

## Y 2012 Earnings Call

### Company Participants

- Joao Ricardo Kalil Patah, IRO
- Omar Magid Hauache, CEO

### Other Participants

- Andrea Teixeira, Analyst
- Pedro Montenegro, Analyst
- Rafael Frade, Analyst

### Presentation

#### Operator

Good morning, everyone. Welcome to Grupo Fleury 2012 fourth quarter conference call. Mr. Omar Hauache, CEO; and Mr. Joao Patah, 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. At that time further instructions will be given. (Operator Instructions)

This event is also being broadcast live via webcast and may be accessed through Investor Relation website at [www.fleury.com.br/ir](http://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 on 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 macroeconomic conditions, industry 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 your presentation.

#### **Omar Magid Hauache** {BIO 16579589 <GO>}

Okay, thank you very much and good morning, everyone. So let's move to slide three of the presentation and let me start by telling you which highlights I'm going to cover,

including the fourth quarter results. I'm also going to give you some of 2012 highlights and in addition to that I will update Labs and Papaiz integration. Later on I will give more details about our organic growth plan which has everything to do with the CapEx of BRL300 million we have just announced. I will spend some words on the new CFO, who we recently announced and finally it will be important to mention what are our 2013 priorities.

So let us move to slide four and here we illustrate our sequential organic growth since 2011 quarter-over-quarter and the behavior of formal employment generation, growth of private health plans beneficiaries and GDP growth during the same period. Despite the Brazilian economic deceleration and the high number of holidays in the fourth quarter of 2012 when compared with the same period in 2011, Grupo Fleury has been able to sustain a strong double-digit organic growth. Gross revenue increased by 14.4% to BRL417 million, and our organic growth hit 12% in this fourth quarter.

Moving on to slide five, here we highlight that this organic growth has been double-digit for the 10th consecutive quarter. Our premium and B/C brands continue growing above 10% and a+ brand follows standing out, gaining share in all the regions where it is present. We observed a 24.5% organic growth in hospitals, driven by mix in Sao Luiz hospitals.

Considering the full year, 2012's organic growth was 13.2%. Our EBITDA margin reached 19.6% year-over-year and 21% in the full year of 2012, a respective increase of 439 basis points and 323 basis points compared to the previous year.

If we exclude the effects of a one-off credit, our EBITDA margin would have been 17.2%. Net income cash increases by 181% year-over-year and 44% in the full year of 2012. Net income increases by 29% totaling BRL107 million in 2012. Operating cash flow reached BRL167 million in full year of 2012 and this was enough to support the organic CapEx of almost BRL163 million. Finally, we paid BRL16 million as interest on capital in the full year of 2012 and in the full year of 2012 the payout was BRL36 million.

On slide six, I will talk about some operational highlights. Regarding our expansion project, we launched two new patient service centers in Sao Paulo, which are Fleury Granja Viana and a+ Viaduto do Cha, and we increased our portfolio of services in 12 different PSCs. For example, in 2012, we acquired 11 MRI scans and 10 CT scans. Our Labs D'Or integration evolved a lot during 2012 and I will give you more details later on. We also recently announced the acquisition of Grupo Papaiz altogether with OdontoPrev.

Now some words on several recognitions we received during the fourth quarter. We were once more awarded for corporate hospitality, sustainability, innovation and for our program for excellence in customer service. Weinmann brand was recognized as a top-of-mind brand in diagnostic medicine in Rio Grande do Sul. As for new products, 104 new products were developed and released in 2012 and this is certainly one important competitive advantage we have. Noteworthy, Grupo Fleury released more than 450 new products in the last four years. Regarding certifications, we got LEED certification for Fleury Alphaville, the extension of the ISO 9001 and ISO 14001 for a+ brands in Sao Paulo and Parana, and ACR accreditation for nuclear medicine services and PET/CT.

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Going on with some operational highlights, let's move to slide seven. We -- more than 17,000 integrated reports have been sent to physicians that order exams to Fleury, covering diagnostic cases considered to be highly complex. We also promoted the extension of Fetal Medicine Center and Pediatrics Integrated Center. In addition to that, the Center for Investigation of Musculoskeletal disorders was launched.

