Operator:

Good afternoon, ladies and gentlemen. Welcome to ALLIAR - CENTRO DE IMAGEM DIAGNÓSTICOS S.A., 2Q18 earnings conference call. Present, here, are Mr. Fernando Terni, Chief Executive Officer and Mr. Frederico de Aguiar Oldani, Chief Financial 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:

Good afternoon for all, and thank you for participating in our earnings presentation's call. As you will see in our presentation, in general, our results were positive in the 2Q18, although we have faced some non-recurring events, such as the truck drivers' strike and the World Cup, somehow affecting the volume growth of our Company.

Also, it is worth repeating what we have been highlighting since our Alliar Day last year. With this new growth cycle of the Company, we are focused on increasing the profitability of the Company, showing the maturations of investments already done and a few productivity gains from technology and innovation. In this new growth cycle, although growing less in the topline, we will see that the Company posted robust EBITDA growth and especially net income growth.

In this new cycle, it also changes the profile cash generation and indebtedness of Alliar. In the 2Q, as you will see, we started posting positive free cash flow – a milestone in our Company's history. And we have also started the process of deleveraging the debt, as our CFO will detail later on.

Having delivered those initial comments, I will invite everybody to move to page three, in which we will present the highlights of the 2Q18. We started with net revenue, which grew by 5.7% in the quarter, and same-store sales with a 5% growth.

Year to date, revenue reached R$537.5 million, a growth of 6%, with a same-store sales growth of 3.5%. Our adjusted EBITDA reached R$59.4 million, a 21.6% growth, with a margin of 22.1%, an expansion of 64 bps.

The net income of Alliar shareholders was R$5.3 million, an increase of 33.2%. Year to date, profit reached R$12.4 million, an increase of 27%. Our operating cash flow generation totaled R$53.2 million, an increase of 5.6% in relation to the previous year, with an 8.9% cash conversion, an expansion of 433 bps, that is, once again, demonstrating the high operating cash generation capacity of our Company.

The NPS (Net Promoter Score) registered 65.4% at the end of the 2Q18, an important evolution of almost 500 bps in relation to the 1Q18, when we had reached 65% in NPS. This evolution mainly reflects the stabilization of the centralized contact center, here, in São Paulo, as well as the continuous improvement in managing the patient flow inside our stores.

Moving on to the next page, I will highlight the most relevant expansions' initiatives. The chart on this page demonstrates our strategy and focus on the maturation of our current asset and also increase in the profitability. At the end of the 4Q, we had R$160 million, which is a reduction of four collection points and two standard stores. The last one was the last two with low performance.

In the same period, we had added three new MRIs in the operations; I think it is important to mention a second machine we have installed in our Morumbi megastore and also a second machine in our Mooca megastore, both new mega units, here, in the city of São Paulo.

We have also continued to expand our clinical analysis offering, with an addition of nine new rooms in the Company, when compared to previous periods. And that also reflects the start of clinical analysis in our company "Mutiscan" in Vitória, in the state of Espírito Santo. We have now closed the month of June by offering clinical analysis in more than 50% of our units.

Moving on to page five, I will further detail the evolution of our revenue. Considering the challenges we had this quarter, as previously mentioned, we can see that the Company was able to deliver a good performance in this period.

Let us start by looking at the right chart; we have noted gross revenue of 6% spread out in all different exams, MRI and other images, as well as in clinical analyses.

Looking at the left hand chart in which we opened different growth vectors this period, highlighting the same-store growth of 5%. Here it is important to note that some of the new mega units were opened in the 1Q17, therefore reflecting the same-store sales we are presenting here.

On the other hand, the contribution of the most relevant recently inaugurated mega units, which add about 4.4 million reais, which represents a 1.6% growth, reflecting the good ramp-up we are experiencing in those new stores.

Lastly, the M&A contribution that, in this case, was reflected by a reduction of 0.5% in Multiscan, when compared to last year quarterly results.

I will now give the floor to Frederico, our CFO, which will give us more details on the numbers.

Frederico de Aguiar Oldani:

Good afternoon, everyone. I will start my presentation on page six, I am going to comment about the financial performance of the quarter and the year. Since we have implemented our new strategy by the end of the last year, the Company will start to focus on maturing its investments and focus on increasing profitability and cash flow generation, I would like to highlight what have happened in the 1Q18 and 1H18.

For a 6% revenue growth, we had an adjusted EBITDA growth of 9.2%, while net income grew 27%, showing operating leverage; we do expect to maintain this kind of performance over the next quarters.

Moving to page seven, commenting on adjusted EBITDA and margins for the quarter, the 2Q was a quarter with some one-off events that presented our EBITDA from posting margin expansion compared to the same quarter last year.

Even so, our adjusted EBITDA reached R$59.4 million, a 0.5% growth. But if you consider the 2Q17, there was a one-off gain related to reversion of provision for contingencies of R$4 million, the Company would have posted margin expansion in the quarter.

Also, there were some negative impacts on the topline that prevented us from delivering more operating leverage, which we already mentioned in the topline, and the one-off events will not affect us again for the remaining of the year.

Moving to slide eight, commenting on the financial results. Our financial results decreased by 15%, so our net financial loss of R$22 million was R$18.7 million for the current quarter, reflecting the lower cost of debt since we have implemented some liabilities management initiatives combined with lower interest rate at the end of the last year.

