Q4 2011 Earnings Call

Company Participants

- Fabio Marchiori, CFO
- Omar Hauache, CEO

Other Participants

- Flavio Barcala, Analyst
- Joao Carlos dos Santos, Analyst
- Luciano Campos, Analyst
- Rafael Frade, Analyst

Presentation

Operator

Everyone, welcome to Grupo Fleury 2011 Fourth Quarter conference call. Mr. Omar Hauache, CEO, and Mr. Fabio Marchiori, CFO and Head of IR, will present the results. This event is being recorded and all participants will be in a listen-only mode during the Company's presentation. After Grupo Fleury's remarks, there will be a question-and-answer session. (Operator Instructions)

This event is also being broadcast live via webcast and may be accessed through investor relations website, www.Fleury.com.BR/IR where the presentation is also available. Those following the presentation via the webcast may post their questions in advance on our website. They will be answered during the Q&A session as long as we have enough time.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of Grupo Fleury management and information currently available to the Company. They involve risks and uncertainties because they relate to future events and therefore depend on circumstances that may or may not occur.

Investors and analysts should understand that conditions related to macroeconomic conditions and other factors could also cause results to differ materially from those expressed in such forward-looking statements.

Now I will turn the conference over to Mr. Omar Hauache, CEO of Grupo Fleury. Mr. Hauache, you may begin the presentation.

Omar Hauache {BIO 16579589 <GO>}

Good morning, everyone. Before we get started with the presentation of the Fourth Quarter and 2011 results, I would like to share with you our satisfaction with Grupo Fleury's pace of growth.

Our organic growth continues to be strong and should remain solid for the next quarters. We were able to fully deliver our expansion plan, 65% of the 14.3 thousand square meters were delivered in the Fourth Quarter of '11 and we look forward to getting the benefits of these additional areas and services during 2012.

However, the perspective of the full integration of Labs D'Or is expected to further contribute to our results. Through the Fourth Quarter of '11, we still have not included some relevant and profitable hospital operations coming from Labs D'Or acquisition. This is happening by now during this First Quarter of 2012.

Fourth-quarter and 2011 results were impacted by nonrecurring items. During 2011, we warned the market that our cash collection and efforts and consequent, receivable considerations and the nonrecurring costs associated with consultancies of Labs D'Or acquisition and integration would impact our margins. Good news is that the impact we see should be significantly lower during 2012.

In addition to that, it is important to mention that our cash collection project also contributed to the achievement of a higher level of net cash.

One more thing I would like to mention is that later on during this call, Fabio Marchiori will update you on our new doubtful account provision policy based on the age of past due receivables.

So now let's get started. On slide 3, we describe some operational highlights. On October 6, Grupo Fleury was considered one of the 20 most innovative companies in Brazil from Epoca Negocios Magazine in partnership with A.T. Kearney consultancy. We are very proud to be recognized in such way. Innovation is part of our culture and we consider it to be one of our main competitive advantages.

During November and December, we became the service provider for clinical analysis in the three Sao Luiz hospitals in Sao Paulo. We are by now becoming the service provider for imaging as well and as I mentioned before, this is an example of one important piece of reserves that is being added in 2012.

Further, November, we were considered one of the most -- one of the Brazilian model companies in social and environmental responsibility elected by Guia Exame. This award recognizes the long-term efforts and investments that Grupo Fleury reserves for sustainability good practices.

On December 16, payment of BRL10 million as interest on capital was announced. BRL28 million were paid as interest and capital in 2011.

So in December, we have announced the expansion of a+ brand in Sao Paulo through the incorporation of eight Campana's Patient Service Centers. This was truly and successfully accomplished in February 22 of 2012 and Grupo Fleury will also deliver six additional PFCs for a+ by the end of the first semester of 2012.

At December 23, the first issuance of non-convertible debentures was concluded including our cash position by BRL450 million.

On December 30, the Extraordinary Shareholder Meeting approved the merger of Labs Cardiolab by Fleury.

Let me go to slide four and here we highlight our growth acceleration. Gross revenue increased by 56.8% quarter over quarter to BRL365 million. In the full year it increased by 31.2%, reaching BRL1.2 million.

As I mentioned before, organic growth was 14.9% in the Fourth Quarter, versus 11.8% for the same quarter in 2010. When we consider the full year of 2011, we grew organically at 13.6%; in 2010, our organic growth reached 9.2%. This table illustrates the evolution of our total and organic growth pattern according to our business lines.

On the second line where we show our PSC's organic growth performance, I think it's easy to note how much this growth is accelerating. Diagnostic operations in hospitals still shows a consistent growth and this should improve even more with the inclusion of additional hospital services coming from Labs D'Or acquisition.