Let me tell you a little bit about our PROEX results. PROEX is our medical excellence program. We sponsored the participation of 101 of our physicians in Brazilian Congresses, 55 in international meetings, in addition to 180 papers published in -- and 156 meetings held for scientific updating. 20 scientific folders were prepared and sent to more than 50,000 physicians and publishes at Grupo Fleury websites. Nine web meetings were organized with a live discussion chat, with 500 and -- 5,400 physician enrolled, more than 10,000 visits.

And on slide eight, I'll give you some updates on Labs D'Or and Grupo Papaiz integration. Regarding Labs D'Or, we concluded in 2012 important steps related to cultural integration. Important operational processes and services have already been standardized. The ERP SAP has been fully integrated in July 2012. We internalized several exams that were previously outsourced to other companies. Call center unification also happened in 2012 and is running smooth.

We have just concluded the implementation of the company's IT front office system in all operations for clinical analysis and the process of unification of the technical areas facilities is supposed to be concluded by the end of this month, March 2013.

Here we mean that the current two technical areas where we analyze the lab test will be merged into one single facility. Our branding project in Rio de Janeiro is underway and we will soon consolidate the current five brands we have in Rio into only two brands. The five current brands we have in Rio are Fleury, Felipe Mattoso, Labs D'Or, a+ and Menezes da Costa.

In the second semester of 2013, only Felipe Mattoso and the co-branding called Labs a+ will remain and both brands will be present a long time. Finally, integration of the main hospital operations in Rio will be done by the end of this year.

As for Papaiz, the recent dental diagnostics company we recently acquired (technical difficulty) this acquisition was approved without restriction by CADE, which is our Brazilian antitrust authority. Shareholders agreement between Fleury and Crupo Clidec has been signed and the operation was concluded in January 2013. In this context, consolidation of 51% of the results will be good as of February 2013.

So now I'll pass on the word to Joao Patah, and later on I will talk about our expansion plan. So, Joao?

**Joao Ricardo Kalil Patah** {BIO 16560401 <GO>}

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Thank you, Omar, and good morning, everyone, and a great International Women's Day for our employees, doctors, patients, investors and analysts who are listening to us.

To speak briefly about the fourth quarter of 2012 results slightly deeply, I begin on slide nine. I again emphasize the strong organic growth of Grupo Fleury, even in a relatively weak economic outlook and fewer working days in the quarter compared to the same period of 2011.

The double-digit organic growth both under Fleury brand and other brands was stronger than the market, indicating continued share gaining in Fleury brand and especially in a+ brand. We will put these strengths to the respective enthusiasm to serve our patients and deliver diagnostics that are increasingly more conclusive and integrated to our medical clients. The mix of operations in hospitals also contributed; imaging services and complex exams, an outcome of the investments in innovation, keep on delivering superior organic growth adding to the increases in volume and price adjustments.

In this sense we can see in the upper-high chart on slide 10 about the patient service centers business line that the exams mix compound added to the price adjustment process accounted for an increase of 5.9% in the average price per exam, contributing to the 11% organic growth in the quarter and 13.9 in the year, the best

performance in three years.

The 9.6% increase in the same-store sales, included the beginning of the gaining of efficiencies in Labs' patient service centers has contributed to the evolution of productivity which will contribute to the expected increase in margins mainly in the second half of this year.

In diagnostic operations in hospitals on slide 11, we see that there are good possibilities for this year via mix enrichment after the integration process of Rede D'Or hospital operations and two new potential agreements such as the one we started in February in Curitiba, Parana State. Hospital partners also have plans to expand its capabilities probably impacting mostly on next year's.

As the other business lines on slide 12, I emphasize that preventive medicine continues to progress despite the economic slowdown reflects in the health promotion services contracting.

On slide 13, we show cancellations on receivables. Although the average collection period have increased, we notice a slight improvement in profile. We produced volume due between 180 and 360 days when compared to the previous quarter.

Following the policy implemented since the beginning of 2012, the provision for cancellations was 3.5% of gross revenue. Besides the improvement in internal processes for these allowance appeals, we are also strengthening activities against late payments, which has led when needed to -- de-accreditations and suspensions of plans. Thus we

expect to maintain this cancellation levels below 4%, progressively evolving along the year.

