

1Q20 Earnings Conference Call

Operator:

Good afternoon, ladies and gentlemen. Welcome to the conference call of Alliar – Centro de Imagem Diagnósticos S.A. To discuss the results for 1Q20. Today with us we have Sami Foguel, CEO, and Frederico de Aguiar Oldani, CFO.

This event is being broadcast live and can be accessed on Alliar's investor relations website (ri.alliar.com), where the presentation is also available for download. We would like to remind you that questions may be submitted via telephone and through the platform.

All participants will be in listen-only mode during the Company's presentation. After the Company's remarks, we will begin the Q&A session, when further instructions will be given. Should any participant need assistance during this conference call, please press *0 to reach the operator.

Before proceeding, we would like to point out that any forward-looking statements that may be made during this conference call about the Company's business outlook and operating and financial targets and projections are based on the beliefs and assumptions of Alliar's executive board, as well as on information currently available to the Company. Forward-looking statements are not guarantees of performance as they involve risks, uncertainties and assumptions because they refer to future events and therefore depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the Company's future results and lead to results that are materially different from those expressed in such forward-looking statements.

I would now like to give the floor to Sami Foguel. Sami Foguel, you may proceed.

Sami Foguel:

Good afternoon to all, and thank you for participating in our conference call to discuss the results for 1Q20. Before I begin the presentation, I'd like to say that I hope that you, your family members and friends are safe. We are going through critical times. Rest assured that the entire team of doctors, nurses, the other employees of Alliar and I continue to work in order to fulfill our greatest commitment – health care.

Two months went by since I attended my first earnings conference call at Alliar. At the time, I assessed my performance during my first 100 days in management. We disclosed the results for 2019 and shared our strategic vision for Alliar. On that conference call, we alerted to the negative impacts of COVID-19, but we couldn't measure its magnitude.

In terms of sales growth, January, February and mid-March were in line with our expectations. As of March 18, we began to feel the strong and consistent effects of the pandemic.

We took swift action. Before experiencing an actual impact on your revenues, we adopted a proactive approach. On March 12, I set up a Crisis Committee. Ever since, the Committee has been meeting on a daily basis. The entire senior management attends this forum, where we monitor the evolution of the indicators on a daily basis, discuss issues and solutions, and prioritize initiatives.

The Crisis Committee has been working under four operating fronts, namely: guarantee of financial liquidity and cash reinforcement; safety of patients and employees; operational integrity; and strengthening the Company for the future.

Regarding Financial Liquidity, we reinforced our cash balance by raising R\$230 million, at an average cost of CDI + 3.5% p.a. We also took important austerity measures. For instance, we adjusted our operating capacity. Still in March, we closed 45 units and reduced our service hours.

We are continually assessing the re-opening and closure of units on our executive agenda in light of major regional aspects. We anticipated and developed a temporary employment contract suspension program prior to Executive Decree 936. Subsequently, this program was successfully adjusted, in order to meet the requirements of Executive Decree 936.

We temporarily suspended our expansion plan. We scheduled dividend payments in the amount of R\$10.3 million for the end of the year. We successfully renegotiated contracts with suppliers and partners.

In addition to these initiatives, we continue to thoroughly review our costs and expenses. Regarding the safety of our patients and employees, I point out that we advised our employees on the appropriate measures to avoid contagion; expanded physical distancing among workstations; standardized the use of personal protective equipment, such as gloves, masks and hand sanitizers; temporarily removed high-risk group employees, or those with any COVID-19 symptoms, from their activities; implemented differentiated patient flows in the reception area and when caring for symptomatic patients; provided remote psychological support to all our employees, and medical assistance to those who have been temporarily removed from their activities as a result of their symptoms of/contagion with COVID-19.

I'd like to highlight the Drive-Thru and Alliar na Sua Casa (Alliar at Home) projects, which not only represented safety measures but also initiatives that contributed to mitigating the impacts of COVID-19 on our results as of April. They'll certainly contribute to the strengthening of our future regarding clinical analysis.

We pioneered the Drive-Thru project, which began operating on April 13, and currently has 24 collection lines in 9 municipalities. In this service format, patients can schedule both quick laboratory and PCR tests to be done inside their own vehicle. The Alliar na sua Casa (Alliar at Home) program, which provides customers with home service, was strategically revised. Before the crisis, the channel was restricted for collection and clinical analysis. We once again pioneered home ultrasound and heart tests in a systematic manner.