Reference Laboratory growth performance should also be mentioned as we begin to see a favorable trend of improvement regarding this business line. Talking about Lab (to now) I will later run comment on our future plans for this business line.

Preventive Medicine growth keeps its base and in this context, it is worth mentioning that our health assessment revenues includes 36.6% quarter-over-quarter. As I said before, such a strong growth during the last quarter of the year, which is usually hurt by seasonality, is very good news. Maturation of new areas that were launched last year and most of these areas were delivered during the Fourth Quarter, should contribute for an even stronger growth during 2012.

Gross profit in the Fourth Quarter reached BRL100 million, increasing by 35.6% quarter-over-quarter and 22.8% year-over-year. EBITDA was BRL50.3 million in this quarter with a corresponding margin of 15.2%. For the full year, it had averaged BRL200 million and its margin corresponded to 17.7%. This margin would have been 648 basis points higher for the Fourth Quarter and 507 basis points higher in the year if we exclude nonrecurring expenses.

Net income achieved BRL12.7 million in the quarter and BRL101 million in the year. Net cash provided by operating activities was BRL146 million in the year. In 2010, our net cash reached BRL115 million.

Let's move to slide 5. On slide 5, we illustrate on the left side Grupo Fleury gross revenue growth year-over-year and quarter-over-quarter growth. As you can see, gross revenue CAGR increased due to the accelerated organic growth and also thanks to the recent acquisitions and gives us confidence that we can deliver the Group's differentiated strategy, satisfying existing clients and attracting new ones through the offer of integrated solutions. And the (inaudible) brands for these segments certainly contributed toward this growth.

Our intensive expansion plan, the proven (inaudible) offer imaging services, optimizing and increasing PSC services area also contributed. We innovate (announcing) tests and procedures and services and this is why one of the major reason Fleury should be recognized as one of the most innovative companies in Brazil.

It is important to mention once more the success and launch of a+ and its national media campaign.

On the right side of this slide, we illustrate our EBITDA and EBITDA margins performance. Let's just say these results were impacted by nonrecurring items during 2011.

On slide 6, slide six is about gross revenue breakdown for the Fourth Quarter of '11. The pie on the left shows that 85% of our revenues come from PSCs and 11% come from operations in hospitals. As all of the hospital services from Labs D'Or are included, this should (jump) to 15% of our revenues.

On the right side, we break down this growth. This BRL132 million difference between the Fourth Quarter of '11 and the Fourth Quarter of 2010 is detailed and one can see how organic growth and acquisition contributed to our growth. This is also represented below and the blue bar shows that BRL34.6 million coming from organic growth meaning that 14.9% growth and BRL98 million came from acquisitions.

Chart 7 shows the same kind of figures but this time we are talking about the full year of 2011. In this context, similar distributions are seen. Regarding 2011, organic growth was 13.6%.

Let's move on to slide 8. Here we break down our PSCs growth revenue by type of test. The figure compares this breakdown for the corresponding Fourth Quarter and the full year of 2010 and 2011. Please note the increasing participation of imaging services in 2011. This increasing share of imaging and other specialties reflect Labs D'Or portfolio of services but also reflect the progressive a+ improved mix of services.

Clinical analysis revenues increased 31.8% in the quarter and almost 20% in the year and this was mainly associated with organic growth.

Imaging and other revenue -- and other services grew 110% in the quarter and 53.5% in the year. (After) revenues by source, in the Fourth Quarter of '11 (healthcare) providers contributed with 73% of Group revenues, private customers corresponded to 12%, and the remaining 15% came from hospitals, other labs, and companies that hire our services.

On slides 9 and 10, we will detail our PSC's performance. This business line, PSCs, represented a 60.9% growth quarter-over-quarter. In the full year, it reached BRL1 billion. Labs D'Or PSCs figures have been fully consolidated in the Fourth Quarter of 2011.

Organic growth in the quarter was 13.8% and PSC's growth was well distributed across geographies and brand segments. Other expansion plan was accelerated during the Fourth Quarter. More than 9,000 new square meters were delivered and we ended 2011 with almost 100,000 square meters.

As illustrated in this slide, gross revenue and number of tests display a solid growth quarter-over-quarter and gross revenue per PSC continued to grow consistently.

Slide 10 highlights more of the things about Grupo Fleury's expansion plan. We show a picture of the planned new Fleury Alphaville PSC which is the second largest under this brand. This PSC was built following the highest standards of sustainability.