Taken about costs on slide 14, increases in 4Q '12 are explained by the structuring of operations to meet the growing demand without dropping the high level of service. Thus we reinforced team of employees hired and physicians that serve our clients, both in headcount and in remuneration.

Although the volume has reduced the level of growth in the second half of 2012, we outperformed the market, even this confidence in the continued growth, which shall contribute to the expected dilution of fixed costs this year, either to integrate in the Labs or the maturation of PSCs opened in 4Q '11.

SG&A, on the other hand, continued to be diluted, as slide 15 shows. Excluding the one-off credit, operating expenses totaled 13.2% of net revenue in the quarter and 12.8 in the year. We emphasized that contingency provisions made in previous quarters were reversed in the 4Q '12, not impacting the margins of the year.

As a consequence of the earlier slides, slide 16 shows EBITDA and EBIT. We keep on pointing non-recurring items to support the result analysis. However, since the beginning of 2012, we only showed EBITDA and EBIT calculations as suggested by our auditors and the CVM instructions.

About indebtedness, we are at comfortable levels in the balance sheet structure, even after the issuance of the second debenture as I will comment later. The strong cash flow from operations and the EBITDA value have contributed to fast decline in the levels of leverage. The financial results for the quarter also demonstrates appropriate levels of debt costs.

On slide 18, we show the net income, which increased 29.3% on the 4Q '12 comparing to 4Q '11, totaling a BRL107 million in the year. We're not accounting effects of the early deferred tax, which impacted on 4Q '12. The figure would have been even more robust as demonstrated by the strong cash net income. Thus we are close to zero current tax, benefiting the potential free cash flow of the company.

Regarding the cash generation from operations of BRL167 million in this year, these number was enough to fund the organic CapEx. It would have been even larger in roughly BRL20 million, if the -- the anticipation of payments from January because of an update of the SAP system was not needed. It is noteworthy that the conversion of EBITDA into cash mainly to the reduction of working capital is among the company's prior priority projects in the year, as Omar will comment later on.

On investments on slide 20, we reached BRL162.8 million excluding acquisitions. This value includes the opening of two new PSCs and expansion of several services, including 11 magnetic resonance imaging and 10 CT scans, in additions to new integrated medical center.

For the cycle 2013 and 2014, next two years, there will be even big acceleration of the capacity, aiming to open new and expand existing units, continuing to grow strongly and maximizing on the company's results, as Omar will comment in some minutes.

With respect to the share negotiations, I would like to reinforce the strong increase in liquidity, being that measured by the negotiability index or by the ADTV. The ADTV of the last two months has surpassed BRL6 million.

Finally, I showed results of the second issuance of debentures on slide 22.

Complemented the last month -- sorry, completed the last month, it is a long-term debt due in seven years and costing only 0.85% above CDI. We raised BRL500 million, strengthening the cash for potential acquisitions and for organic investments. Over the next periods, we will balance acquisitions and organic CapEx in order to maintain the healthy financial structure of the company.

Omar, I'll pass back the word to you please.

### **Omar Magid Hauache** {BIO 16579589 <GO>}

Okay, thank you, Joao. So let's move on to slide 23, and here we give you more details about our organic expansion plan and the CapEx of BRL300 million for 2013.

As you may remember, we delivered a relevant expansion plan in 2011, mainly in its fourth quarter. Considering the strength of our historical organic growth, we understand that further consistent growth is expected and we should be prepared to take advantage of this growth. To do so, we need more square footage, more PSCs and we need to increase the offering of more services. This is good for all our brands and will be particularly strong for the Fleury brand in Sao Paulo city.

The figure illustrate the expected growth of patient service centers in thousand square meters. We ended 2012 with approximately 98,000 square meters and by the end of 2014, we plan to add 18,000 square meters, meaning a square footage expansion of more than 18%.

As you can see, the bulk of this expansion will be structured in 2013 and will be delivered in 2014. In 2013, a+, Weinmann and Diagnoson will be the targets for expansion, and in 2014 we will launch bigger, more complex and more complete Fleury PSCs. More than BRL230 million out of the 300 million will be dedicated for the building of new PSCs and for the expansion of many of the current PSCs, and this value also includes new equipments. Here on the right side of the slide, you can see two examples of Fleury projects, one in Avenida Republic of Lebanon, which is in a premium neighborhood in Sao Paulo and the other one stays at Avenida Engineer Luis Carlos Berrini, one other premium address we have here in Sao Paulo, because all good for Fleury brands

and we already have the location order.

