Operator:

Good afternoon, ladies and gentlemen. Welcome to Alliar – Centro de Imagem Diagnósticos S.A., 4Q18 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, 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 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, and good morning to all. Thank you for participating in our call for results of 2018.

I would like to start this call with a brief retrospective on 2018, the year in which we began an important cycle of growth, focused on maturity of the investments already made, a strong discipline in cost and expenses, and on our different projects to increase efficiency and improve the patient journey in our total services. All these things, without giving up, of course, the quality of our medical service, which is in the DNA of our Company.

With that being said, let us move on to slide number four, where I have summarized what are the focus of our Alliar current growth cycle. On the left side, starting with the higher profitability, here, as you will see during this presentation, we are very pleased to see that we have achieved the goals for the year.

Our results already started to reflect substantial increase in our profitability. Even in a challenging year as it was 2018 for the industry, we were able to deliver significant margin growth and strong cash generation, unprecedented in the Company's history. Following my speech, Fred will give details on our numbers.

The second aspect is the digital transformation of the Company, based on technology and innovation. Here, for 2019, we hope to capture important gains by automatizing some critical process, as for instance, our center in the reception services.

Finally, the third aspect is that today's diagnostic market has required new models of relationship between services providers and payers. From now on, more and more new ideas will be needed in search of the efficiency throughout the whole healthcare chain.

With all that we have been implementing in our Company, I particularly see Alliar very well-positioned for this new moment, with solutions and proposals that shoot for this moment in the market, whether through provisional gain, where we are leading in the region, or through our new Company, IDr.

Moving on to slide number five, I will describe the three pillars of Alliar's operations within the structure areas: patient satisfaction, operational efficiency and medical quality.

Let us begin with operational efficiency. For 2018, we have directed a great effort and time in this pillar. Beginning with the contact better, we started new projects to cater efficiency and automation when we launched SOFIA, our video attendant that uses artificial intelligence, and helps us automatize our workforce in this important part of our business, considering that it is the beginning of the patient journey within our Company.

Move on to the patient satisfaction. Given our high level of remote monitoring and control of our everyday patient journey in our chain, we have improved a lot the services levels, reducing the time that the patient remains in our centers and consequently increasing patient satisfaction.

To conclude this slide, in the pillar of medical quality, I want to highlight the results of standardization of medical protocols in different exams, especially on MRI. The effect of this effort and other initiatives will be reflected in the increased productivity of different assets. Highlight, further increase of 5% in the productivity of MRI per day per equipment that we saw in 2018.

Following on the presentation, we bring to the slide six some aspects that we have highlighted in the commercial area of our business. In the traditional brands, I highlight the new commercial models that we that we have implemented, such as exclusivity agreements or contracts with some clients; outsourcing of own services; negotiations of prices in exchange for volume; our PPPs, the contracts we have with the government of Bahia; and some other new models that we have implemented in 2018.

As I mentioned, we also should highlight here the creation of our new company, called IDr., which aims to develop new business opportunities from all of the intelligence that we have gathered inside Alliar during the past few years. Its solutions will be developed according to the needs of each patient, or each client or partners. I am very confident with these new initiative, which is already showing some results in the beginning of the year.

Moving on to slide number seven, and to finalize this introduction, we display here the main actions developed within the medical front in 2018. I start by the evolution that we have seen on our command center in the beginning of the remote operation of the CT scans, in addition to the high number of standardized MRI protocols we have implemented throughout the Company.

I would also like to highlight initiatives and key strengths, the relationship with requesting physicians, the referrals, both as a medical concierge, which we have extended now to all regions, in all brands, as well as the new reporting delivery format that we call the multimedia reports, or the interactive reports, which adds a lot more information on the diagnostics, adding a lot of values to the medical community.

With that being said, with this introduction, I hand it over to Fred, which is our CFO, and will present you the details, the results of our Company in 2018. Fred?