We also delivered many new a+ facilities in Sao Paulo, all of them offering a full range of imaging services. Average revenue per square meter excluding expansions and Labs D'Or impacts reached BRL3,700. When we consider Labs and the effects of the recent expansion, we note that there are new opportunities to further improve this important indicator of asset efficiency.

Slide 11, now let's talk about diagnostic operations in hospitals performance. Operations and hospitals continued to grow at high rates and it now represents 10.8% of Group's revenues.

As soon as operations in Rede D'Or hospitals are fully consolidated, this participation should increase above 15%. This figure shows the progressive gross revenue and number of test gross associated with this business line. This significant increase in the number of tests performed is mainly driven by low complexity tests bringing down average prices due to mix of tests.

(inaudible), the scale effects coming from this increase of low complexity test was important to prevent any negative effect on the margins of this business line.

Chart 12, let's spend some time talking about reference labs. We're planning to dedicate more attention to this business line. We've studied this market of (inaudible) lab and concluded that there is room for share of market expansion at Grupo Fleury. We are not willing to take part of a price war strategy. We have picked to our differentiation strategy and this includes this business line.

The Fourth Quarter of 2011 shows a small trend of an initial recovery for this business line and the figure shown on this slide reinforces our differentiation strategy. As you can see, average price has been growing every quarter. From now on, we will focus on this business as well with a more dedicated team and management with clearer goals of growth in revenues and profitability. We plan to give you more details on our plans for this business line during the next conference call.

On slide 13, now let's talk about Preventive Medicine business lines. Its revenues increased by 23.8% in the Fourth Quarter and 25.3% in the full year. We highlight here the Health Assessment performance. Its revenue increased 36.6% in the Fourth Quarter with a 26.8% growth in number of assessments. We are leaders for Health Assessment in Sao Paulo and we plan to further expand this business.

Health Promotion revenues achieved BRL1.3 million and Chronic Disease Management reaches 47,000 lives under contract. Total revenues for Chronic Disease Management amounted to BRL4.6 million in 2011.

I will now pass on the word to Fabio Marchiori, who will start describing our cost of services.

Fabio Marchiori {BIO 16680005 <GO>}

Thanks, Omar. So let's start by analyzing slide number 14 about the cost of services and before we check our (pattern) with the cost of services breakdown, I would like to highlight the reasons why both Fourth Quarter 2010 and Fourth Quarter 2011 figures as a percentage of net revenue have been adjusted.

The Fourth Quarter of 2010 figure was adjusted to reflect the reallocation of expenses which were before 2011 recorded as general and administrative expenses but are more related to the provision of services delivered in patient services centers, hospitals, and companies. Based on this, cost of services represented 66.2% of net revenue in that period.

The Fourth Quarter of 2011 figure was adjusted to exclude effects of an abnormal and nonrecurring level of debt cancellations, BRL8 million, due to the cash recovery program since. As previously announced, the Company enforced its procedures in order to reduce Days Sales Outstanding, holding negotiations to ensure collection from debts older 360 days.

Let's now compare the adjusted figures. As you will notice, although the Group continues to deliver more efficient operations and rationalize the underlying costs to serve, during the quarter duration increased by 190 basis points when compared to the Fourth Quarter of 2010. Part of this increase, 60 basis points, can be associated to expansion areas, preoperational costs since as previously mentioned, relevant additional area was delivered throughout the Fourth Quarter of 2011.

The remaining increase in this ratio is the effect of Labs D'Or, higher cost of services as a percentage of net revenue, increasing Consolidated Group's figure by 130 basis points.

Let's now analyze each expense by type. First one, Personal and Medical Services, the cost has increased by 70 basis points to 34.6%. (inaudible) operational costs represent 30 basis points as we hire personnel well before they start to develop their activities in new and expanded patient services centers since its Group's policy to deploy a very comprehensive training program to them.

The remaining 40 basis points are due to Labs D'Or progressive results aggregation since there is a business line mix effect. We have not yet consolidated 100% of hospitals results and patient services centers had higher costs as a percentage of net revenue than hospitals. Hospitals will be fully consolidated by the end of the First Quarter of 2012.

Moving to General Services, Rent and Utilities, the matter was 70 basis points higher than the same period last year and this reflects the cost increase resulting from fully operational rental expenses, 30 basis points, and Labs D'Or. And again, the business line mix effect, which represents 40 basis points.

Our expectation is to compensate with preoperational effects over the next two quarters with fixed cost dilution in new and expanded patient services centers as they catch up with demand and compensate the mix effect by consolidating labs hospitals during the First Quarter of 2012.