So some words on the CFO announcement we have just told the market regarding the hiring of this new CFO. We have recently announced Adolpho Cyruaco Nunes de Souza Neto as our new CFO. Adolpho has worked in the last 20 years in financial leadership positions, both in Brazil and abroad, in companies such as Alparagatas, Natura and General Mills. We are very happy with the perspective of working with Adolpho and he will start working at Grupo Fleury in about two weeks.

As for 2013 priorities, we aim to go on with our strong organic growth, not only in 2013, but certainly in the next coming years, and as well as these, it's been our strong CapEx for this year. We will never put our quality on risk and this is in line with the main strategic projects that are currently our focus.

Some examples of the projects we have are our continued projects of integration in Rio de Janeiro for the PSCs and for Rede D'Or hospitals, our expansion plan that I have just mentioned to you, a specific strategic project for human resources management and one other project dedicated for the management of our medical teams.

Branding Fleury is a specific project as well. This has to do with the strengthening of our premium brand and this also depends altogether with the expansion plan I mentioned and we will have a strong marketing campaign that will be launched still this year, specifically for the Fleury brand. Cash collection optimization is also our focus in 2013 and one last example I'd like to give to you has to do with the constant update of our IT platforms.

Finally regarding acquisitions, just some words on acquisitions. There are still some companies that may be acquired and some negotiations are underway. As you know, we are very selective when we think about new acquisitions, and the same is true when we think about new business models that may be addressed through different kind of partnerships.

Well, that is it and thanks for your attention, and now let's start our Q&A session.

## Questions And Answers

### Operator

Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) Our first question comes from Mr. Pedro Montenegro, BTG Pactual.

### Q - Pedro Montenegro {BIO 17225319 <GO>}

Hi, good morning, everyone. Well, in the Portuguese call, you mentioned that we shouldn't expect any impact in operating margins from this stronger investment plan, right. I'd like to get your expectations also on the evolution of returns to understand how ROIC should be impacted throughout this year and what's the maturation periods and the marginal return that you expect for these investments?

And also my second question related to investments as well, if you think that such CapEx could allow Fleury to resume a top line growth between 15% [ph] and 20% as you expected prior to the deceleration that we saw in the second half of 2012. Thanks.

**A - Omar Magid Hauache** {BIO 16579589 <GO>}

Well, thank you, Pedro, for the questions. Let me start answering the second question you asked regarding CapEx and regarding the perspectives for growth. Let me just clarify one thing here. Our growth is obviously very dependent, very much dependent on the behavior of our economy, right. So we witnessed a very -- a deceleration of our economy, a slowdown of our economy in 2012, and certainly this impacted not only our results, but the results of the sector and the company as a whole. And despite the deceleration, we still grew 13.2% in the whole year organically speaking.

So just to clarify this, if our economy still behaves the same way as it behaved in the last year, we predict that it is possible to keep on growing in the same range of 12%, 13%. I would say that if the economy really improves as the government is predicting, and we hope this do happen, obviously we will have more chance to grow even more. But I wouldn't say that I can -- we can grow regardless of the behavior of the economy, of course, we depend on that.

We have been seeing the generation of formal jobs decreasing, at least cumulatively speaking, in the last year, and it has been predicted a slowdown of the new generation of new jobs for this year, but still is very -- it's a very good generation of job and I believe this can help us grow.

So this CapEx of BRL300 million that we announced for 2013 will certainly impact the growth in the next coming years because of launching of more PSCs in 2014, predominantly in 2014. So we can only expect to get the results from this new aggressive expansion plan in -- from 2015 on, I mean, because it takes at least 18 months for the new PSCs to mature.

So, as I was mentioning in the call in Portuguese just now, we have cycles of expansion. So we delivered a very aggressive expansion plan in 2011 and now it's time for us to plan for a new expansion plan that will be delivered in 2014, but the results will be captured later on. So this is how we look at the perspective of growth coming from this new investment plan.

I'll pass on the word to Patah to answer the first question and then I can complement.