Frederico de Aguiar Oldani:

Good afternoon, everyone. I am going to start my presentation on slide number nine, where I am going to highlight the main results for the 4Q and the year.

First, net revenue grew 1.7% in the 4Q, with same-store sales reaching 1.4%. For the full year, our total net revenues reached R$1,075 billion, 3.3% growth in the year, with same-store sales of 2.1%.

Here, it is important to highlight that, in this new cycle, growth is only coming from organic sources, mainly same-store sales, as we have discussed with you as part of our new strategy. We are now focusing on maturing the existing investments, as we still have a lot of idle capacity.

EBITDA margin in the quarter reached 25.1%, with EBITDA of R$64.9 million, a 26% growth. For the full year, adjusted EBITDA totaled R$250.8 million, 12.6% increase, with an EBITDA margin of 23.3%, a 194 bps increase compared to last year. Again, another important achievement. With a low top line growth, we were able to deliver a double-digit EBITDA growth and margin expansion, in line with the Company's new strategy of focusing on extracting more from the existing assets.

As a consequence of this strategy, we also have a very important growth in net income. Net income reached R$16.4 million in the 4Q, compared to a net loss of R$13.3 million last year. For the full year, net income reached R$40.1 million, compared to a very small profit in the previous year, with a 502.7% growth, which is a very positive number, given that we are just in the first year of the new phase.

Operating cash flow reached R$73.2 million in the quarter and R$181.3 million in the year, which is another very important figure posted. But free cash flow was probably the highlight of the year, where we reached R$104.4 million in 2018, something that never happened in the history of the Company, because the Company was always investing way ahead of its operating cash flow generation. But with this new cycle, cash flow generation was already very strong in the first year, and will continue to be strong in the following years.

As a consequence, we also see return on invested capital improving again, reaching 12.7% in the year. It is an important sign that the strategy is on the right track, but return on invested capital is still way below marginal returns that we see in our business, and we expect even further improvement in the following years.

It is also important to highlight that all the improvements on the operations came with an improvement in the patient experience, measured by the net promoter score, which reached 67% by the end of the year. It is an important sign that all the efforts to increase results and control costs do not come at the cost of a worst patient experience.

On the other hand, we are investing a lot in improving the patient experience, and the new tools that help us to manage, realign real-time line management and execution across all the patient journeys, will help us improve NPS even further in the following years, while we still keep the focus on improving overall profitability of our business.

Moving on to slide number ten. As I have already mentioned, gross revenue growth comes from mostly same-store sales, given the new growth rate driven by organic growth.

Here, it is important to highlight that we actually grow in all of our exams; MRI, all imaging exams, and also clinical analysis. Volume growth was even bigger than revenue growth, but given the market trend in the last year of shifting towards lower-coverage health plans, the consequence was that most of the volume growth was offset by a lower ticket, a trend that we see reverting, normalizing in the year on.

It is important to mention that our volumes are still growing, and also that our biggest brand, CDB, which operates in São Paulo region and was the focus of most of our investments, opening four new mega units in 2016 and 20'17, is the best performing brand Company. The mega units are ramping as we planned, and we are very pleased with our market position and the results we delivered in CDB and in the city of São Paulo.

Moving to slide number 11, commenting on the financial results. Here, I was looking to highlight the change in the structure of the Company's P&L, where from 2014 to 2017, the Company faced very fast top line growth, but given the dynamics of our business, where typically investments take three to five years to mature, the top line growth would not turn into margin expansion or net income growth.

In this new phase, we thought that once we were stocking back and focusing on maturing our existing assets, we would see a different trend, where we would see a lot of operating leverage in our business.

And that is what we saw in 2018 results. With net revenue that grew 3.3%, we delivered adjusted EBITDA growth of 12.6%, with margin expansion and net income growing over 500%.

Of course, top line in 2018 was weaker than we recently anticipated. 2018 was a very tough year, but even in a tough year, we were able to deliver important margin expansion and significant net income growth, in line with what we have promised in our new strategy. Should the market helps and we see, again, a better economic trend, with formal employment going up and more assistance, we expect to deliver even better results than we did in 2018.