Always important to highlight, we continue to pursue high levels of asset utilization not only due to the obvious financial effect but also to continue to improve the already high levels of customer satisfaction related to the one-stop shop concept.

Speaking about Materials and Outsourcing, quarter after quarter over the past 21 months, Group supply chain continues to improve relationships with our strategic partners. As a result, this cost line has further decreased by 120 basis points as a percentage of net revenue.

Finally, speaking about General Expenses, cost is up by 180 basis points. 50 basis points are the effect of cost inflation, 50 basis points are due to Labs D'Or effect, and the balance figure is the result of infrastructure improvements mainly in our call center and IT costs necessary to support the expected volume growth.

As mentioned during previous quarters, we expect inflation on salaries and real estate rates to adversely affect the cost of services over the next few periods. However, we also believe that this pressure will be compensated by three factors -- further dilution of fixed costs as we go since the Group has some spare capacity in the diagnostics medicine business unit mainly related to clinical analysis; increase of share from image and high complex tests and procedures; and finally, gains arising from the closer relationship between Fleury brands in Rio de Janeiro and Labs D'Or.

Moving to the next slide, slide number 15, this slide brings the gross margin reconciliation. Reported figure in the Fourth Quarter of 2010 was 39.1%. Equally normalized to include the costs which were transferred from general and administrative as previously explained, the baseline figure would be 33.8%.

The Labs D'Or mix effect represents the already mentioned 130 basis points and cost of services impact is 230 basis points, as also mentioned in the previous slide. This brings reported margin to 30.2%. Then to the (inaudible) recurring gross margin level, we need to exclude the two nonrecurring effects adversely impacting this quarter's margin, cash recovery effort representing an impact of 165 basis points, and the fully operational expenses representing an impact of 82 basis points. If we exclude the nonrecurring effects, Group's gross margin would have achieved 32.7%.

Moving to the next slide, slide number 16, this is a similar analysis with the same set of adjustments presented for the full year of 2011. You will notice that on an adjusted basis, cost as a percentage of net revenue has increased by 110 basis points, mostly as a result of preoperational expenses, 60 basis points, and last, mix effect.

At this point I would like to give you a heads-up about the new modification and criteria which will be applied in order to increase transparency about our reported figures.

As from generally 2012 on, depreciation of clinical analysis and imaging equipment as well as of PSC's, patient services centers buildings, will be reported as cost of services. Just as a reference, in 2011, depreciation of these items represented circa of 3.5% of normalized net revenues.

Therefore for 2012, if we ignore short-term nonrecurring items and reallocate (inaudible) (depreciation) to cost of services, we will work to keep Group's gross margin close to 35% considering 12-month figures in order to exclude seasonality effects.

Moving to the next slide, slide number 17, we will analyze what happened with operational expenses during the Fourth Quarter. As we have previously mentioned, we also had to adjust operational expense to reflect the reallocation from G&A to the cost of services provided. Therefore in order to make the comparison easier, we present in this slide the Fourth Quarter of (2010) adjusted figures.

Overall, figures excluding depreciation has increased by 110 basis points when compared to the same quarter last year, achieving BRL50 million or 15% of net revenue. This figure already includes BRL7.3 million or 2.2% of net revenues of nonrecurring expenses as for example legal fees and consultancy related to the incorporation and integration of Labs D'Or operations.

As a general rule, our expectation for operating expenses excluding depreciation is to stay below 15% of net revenue.

Speaking about depreciation, it has increased to BLR21.2 million in the Fourth Quarter, which is BRL12 million above the Fourth Quarter of 2010 and this increase is the result of three effects. First, the investments necessary to support organic growth, mainly the expansion plan; the second, the Labs D'Or Patient Services Center's depreciation; and the third effect, BLR1.1 million from some items write offs.

Moving to the next slide, slide number 18, we will now speak about the net income from the Company. Net income reached BRL13 million in the quarter or 3.9% of net revenue. Just to reinforce, this quarter's bottom line has been negatively affected by the mentioned nonrecurring effects which add up to BRL18 million.

Effective tax rate at 18.5% reflects the fact that we continue to amortize goodwill and distribute interest on capital by the way BRL10 million paid by the end of December and for 2012, the Labs D'Or goodwill fiscal amortization, which represents BRL160 million per year which will start on January will further of course with those effective tax rate.

Full-year 2011 reported figures achieved BLR101 million. Just as a last estimate, if you exclude the impact of the reported nonrecurring events which happened during the year, these would add up BRL35 million net of income tax and then the adjusted bottom line would have achieved BLR136 million in a recurring basis.