Moving to the debt section, it is important to highlight that this quarter the Company has posted a first reduction its net debt position; a slightly reduction. We started the year with R$211 million of net debt, by the end of 2Q, net debt was R$607.6 million, a small reduction, but for the first time, the Company's cash flow generation was enough to cope with all the financial cost and even to start the process of deleveraging the Company.

At the end of the quarter, leverage reached 2.61x EBITDA, coming from 2.74x by the end of the year and in the 1Q. It is important to highlight that this is the trend that we expected to see in the next quarter.

The Company understands that the right indebtedness leverage ratio for the Company should be between 1.5x to 2x EBITDA, a level that we expected to convert until the end of next year, but we do expect to see a continuous reduction in the leverage in the coming quarters, not only because our operating results will improve but also because we expect to reduce net debt as well.

Moving to slide nine, I will comment about the tax rate and net income. In the six months of this year, we have reached 31.8% of effective tax rate, a significant reduction from the 46% posted in the first six months of 2017.

It is very important to highlight that the reduction of the effective tax rate to the current levels reflect the effort of management to reduce the impact of its current structure in the effective tax rate, but, yet, it does not incorporate the incorporation that is to be done in the next quarters and especially in the next year.

It is important to mention that once those incorporations are effectively done, we expect a much significant reduction in the effective tax rate, but those effects are not expected to impact results at least until 2020. But with the measures already taken, we understand that the current effective tax rate can be sustained for the next quarters, even without the incorporations.

Net income for the quarter was positive, reaching R$4.3 million, a 23% growth. In the six-month period, we reached R$12.4 million, a 27% growth, highlighting the objective that the Company had mentioned that we would focus a lot on improving profitability and generate the operating leverage, while we expect to grow less in this first line, we expect to grow way further in the bottom line.

And that is the kind of result that we have always shown in the six months of 2018 and we expect to continue to post those kinds of results for the following quarters.

Moving on to the slide number ten, I will comment on total investments. Investments were significantly reduced this year – a 74% reduction compared to the six months of 2017. It is important to mention that reduction in investments is the main driver of increasing free cash flow generation for the Company.

Bear in mind that this low level of investments is the consequence of the accelerated period of investments from 2014 to 2017, in which the Company focused on growing in all fronts: M&A, organic front, PPP and build a platform that now we are ready to grow with the maturation of the investments made in that period.

Moving on to the slide number eleven, commenting on cash flow, here is very important to show both operating cash flow and free cash flow. The Company has posted very consistent results in operating cash flow and cash conversion over its history.

Cash conversion has been very high for a very long time. In the six months of 2018, our operating cash flow generation reached R$84.3 million, a 71% cash conversion; a 16% increase in operating cash flow compared to the previous period and a 400-bps increase in cash conversion.

What is important to mention and it is different than previous period is the improvement in free cash flow generation. While operating cash flow has been very strong since the Company's inception, free cash flow has been always negative because the Company was always investing ahead of its operating cash flow.

But it is a new cycle. Free cash flow has turned positive in the 2Q18. We have reached R$29.2 million in free cash flow compared to a negative R$19 million of free cash in the same quarter last year. In the six-month period, we have reached R$27.8 million of positive free cash flow compared to R$150.2 million of negative free cash flow in the six months of 2017.

This highlights the importance of reducing investments in this new cycle, in which cash flow has significantly improved to maturing investments already made in the previous cycles. Again, is important to highlight that we cannot continue to growth topline, even though this role would be lower than previous cycles, but the platform is already there, it is a matter of putting it to work.

Going to the slide twelve – our closing remarks. It is important to mention that the Company will continue to focus on improving profitability. This improvement will come from some fronts, first one it is the ramp-up of the new mega units. Remember that the Company has opened six mega unities from the 1Q16 to the 3Q17, which was a huge investment and out of these six mega units, four are in the city of São Paulo, our new mega units.

The other two mega units are conversion from random units into new mega units, posting a different kind of maturation profile. But the four mega units opened in São Paulo are ramping up accordingly. Our operation in the city of São Paulo is the fastest growing operation of the country, and we have a very strong competitive position.

With CDB granted in the city and the mega units are helping us to gain market share and increase our penetration with CDB brand in the city of São Paulo.

Also, we continue to focus on increasing productivity of existing equipment, our most relevant productivity indicator in the number of MRI exams per machine per day, and we continued to expand this indicator in the 2Q, reaching 24,5 exams, a 2.2% increase compared to the previous quarter, even with the utilization of three new MRI machines.

The consequence of that was the ramp-up of the new mega units, the increased productivity in existent exams, the delivery of margin expansion in the 2Q and also the growth in net income and cash flow generation.

It is also important to highlight the importance of technology and innovation in our business. Technology has produced and will continue to produce dramatic changes in the way our business is won. Alliar is ahead of this and is leading improvement through the innovations in technology, which is a key driver to improve three fronts. First, efficiency on the operation; second, quality of exams and third, the patient experience.

We will continue to focus our investments on the use of technology and innovation to improve these three fronts, and it is very important to highlight all the efforts we are making on these fronts.

That is what we wanted to comment about the 2Q results and we are open for the Q&A session. 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:

So, as we do not have any questions, I would like to thank everybody for participating in this call. I am looking forward to talking to you again in three months. Thank you very much.

Operator:

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