Operator:

Good morning, ladies and gentlemen. Welcome to Alliar - Centro de Imagem Diagnósticos S.A., fourth quarter of 2016 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, 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:

Thank you. Good morning, everybody, and thank you for attending our conference call.

So let's start on page three of our presentation. As you will see, 2016, although quite challenging for Brazil, was a memorable year for Alliar. We closed 2016 with revenue growth above 37%, reaching R$1 billion.

Our pro-forma adjusted EBITDA amounted to more than R$207 million, thus a margin of 22.5%, which meant an improvement of 81 b.p. This is the result of various operational improvement projects, as well as the capture of synergies from acquisitions, scale gains and the PPP rollout in Bahia.

I could summarize 2016 as a year in which we met our main goals: accelerated growth, well above our peers, with an increase of our operational margins.

Another major achievement in 2016 was our recurring net income. In 2016, we managed to reverse the losses we had in 2015, and we delivered a profit of R$53.7 million. Recurring operating cash generation grew 34%, reaching R$150 million, an EBITDA conversion in cash of 74%.

With this result, our return on invested capital reached 20%, an improvement of 243 b.p. when compared to 2015.

It is also worth remembering the success in executing our M&A strategy, with the acquisition in early 2016 of Clínica Delfin, the leader in diagnostic imaging in the Northeast of Brazil, and also Multilab at the end of the year, which will accelerate our expansion project in clinical analysis.

Here, I would like to open a parenthesis in our 2016 numbers to highlight the announcement we made early today related to the acquisition of Multiscan in the Espírito Santo state. This will give us the leadership in the market, opening excellent opportunities to our strategy in organic growth and clinical analysis expansion.

Last, but not least, we cannot forget Alliar's role in the reopening of the capital market in Brazil, with the completion of the only IPO in 2016, raising funds that deleverage our Company and enable our strong expansion plans.

It is also important to highlight the ONA 3 accreditation, the highest quality certification available for diagnostics imaging centers, for our unit in São José dos Campos.

It is also worth mentioning the recognition of command center as one of the most promising innovations in MRI in the world.

As you will see in details in the presentation that Carlos Araújo, our Director of IR, will show, we closed 2016 as the best year of our Company in all aspects we observe, be it revenue growth, operating margins, net profit, return over invested capital, in the number of units in operation, in the level of customer satisfaction, or employment engagement, innovation, quality certification services provided, and the most important aspect of all, the excellent perspectives we have for 2017.

With that, I hand over to Carlos.

Carlos Araújo:

Thank you, Terni. Good morning, everyone.

Let's start with slide number four, where we have our key revenue drivers.

Throughout 2016, we have added 27 patient service centers, with three of them being mega stores, 15 being standard stores and nine being collection points. We have also added 18 MRI equipment and 68 clinical analysis collection rooms, with the service now being offered in 30% of our patient service centers.

As a result, as you can see on page five, we have gross revenue growth of 37% in the year and of 47% in the quarter, reaching R$1 billion.

In the pro-forma view, we normalized the M&A impact by considering Delfin as if acquired in January 1, 2015. From this point of view, organic growth was 20% in the year and 27% in the quarter. This growth is the result of a volume increase in both imaging and clinical analysis, alongside with the ramp-up of RBD, our PPP in Bahia.

From the accounting point of view, the acquisition of Delfin and Multilab were also important contributors.

On page six, we have our gross revenues from imaging exams, which grew 32% in the year and 33% in the quarter. From the pro forma point of view, the growth was 13% and 11%, respectively.

This growth can be explained by an increase in the level of occupation of MRIs, by the elimination of offering bottleneck in the US type of exam, and by the ramp-up and by the acquisition of Delfin Imagem.

Besides the growth in absolute terms, I would like to highlight the 9% increase in average revenue per MRI equipment, a function of the higher capacity utilization.

Going to page seven, we can see the gross revenue form clinical analysis, which grew 14% in the year and 31% in the quarter. This growth is in function of new contracts won by the CDB brand, of the acquisition of Multilab, and of the setup of collection points in existing patient centers.

It is worth noting that we have already expanded our clinical analysis offering to 40 of our patient service centers.

On page eight, we have the construction revenues. This is an accounting entry related to the investments we have made on RBD in accordance with local PPP accounting procedures.

Net construction revenues will be offset by a line called construction costs, as we will see later on.

Excluding deductions and the construction revenues, we can see on page nine our net revenues ex-construction, which has grown 29% in the year and 27% in the quarter, with pro-forma growth being 13% and 10%, respectively.