**A - Joao Ricardo Kalil Patah** {BIO 16560401 <GO>}

Pedro, just to try to clarify the -- our vision about the return on invested capital, you may know that when you -- when we look 2011, the end of 2011, the main pressure that we had, it was obvious and it was expected, was the increase of BRL1.2 billion [ph] when we bought Labs D'Or in the perspective that the return would come not in the short-term. We knew that and we announced that to the market that return should come in the medium and long-term as we increased the portfolio of Labs D'Or and as we increased the asset



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utilization in Labs D'Or. It is beginning now. In our vision, we are now able to see clearly that we can add this return in these -- this acquisition especially.

If we exclude these operation from Grupo Fleury, probably we would see the return very close to the levels that we had before that acquisition. So we keep on doing organic investments with the same quality level, with the same selection based on return. Each of these projects that are included in these BRL300 million passed on through the process, internal process and proven also to the Board that each project had a return, not only a good return, but also a good payback. We can say that the payback of these projects are even better than the projects that we went on two years ago and that was part of our expectation. It's part of the cycles that we are doing.

So going directly to where we see this return, when we analyze currently the numbers, we see that return is starting to increase again. So we can expect that in two, three years time, this level will be on satisfying levels above the -- what is needed from the shareholder.

To be back to the 20% level, of course, that is not two to three years because we depend a little bit more on the growth of the productivity on the Labs D'Or assets, but is not impossible for us to see -- to see an outlook in three, four to five years when the return shall be closed, maybe not above but close to the 20% level that we saw two years ago.

#### **A - Omar Magid Hauache {BIO 16579589 <GO>}**

Yeah, perfect, Patah. Just to complement and just to reinforce what Patah just mentioned, I mean, it's expected that our return will fall down after the Labs D'Or acquisition, which is a very big acquisition and after just -- after the aggressive expansion plan we launched by the end of 2011, I mean, it's an expected thing to happen. Probably this year, 2013, since we are capturing the maturation of all these patient service centers and the integration of Labs is doing okay, we were probably going to see the returns going up.

But again, considering the cycle of expansions that we are going to deliver mainly in 2014, obviously this is going to go down later on. So this is a temporary trade-off we have. We cannot put the growth of the company on risk, but of course we have to care about returns.

So what we have in mind is to keep on growing, to be able to capture all the demand we have, to invest in this organic growth and further on to prioritize returns. But this is going in a very cyclical way and this is going probably which will happen from 2015 on.

So 2013, we predict an increase in returns. But certainly if we're going to deliver 18% of square footage in 2014, obviously this is going to fall a little bit down but then it's going up again.

#### **Q - Pedro Montenegro {BIO 17225319 <GO>}**

Okay, Omar, but just to get this clear here. We should expect then that the prior or the maturation of the prior investments that you made should more than offset the stronger

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investments that you should implement in 2013, right, the BRL300 million [ph] is less?

**A - Omar Magid Hauache** {BIO 16579589 <GO>}

This is probably going to happen more strongly this year, 2013, and probably in 2014 it's going to partially offset, because we are going to deliver a strong expansion plan. But certainly you're right, it's going to offset but at least partially and in a very significant way. I cannot tell you that it's going to fully offset, but let's see how this is going to behave. I mean, we are very positive with the expansion plan we are undertaking here. I mean, it's very conscious, it's very well structured and it's important for us not to get in, in 2014 without enough structure to be able to capture all the demand we have ahead of us. So this is how we are looking at the scenario ahead of us.

**Q - Pedro Montenegro** {BIO 17225319 <GO>}

Okay, Omar, thank you very much for your answers. Thank you.

**A - Omar Magid Hauache** {BIO 16579589 <GO>}

Thank you.

**Operator**

Our next question comes from Ms. Andrea Teixeira with J.P. Morgan.

**Q - Andrea Teixeira** {BIO 1941397 <GO>}

Hi. Hi, good morning. I just want to -- well, good afternoon there. I just wanted to -- can I follow-up on this, on the CapEx that you explained, Joao and Omar? Basically the -- what I understand like with the 300 million [ph], I know you raised money from the debentures program. But it's -- to me, you're saying like you have several projects they you're analyzing and you also have potential acquisitions.

