

Q2 2016 Earnings Call

Company Participants

- Adolpho Cyriaco Nunes de Souza Neto, Chief Financial Officer and Investor Relations Officer
- Carlos Alberto Iwata Marinelli, Chief Executive Officer
- Unidentified Speaker

Other Participants

- Bruno Giardino, Analyst
- Joseph Giordano, Analyst
- Luciano Campos, Analyst
- Rodrigo Gastim, Analyst
- Unidentified Participant

Presentation

Operator

Good morning, and thank you for waiting. We welcome to the teleconference of the Fleury Group concerning the results of the Second Quarter of 2016. We have here with us Mr. Carlos Alberto Marinelli, Chairman and Mr. Adolpho De Souza Neto, Financial Director, CFO and Investor Relations Director of the company. We inform that this event is being recorded and all the participants will be in the listen mode only. We will have a Q&A session, when more instructions will be given. (Operator Instructions)

This event is also being transmitted simultaneously by the internet via webcast at www.fleury.com.br/ri, where we have available this presentation. The slides will be controlled by you, and the replay will be available after the end of this event. We would like to remind you that the participants may record through the website questions for the Fleury Group. Before we continue, we'd like to clarify that any declarations made during the teleconference concerning business perspectives of the Fleury Group, projections, operational goals and financial goals are believes and assumptions of the company's management, as well as information that is currently available to the Group.

Future consideration are not guarantees of performance and they involve risks, uncertainties, and assumptions and they depend on circumstances that may or may not happen. Investors and analysts should understand the general conditions, also segment condition and other factors may affect the future results of the Fleury Group, and thus result in things that will be materially different.

Now, I'd like to pass the floor to Mr. Carlos Alberto Marinelli, who will begin the presentation. Mr. Carlos, you may proceed.

Carlos Alberto Iwata Marinelli {BIO 18884059 <GO>}

Good morning. I'd like to thank you for the interest and the presence of all of you in our teleconference for the results of the second quarter of 2016. We continue to observe a consistent demand for our services. Our results reflect this demand by obtaining historical records in this second quarter of 2016 in gross revenue and also EBITDA and also net profit and operational cash flow. These are the results and the consequence of our work to maximize the capture of demand in all the segments.

We have new agendas for image test. We improved the utilization of our installed capacity for clinical analysis. We evolved to gain more productivity and improve even more of the customer experience in our units, and we also invested in the better relationship with doctors in order to capture more opportunities for our services. In this quarter, we had a growth of 9.8% in gross revenue, excluding the effect of the five units in labs a+ that were sold in October 2015.

Also, we'd like to highlight the regional brands in Rio de Janeiro which grew 17.2% and the operation in hospitals that grew 9.8%. We also improved the write-offs due to cancellations. So we have less cancellations and consequently the net revenue is growing more than gross revenue, reaching 10.8%, excluding the effect of the CADE units. And a rigorous management of cost and expenses continues to render results. We continued having gains in efficiency which helped to deliver an increase of 24.1% in EBITDA which reached BRL122 million with a margin of 23.2% in the quarter, in other words, a rise of 273 basis points in relation to the same period of last year.

The net profit grew 40.2%, reaching BRL46 million. Also, we'd like to stress the strong cash generation, operational cash generation. We reached the historical amount of BRL163 million, a growth of 42% and the return measured by return on investment reached a premium of BRL163 million -- of 911 [ph] basis points. This is due to the constant work on the part of the company to optimize its assets.

The financial results in the second quarter of 2016 are important, but what really guarantees real sustainability is the satisfaction of our clients. We see that the satisfaction indices of the Fleury Group continue to rise. Net promoter score of Fleury Group, which measures the level of recommendation after using our services grew 238 [ph] basis points and reached 74.9%. Among the highlights that contributed for this results are the operations of the regional units in the northeast and in the south, Rio Grande do Sul. We'd like to say that excellence in customer service is the strategic difference of our brands, and our history of 90 years, apart from the satisfaction surveys and NPS showed that we are really doing this well.

We are proud to receive the information that the Fleury brand was evaluated as one of the 15 most valuable brands in the country in a recent study published by a survey institute, Millward Brown, and by BrandZ consultancy. This is the fifth time that we were

mentioned in this select ranking together with other famous brands in other segments. And so we are the most valuable brand in our segment. Another highlight is the survey Top of Mind promoted by (inaudible) magazine and the Weinmann Group was -- had the best recollection on the part of consumers in Porto Alegre for the fourth consecutive time.