Regarding Operational Integrity, we seek to maintain our ability to operate continuously. We successfully decentralized one of our most sensitive areas, i.e. the Command Center, which is equipped with a radiology technical team responsible for operating MRI machines remotely. The measures taken allowed us to maintain our Command Center operating at full capacity.

The operating model of other essential areas, such as the Call Center and the reception of units, was also adjusted. We intensified communication with all our employees. We created a greater flow of information, in order to address our multiple realities and, when necessary, we develop immediate action plans.

The Company's management and the other administrative areas remain productive and working remotely. To date, our operating capacity has been very successful.

Finally, we must speak about our future. We are aware that the coming quarters will be challenging due to the direct impact of COVID-19 on our operations and the expectation of high unemployment rates. Despite the uncertainties imposed by the factors that we don't control, we are actively laying the foundations that may help sustain our growth resumption.

We also believe that the initiatives already taken, and our ongoing projects may bring robustness to Alliar's operations after the crisis is over. Among the initiatives taken, I'd like to point out that an important part of our organizational structure has been changed, which reflects our strategy to resume growth.

I created an operational area with all regional executive officers, in order to share best practices and maintain our focus on operational efficiency. At the same time, four commercial executive areas report directly to me now.

We currently have one Commercial Executive Area for Operators, one Commercial Executive Area for customers/retail, one Commercial Executive Area for the public sector, and one new leader to develop iDR, our new B2B imaging.

In addition to this first level change, we hired new talents to work in other Company levels, further strengthening our teams of marketing, call center, internal communication, press relations and investors relations, among others.

I'd like to take this opportunity to thank Francisco de Paula for leading the Investor Relations Department for three years and a half. He'll now take on a new challenge in the Finance Executive Area. I'd like to welcome Karina Lozano, who will occupy his former position. The mix of existing and new talents is proving to be very positive.

On the commercial side, I'd like to share our view on the dynamics for the future. We have clear examples of a new approach. The Alliar na sua Casa (Alliar at Home) and the Drive-Thru projects triggered the association of our brands with clinical analysis. Our clients are becoming increasingly aware not only of our imaging tests but also of our clinical analysis services under several brands throughout Brazil. These projects are also attracting the attention from new audiences to our units, which will benefit us over time.

We continue to formulate value proposals for the out-of-the-pocket segment. We are excited about the results of our pilot projects and we continue to evolve. We implemented a new structure to focus on the public segment, which will begin operating in June. In the first two months of the year, we broke a record in new iDR contracts. We are prepared to resume our growth as the business environment recovers.

We have just launched our telemedicine platform under the iDR brand, better known by many as "iDoctor". We will focus on our requesting physicians and on proposals for our retail customers. We improved and expanded our scheduling and digital communication channels. These are only a few initiatives that will strengthen us for the future, even though it is uncertain.

We are relentlessly working on our resumption project. It is undeniably the new commercial dynamics. In a short period and amid the crisis, Alliar is already showing a new posture towards innovation and business agility. In one of the cities where we implemented the Drive-Thru operation, a traditional competitor reported us twice to competent authorities, and I was pleased to see that as soon as these reports were proved inaccurate, said laboratories also adopted the Drive-Thru format.

The entire team and I are extremely satisfied to make Alliar a benchmark company not only for our patients but also for the other players in the market. Of the 45 units initially closed, we have already reopened several units and extended our service hours in some others. We continue to assess potential closures and reopenings. Our situation is currently better than it was in late March and mid-April.

However, it is important to point out that the demand is challenging and volatile, and we cannot predict the pace of resumption, or the new normal. Before I conclude, I'd like to take this opportunity to remind you that we have recently extended our Shareholders' Agreement for another year, with automatic renewal.

I'd like to thank our majority shareholders for their trust in our project. I will now give the floor to Fred Oldani, our CFO, who will comment on our financial performance.

Frederico Oldani:

Good afternoon to all. I hope you are all safe. I'll begin my presentation on slide 9 by briefly talking about the financial highlights for the first quarter. Alliar's net revenue totaled R\$235.7 million, down 9.9% over 1Q19.

It is worth noting what Sami has already mentioned – our performance was reasonably normal until mid-March.

In the second half of March, our demand fell sharply, as you can see in our disclosure documents. Our sales performance dropped by around 75% in relation to what was considered normal. This was our lowest performance as a result of the COVID-19 impacts.

Nevertheless, we have seen a substantial improvement over time, partially because our operations began to recover. They are not at normal levels yet, but we see a positive effect coming from the COVID-19 tests.

Our gross profit reached R\$40.7 million and EBITDA totaled R\$36.5 million, which generates margin contractions of 9.5 p.p. and 12 p.p., respectively.

