Operator:

Good afternoon, ladies and gentlemen. Welcome to ALLIAR - CENTRO DE IMAGEM DIAGNÓSTICOS S.A., 1Q18 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 the MZiQ platform, 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'll turn the conference over to Mr. Fernando Terni. Mr. Terni, you may proceed.

Fernando Terni:

Thank you. Good morning to all and thank you for participating in our conference call. As you will see during our presentation, overall our results were very positive. As we commented during our last Alliar day in October last year, in 2018 the Company will start a new cycle, putting more focus on the profitability of its assets, mainly through innovations and productivity gains.

As you will see next, in the 1Q results we will present, these changes are already starting to yield positive results. Also remember that, due to seasonality, this quarter was one of the weakest in the year. In addition, this quarter in 2018 also had fewer days than the same quarter in 2017. Having made those initial comments, I will invite everyone to go to page three, where we will present our highlights for the 1Q of the year.

Let us start with net revenues, which grew by 6.3%, driven by the ramp-up of the new mega unit and 2% in SSS. If we consider the same basis of comparable days – we had fewer days in this quarter, as I said before –, SSS grew by about 5%. Gross profit increased by 12.4% in the quarter, reaching R$73 million, with a gross margin of 27.7%, which represents a gain of 148 bps.

Our adjusted EBITDA reached R$59.4 million – a 19.6% growth, with a margin of 22.6%, which represents an improvement of 251 bps. Our operating cash generation reached R$13 million – a growth of almost 40% in relation to the previous year, with a 52% cash conversion, also above the level of 2017 and, once again, demonstrating the high cash generation capacity of our Company.

Net promoter score was at 60.5% at the end of 1Q18. Here it is important to mention that, in this quarter, we had all units of our group already contemplating the new methodology we had started last year. We now believe we have the correct basis to follow the improvements of this important indicator of our patient satisfaction.

Let us move on to the next page, where I will highlight some of our recent expansion initiatives. At the end of the 1Q we reached 118 units – out of which 18 are mega units, 84 million are standard-type 16 are smaller stores, the ones dedicated to clinical analysis only.

In the same period, we added only two new MRI machines. This is the result of the effect we had from last year, when we placed machines in locations that were not conducting a lot of exams.

We have transferred those machines to other locations. Therefore, we have added only two new machines, despite the fact that we have opened new units. The supply of clinical analysis in Alliar was stable when compared to 4Q17 and we are now offering those services at 53 units out of the 118 we have in the Company.

I think now we have reached a stable level, but we are offering this type of service where we have a reasonable amount of ultrasound. We do not expect to increase the number of collection points in the Company during 2018.

Turning to page five now, some details on the revenue. As I have already mentioned, we have seen a 7% growth in gross revenue, reflecting consistent growth in MRI as well as in clinical analysis, despite the fact that, in this quarter, we have fewer working days in the calendar.

On the chart at the right side we have the contribution of each vector, especially the contribution of new units, which added some R$9 million to the results, or 3.3%. This is the reflection of the ramping up of the mega units, especially the ones in São Paulo city – they are developing extremely well.

The M&A contribution, net of stores closed – as I mentioned before, we have closed some units last year – added a net value of 1.5%, mainly due to multi-scan, which started in Alliar in March last year. We had two months of contribution from multi-scan.

Turning on to page 16, I will turn to Fred, our CFO. But before turning this to him, I just want to briefly comment on the picture. I mean, you clearly see here that the improvements we had in the Company are a reflection of all the benefits of focusing on improving the productivity of our Company. You can see that, despite the fact that in this quarter we did not see big growth in sales, the growth we were able to deliver in net income recovery was very positive.

This is the reflection of a lot of initiatives that Fred will comment on. I can also comment on some of them if you want some further details on the Q&A part. With that I'll turn over to Fred.

Frederico de Aguiar Oldani:

Hi, everyone. On the financial performance, we are going to highlight the impact, already in the 1Q18, of our new strategy. If you recall the last Alliar Day, we stated that, from 2018 to 2020 the Company would focus on maturing the investments made and increasing the profitability of its existing assets.