Moving on to cost of services, on page 10, we have focused on the pro-forma view, as it allows an easier comparison with market references, such as inflation and utilities readjustments.

Our most relevant cost line, medical services, has grown 9% in the year and 14% in the quarter. This variation has three causes. The first one is the strong growth of ultrasound exams, which have a higher percentage of medical services as part of its cost structure.

The second cause is the volume increase on RBD, our PPP located in Bahia. During 4Q16, it already had revenues, but did not yet incur in full operational costs.

Finally, the third cause is a proportionally higher volume growth in cities where medical services are more expensive.

The second cost line, employees, is also very relevant for Alliar. It has grown only 1% in the year and 6% in the quarter. This line’s stability is a result of cost reduction and productivity improvement projects, such as the zero-based budgeting and the command center.

Moving on to the third most relevant line, supplies and support labs has grown 33% in the year and 27% in the quarter. This growth is a function of the ramp-up of RBD, of the volume increase in clinical analysis, which has 100% variable costs, and of price readjustments with our suppliers.

I would also like to highlight the third-party services and other costs line, which, in line with Management's expectations, increased 61% in the year and decreased 21% in the quarter. Here, what we have is the upgrade of CDB's IT platform to Alliar standards, the outsourcing of non-essential functions, the ramp-up of RBD's costs and expenses and expenses related to the new patient service centers.

On the other hand, the decrease in the quarter is related to a reduction in Delfin's outsourcing costs, as part of post-integration synergies, and to the reallocation of costs associated with the implementation of RBD to investments.

Finally, we have the construction costs line, which, as previously mentioned, is offset by the net construction revenues line.

Moving on to page 11, we have our operational expenses.

The main line, employees, has grown 20% in the year and 9% in the quarter, as a result of RBD's ramp-up and of the transference of CDB's management team to the parent company, changing its allocation from costs to expenses.

It is also worth to highlight here the long-term incentives plan line. In 2016, this line included the value of the management team stock options program and, as you know, we have discontinued this program before the IPO, leading to a one-time expense of R$9 million in 2016.

To this amount, we have now added the first grant of the new restricted stock program, focused on top management and medical doctors. The amount of R$1.6 million reflected in 4Q is the provision related to part of this grant. Further information about how the restricted stock plan is provisioned can be found on our earnings release document.

Finally, the other expenses, net line, which was positive in 2015 due to a non-operational revenue, the reversal of an M&A earn-out provision, has reached -R$15 million in 2016. This amount includes the write down of parts, which is like an accelerated depreciation, and a R$1.7 million impairment in our Ecoclínica brand. Both of these topics will be discussed later on.

We will then move to page 12, where we can see that our adjusted EBITDA has grown 34% in the year and 14% in the quarter, a pro-forma growth of 17% and 4%, respectively.

As a result, the adjusted pro-forma EBITDA margin has reached 22.5% in the year and 21.4% in the quarter.

Contributing to the year's result, we have the strong revenue growth and the constant focus on cost and expenses reduction, through initiatives like zero-based budgeting, strategic sourcing and the command center.

In the quarter, it should be noted that the comparison basis, 4Q15, is disproportionally higher. The pro-forma 4Q EBITDA represented 26% of that year's EBITDA, versus an historical average of 23.5%. The main impact for that quarter was the receipt of an insurance related to an MRI equipment broken during transportation, which summed R$2.9 million.

On the other hand, in 4Q16, we had provisions for R$1.6 million related to the new restricted stock program, with the benefit of no more dilution to shareholders, as it was the case with the previous stock options program.

To provide a better understanding of Alliar's operational performance, we believe that some EBITDA adjustments, already incorporated in these numbers, are important.

On page 13, I would like to briefly go through these adjustments.

Starting with write-downs, we had the write down of parts of equipment, which you already know. This amount refers to the residual depreciation of broken parts. It is an accelerated depreciation that ends up not going through the depreciation line. The replacement of these parts is covered by our maintenance contracts that are already included in the Capex numbers. So, this is recurring, but no cash effect.

Following, is a write down of a financial asset. This is a depreciation of RBD's assets, which, due to the accounting norm for concessions, does not follow the traditional model of fixed assets and depreciation.

Last, we had in this quarter a decrease in the value of our investment in Ecoclínica, our brand in the Paraíba state, due to a revision of the Company's future performance.

In the next block, we have three adjustments that you already know, and that were made before the IPO. The first one is the liquidation of the stock options program, as discussed in the expenses section. The second are non-recurring consultancy and advisory services, which until the first half of the year were posted as adjustments and since then have already been zeroed. And the third is the reversal of the earn-out, the non-operating revenue we had in 2015, with no impact in 2016.