It is worth noting that the measures taken at the beginning of the Committee Crisis did not impact the results for the first quarter. That's an important point. However, these measures will have a significant impact on our results as of the second quarter.

As Sami mentioned, we were able to take swift action. But when the crisis hit, we were working to streamline our operations, expand our units and hire new employees. In other words, we were going through an expansion period.

So, we dramatically changed our direction to set the Company in this new operating mode, and the results for the second quarter made it very clear. Finally, the pandemic led us to a loss of R\$21.7 million this quarter after consecutive quarters of profit. I'll talk about financial result and debt on the following slide.

The Company's debt reached a net debt/EBITDA ratio of 2.23x. Here's an important point: our guidance for the end of the year was to reach a net debt over EBITDA of around 1.5 and 2x. We are withdrawing this guidance because the current scenario does not allow for any kind of projection for the end of the year, given the uncertainty, which is mainly related to the COVID-19 effects and how long this will impact our operations.

Still, the Company has been intensifying its efforts in order to reinforce the cash position and guarantee its liquidity. This was an important factor for the Committee Crisis. We reinforced our liquidity by around R\$230 million, at an average cost of CDI + 3.5%, which is very reasonable for the current moment, and R\$160 million of which was allocated to our cash balance in March. Therefore, this amount is already reflected in this balance. The remaining R\$70 million was allocated to our cash balance in April.

Thus, the Company's current cash position is R\$350 million, which is more than enough to meet its financial obligations scheduled for the end of the year. Regarding cash generation, despite the revenue challenge, the Company managed to generate R\$38.6 million in cash, with a cash conversion rate of 106.4% – a very positive point.

The free cash flow was also positive by R\$21.4 million at the close of the quarter, in line with last year. We'd like to remind you that our investment levels in 1Q19 were higher than we can expect for the coming quarters, as a result of our expansion efforts before the COVID-19 pandemic. Looking to the post-COVID-19 scenario, as Sami mentioned, all investments were suspended, which will help us maintain a positive cash generation over the coming quarters.

These were my considerations concerning the results, and I would now like to open the Q&A session. Thank you.

Fred Mendes, Bradesco:

Good afternoon to all. I hope everyone is doing well. I have two strategic questions. The first question is about your digital strategy – since the beginning of the pandemic, several companies from the sector launched their products, i.e. the telemedicine platform, and others. How do you see your competitive advantage? How do you currently evaluate this product potential?

The second question is about your market view. We see that elective surgeries are being postponed due to the pandemic, which had a great impact on our exam volumes. But my idea is to understand if elective surgeries will be back at a certain time, not all, but most of them. How are diagnosis services going to react? In other words, taking into consideration 100 surgeries, 80 will be elective surgeries. Will diagnosis services follow this trend, or are they slightly different and won't recover in the short term, due to the postponement in most of these years? Thank you.

Sami Foguel:

Thank you, Fred. From a digital viewpoint, Alliar already has important competitive advantages, i.e. the integrated service platform and the integrated service database. We successfully made this investment last year, which allowed us to serve patients in a fully digital manner. This is very important.

We are making progress in this front. From a digital communication viewpoint, we made significant progress as of April. It was a gap we needed to fill. We have been filling this gap very quickly, so this is good news for us.

And with the new strong team that I mentioned, it is important that we have digital communication. On April 2, we launched digital scheduling for all brands, which we did not have yet. So, from a digital channel viewpoint, we made significant progress. A significant portion of exams are currently scheduled in an end-to-end digital manner.

And from a telemedicine viewpoint, we launched the iDoctor platform, in which we firmly believe. It has initially two functionalities. The first is to facilitate communication between requesting physicians and patients. This is being well rated by our medical partners and by the marketplace that is able to serve retail customers and various segments, eventually becoming requests for our services.

I think that the platform is really good. Based on iDR and its ability to innovate and quickly come up with new solutions, Alliar has a unique digital approach. About elective surgeries, I think that it's a

very important discussion, as healthcare plays such a crucial role at this moment, as well as healthcare operators.

Great news is being reported, such as the drop in pathology analyses and the 75% decline in essential exams. We need to understand that elective surgeries are essential for life.

We have fundamentally positioned ourselves in relation to this with the Alliar na Sua Casa (Alliar at Home) project and its brands. We were primarily focused on clinical analysis, but we added ECG, ABPM and holter exams to our portfolio, as well as a series of medical specialties to serve our patients. Our units are very well prepared with a series of operating procedures.

The fact that we offer COVID-19 tests outdoors, mainly through the Drive-Thru operation, helps us maintain our units focused on another elective surgeries, which is very important.