And also Fleury Group was chosen as leader in the services category in the survey of Valor Inovation Brazil 2016, and this was made by the Valor Economico Newspaper in July. The 90 years of our company were marked by the offer of innovative solutions, and for the wellbeing of our clients and doctors. In the evaluation, Fleury Group was shown by genetic -- had also -- was mentioned for the generic test Oncotype DX for the investigation of breast cancer and colon and prostate cancer.

Also we won the Transparency Trophy 2016, companies with net revenue of up to BRL5 billion promoted by ANEFAC, Fipecafi and Serasa Experian. This award recognizes our commitment with the transparency of our financial results and also our -- and also the good relationship with the market and good corporate governance practices.

So we'd like to say that also that our brand was strengthened in the last few years and was repositioned to the segments intermediate -- higher intermediate. With this process, our brand obtained gains in efficiency, improving also profitability and also contributing for the results of the company. In this context for continuous search of better results, I'd like to say that in the first semester, we implemented -- we invested in projects that will really help us to capture even more the existing capture of opportunities and also guarantee the consistency of the evolution of our gains in productivity. We created an expansion Board of Directors, which will help us open new units. Procurement project looking -- reviewing the contracts with our vendors, and also the lean project, the objective is to redesign the processes of the units using the methodologies that are lean and six sigma, increasing the operational efficiency and improving the satisfaction of our clients.

We believe that with these projects, we will strengthen even more our competitive capacity capturing gains and efficiency in different fronts and at the same time as we will guarantee the improvement of quality of service to our clients. In this way, we trust that we will be prepared to continue having consistent results in generating value for all the stakeholders of the companies in this scenario, which is still challenging in Brazil.

I would also like to mention that last Monday, the company approved in its General Assembly a new stock option plan. This plan wants to align the interest of executives of the company and the shareholders. The regulation will be available in Investor Relations site of the company. Yesterday, we also decided to distribute BRL31.8 million in dividends, which corresponds to 35% of the net profit of the company in the first semester of this year. The distribution will have the -- this following basis. It will be based on the shareholder position of August 2 and will be made available on August 15.

Now, I would like to pass the floor to Adolpho. I will be available at the end for questions. Adolpho, you have the floor.

Adolpho Cyriaco Nunes de Souza Neto {BIO 21636124 <GO>}

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Good morning and thank you for participating in our teleconference. Now, we would like to go to slide number five, on the graph on the left, we see the breakdown of gross revenue in the quarter with accelerated growth of the regional brands, excluding Rio, generating an increase in the company's share from 15.7% to 17% market share. Also, we see a small drop in the participation of the brands in Rio De Janeiro B2B and Fleury.

On the graph on the right, we see the evolution of gross revenue by business unit, which explains this change in the mix. In the quarter, we had a growth of 8.5% in consolidated, 9.8% if we exclude the sale of the five units of labs a+, which happened in October 2015 according to the agreement with CADE. The regional brands, excluding Rio de Janeiro, grew 17.2% in the quarter, resulting from the evolution of the average price and increase in the offer of image tests, especially in a+ Sao Paulo. The operations in hospitals went up 9.8%, while the Fleury brand registered a growth of 7.9% and in Rio de Janeiro, 7.7%. We understand that the strong flow of news about health with also -- which highlighted the H1N1 flu, dengue and Zika Virus, really increased the demand and many people anticipated their tests for the first months of the year.

In the next slide, the consolidated of the semester, where we noticed that the growth of the Fleury Group was 10.4%. Excluding the effects of the CADE units in 2015, this growth would be 11.7%. The regional brands excluded -- excluding Rio, grew 16.6% and operations in our hospitals grew 13.6%, Fleury brand 10.1% and Rio de Janeiro brands with 9.8%.

On slide number seven, at the top on the right, we see an evolution, 9% in same-store sales of the units. And on the left, we see that the increase in the average price was only 2.7%, influenced by the greater participation of clinical analysis in the mix due to the growth of these tests in Rio de Janeiro. The graph at the bottom shows us the evolution of revenue by square meters. And we see here the increases, 14.9%, 19.1%. This greater efficiency of our assets is a result, especially of the continual actions to improve and increase the offer of services that also improve the capture of demand, and also the mix and also the repositioning of regional brands.

Now, we would like to go to the next slide where we see the performance of the units by business. The Fleury brand had a growth of 7.9% in gross revenue and 6.7% in the price per test. In the regional brands, in Rio, we had a strong growth in gross revenue of 17.2% and 10.2% average price of increase in tests. In Rio de Janeiro, we'd like to highlight a growth of 10% in same store sales as a result of the better usage of assets, hence consolidation of services and the closing of five units in the last 12 months, increasing the volume of clinical tests and also image products. The gains in efficiency in the assets of Rio de Janeiro and the other brands are also seen in the gross revenue per square meter and they all had a growth above 22%.