We can clearly see that, once we started investing, our P&L now has different dynamics in relation to the past. If in the past we were growing very fast the first line and not having the same kind of growth in the bottom line, the consequence of this new face is that we are seeing exactly the opposite.

From now on we expect to post lower growth in the top line, compared to what we have delivered in the past. But we do expect this growth in the top line to translate into much higher growth throughout the P&L.

This is what you can clearly see already in the 1Q, when there was a 6.3% net revenue growth and a 12.4% growth in gross revenue, turning into a 19.6% growth in adjusted EBITDA and growth of around 22% in the bottom lines.

Operating leverage is something that we do expect to see from now on and it is very important now that investors can clearly see the dynamics of our P&L in a normalized growth environment.

Moving to page seven, we will comment on our gross profit and margin improvement throughout the 1Q. We had a 150-bps improvement in gross margins, roughly. Here we want to highlight the benefits of the strategic sourcing that we have implemented throughout the quarter, especially on the support lab.

We have renegotiated out agreement with our existing service provided on the support lab, which yielded the benefit of a 20% reduction in the cost per month for the coming year and another 7% reduction in the cost of each exam for 2019. This is a very positive impact expected for this year and for next year. And we understand it is a new level of cost for the Company – not a one-off gain. Rather, it is a new level of costs for this kind of exams.

We also want to mention that there are further form to be captured on strategic sourcing. We are also renegotiating contracts with the other main providers that we do have and we expect to capture further benefits throughout the year. Of course, those additional benefits will not be as relevant as the ones we have just mentioned for the support lab.

What is also important to mention is that the expansion in gross margins are not higher because we had an increase in the cost of medical services in this quarter. The reasons behind that are associated with the mix of exams – we are growing faster in clinical analysis and ultrasound exams, which carry lower gross margins than CT Scan and MRI exams.

Though these exams have lower gross margins, they do deliver very good returns because, in clinical analysis, we have very little investments associated and the cost of ultrasound equipment is way cheaper than MRI or CT Scan equipment. It is also important to mention that there is a negative impact on the gross margins from the PPP.

Once we have all the 11 hospitals in full operation, we will run exams in normalized levels, which imply an increase cost of medical services, ahead of the increase we had in revenues; and this was expected – it is not something that wasn't expected. But we are very positive with this gross margin expansion in the 1Q and we understand that the gains we posted will also appear in the next quarters.

Going to slide number eight, we will comment on adjusted EBITDA and EBITDA margin. Here we want to highlight that the expansion in EBITDA margin was 250 bps – 100 bps more than the expansion we had in gross margins. Here we want to mention the positive impacts of our efforts in the 1Q to adjust our headquarters and shared service structure. We ran again our CDB process, adjusted the structure and captured some benefits.

With that, you can see that the wage line had a reduction quarter-over-quarter, even though we had inflation in this period, we hired more people to support the new mega units that we added. With these efforts, we could keep our wages lower than those of the same quarter last year and this is a very positive impact.

Going to slide number nine, commenting on the financial results and debt position: financial results were way ahead of the expenses we had in the 1Q17. The main reasons are associated to the higher average net debt in the 1Q18 compared to the 1Q17. During the 1Q17, the company had way much more cash than we did in the 1Q this year.

The reason for that was that the Company was still holding some of the resources obtained in the IPO, but they were invested throughout the 1Q17, so financial income was way lower than that of the previous year. Debt is also higher than it was in the same quarter of last year.

This combination, plus the positive-effect gains we posted in the 1Q17, which did not occur in the current quarter, explains why our financial expenses grew 51% in the quarter. But it is important to highlight that, compared to the last quarter of 2017, our financial expenses are way much lower and the levels we are seeing in the 1Q18 are the levels that we expect to sustain over the next quarters.

Under that position, our net debt has reached R$636.3 million in the quarter. This is a net-debt-to-EBITDA ratio of 2.7x. It is important to mention that the 1Q is the worse quarter in terms of cash flow generation and this small increase compared to the end of the year was expected, but we do expect to see the leverage reduced throughout the next quarter and a significant reduction in the 2H18.