Futurology is a bit difficult, but the elective surgeries are essential. And life is essential, and we are prepared to serve our patients. It is important that they take care of themselves.

Emerson Vieira, Itaú:

My first question is about liquidity. You mentioned you raised R\$230 million, and that this amount is enough to meet your financial obligations for 2020. What was the stress scenario taken into consideration at the time of the fundraising? How do you see the company's current situation? Will you need to raise new funds?

The second question is more strategic. During this pandemic period, given the significant decrease in the revenues of healthcare operators, there is a relevant discussion about the speed to change the payment model from the fee-for-service to a model based on history and resolution. Do you expect this change in payment model to speed up?

Frederico Oldani:

Concerning cash flow, it is worth noting that the funds raised were essentially to cover financial maturities, as on the operating side we are comfortable and don't have cash needs until the end of the year.

On the operating side, our cash generation is at very comfortable levels, due to the measures taken to reduce investments and costs, and to renegotiate contracts. The Company's cash generation was positive in the first quarter and should continue to be positive in the third quarter.

We have a solid working capital in accounts receivable, which, in a scenario of declining revenues like this, helps to reinforce our cash generation. So, we don't see any problems with receipts from own main payers. So on the operating side, we remain comfortable.

What we mainly did was to allocate our needs to roll over debt until the end of the year to our cash balance. Even in more challenging scenarios, the Company's cash position is preserved. Regarding the payment models, we believe that it is too early to discuss this, as healthcare operations are not normalized yet.

Before discussing payment models, we believe that we need to discuss how to facilitate digital services and reduce bureaucracy related to procedure approvals. In order to reduce the risk of contagion in our units, we must ensure that patients have the minimum amount of interaction while doing the bureaucratic work.

For example, you cannot expect a patient to spend 10 minutes in the reception area filling out documents and requesting approval for a medical procedure. This type of process is inconceivable in times like this.

Therefore, our view is that we first need to change how laboratory procedures are approved, reduce the bureaucracy required to provide services and implement paperless service charges, in order to speed up the process. So, we are prioritizing safer access to patients who really need to do exams, ensuring less interaction and reducing the time spent in the units. We don't see discussions related payment models as a priority now.

Question via webcast:

How do you see this improvement in working capital from now on? It is sustainable?

Frederico Oldani:

Yes. Due to the decline in revenues, more working capital is released. There is no relevant change in our receivables profile. So, we continued to receive the payment related to the production of previous months.

Regarding payments, we renegotiated several contracts with our suppliers at the end of March, in order to reduce prices and extend terms.

We believe that this should last until the end of the crisis. We should maintain our gains mainly because we are receiving full payments related to the past production. We see a positive scenario for working capital throughout the second quarter.

Question via webcast:

Can you comment on the revenue performance of the other brands of the Group?

Frederico Oldani:

The CBD brand, in São Paulo, was the first to experience a decline in demand due to the quarantine. In general, the other brands of the Group followed this downward trend. Now we started to see a recovery. But we also noted some differences in our areas of operation, according to the peculiarities of each region.

Operator:

The Q&A session has come to an end. Sami Foguel will make his final remarks. Sami, you may proceed.

Sami Foguel:

I'd like to thank you all for participating in our conference call via telephone and through the webcast. Our meeting was attended by 100 people interested in learning more about our projects.

I'd like to briefly tell you that this is the third crisis that I've been through over the past five years. In 2015/2016, Brazil went through a major aviation crisis. In 2017, an important operational challenge related to the aviation segment in Portugal, which could have had an impact on thousands of customers in more than 30 countries across the four continents, was solved.

This is undoubtedly the major systemic crisis we've ever been through. We are primarily focused on cash balance, the continuity of our operations, the health and safety of our employees and patients, the mindset to seize opportunities along the way, as well as on the tireless collaborative work performed by our entire team.

I'd like to congratulate our staff on its excellent work, agility and assertiveness to perform the Company's plans, as well as on its outstanding performance to serve our patients. I'm glad because despite the challenges, we continued to be focused on shaping our future.

We have a new structure, and new talents joined our staff. The iDR brand and the public and retail segments are making progress. And we are also highly focused on the healthcare operators. I wish once again that all of you and your loved ones are safe. If during this quarantine you need to do exams, whether related to COVID-19 or not, go to one of our units, Drive-Thru, or request a home visit. We are prepared to serve you in a safe way.

Good afternoon to all.

Operator:

Alliar's conference call has now ended. We thank you all for participating. Have a good afternoon.

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