Finally, we have the M&A adjustments. First are the expenses related to the integration of Delfin, such as provision adjustments payroll termination costs, and etc.

Moving to the M&A expenses, here we have financial, accounting and legal advisory services related to the acquisition of companies. Most of this line reflects the M&A advisory contract Alliar had with Patria, which has since been discontinued.

Finally, we have Multilab's EBITDA, referring to the company we acquired last December. This adjustment occurs only in the pro-forma view and relates to the previous 11 months of the year, when Multilab was an independent company.

The complete reconciliation between EBITDA and Adjusted EBITDA can be found on the last page of this presentation and in our earnings release document.

Moving on to page 14, we will discuss our financial results.

To make it easier to understand, we have separated it in two items: "financial results ex-mark-to-market effects of the 4131 debt" and the "mark-to-market effects of the 4131 debt". Just to remember, 4131 debt is denominated in Brazilian reais as risk free rate + X%, but booked as dollar debt plus a foreign exchange swap.

As the debt portion varies according to the exchange rate, and the swap portion varies according to interest and FX coupon curves, we have this quarterly non-cash mark-to-market effect. Throughout the life of the debt's contract, this effect will be zero.

In 2016, the total financial result was -R$66.0 million, an improvement of R$35 million versus the previous year. This improvement reflects the financial income from funds raised in the IPO, the appreciation of the Brazilian real against the US dollar, and the gain in the mark-to-market effects of the 4131 loan, which contributed R$5 million.

In the quarter, the positive effects are the same, except for the mark-to-market of the 4131, which contributed a negative R$2.1 million.

To conclude our discussion of this topic, it is worth mentioning that we are evaluating the adoption of the hedge accounting methodology, which will eliminate the 4131 impact, leading them to be accounted for as normal debt in Brazilian reais.

Turning to page 15, we have income tax numbers.

And here we have some important news. You must remember that our parent company suffered a loss in the nine months of 2016 due to concentrating most of the Company's corporate debt, and that whenever we added it to the subsidiaries' earnings before taxes, the resulting consolidated tax rate was extremely high.

Well, Alliar's Board of Directors has approved the merger of the CDB subsidiary into the parent company, a process that will occur in up to two years. This incorporation increased the parent company' profits and taxes payable prospects, allowing for the creation of R$25.5 million in new tax credits.

As a result, when we add the parent company with the tax credits to the subsidiaries, which together had an effective tax rate of 25%, we reached a consolidated effective tax rate of 17% for 2016.

Looking forward to 2017, we already have some other ongoing initiatives to ensure the maintenance of the effective rate at a level close to 24%.

Let's now move on to the recurring net income, on page 16.

First of all, let me remind you that the adjustments here are the same ones applied to the EBITDA, except for the write down of items apart and the write down of RBD's financial assets.

In 2016, Alliar achieved a recurring net income of R$53.7 million, reversing a loss of R$19.1 million in the previous year.

In 4Q, net income grew 32%, or 15% in the pro-forma view. As a result, recurring net margin reached 6% in the year, an improvement of 880 b.p., and 10.3% in the quarter, an improvement of 35 b.p. This improvement is a reflection of better operational results, better financial results and the improved tax rate.

Out of the total recurring net income, R$39.7 million is attributable to Alliar's shareholders – that is R$0.35 per share – and R$14 million is attributable to minority interest, mostly RBD shareholders, in which Alliar holds a 50.1% stake.

We can now turn to page 17, where we present cash generation and cash conversion.

In the year, improved operating performance led to a 34% increase in recurring operating cash flow, while the increase in the quarter was 9%.

Talking about cash conversion, it remained stable at 74% in the year and showed a slight decrease in the quarter, reaching 107%, still a good result. The variation in the quarter is due to an increase in working capital and to non-recurring events that contributed positively to 4Q15.

On page 18, we will now talk about the Company's Capex.

In 2016, the total Capex was R$151 million, 36% more than in 2015. Out of this amount, RBD's Capex represented R$45.5 million, expansion represented R$51.5 million and maintenance contracts, pieces of equipment, represented R$31.0 million. The remaining R$23.1 million are related to investments in IT and other projects. It should be noted that a large portion of RBD investments has already occurred in 2016.

Let's now move on to page 19 and talk about accounts receivable, cancellations and provision for doubtful accounts.

The balance of accounts receivable, net of cancellations and PDA reached R$233.3 million in the year, in line with 3Q16 and 50% above 2015.

