taking my question. The first one is regarding the competitive scenario. We saw a lot of players expanding their operations in the city of São Paulo last year and we would like to know how you see the current competitive environment in the city.

And my second question is: we saw the write-down of almost R$50 million. You already commented about that. Could you explain a little bit more about the nature of this impairment? Can we see a future impairment going forward? Thank you.

Fernando Terni:

Thank you. Let me start answering the first part of your question, about the market. What we have seen so far in the 1Q18, especially in São Paulo, which was your question is: it has been one of the strongest growth in the quarter. We are very confident on the investments we have done last year.

As for the new megastores in São Paulo, we have been very positive. We have installed the second MRI in Morumbi about three weeks ago. Last week, we concluded the installation of the second MRI in Mooca and we are very satisfied with the developments in a new region – in the ABC region in São Paulo.

With that, I think São Paulo, which was your question, has been very positive to us. It has been the best growth we have seen in the Company. Expanding (a little bit) my answer, in Bahia we have seen quite an improvement; not a flat market. The same also in Espírito Santo. Another positive surprise was Minas Gerais, especially Belo Horizonte. Our relationship with local payers has been very positive.

All we know, what we have seen so far in 2018 is that the market is not growing as much as it was growing in the 1Q17, but in the regions where we have made most of our investments, growth has been very positive, so we are very confident in 2018 so far. With that I will pass the floor to Frederico, for the second part of your question.

Frederico de Aguiar Oldani:

Hi, Vinicius. Regarding the write-down: they are a consequence of the Company's revising of all receivables in the balance sheet throughout the 4Q in order to understand what was actually billable. The order-to-cash process works like this: you do an exam, then you have some time in which you need to collect a lot of documentation from that specific exam and send to the HMO for that exam to become a receivable.

The analysis that we did was all exams that were recovered as revenues and were not effectively billed and we needed to understand, given all the available documentation and all the contractual terms that define for how long that exam is actually billable; and we did this analysis for every brand and every different HMO, because each brand has different contexts with different HMOs and they do not necessarily have the same billing procedures.

What we ended up realizing was that there was around R$50 million of receivables that the Company could not collect because of mainly two reasons. One was that we did not have enough support documentation to actually make the bill, the collection. The second reason was that, even though in some cases we did have the necessary documentation, the collection period had expired.

That means that even though we had all the right documentation, there are some HMO that requires them to be collected within 90 days or similar periods. Whatever exceeds those periods cannot be collected anymore.

When we run this kind of analysis, we realized that there was around R$50 million that could not be actually received, so we understood that we needed to impair those assets. The most important things associated with this process are: first, we understand that this write-down does not necessarily mean that going forward the Company has much higher expected losses.

Given our current analysis, by adding 0.5 p.p. in our provisioning, moving from 1.3% to 1.8% in a prospective way, we are covering for the existing losses on the current rates. This is very important, because we expect the impact, moving forward, to be 0.5 p.p. of revenues. This is important.

The second point is that, if you look at the cash flow generation, you see that, even though we made this write-down, cash generation was very positive, both in the quarter and in the year, showing that those impairments did not actually affect the Company's ability to generate cash flow. These are two very important points.

This is why we understand that those write-downs are non-recurring events with very small impacts on the future cash flow generation prospects. It is also important to mention that we are very confident that with our new internal control processes, combined with our new IT platform, since the end of the year we have all the Company's plans under the same database, in the cloud, which allows us to centrally manage and control all the order-to-cash processes.

Since the end of last year, we have created a new structure in the holding, which is the revenue assurance area, with which it is possible to control all the processes. And since we have this new linked and centralized IT platform with all the information, we have all the necessary means to be way more effective in collection processes and also in controlling all the relevant KPIs to make sure that we convert most of our productive exams into cash flow generation.

So, we are very confident that with the write-downs we cleared everything that needed to be cleared and we have a much more robust process in place, which much smaller impact on future cash flow generation prospects.

Vinícius:

This is very clear. 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 being present in our call. As closing remarks, I would like to stress the fact that we have now concluded our cycle of growth in 2017 and we are pretty much ready for the year starting in 2018, in which we will be focused on increasing the usage of our assets. As we described, we made a lot of efforts to streamline operations and improve methods on medical protocols. We are very confident on the path we have chosen.

Innovation will be key in this new cycle, not only in the call centers, the reception but also the technical and medical part. We have done a lot of investments on improving the productivity of the processes and we are quite confident on this new cycle.

I would also like to stress that with this new ERP, combined with the new RIS, all of this in the cloud, we are very confident on the new controls that were put in place.

As Fred described, we do not expect any new write-downs as we have seen in the last quarter. That being said, I hope you will be with us in the next conference call and I thank you very much for your presence.

Operator:

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