Moving to the next slide, slide number 19, EBITDA has achieved BRL50 million in the quarter, which is a 15.2% margin on net revenue and BRL200 million in 2011 full year, which represents 17.7% margin.

Let's look to the next slide in order to highlight the impact of what the Company considers nonrecurring items in the Fourth Quarter of 2011.

Just to explain what each line means, cancellations refer to the already mentioned cash recovery program which is an impact in the Fourth Quarter of 200 basis points. Pre-Operational expenses related to the new areas delivered during the quarter represented 82 basis points. Fees and consultancy expenses related to the incorporation and integration of Labs D'Or represented 221 basis points.

And finally, 150 basis points are the hypothetical effect of the dilution of general and administrative expenses if 100% of Labs D'Or were recouped in the Fourth Quarter of 2011 revenue. Therefore, Company's management opinion is that the underlying EBITDA margin in this quarter achieved 21.7% compared to 22.3% in the Fourth Quarter of 2010. With keeping the same analysis for the full-year figures, our perception is that the underlying margin reduced by 70 basis points to 22.8%, mostly due to higher inflationary pressure on some P&L components.

Despite the fact that 2011's underlying margin was not (suited) between 23% and 24%, the Company continues to believe that it can keep its commitments to stay within this (measured) range for recurring EBITDA even considering the implementation of fundamental strategic initiatives as well consolidation, expansion of Patient Service Centers, Labs D'Or integration, physician retention, continued workforce training, and technological innovation.

Moving to slide number 21, the investments, CapEx, which has accelerated over the past three quarters achieved BRL182 million in the full-year 2011 and this is compared to our initial estimate of BRL135 million. The BRL47 million difference between actual and budget can be explained as follows.

BRL7 million corresponds to expenditure above budget. BRL30 million represents anticipation of 2012's expenditure. BRL10 million were invested in Labs D'Or Patient Services Centers, hospitals, and technical areas. For 2012, estimated CapEx is BRL120 million and this includes all investment necessary to expand services area by 10,500 square meters and the breakdown is presented in the pie chart at the right side of the slide.

Just to reinforce the reduction in this figure when compared to the previously announced one, which was BRL150 million, is only a consequence of the BRL30 million anticipation reported in 2011.

Moving to slide number 22, about debt, total debt at BRL918 million is under control. BRL259 million will be due over the next 12 months and our current cash position of BRL486 million is more than enough to ensure liquidity. Just to remember, during the Fourth Quarter of 2011, the Group has issued BRL450 million of debt in order to reestablish our financial flexibility, improve the balance sheet efficiency, and ensure availability of funds for future investment activities either organically or through strategic acquisitions.

Details about this successful offer are described in this slide, and if necessary, I will be happy to clarify any questions about it during the Q&A session.

Moving to slide number 23, about a pro forma cash flow, let's quickly check what happened with relevant cash flow elements.

As you easily notice, cash conversion remains one of the Group's strengths. In 2011, operational cash flow achieved BLR146 million, which represent a 29% increase compared to the previous year result even considering the lower net income baseline. You will also notice that we kept the balance between long-term investment, acquisitions, and long-term financing activities. Therefore, full-year cash outflow was BRL57 million.

Moving to the next slide, slide number 24, as we mentioned earlier in this presentation, the Company has established a fairer process to evaluate the quality of its receivables and to negotiate and collect old debts. The effect of this effort in 2011 was the recovery of more than BRL20 million of debts older than 360 days.

During this period, our commercial department started to adopt a more comprehensive set of parameters during negotiations in order to mitigate credit risks and uncertainty about collection in the future. For example, contracts are progressively including (inaudible) financial penalty clauses in case of delay in payments.

Based on this new commercial approach, improved controls related to accounts receivables, and the final results of this extensive negotiation program held during the year, Company's management decided to redefine the bad debt provision policy and implement this new policy as from January 1 on as mentioned in this slide.

Therefore just to reinforce, discretionary provisions will only be recorded if the resulting coverage remains above the new range described by the policy, which are 15%, 50%, and 85% according to aging. Labs D'Or operations will be already included in the Group's provision policy, ensuring consistency across the Company.

The estimated impact of this decision will be circa of BRL10 million. This is based on the balance in December 31 balance sheet and will be already included in the First Quarter of 2012 figures. Considering that we do not operate in the public sector and that we have limited exposure with the reference laboratory business line, we believe that this level of provision will be adequate to our portfolio.

Now we reach slide number 25, Capital Markets. The slide shows some public information about our share's performance, the red line, compared to the Brazilian Stock Exchange Index, the gray line, until the end of 2011. Overall, the stock has performed well in a period of intense volatility. Since the IPO, share price has increased by 34% while the Bovespa has decreased by 17%.