On the next slide, we will detail the results obtained in the B2B operation. This segment of work in hospitals had a growth of 9.8%. The indicator of same hospital sales went up 10.7%. Now reference labs, we -- in reference labs, 19.3% growth.

On slide number 10, the graph on the left shows the evolution of deductions in the company which reached 2.8% in this quarter, 80 basis points better in relation to last year.

As a consequence of the continuous improvement of this index, assume [ph] net revenue continues to grow more than net revenue. And we see here, 9.5% in the quarter, 11.5% in the semester.

On the next slide, number 11, we see the evolution of the company's cost apart from the number of employees, square meters, and the number of units. On the graph on the upper left corner, we see an evolution in the costs, rise in the costs of 6.3% in comparison with the same quarter 2015 percent. And the growth, 9% in net revenue. Here, we see our largest cost is represented by personnel in medical services with an increase of 2.6% last year. We would like to stress that this movement is -- shows great productivity and optimization of the units and the quality of the services rendered by operations continues to evolve as shown by the satisfaction indices of our clients.

On the graphs in the lower left corner, we see a decrease of 5.9% and 9.2% in the number of square meters and number of units respectively. In the quarter, we inaugurated the Felipe Mattoso Botafogo unit, which substituted the labs a+ unit in Botafogo. Also the consolidation in Rio de Janeiro between two units that were labs A, we -- in order to increase the usage of the assets and improve profitability. So with this, we reduced number of square meters by 825 square meters, but we did not lose services, we did not lose, we did not decrease our offer of services in the region.

In the next slide, number 12, we have the evolution of the costs of services in the last 12 quarters. The total cost reached 374 million, a growth of 6.3%, as already mentioned previously. The composition of this cost increase can be seen in the other graphs.

As mentioned previously, the highlight is for personnel, employees and medical services with a variation of 2.6% in the comparison between quarters. We'd like to highlight that we concluded our negotiations with the unions and in Sao Paulo we agreed an 8% readjustment in two installments, 4% in May and the rest in November. In Rio de Janeiro, a wage increase of 7% in two steps, 4% in June and the rest in November.

For a more in-depth analysis, let's go to the next slide, slide number 13, where we detail the cost variation of services rendered. Here in personnel, employees and medical services where we have wages, also social security taxes. This represented 34.7% of net revenue and a dilution of 233 basis points in relation to the same quarter in 2015.

General services, rent, and public services evolved 5.5% and we see a gain in efficiency on the basis of 56 basis points. This result comes from the efficiency in rent. We re-negotiated contracts and also closed some units and therefore the difference was almost zero. Materials and third party services represented a growth of 15.1% and increased 15 basis points partially with the partial impact by the readjustment of contracts with local vendors.

Also, general expenses went up 4.5%, a reduction of 30 basis points in the participation in net revenue due to the better design of our contact center. Finally, depreciation and amortization showed an increase of 56 basis points in comparison with the previous period due to a review in the terms for depreciation of medical equipment.

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On slide 14, we see also operational expenses which reached 65.3 million and had the same participation in relation to the second quarter of 2015. Also, general expenses and administrative expenses overhead and depreciation had a small increase of 11 basis points especially due to expenses with consultancy for projects to lower cost and gain efficiency, apart from expenses in marketing for the campaign Fleury 90 years. We would like to stress that the main line of these expenses had a drop in comparison with the second quarter of 2015 of 5.1%. General expenses, other expenses, operational expenses totaled 4.9 million and accruals for contingencies accumulated 1.5 million in the quarter.

In the next slide, we see here the quarterly EBITDA 122 million with a growth of 24%. The EBITDA margin was 23.2%, 273 basis points higher than the same period in 2015. This evolution of the EBITDA margin is a result of consistent cost control, expense control, and also leveraging our operations with growth as explained in previous slides. In the first semester of 2016, we reached BRL243.7 million of EBITDA with a margin of 23.6%.

In the next slide, we see details of two projects that are in progress in the company, the Lean in the units and Procurements. The Lean project has the objective of increasing operational efficiency in the units and improving the customers' experience. We are at the beginning of the implementation, but we were able to notice improvements in the four pilot units, this project divided into waves of implementation.