Turning to slide number 12, I will comment on the gross profit and EBITDA margin. Here, it is important to highlight the increase in the gross profit margin for the year. Also, it is important to mention the very good cost and expenses management in the Company, which was key to help us deliver margin expansion in a low top line growth environment.

I really want to highlight the benefits of the strategic sourcing front, especially in the support lab and in general suppliers, where we captured important benefits in the year, and we also have some further benefit on these lines expected for 2019.

Moving on to slide 13, to comment on indebtedness and financial results. 2018 showed the first full year where the Company actually started to show some deleveraging. For net debt-EBITDA, which started the year around 2.7x, we ended the year with 2.3x, an increase in reduction driven not only by the EBITDA growth, but also by the reduction in total investment as a consequence of better free cash flow generation that was used to repay indebtedness.

As a consequence of this reduction on indebtedness, the lower interest rate in Brazil, and also the initiatives to reduce that cost, implemented mostly at the end of 2017 and beginning of 2018, financial expenses reduced by 14.1%, showing that, in this new phase, the burden of the financial cost will impact less our P&L than it did in the past.

Moving on to slide 14, comment on effective tax rate and net income. Effective tax rate was a very important achievement for the year. There was a bit of concern about our ability to reduce effective tax rate to normalized levels. We had expected to lower our tax rate to slightly below 30% for the year, and we did better. We reached 26.4% for the full year.

It is important to mention that we have not finished the merge of the legal entities yet, so we are not benefiting from the IOC benefit in effective tax rate yet, but we do expect to benefit from 2020 on, which clearly shows that we have further room to reduce our effective tax rate when we finish the merge of the legal entities.

The combination of the operating results with low financial burden and improving effective tax rate was the main component of this increase on the net income, which came from R$6.7 million in 2017, reaching R$40 million at the end of 2018. Still, it is a very low net income compared to the potential that we see for the Company, and we do expect to see even further improvement in the next years as our strategy matures.

Moving on to slide 15, investments showed a very important reduction in the year, of 71% compared to last year. 2017 was the last year of the very aggressive investment cycle, with a combination of organic and M&A. But, as we promised for the year, now we will focus on organic growth, and in fact we see a huge reduction on investments, which turned into a very positive cash flow scenario that is happening.

Slide 16 shows our operating cash flow and free cash flow results for the year. Operating cash flow was very good in the year, as it has been in the previous year as well. Cash conversion did not change significantly from 2017 to 2018, with operating cash flow reaching R$181 million.

But the main difference compared to 2017 was that the investment was way ahead of operating cash flow generation, leading to a free cash flow of -R$28.1 million. With the reduction in investments in 2018, the cash flow turned into R$104.4 million, over R$130 million of improvement year-on-year, which is something that never happened in the history of the Company, but shows very clearly the quality of our business and the ability for us to turn results into cash flow. This is probably the big highlight for the year.

With that, I have made the most important comments about our 4Q and full year results, and I would like to open for the Q&A session.

Operator:

Thank you. At this time, I would like to turn the floor to Fernando Terni for any closing remarks.

Fernando Terni:

If there is no question, I would like to thank you very much, everybody that attended our call. And I would like to conclude by saying that we are very pleased to see that the strategy we have adopted at end of 2017 and beginning in 2018 pays off during the year. We were able to deliver good margin improvement and invested free cash flow generation despite a very difficult market that we saw in 2018.

We are also confident with that strategy to keep it for 2019 and 2020, and I would like to say that the Company is prepared for 2019. If the market continues the same as it was in 2018, we will still see some margin improvement, and in case that we see a good improvement in the market situation, there will be more lives insured, and we are going to see very good results for Alliar in 2019.

With that being said, thank you very much for your attention. We look forward to see you in our next call. Thank you. Bye.

Operator:

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