Finally moving to slide 26, you can see the schedule of upcoming events where the IR department will be present.

Now I would like to open for questions and answers.

Questions And Answers

Operator

(Operator Instructions) Rafael Frade, Bradesco.

Q - Rafael Frade {BIO 16621076 <GO>}

Good morning, all. My first question relates to your expectations in terms of new square meters to be added in 2012. If you can share with us if there were some change on the previous expectations?

And the second one is -- relates to this new bad debt provision policy. In fact, are two questions related to that. The first one is if in this new policy when you have some cancellation from a provider or you negotiate some payment with a provider, if this new -- if this receivable is -- it remains in the current balance in terms of the delay for example if you renegotiate a receivable with a provider, it will be set as zero or it will remain with 90 and 120 days?

The other question related to the policy is just confirming if Labs D'Or is already in this policy in this BRL10 million expectation for the First Quarter already reflects Labs D'Or adjustment to this policy?

A - Omar Hauache {BIO 16579589 <GO>}

Okay, Rafael, this is Omar. Thanks for your questions. I will answer the first one and then Fabio will answer the second one.

Regarding the expansion plan, as you asked, let me confirm to you all that we are planning to expand our square meters, our square meters in 10,500 square meters for 2012. We are confirming the same amount of square meters that we announced in the previous call and this is going to be well distributed across the year. This is one of our major goals, to accomplish 10,500 square meters.

But one other major goal we have so far is to go for the maturation, accelerate the maturation of all the square footage we launched last year. As you know, we delivered more than 14,000 new square meters last year. The major part of this new square footage was delivered in the Fourth Quarter and now we want to accelerate the results coming from this expansion plan that was mainly delivered in the last year. So we are going to confirm -- we are confirming the 10,500 square meters and we are going to accelerate the maturation of this new plant (postpaid).

Just one more thing is we added to this new 14,000 square meters more services, specialty imaging services. We added plenty of MRI scans and CT scans so we are trying to reach even more our mix of services.

As for the second question, I will pass on the word to Fabio.

A - Fabio Marchiori {BIO 16680005 <GO>}

Thanks so much. Good morning, Rafael. Thanks for the question. Specifically answered, the first one we did not reset the clock, which means that after we do the service with the patient and then we make the invoice to the payer, even if we negotiate some kind of agreement or some expansion of terms, we do not reset the clock. So that's the first part of your answer.

The second piece, yes, in the BRL10 million that we are -- or circa BRL10 million that we are predicting for the First Quarter of 2012, there is that position on December 31, Labs D'Or revision of the provision, bad debt provision (policy) is already included.

Q - Rafael Frade {BIO 16621076 <GO>}

Okay, that's perfect. Thank you.

Operator

Flavio Barcala, Citi.

Q - Flavio Barcala {BIO 7505480 <GO>}

MY question is for 2012, so the Company in 2011 presented some strong organic topline growth. However, we have not seen that reflecting on the bottom line yet due to all the ramp-up and nonrecurring expenses that the Company has accounted.

So my question would be what could we expect in terms of the cash recovery efforts and also nonrecurring expenses for 2012? So how should this impact on profitability levels and how much more can we expect from those nonrecurring items in this current year?

A - Fabio Marchiori {BIO 16680005 <GO>}

Thanks, Flavio. It's Fabio here. In terms of these two events, you are right, the topline has increased in a very strong way and we believe that it will even accelerate in 2012 because with this new expanded areas in patient service centers, contracts and hospitals, and other the technology that we are developing, we believe that this will continue. And this will be reflected in the bottom line because in terms of cash recovery, what we had to do in the past and what we had to (inaudible) in the past did not -- except from this BRL10 million that I have just mentioned to Rafael and to all of you that were included in the reserves of the First Quarter to 12 to adapt the bad debt cost provision. There is nothing more to come in a structured way, so everything is done.

In terms of nonrecurring also, integration of Labs D'Or, incorporation of Labs D'Or and all these expenses are finished. We have launched a+ and we have moved some money to do that this year. It's finished. a+ is launched. It is a success so in terms of nonrecurring, the only thing that we expect for 2012 will be continuation of full-year operation expenses because the way we expend the areas by 10,500 square meters and the same thing happened.