In each one, we selected a group of units whether the units to focus is in the service products, collection, resonance, and also we'd like to stress that it is -- that it does not cause any alterations in the medical process, only the secondary processes. The first wave includes the units Itai and Paraiso and also a+ Rio de Janeiro and (inaudible), all of them in Sao Paulo.

With the implementation of the project, we observed gains in productivity from employees involved in collection and also service and better usage in capacity of equipments for tomography and resonance. And also the reduction of the wait time for the beginning of the test. Another factor that improved -- caused an improvement was the reduction of the implementation of NPS which had an evolution of 5 to 10 percentage points. This is a project for continuous improvement that has focus on implementing a culture of improvement of process among the employees of the units.

We continue therefore to work to guarantee the sustainability of our productivity gains and the improvement in the customer's experience. Now in July, we began wave number two with more units in Sao Paulo, Fleury Higienopolis, and also Braz Leme and a+ Sao Paulo, Parais and Tatuape, apart from the usage of some tools that had a rapid implementation in other units in the Group in the country. The Procurement project aims at reducing cost and expenses by renegotiating contracts and improving processes and supplies and inputs. Apart from savings, it has also looked at the hiring of vendors and to guarantee that they are aligned with the best practices in the market. The expected gains are concentrated especially in the categories that we see on this slide.

Now slide number 17, we have the profile of our debt made up especially of two emissions of debentures and a loan from FINEP for strategic projects, which together

totaled 988.7 million. The growth of our cash which reached 754 million at the end of June, resulted in a reduction of the net debt, which became 234.9 million versus 494 million in the same period in 2015. The leverage by -- measured by the net debt indicator EBITDA was 0.5 times and in comparison with 1.5 times in the second quarter of 2015 due to the cash generation of the company, improvement of operational results and low cost of debt corresponding to 98.2% of the CDI index.

In the next slide, we have financial results. In this quarter, we had an expense of 15 million, same amount as in 2015. Year-to-date the financial result was 29.2 million in comparison with 30.6 million registered in the same period 2015.

Now slide number 19, we detail income tax and social security taxes on profit. In the quarter, the effective income tax and social contribution were 35.1%, an improvement of 225 basis points in relation to 2015, totaling a tax of BRL24.9 million of which only BRL13.2 million are effectively cash.

Now, slide number 20, we'd like to show the expansion or [ph] the growth of almost 40% in net profit, reaching 46 million in this quarter as a consequence of the improvement in operational results and also the effective income tax rate. In the first six months, the net profit reached -- BRL91 million.

On slide 21, we have the profile of accounts receivable and we can see that there was an improvement in the aging profile with balances to -- representing 76.1% receivables in comparison with 67.1% in the same period last year. Also, the amount due 121 days, went down 17.4% from 17.4% to 15.9% and the average term -- of the collections went from 77 days to 68 days. The improvements -- the continuous improvement of the profile of receivables is due to the effort, in all the company, we have a process called the collection cycle. Apart from the inter-dependence of the years, we can also mention the detailed management and indicators and information, and the improvement of the systems in order to improve collections.

On the next slide, we have cash flow. In the quarter, the company had a historical record of operational cash flow registering 162.5 million, a growth of 42% in comparison with 2015 same period. The variation of working capital was impacted by the improvement in collections and in other assets and liabilities. Also working -- in working capital, we have a positive evolution due to the negative impact last year due to the payments in the second quarter and the payments of the garbage collection fee.

On slide 23, we see CapEx which totaled 35.3 million in the quarter concentrated in strategic projects and expansions. In the first semester, 60.4 million in CapEx.

On the next slide 24, we detail our performance in the stock market and we'd like to show the growth -- the rise of the price 71.9% semester, 37.6% in the quarter. And also the daily volume of shares reaching 12.4 million in the second semester of 2016.

Finally, in the next slide, we see the events with investors and analysts that we will have in the next few months.

Now, we would like to begin our Q&A session. Thank you very much.

Questions And Answers

Operator

Thank you. We'd like to begin now the Q&A session. (Operator Instructions) Our first question is from Mr. Joseph from J.P. Morgan.

A - Carlos Alberto Iwata Marinelli {BIO 18884059 <GO>}

Good morning.

Q - Joseph Giordano {BIO 17751061 <GO>}

Good morning, Adolpho. Yes, we have impressive results due to a very good job in margin. I'd like to look at the operations in Rio de Janeiro, the turnaround in Rio, how are you working on the mix of clinical analysis and normally these units had more focus on image. So how are you attracting this new flow that helps a lot to leverage return?