This balance, as well as the number of days, increased between 2015 and the nine months of 2016 due to the acquisition of Delfin Imagem, which has a longer than average receivables cycle. Then, between the nine months of 2016 and the end of the year, the lower increase is due to a partial RBD invoice pending receipt.

Looking only at cancellation and PDA for the year, it represented 0.8% of gross revenue ex-construction, a 40 b.p. improvement versus the previous quarter. This reduction is due to the continuous improvement in our billing and collection processes, and to the reversal of provisions from received amounts.

Finally on slide 20, we can see our investments. Between the 3Q and 4Q, gross debt fell by 8%, reaching R$544 million while the net debt benefitted by the IPO fell 37% to R$342 million; as a result, the net debt to adjusted EBITDA ratio been reduced from 2.7x to 1.7x.

I will now turn the floor back over to Fernando Terni, our CEO, for his closing remarks.

Fernando Terni:

Thank you, Carlos. So as you can see, 2016 was a great year for Alliar. Based on our business model, we continue to succeed in our missions of bringing high quality diagnostics throughout Brazil. And we do this by delivering consistent growth and profitability to our shareholders.

As I said in the opening of our conference call, looking ahead, we are convinced that we are very well positioned for an excellent 2017. The year in which we began to observe a recovery of the Brazilian economy, and a significant decline in inflation.

As you can also see on slide 22, we are just over two months into 2017 and have already inaugurated a Mega Unit of the CDB in Morumbi in SP, a unit that will offer all types of exams: from imaging to graphic methods, through clinical analysis and nuclear medicine, reinforcing the concept of "One stop shop".

We have started 2017, incorporating Multiscan, which opens up excellent opportunities for expansion in the region.

We can already anticipate that we will open another four mega units in 1H17 (two in the city of São Paulo, one in Belo Horizonte and another in São José dos Campos), we will continue to be firm in our expansion process through acquisitions. We will also advance with productivity and cost reduction projects, such as the command center roll-out to 100% of the MRIs and also the first phase of unification of our call centers.
In this way, we will continue to deliver to investors, physicians and patients the result of the successful combination of technology, management discipline and medical leadership.

Finally, let me give you some more details about the announcement we made earlier today. If you move on to slide 23, you will see that Multiscan is the leader in the Espirito Santo market, with four points of services, eight MRIs, among other imaging equipment. Our expectation for 2017 is net revenue of R$43 million with EBITDA of R$15 million and net income of R$10 million, roughly 20% net margin, all of these pre-synergies.

The company was valued at R$104 million with an equity value of R$92 million, which indicates an EVBITDA of 6.9 pre-synergies and a 9.2 P/E ratio. The acquisition multiple was 7.1 times of the 2016 EBITDA, pre-synergies, excluding the reimbursement of R$10 million from two new units, which are still in ramp-up phase.

Unlike the Company strategy, in this case we had an option for a relevant portion in cash payment, since we already have a strong presence in the region with established medical partners and because we believe that Alliar's share price today does not reflect the shareholders view on the company's valuation.
The incorporation of Multiscan will give us a leading position in the region, great possibilities of synergies with our CDB brand and, above all, adding high profitability to Alliar as a whole.

With that being said, we are available for Q&A.

Bruno Giardino, Santander:

Good afternoon, everyone.

Congratulations on the results and on the acquisition. First on this acquisition – we see an EBITDA margin of close to 35% for this Company and this is essentially higher than the margin you had in other operation. So could you please tell us why do you think this margin is so different from Alliar's platform? And if this is sustainable going forward.

Second question about your expense plan – you are accelerating the number of new units to be delivered this year and with 4 or 5 mega units, which have a significant size, so I wonder if you expect any kind of impact on your margins from pre-operating expenses. And would be the outlook for the margin in 2017? Thank you.

Fernando Terni:

Thank you, Bruno. Thank you for your questions.

Multiscan is very well positioned as a plan in Espírito Santo. They have a much better price that we can see in other companies. They are very much concentrated in MRI, as you know, they have better margins and also the building of this acquisition allowed us combining those operations with the CDI.

We will not mix the branch; we are going to keep two branches and serving different markets, different customer prospects. And also we did not announce too much, but we bought a small company that delivers less also in that region; therefore, the combination of these three companies will give us a very good position in that specific market.

Still going to different regions of Espírito Santo, we are pretty much concentrated in the capital. There are small cities we are evaluating to expand and, of course, the opening the clinical analysis. Expansion started to open collection points in all those units.

Now I turn the floor back over to Carlos to talk a little bit about our expansion plans in other cities.