We have hired personnel in advance, we have hired the areas and start to (inaudible) is why we adopted the areas so the only thing we are expecting is -- are these preoperational expenses. And here is we have consumed -- related to the 23%, 24% wedge of the bit of recurring margins, these will consume 100 to 150 basis points during the year. So that will be the level of nonrecurring expenses, which is not nonrecurring. This expense will be recurring. This personnel, this average will continue to remain with the group but they will start to generate revenue to compensate.

But that's pretty much it. So just put in a very straightforward way, cash recovery program is done. Now it's business as usual. Nonrecurring elements are done except some pre-operation expenses and this BRL10 million from adjustment in bad debt provision and this will cost 100 to 150 basis points for the year in terms of EBITDA margin.

Q - Flavio Barcala {BIO 7505480 <GO>}

Okay, fair. An additional question, the Company cut its expansion strategy from 15,000 to 10,500, as you well explained. I would like to know what was the main reason for this cut and guidance? Would that reason be like the stores that were already opened or maturing at a slower pace than the Company expected?

A - Omar Hauache {BIO 16579589 <GO>}

No, actually we did not give a guidance that that would be 15,000. We were just predicting at that time that that would be a possibility. So what's happened is that what we witnessed during 2011, what we are beginning to witness in 2012 is a very strong organic growth. So we are going to focus on the current installed bases we have. I think once you keep on with the plans of 10,500 square meters and to keeping this new PSCs with a full range of imaging services, it's just a matter of taking care of productivity. We feel like we can be even more productive with the current floor space we have, invest in productivity and fitting in these PSCs with more imaging service. We just revised that we can get even more reserves but it would only shrink that so much.

Q - Flavio Barcala {BIO 7505480 <GO>}

Okay, perfect. Thank you. Very clear.

Operator

Jeoao Carlos dos Santos, BTG Pactual.

Q - Joao Carlos dos Santos {BIO 15122452 <GO>}

Good morning, everybody. Thank you for the question. Just as a quick follow-up from this last question on -- focusing on the productivity and why if you could explore a little bit further what are the major challenges for enhancing this productivity? Is there anything -- just -- I would like you to discuss with us a little bit if there is anything regarding IT systems or internal logistics in each and every store just to have a little bit more of an on-the-job feeling of how to enhance the productivity per store. And what is the largest challenge for a stronger expansion on the base? Let's assume that you are successful in the productivity from the current Patient Service centers. What is the major challenge for additional square footage increase?

And the second question that I would like to ask you is with regards to growth as well for more of a prolonged period now considering Labs D'Or, if as to my understanding the Company is delivering a significant organic growth on a same-store basis. What is the evolution -- what is the trend that we could see on a consolidated level for the Company for the next let's say five years?

We used to have this view of roughly a 60% revenue increase in two years but now with Labs D'Or, how does this mechanics change for the next years? Thank you.

A - Omar Hauache {BIO 16579589 <GO>}

Okay. Thank you for your questions. This is Omar. Regarding productivity, this is very small what we mean by productivity. So again, if we go back to slide 10 to illustrate our TSP asset efficiency and we know that we have been at losses to the market what we feel like authoritative figures should be when we consider the value (inaudible) we want to gain here.

We have been keeping like BLR3,600, BLR3,800, BLR3,700 per square meter and we still lag. This is what we're going through to -- going for. The average revenue per square meter should remain like BRL3,700, the services for further growth. Why am I telling you that?

Let me consider Labs D'Or and the new PSCs that were launched last year. You can see that when you take into account these new -- two new events, the productivity falls down. You are talking about BRL3,300 or BRL3,100 We realize that when we get to know even more about Labs D'Or than you get the maturity, we reach the maturity of this new PSCs, there is plenty of room to further increase our productivity.

As you know we are talking about 57 PSCs in Rio de Janeiro. But the impact in our operating should be quite high. So it's a matter of time and we should further explore with new PSCs selling from Labs D'Or, we need to be (inaudible) some time. It's expected some time for this new PSC that we launched last year, (inaudible) to mature and what we mean is what we really mean by productivity is to get the most for every single square meter we have.

This is why we are investing so much in MRI scans and imaging services and we know that this can increase our productivity significantly.

So it's not a matter of only adding more and more square footage. We think about every single square meter. What are we going to do with every single square meter? How can we be more productive with every single square meter?

So in line with the expansion plan, the physical expansion plan, the structural expansion plan, there is a higher project that takes care of imaging services and every single real that we can gain from this imaging services as well. So here looks our profitability at the end of the day.

Q - Joao Carlos dos Santos {BIO 15122452 <GO>}

Great, just as a quick follow-up, you are talking about putting more imaging equipment in the units of Labs D'Or in Rio. Are there any other specific sort of projects happening in those units like something related to the IT systems or maybe something related to their logistics, internal logistics in the unit? Whether you see more opportunities from your experience here in Sao Paulo?