My second question has to do with this -- the director concentrating on expansion, what will be done and maybe greater expansion than you indicated in the last Investor Day? The third question has to do with this issue of expansion when we look at the drop of 9% in total number of employees in the company, I'd like to understand, can you continue having this growth that you expect, opening your units with this number of employees? Thank you.

A - Carlos Alberto Iwata Marinelli {BIO 18884059 <GO>}

Thank you for your question, Joseph. This is Carlos Marinelli. I wrote down your questions, and please remind you if I forget something. Turnaround in Rio, so we talked about this issue of this topic. Rio de Janeiro is an operation that since we bought it, they are very strong in diagnosis. So what we did, what we have done in Rio de Janeiro, we working with a better mix in the city. What we discovered during this time is that there is space for clinical tests, but the dynamics of the city in relations to the request of tests and also when people go to image and diagnostics and tests are different from other markets, especially in Sao Paulo, our experience in Sao Paulo.

So we have used levers in Sao Paulo, implementing them in Rio de Janeiro, and quickly understanding those that don't make sense, those that are different in order to leverage. This includes communication with the client asking the client when they come for image tests if they would like to also have other types of tests. And also, internally we have worked a lot to prepare ourselves to offer more clinical analysis in our units, thus using in a better way the space we have with more areas for blood collection with more clinical tests. And when we analyze this, the margin is very interesting due to the volume that we process.

But we can't also forget diagnostic. In diagnostics, we continue to improve our efficiency in Rio de Janeiro. Rio de Janeiro had practices, organizational practices with agendas, offers, doctors that were different from the practices that we have in Sao Paulo. And understanding the system in Rio, understanding the customers' needs, and the doctors' needs in Rio, now we have worked a lot to improve efficiency, thus to guarantee, for example standard things for doctors, a better mix of tests according to each region in Rio, each suburb.

So, many small details that make us react and have a difference. Also in terms of clinical tests, one lever that we have used a lot with a great success are medical events. So in Sao Paulo, we have a complete portfolio, we give assistance to doctors, and we're doing these things in Rio de Janeiro for clinical tests to be the main product. And we're doing this in Rio de Janeiro, working with doctors to improve this in Rio de Janeiro. There are many elements that make up our efforts, improving our business in Rio de Janeiro, and we are having more and more revenue and better results.

Another item, the director for expansion, you asked me if we can expect more expansion. I would like to say that in the long term, the objective is to do what we said in the Investor Day. This director will give more attention to the process, dedicated people, better practices, and they will challenge our current processes and costs with new practices. And thus help us also to increase visibility, lower costs, and guaranteeing that we will have an expansion plan that is in accordance with the expectations of the shareholders. We are a company that have -- really had grown growth in our volume and also margins. Concerning number of employees, we have invested in many initiatives to have a higher productivity on the part of our employees. And some factors have helped. One of the factors in -- at a time of crisis is that the turnover is now lower. So you have a process by which the learning curve is better.

So the employees stay more time, so they use the knowledge they have of the products and when we begin a process like Lean, this requires quick changes to improve productivity. Concerning the issue of number of employees, our focus initially is to guarantee the maintenance of NPS or to improve NPS. We never risk this, customer service we never risk. This will help us in the future. So thus, we will have the results in the long term, especially when we talk about expansion and opening new units. So we have been working all the time to maximize these new units, more productivity, new tools for employees, and especially more attention to the evolution of NPS. I believe that I answered your questions.

Q - Joseph Giordano {BIO 17751061 <GO>}

Thank you. Just one more question concerning expansion, how about competition? For example, what do you -- how do you see this in terms of expansion, benchmark, quality of services? So how do you see the brand a+ A MAIS in relation to the competitors?

A - Carlos Alberto Iwata Marinelli {BIO 18884059 <GO>}

A very good point. And beginning with A MAIS a+, we see a continuous evolution of the net promoter score. And this is because of the investment that we have done in six sigma Lean. One thing that we did quickly in units that were critical for was to reduce waiting

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time on the part of clients. So with the value proposal in units like a+ A MAIS, no one has time to waste. We know we are able to have expressive gains, good gains in waiting time, lowering waiting time of the clients, and doing this without opening new units, we reorganized our processes, our materials, and also the availability, and also traffic of clients and we gained efficiency with less waiting time without adding cost with more employees. And also, we have done this with quality so the clients, those who don't know us they try, they recommend to friends and come back.

So I have no doubt that in a+ A MAIS Sao Paulo, since we have a footprint that is large, and a number of units we even made some adjustments. So the volume in a+ or a+ A MAIS Sao Paulo in number of clients and test shows a gain in market share.