Going to page 10, I will comment on the tax rate and net income. Tax rate had a significant improvement in the 1Q, reaching 37.1%, a reduction of 505 bps compared to the same quarter last year. This is a consequence of all the efforts the Company put into normalizing its effective tax rate and the level expected for the year, between 32% and 34%, is sustained. The 37.1% that we delivered in the quarter was expected, especially the 1Q is always the weakest quarter in terms of gains for the Company.

In terms of net income, the combination of the operating improvements on the EBITDA line, combined with a reduction in tax rate led to a 23% growth in net income, reaching R$7.1 million in the quarter, in spite of the weaker financial results in the quarter. This is a very positive figure, because I think it is probably the first time that the Company has been able to deliver a turnover in operating leverages in all lines.

We are very pleased to present this kind of results in the 1Q. We have changed our focus and we are delivering what we have promised on the last Alliar Day. With the focus of 2018 – this new cycle – we do expect to see a way much better performance on the bottom line, even though we are not going to grow top lines as fast as we did in the past, but we do expect to have extremely positive net income results in this new phase.

That is all for the results. Now we are going to comment, on the next slide, on investments. Investments in the 1Q were down around 8% year-on-year. This is a very positive impact on the Company's cash flow. Remember that, in the 1Q18 it is still higher than what we are going to see in the next three quarters of 2018. In the quarter we acquired a 20% stake in the PPP. We used to have 15% and now we raised our stake to 8%.

This was a very good opportunity and very accretive for the Company already in 2018. We were able to acquire this 20% stake at book value, which we think was an extremely good opportunity. This is the only inorganic investment planned for 2018. We do not expect to have any further investments in the inorganic front for the year.

Also, in the CAPEX side: CAPEX in the 1Q was one of the highest expected for the year and we do expect to see a lower level of CAPEX in the next quarters as well. Going to slide 12, I will comment on cash flow. Operating cash flow, reached R$31.1 million in the quarter – an increase of 40% compared to the 1Q17. Operating cash flow is something that the Company has already posted very positive figures about.

Cash conversion for the quarter reached 52%. It is important to highlight that the 1Q is the worst quarter in terms of cash flow generation for the year, due to seasonality reasons. What we would like to mention is that, with a combination of the positive operating cash flow and a reduction in the level of investment, the Company will start to post positive figures in free cash flow as well.

And this is a field in which you can expect to see further improvement in the next quarter and positive free cash flow generation will be a very positive impact, not only in 2018, but also in this new cycle from 2018 to 2020. We do expect to improve free cash flow generation significantly in this period.

That is what we had to comment related to the results and the balance sheet for the quarter and now we are open to any questions that might arise.

Operator:

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

Fernando Terni:

Thank you, everybody, for your attention. As we have been saying a lot in the last couple of months, we are now putting a lot of focus on the operating leverage of our Company. What you could see in the 1Q results was the result of this effect. Despite the fact that in this quarter we see some seasonality – they are not the best months of the year, so we did not grow as much, as everybody else on the market – the results in the bottom line were very positive.

The Company has delivered very strong results and looking ahead we still believe that we are in the right path. The ramping up of the new mega stores here in São Paulo are developing very well. We have already installed second machines in two of the mega units – something that we expected only after one or two years of operations.

Both the Morumbi Mega Store as well as the Mooca Mega Store here in São Paulo have developed so much that we installed second machines that are now under operations. We are very happy with the outcome of those mega units. We are also very happy to see that we are delivering almost 24 MRI per day, per machine.

Just to give you a flavor of what this number means, when I started in the Company in 2012, 24 MRI per day meant that the machine is operating at its maximum capacity. Now we have in the Company some machines that are delivering more than 40 or 44 exams per day, per machine. This is extremely positive. This just gives you a flavor of how much we can extract from those MRI machines in the months to come.

With that being said I thank you very much for your attention. I am looking forward to talking to you again in the next call. Thank you.

Operator:

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