So just curious if an acquisition arise and I was also thinking of your portfolio and not necessarily, I don't know if you're looking at something regional or something to expand in some business line, because regionally I can understand you want to buy a regional brand in some other areas where you're not as strong, but I was just thinking of the strategy like do you really need to do a -- is it a medium acquisition or a small acquisition, so that's why you feel comfortable that with that money you can conduct it? Because with my numbers may not be sufficient just with this capital raise to do an acquisition, so just to give us some sense of what you are planning to do?

**A - Omar Magid Hauache** {BIO 16579589 <GO>}

Okay, Andrea, thanks for your questions. Andrea, we have already experienced to go -- trying to go greenfield in some of the cities we are in where we didn't perform acquisitions like such as imaging services companies.

One good example I have to share with you is in Recife, where we -- one year and a half ago, we launched a new PSC with imaging services. This was really greenfield. And after

one year and a half, right now, I can tell you that we are doing okay, we are doing well. But it takes more time than when compared to an acquisition, established brand, a local established brand.

So I mean, it's feasible. It's possible. It's okay to go greenfield. But we have to understand that will -- it will take more time to succeed. But when we have no other choice, I think this is the way to go. We can't think about that. But still there are some opportunities in some regions we are in to perform some small to mid acquisitions. I'm talking about companies with annual revenues of BRL30 million to BRL40 million. This is what I define by mid to -- small to mid acquisitions regarding our sector, the size of our sector, of course.

So we are interested in some of these very selective companies we are addressing. We are talking to some of these guys. This may happen or not, but we are in negotiation -- in the negotiation stages right now and this may turn out to be a reality during 2013.

Regarding the amount of money we have to do all this organic growth and some additional acquisitions, I mean, if you consider the organic plan we have ahead of us and I told you the bulk of the investment is for organic growth, we have enough money to do this.

If you consider these additional acquisitions that may turn out to be good opportunities for us, we still have enough money to do that because we generate cash. So we have enough. If we are thinking about a more ambitious acquisition where we have very few opportunities left, sizable acquisitions here in Brazil or any other opportunities, different opportunities to invest, then probably we'll need more to capture more money. But right now, regarding the current plans we have, we are in a very comfortable position.

#### **Q - Andrea Teixeira** {BIO 1941397 <GO>}

Great. And in terms of the relaunching of the brands in Rio and one other question, I know you explained in terms of your overhead and you are growing -- you grew your overhead just to prepare the company for 2013. But is there any flexibility of your overhead that we saw in fourth quarter? Most of that -- I understand most of that is actually fixed. So as we look into trying to assess and trying to project your margins, are we in the level of overhead that we are going to keep for the next couple of months? And it's also like your gross margin, another couple of changes in the accounting, but in general like the new accounting like you have -- you cannot have like a stable margin or you can actually try to dilute it. Stable I would say stable sequentially, obviously not year-on-year. But what can we think about in terms of margin improvement throughout 2013 and also regarding your -- the Labs D'Or branding in Rio?

#### **A - Omar Magid Hauache** {BIO 16579589 <GO>}

Right. So regarding the margins and our expectation for this -- the cost of personnel and medical services, which is a very important line we have in our costs, what happened in the fourth quarter is very clear, I mean, two major factors here. The revenues in the fourth quarter are normally they are weaker than when compared to the other quarters. This has to do with seasonality. This is very expected, and this really happened in fourth quarter of

2012. So it was expected that it would be more difficult to dilute fixed costs. So the fact that the revenues in the fourth quarter was lower than in the other quarters helps to explain.

One other thing has to do with the costs per se. We really increased the costs regarding people here in Fleury and this was mainly due to the hiring of more people that we needed to cover our operations, to cover the quality of our operations. This was very well structured and planned. And not only to cover, but to be able to see more demand that will come in the next months. For instance, in March, this -- the month we are in right now, March is a very strong month for our sector, for our business.

So we have to prepare our staff to be able to get to see all these demand. And it takes some time to train, it takes some time to hire so we had to anticipate it. So hiring of people and we also reviewed, we also revised the remuneration of some of our staff, including physicians. Along time we concluded that we had to do that, otherwise would be very vulnerable losing -- to lose this kind of professional and they are very valuable. It takes a long time for us to train. They are very differentiated. We wouldn't take this risk. So this also played a role.