Q - Joseph Giordano {BIO 17751061 <GO>}

One last question. I see some write-offs like Eletropaulo in the results. Is this something -- is this recurring?

A - Adolpho Cyriaco Nunes de Souza Neto {BIO 21636124 <GO>}

Joseph, good morning. As we explained in item 10 in the explanatory notes, we have credits to receive from an electricity and the regulating agency decided in favor of us. We reviewed these credits and we understood that the chances of receiving this were not good, so it does not have an effect on cash and this we know affected our results.

Q - Joseph Giordano {BIO 17751061 <GO>}

Thank you.

Operator

Our next question comes from Rodrigo from BTG Pactual.

Q - Rodrigo Gastim {BIO 19694950 <GO>}

Good morning. Two questions. The first, could you tell us -- give us an idea of the profitability of the regional brands during this process of repositioning that is well-advanced inside Fleury? And also an idea of the gap that can be close in relation to the Fleury brand, maybe the regional brands don't have the same profitability due to the Fleury brand due to prices. So how much can we close this gap from now on?

Also cash generation. We see a continuous improvement in the receivables, so is this due to process or more negotiations, harder negotiations? Is there a space to improve cash generation by improving collections?

A - Adolpho Cyriaco Nunes de Souza Neto {BIO 21636124 <GO>}

Rodrigo, good morning, Adolpho speaking. As you know, we don't give the profitability by brands. We give you the profitability by the total business B2B and all the units. What we can tell you that these units have contributed a lot to the results in our most important brand, Fleury were doing very well in terms of margins. So we continue to grow, to

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improve our services, and we continue generating a margin that is excellent while the other brands are coming closer and closer to the point that we consider adequate. So in terms of profitability gains, we have had improvements in these brands and we have space to improve even more the results of these brands.

Now concerning your second question, and we have talked about this. This process of improvement in operational cash flow has to do with improvement of operational results. The business is generating a higher margin, but as you mentioned, we have an improvement in working capital. In diagnostic medicine, we have had improvements in accounts receivable. We see everything that affects deductions, write-offs, and accounts receivable, we do this as a process that is not only up to finance, but the whole company. So sales, service, all the whole company is involved in improving collections.

Our Group has tried to bring people closer. We have a cross-functional team looking at this. We have the necessary indicators to manage this process in the units, in finance, in also treatment of clients and in sales. We have support also from information technology to improve this indicator. So we have worked allowing the company to know in a more fast way what is happening to make quick corrections and also conversation with our partners that are more productive and thus solving in an adequate way any problems that may affect collections. We're not changing our sales strategy, we're not changing prices, but there is a lot of internal work to improve processes and thus be able to have a good conversation with operators and thus guarantee this result.

Q - Rodrigo Gastim {BIO 19694950 <GO>}

Thank you, Adolpho.

Operator

Our next question comes from Mr. Luciano Campos from Bradesco Bank.

Q - Luciano Campos {BIO 16181710 <GO>}

Good morning, Adolpho. My first question, already covered in previous questions has to do with the improvement in productivity by square meter. We see an interesting rise in the productivity per square meter for many quarters. How much more do you think you can obtain in terms of profit per square meter?

A - Carlos Alberto Iwata Marinelli {BIO 18884059 <GO>}

Okay. Carlos Marinelli. Thank you for your question. I would like this to be infinite, but we know that there is a limit. So the main point is we think all the time looking at our units, being there, and looking at them, looking the numbers of each unit, the numbers for medical products and saying what am I doing, is there anything else I can do in this unit -- in these units, what can I change to increase the offer to clients guaranteed customer satisfaction, and as a consequence, improve the number of the billing per square meter.

This is what we do all the time. This is what we do every week. I do this when I visit the units to see what is happening, talk to the people, talk to the doctors, employees, and

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even talk to clients. And thus to have a thermometer and looking at the numbers all the time, looking at the medical specialties, the type of diagnosis, the type of tests, and specially we're always with the focus to do something that we have been doing for a long time to make the assets work. We have good assets. We have good units. We have a very good infrastructure. So we have to take this, and thus have a good return on these assets. And you can see in the value of the return on investment. Now, how much we can increase the billing per square meter, I can tell you that we are continuously improving this. When as we said about expansion, we have to look at this in the long term and we have expansion plans and eventually we may have increases. We have a lot of focus on this and I can tell you that the growth is a consequences of day-to-day work, being at the units, seeing what is happening, looking at the numbers, and thus resulting in a better usage of assets for clients and shareholders. So based on this, with all this experience and this continuous work in improvements.