A - Omar Hauache {BIO 16579589 <GO>}

Just the Company -- you are talking about imaging services? Just so that you have an idea, not considering Labs D'Or, which has more than 30 MRI scans, more than 20 CT scans, when I talk about Fleury brand and (inaudible) altogether, you're talking like increasing the number of MRI scans with 70% of CT scans more than 60%, of ultrasounds more than 40%. This is really very significant.

So this is one major achievement that we already have this year. Actually just to make an adjustment here to what I said, MRI scans for a+ and Fleury, I'm talking about an increase of 90% that are installed part of equipment.

Let's talk about IT platforms. When you talk about IT platforms, we have a big challenge in Fleury. We've got to integrate the same ERP SAP we have for the whole group here -- this is for Labs, for the whole group, Fleury Group, we are under SAP and this should happen a lot through this year. By the beginning of the second semester, Labs D'Or will be under SAP as well. We feel like this is a major achievement that we should pursue this year. And this is just an example that I can give to you.

Q - Joao Carlos dos Santos {BIO 15122452 <GO>}

Excellent, thank you very much. Regarding the longer term, longer-term trend in terms of growth?

A - Omar Hauache {BIO 16579589 <GO>}

Sorry, I forgot that you mentioned that. Regarding revenue growth, we are very positive that we are still going to see higher rates of organic growth. I'm talking about high teams here of total organic growth.

And regarding profitability, this year is the year we are going to focus a lot in improvement of margins. If we don't take -- as Fabio mentioned already, the major efforts for cash receivables and all that have been conducted in 2011. So any significant impact will be happening in 2011, we don't forecast any significant impact in 2012 coming from this kind of nonrecurring items, so we expect EBITDA margins to be in the range of 23% as we have been telling the market in the last year so you see the recurring that our margins that we expect for 2012.

Q - Joao Carlos dos Santos {BIO 15122452 <GO>}

That's excellent. Very helpful. Thank you very much.

Operator

Luciano Campos, HSBC.

Q - Luciano Campos {BIO 16181710 <GO>}

This is Luciano Campos speaking. I have two questions here, first when regarding pricing. You referred actually that the average price for Labs D'Or after the utility about half of the average price that was during the last nine months. Is this (inaudible)

A - Fabio Marchiori {BIO 16680005 <GO>}

Luciano, this is Fabio. We cannot hear you. Sorry, you will have to repeat everything. We cannot hear you.

A - Omar Hauache {BIO 16579589 <GO>}

Speak a little bit louder, please.

Q - Luciano Campos {BIO 16181710 <GO>}

Hello guys. Are you hearing me?

A - Fabio Marchiori {BIO 16680005 <GO>}

It's not very good. There's a lot of noise. I'm not sure why. Let's try again.

Q - Luciano Campos {BIO 16181710 <GO>}

Let's try again. First question is regarding prices. Is it fair to assume that the average price for your largest hospitals were more than half of the average (inaudible) (technical difficulty) product mix and higher --?

A - Fabio Marchiori {BIO 16680005 <GO>}

Sorry, you were talking about average price?

Q - Luciano Campos {BIO 16181710 <GO>}

For the hospitals.

A - Fabio Marchiori {BIO 16680005 <GO>}

For the hospitals, right?

A - Omar Hauache {BIO 16579589 <GO>}

Okay, (multiple speakers) So the question was about what happened with average price in hospitals? That's your question? (multiple speakers) Okay. I think I understood. If I'm not answering your question, just have to repeat, please.

So I think I mentioned when I presented the results of hospitals, these items but let's try to reinforce what I said. We saw a significant increase in the number of low complexity tests when last came in. I'm talking about the hospitals that were -- that are linked with (inaudible).

Some of these hospitals, they have majorly low complexity tests. So this increase of tests that are mainly driven by these kind of tests and service automatically brings down the average price, which is expected because of the mix effect -- but anyway as I said, the premier effect coming from this increase, low complexity test, it is also important to prevent any negative effect on the margin. So the margins coming from this business line remained intact.

This is what I have already mentioned you. I don't know if I answered your question.

Q - Luciano Campos {BIO 16181710 <GO>}

Okay. Thank you.

Operator

(Operator Instructions) This concludes today's question-and-answer session. I would like to invite Mr. Omar Hauache to proceed with his closing statements. Please go ahead, sir.

(Operator Instructions) That does conclude the Grupo Fleury audio conference for today. Thank you very much for your participation. Have a good day and thank you for using Chorus Call.