Carlos Araujo:

Hello, Bruno. And yes, as you have mentioned, we have a very strong for opening new stores this year. In fact, just yesterday, we had inaugurated the new megacity B unit located in Morumbi. In the presentation you can see some pictures of these units on page 22, so obviously all of you who are here in Brazil are invited to come to our new center in Morumbi, it is a very relevant unit that has a lot of potential.

Besides de Morumbi unit, we are already on final steps to open the new megastore for Axial in Belo Horizonte. We are already working for other two CDB megastores, one being the Mooca Megastore and the second one the São Bernardo do Campo Megastore and we are also working on a Plani megastore located in the countryside of São Paulo.

So, yes, the number of opening are above of what we had in our original plans, but we did find the opportunity to enter some of these specific regional markets both by finding the perfect asset, the perfect location and also by being invited by health care plans to help them better serve some parts of the cities.

So it is a relevant investment, but what we have done here since these units we are opening now in the first half of the year, another will be opened next month, what we have done is: we have forecasted these units to reach at least neutral contribution to the results this year, so as not to have a negative pressure in our margins. They will certainly contribute to our margins in 2018, but we do not expect a downward pressure from them for this year.

As a whole, we continue to work on our cost and expense reduction initiatives and gaining volume so we expect to continue to see margin improvements in the coming years.

Fernando Terni:

And Bruno, I may add that this year we have a very good perspective as inflation is going down and we also have a good situation with the USD, therefore we do not see this year a pressure in margin as we saw in previous years. That also contributes to keep our target to increase margins year over year.

Bruno Giardino:

I understand that. Thank you. Just a quick follow-up, as far as I understand this transaction is not subject to antitrust analysis. Is this correct?

Fernando Terni:

Yes, that is correct.

Bruno Giardino:

OK. Thanks.

Roberto Botero, Bank of America:

Hi, everybody. Thank you for the questions and congratulations on the results. I have two questions. The first one is a follow-up on Bruno's question. So as discussed, this is a 35% of the Company's margin, so if you could help us quantify how sizeable can be the synergies be and where you see these coming from.

And the second question, if I may, regarding the M&A strategy from now on, so if I am not mistaken, this acquisition equals in size to pretty much 50% of the expected number of units or revenue accretion coming from M&A this year. Does this mean we could see some risks to the initial expectation for M&A or brownfield in 2017? And also if you could remind us your M&A expectation for this year would be really helpful. Those are the questions. Thank you very much.

Fernando Terni:

OK. Thank you for the questions. We are not very impressed with the size of the margin, this pretty much what we see in other operations that we have throughout Brazil. Whenever we have a company that is leader in that region, those are the types of margin we experience.

We have the same type of margins in other companies that we have in our portfolio. We do have a lot of synergies that we have identified. I am not going to mention them here because they are small and a lot of them you have in call centers, procurement, even on the physician side, so we have already met all those synergies and we will be working with them since we negotiated with them.

So we do believe we can even improve that margin even further, keeping in mind they have two units that are still ramping up. We are well positioned in the market now. We are going to be the leaders by far. And we are very confident that we will improve the margins there.

Carlos Araujo:

Roberto, could you please repeat your second question?

Roberto Botero:

Yes, Carlos, for sure. Thank you for the answer, Fernando.

The second question was regarding the future M&A and deployment for the year of 2017. If I am not mistaken, when we compare the size of Multiscan to what you expect to deploy and to deliver in terms of M&A for this year, Multiscan already cover, let us say, 55% of number of units.

So revenue accretion coming from M&A this year, compared to your expectation in terms of what M&A should contribute to this year in terms of revenues or new brownfield units. So the question is if that means we could see a fair risk to your initial expectation for M&A contribution this year. And also if you could remind us what is the M&A expectation for 2017. That was the question, Carlos.

Fernando Terni:

Yes, we are very happy to conclude this transaction in the beginning of the year. As you just said, we have already covered 50% of the plan we have for the year. I cannot give a lot of details as you may imagine regarding M&A, but we do have some cases in our pipeline and you are going to have some good surprises this year; I am pretty sure.

Roberto Botero:

Great. Thank you very much.

Operator:

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

Fernando Terni:

Thank you for your time and for attending our conference call. And as I said in the very beginning of our call, it was a fantastic year for Alliar. We have met our all goals set and we are looking forward to 2017. I think that is going to be a fantastic year.
As I said in the beginning, we concluded this M&A in the beginning of the year. The inflation is going down, the tax and the USD rates are under control so we are looking forward, again, to a very good year. Thank you, everyone. And we will see you in the next conference call.