Q - Luciano Campos {BIO 16181710 <GO>}

So, I just heard all the work that you do. Can we say that -- can we say that you have a model, a blueprint, so when you expand -- will you be able to have more productivity in the next units using this knowledge? So expectations -- expectation of better results from new units due to this knowledge that you have obtained?

A - Carlos Alberto Iwata Marinelli {BIO 18884059 <GO>}

A very good question. And of course, yes, the new units that we will open will have these gains in efficiency in relation to the other units. So in reality everything that we are doing will bring new processes, new flows of the client inside the units, and some things that are not seen by the client, but for us they make a big difference. This project of Lean six sigma some important units of us, Adolpho mentioned this in Itai Fleury and the unit in Paraíso on Cincinnati Braga Street, helped us to improve the collection of -- for blood tests. So we said okay. Here we will need a new model we said a+ or A MAIS the same. So when I have a lot of people waiting in (inaudible) and also in Paraíso and Brigadeiro Avenue where we -- when you have a lower waiting time, you have a small -- smaller area for clients to wait and a larger area where we have the processes.

So also therefore, we can use less square meters for clients to sit and wait and more square meters for the tests. So in the cities where we are present, we -- within the real estate, we cannot break down the real estate, the building and build a new one. So we revamped the units according to the law to have an adequate area for employees, for the client, and thus help us to have more efficiency by square meter. Yes, the units that we will open will have improvements in relation in its layout. So this is for all the cities and all the units.

Q - Luciano Campos {BIO 16181710 <GO>}

One more, my last question. When we look here there are two aspects, there is a comment, number of people with healthcare plans and also the difference in growth of the Fleury brand versus regional brands excluding Rio. Adolpho also mentioned that you had a price increase in the regional brands. So looking at these two points, did the Fleury brand had a lower price increase, and I know that the number of services increased, but the number of people available in this market is suffering a drop. Could you mention --

could you talk on this, what is happening actually? Do you have less traffic and/or may be due to price increases?

A - Carlos Alberto Iwata Marinelli {BIO 18884059 <GO>}

Well, we have to start at a common point. And this is in the newspapers and the portals, there was a reduction in the number of families that have healthcare plans in Brazil. There was a drop in the number of people with healthcare plans in Brazil. Well, this -- there is a fact that our strategy to be in the premium market and high intermediate is more resilient. We know that the first sectors that suffer unemployment are also the lower levels like civil construction industry, this is where we have had more layoffs and more families have lost their healthcare plans.

So now we are in another segment, we are in the premium segment and intermediate high segment. And these people, although they may lose their jobs for sometimes, they migrate to other healthcare plans. And they can -- through the unions; they can pay for healthcare plan for some time while they are unemployed. So they buy a personal healthcare plan for them and their families. Another point is the size of the business and the size of market share.

Of course in Fleury, we have a penetration that is very high and also a billing that is high. And I'd like to remind you that Fleury is a brand that is from Sao Paulo, so we have more units in Greater Sao Paulo Campinas (inaudible) and one in the capital in Brasilia. So even with the growth, and I will ask you to pick up the number.

If you look at the number for the semester instead of the quarter, it's still very good, and therefore we have worked with doctors and also we had a lot of news about health in the first semester. So winning -- when we win market share in Fleury, we have a basis that is smaller and where we have a high penetration. Now, in the other areas, we have an enormous market to capture. And we have offered a good quality of services to guarantee gains in market share in this segment, high-end premium. Also another point is the fact that the needs of these clients are different and they may be having their tests made in different periods. Recently, we have seen that with the effect of the first semester, we had a second semester that was similar. Thus we see the year of 2016, we didn't have seasonality in 2016. Some points that I would like to make clear, first, the market has had a drop in general. Our strategy is more resilient because we focus on high intermediate and premium also. Even with these numbers, it's good to look at the numbers of the semesters because in A MAIS and Fleury we have had a continuous growth and we have capacity to grow even more.

Q - Luciano Campos {BIO 16181710 <GO>}

So as Adolpho said if I understood well, average price went up 10% for regional brands. Is this a good proxy for other regions and brands?

A - Carlos Alberto Iwata Marinelli {BIO 18884059 <GO>}

This is due specially to the mix, so we have many effects. We have the effect of renegotiation with our vendors, and also the healthcare plans offering our services for the

-- for those who pay prices that are interesting for us. Also, we have the growth when we look at the mix. At the same time, we have the growth of total offer of services, especially in Rio de Janeiro. So, many elements that result in the following. If you look at the indicator and use it as a proxy for the future, this may be misleading because of all these factors that I mentioned.