And one other thing that happened specifically in Rio in Labs, Andrea, was the fact that we -- with all the integration of Labs, we had to level the types of benefits that the employees had in Rio de Janeiro. We already had a+ in Rio and with the Labs coming to our hands, we had to study the best form to level the benefits that all the employees have. So this also plays a role.

Regarding perspectives of these costs for 2013, I believe with the increasing revenues that we predict, all these fixed costs will be further diluted. So this will help our margins. This is what we expect to come.

You asked also about our branding in Rio de Janeiro. As I mentioned during the call, as of the second semester we are going to reduce the number of brands to only two brands. So we are going to co-brand Labs and a+. We are going to call Labs a+, and we are going to remain only with Felipe Mattoso.

So we have Felipe Mattoso, which is a premium brand in Rio, which has very good prices, very good margins, very reputed imaging services in Rio and now we have just implemented clinical analysis as well in Felipe Mattoso, and we will have Labs a+ in Rio de Janeiro as well. So Fleury brand, Menezes da Costa, they will no longer exist in Rio considering as for -- as of the second semester of this year.

**Q - Andrea Teixeira** {BIO 1941397 <GO>}

Okay, great. Thank you very much, Omar.

**A - Omar Magid Hauache** {BIO 16579589 <GO>}

Thanks, Andrea.

## Operator

(Operator Instructions) Our next question comes from Mr. Rafael Frade, Bradesco.

### Q - Rafael Frade {BIO 16621076 <GO>}

Hi, good afternoon, everyone. I only would like to explore a little more this increase in expense with personnel that we saw in the fourth quarter. Omar, you explained that there was some -- you revised the remuneration of some of the employees and also there were alignment in benefits with employees of Labs. I'd like to understand if this did effect fully impacted 2012 or it was something that impacted only 2000 -- only the fourth quarter and during so in -- during 2013, we will have this higher base related only with the fourth quarter that is this increase will be more -- will be a new level of expenses in the fourth quarter that we will see during 2013. I don't know if I was very clear with --

### A - Omar Magid Hauache {BIO 16579589 <GO>}

It was very clear. I understood, Rafael.

### Q - Rafael Frade {BIO 16621076 <GO>}

Okay.

### A - Omar Magid Hauache {BIO 16579589 <GO>}

Let me explore this. No, I understood. So this was good for the fourth quarter, right. We implemented this new remuneration basis, but this was not good for all the employees. We chose specific employees should have higher salaries and this was also good for the physicians as well. Some of the physicians were -- had this kind of adjustment in their salaries, in their remunerations. But of course, this is going to remain in 2014. But we are going to offset. We started already offsetting the effect of these higher remuneration for some of these employees and physicians by restructuring some areas.

For instance, in Labs D'Or, the integration is still underway. We still have many opportunities and we are already -- we have already explored some of these opportunities to reduce the number of employees in some areas of Labs D'Or, especially in the administrative areas, SG&A specifically. But not only that, here in the operation as a whole in Sao Paulo and elsewhere, we already did this in January and February. We reduced the number of some specific jobs here and specific employees, leaders in -- of Fleury, of Grupo Fleury and this helped to offset the effect of this higher remuneration for some of the employees.

So to be very clear, to answer your question very clearly, this happened in the fourth quarter specifically from November on and this is good for 2014. But we are offsetting the effect of this higher remuneration by reducing the number of employees in certain areas. So this is -- in a way this is going to be stable. And not only that, but again the higher revenues that we expect, we are going to dilute, to help to dilute this higher remunerations as well.

## Operator

(Operator Instructions)

**A - Omar Magid Hauache** {BIO 16579589 <GO>}

Let me just ask if Rafael, if he has any doubts, if it was clear enough?

## Operator

Mr. Rafael, you may proceed. Your line is open.

**A - Omar Magid Hauache** {BIO 16579589 <GO>}

I don't know if he's still there, but that's okay.

## Operator

Okay. 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.

**A - Omar Magid Hauache** {BIO 16579589 <GO>}

Okay, thank you. Thank you, everyone. We are always available to clarify any doubts you may have. Just get in touch with us and have all a good day. Thank you.

## Operator

This concludes Grupo Fleury audio conference for today. Thank you very much for your participation. Have a good day and thank you for using Chorus Call.

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