Q - Luciano Campos {BIO 16181710 <GO>}

Thank you.

Operator

Our next question comes from Mr. Bruno Giardino from Santander Bank.

Q - Bruno Giardino {BIO 15974970 <GO>}

Good morning. Congratulations for the results. My question is about leveraging cash generation. Can we think of more dividends, higher dividends, or you want to maintain this difference in cash for future opportunities? Can we have higher dividends?

A - Adolpho Cyriaco Nunes de Souza Neto {BIO 21636124 <GO>}

Adolpho. Good morning. As we saw yesterday, the company continues to distribute dividends in accordance with our policy, we distributed 35% of the results of the first semester in dividends. This is the standard we should use from now on. This is the policy the company and the accounts are always evaluating their cash position and we should look forward, looking at the elements that you mentioned in your question, opportunities for acquisitions, we're in a crisis now. So we need more cash as a protection for the company and obviously the interests of the shareholders. So we will be looking at this continuously and when we have a definition, we will communicate to all of you.

Q - Bruno Giardino {BIO 15974970 <GO>}

Thank you, Adolpho. Just another question. The break-down and the write-off of the credits, I see your operational expense is BRL2.9 million. These are operational expenses, right?

A - Adolpho Cyriaco Nunes de Souza Neto {BIO 21636124 <GO>}

You're looking at year-to-date of the first semester. So this is not what happened in the second quarter. Part of this went to operational results and the other went to financial results. Part of this was monetary -- was the monetary influence, part of this, monetary update.

Operator

Now Mr. Mark (inaudible) from Itau Bank.

A - Unidentified Speaker

Good morning.

Q - Unidentified Participant

Good morning, Carlos, Adolpho. My question is in the medium term, could you comment on what you have done in a+ A MAIS units? We saw a growth in the first semester and with even higher margins -- gains in margin. So please comment on what you have done in the strategy for the a+ units, A MAIS units impressive results?

A - Adolpho Cyriaco Nunes de Souza Neto {BIO 21636124 <GO>}

Thank you for the question. A MAIS a+ units, we have seen an expressive -- impressive growth of the brand, other elements that brought growth. The evolution of our NPS we had in this brand approaches -- an approach in relation to the client and structures that when they were planned and built, they had a standard that was not the same as Fleury. They're in different markets, different operations, so we had to understand that there are these differences maintaining the technical quality and also excellence in quality, this is a priority for us, and understanding customers' needs.

So, we began to slice the service and identified where we could have improvements similar to Six Sigma and Lean. So we concentrated on productivity it becomes easier for employees, for clients and we begin to improve the NPS. I believe a lot in this, I believe that A MAIS is better because clients have come, they like the service, and they recommend it to their relatives and friends, and we're also increasing number of services.

So in different medical specialties, different locations, we have -- we have analyzed all the numbers, our approach to really advertise the services, to bring clients and also the work with doctors. The signature of the Fleury Group really guarantees to doctors a superior quality and reputation, and all of this has helped the brand to grow. Another item that is important -- so another important that is important, productivity as I said. So, if all these things are good for the client, more offer, clients come, they like, and working on these processes including Six Sigma and Lean have helped us to re-think the processes in these units, their mix, and thus increasing productivity. This has an impact on margin at the end. And also the agendas for diagnostics, where we grew a lot in diagnostics this agenda. Lately, we had difficulty to find doctors because of the growth that we had in diagnostics. But we found it's a service when the doctor sees the structure, and the other doctors and level of service that we offer to clients, they feel comfortable to be part of our company.

So, top line is growing and as a consequence, margin is growing, reinforcing our intention to continue to invest in this brand, A MAIS a+ and thus, growth in this market, and we know that even right now we want to win market share in this segment.

Q - Unidentified Participant

Thank you.

Operator

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(Operator Instructions) Since there are no more questions, we'd like to conclude the Q&A session. Now, I'd like to pass the floor to Mr. Carlos Alberto Marinelli for his final comments. You may proceed, sir.

A - Carlos Alberto Iwata Marinelli {BIO 18884059 <GO>}

I would like to thank you all once again for the interest in being with us in this event. We have delivered consistent results despite the challenges in the crisis. We believe that these challenges should continue in the next few months, but our excellence in all the areas and management will continue to generate value for all the shareholders and stakeholders. Thank you.

Operator

So now the teleconference will be concluded. We thank you for your participation. We wish you a good day.

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