Q3 2013 Earnings Call

Company Participants

- Adolpho Cyruaco Nunes de Souza Neto, Chief Financial Officer
- Joao Ricardo Kalil Patah, Investor Relations Officer
- Vivien Bouzan Gomez Navarro Rosso, Chief Executive Officer, Member of the Executive Board

Other Participants

- Josh Milberg, Analyst
- Rafael Frade, Analyst
- Ruben Couto, Analyst
- Victor Natal, Analyst

Presentation

Operator

Good morning, everyone. Welcome to Grupo Fleury 2013 Third Quarter Conference Call. Ms. Vivien Rosso, CEO; Mr. Adolpho Souza Neto, CFO 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 Relations website at www.fleury.com.br/ir, where the presentation is also available. Those following the presentation via webcast may pose 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 statements are based only on the beliefs and assumptions of Grupo Fleury's management and on the 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, industry and other factors could also cause results to differ materially from those expressed in such forward-looking statements.

Now, I would like to turn the conference over to Ms. Vivien Rosso, CEO of Grupo Fleury. Ms. Vivien, you may begin your presentation.

Vivien Bouzan Gomez Navarro Rosso {BIO 16579525 <GO>}

Good morning, everyone. Thanks for attending our third quarter results conference. Before starting Joao Patah's explanation on the financial release, I would like to share and point out some key messages regarding the current moment and our short-term initiatives, our strategic movements and for the middle term as well.

Fleury Group is currently present in the main economic centers of the country with a portfolio of selected range of brands and business that offer medical integrated diagnostics for several economic and regional segments.

During the last two years, this portfolio witnessed a profound transformation and growth. We had a successful launch in 2011, the national brand a+, you already know, which consolidated the acquired brands to-date and thereafter began a new cycle of a strong growth with an average annual growth of 20%.

We also have made an important acquisition in Rio de Janeiro Labs, the brand Labs and moved forward in the process of integrating operation and structures. We have invested in expansion and innovation to attract and capture even more demand for differentiated services in Fleury, which continues to grow at a double-digit rate and high level of profitability. The same has been done in Weinmann in the south region of Brazil and Felippe Mattoso in Rio de Janeiro.

This semester, we have decided to accelerate movements in an important action plan in order to balance our portfolio among brands and business for economic profitability to capture profitability, preparing to a next cycle of growth in sustainable way, to restore profitability levels for the Fleury Group as a whole, especially in regional brands that are still under maturation curve and Rio de Janeiro, whose integration cycle lasted longer.

Our short-term strategy highlights are qualifying revenue, you may see in the presentation, is to balance among brands and portfolio services offered, unprofitable PSCs and business shutdown, the discontinuity of health plans of portfolios with negative margins replacing for more sustainable revenue arising from hidden demand and that we have mainly in Sao Paulo and Rio.

Another action is accelerating Fleury's expansion plan to meet growing demand in high-qualified services with an innovative proposal to further strengthening this competitiveness and capture higher margins for the portfolio. Our investment plan for 2013, 2014 is heavily concentrated in this field, in this brand.

This quarter, we expanded to offer services to patients. We expect to add approximately 11,000 square meters in our network of units such as, the new Center for Integrated Medical Diagnostic in cardio-neurovascular area in the south region of Sao Paulo.

Another initiative is to accelerate the restructuring of processes and new business models to capture operational efficiency from the business and for the whole company, implementing methodologies such as matrix budget to cut the expenses and cost inefficiency and other structural initiatives.

And the last one is focusing to conclude Labs' integration process and operation turnaround in Rio de Janeiro. We are sure that with these movements with direction to achieve adequate levels of profitability and return, the balance of the Group's portfolio throughout 2014 we will expand in the range of indicators to demonstrate this expected progress for everyone.

Especially, this semester a great challenge -- we have a great challenge to face, as according to figures presented and that pressured in the short-term costs and expenses brought from the decisions implemented in the short-term, for example, the services balance offer, our forced deceleration growth in some brands and the short-term impact on our revenues, mainly in Rio de Janeiro and some brands in Sao Paulo, additional expenses and discontinued business units.

At the same time, pre-operating expenses related to the expansion plan for Fleury should be diluted by the time the new Fleury units are released from 2014 on. Our extreme care to preserve the high standards of quality and strong client-cared culture, respectful relationship with the medical community and finally innovation, which are the key building value over the years.

In our slide four, we see the continuation of the robust growth we have for the whole company led by the goal exceeding 12% in Fleury brand and more than 8% in regional brands and hospital operations.

The following slide we have progressive growth in asset utilization as measure, for example, the indicator revenue per square meter. We also note that excluding Rio de Janeiro, where the adjustment was more evident, regional brands kept pace greater than 20% growth.

Before moving to the financial highlights, I would mention some events from the third quarter primarily related to sustainability, the first one is a new Fleury brand PSC, which was launched in September. It was a conversion from 'a+ Ibirapuera' to Fleury, we cal, Fleury Nova Conceicao. It adds a 1,500 square meters to Fleury network in order to capture this hidden demand for Fleury brand.

The second observation is related to the expansion of 'Diagnoson a+', is our brand in Salvador area, it was concluded and also adds 2,000 square meters to a+ brand in Bahia. The third one is our commitment to sustainable growth. Grupo Fleury signed the United Nations Global Compact, and also, I would like to point out the recognitions we had received in the last quarter.

Highlights also -- turning to financial indicators, the impact of a strong portfolio growth and acquisition being complete in Rio de Janeiro added greater impact on gross profit margins and return on assets, a situation that is not sustainable and that brings great urgency in implementing the actions, qualifying revenues and the restructuring that I have mentioned before.

Our commitment is to balance all the factors in order to increasing the profitability and sustainability of the portfolio for the whole company.

I will pass the word to Joao who will explain in more detail the financial statements for this quarter. Thank you very much.

Joao Ricardo Kalil Patah {BIO 16560401 <GO>}

Thank you, Viv, and good morning, everyone. Continuing on slide six, I would like to mention that the Board of Directors approved the distribution of dividends for the balance of the net income until September. The amount distributed is R$18 million or R$0.12 per share.

On slide seven, revenues are shown in even more detail, reinforcing the highlights of Vivien Fleury brand and the regional brands ex-Rio de Janeiro keep growing robustly.

Fleury brand, which today accounts for 51% of the PSCs' revenues, grew 12.3% and is under expansion projects to further accelerate this growth in the next periods. About the B2B businesses, we detail further in the presentation, but reminding about the discontinuity of the preventive medicine anticipated a few months ago.

For the coming quarters, the effect of comparative base in Rio de Janeiro will also have negative impact on consolidated growth. Enforcing again, this was a conscious choice of the company. It was our choice to seek the qualification of revenue needed to recoup the business portfolio in the coming periods.

Regarding PSCs on the next slide, the top-left graph shows the addition of square meters in the quarter together with the effect of the six a+ centers closed both in Sao Paulo and Rio. And there was a maintenance of the revenue per square meter at R$4,100 [ph]. The reduction of inefficient and unprofitable locations was accelerated in the end of third quarter and in October.

About the addition of offering, the main highlight was expansion of Diagnoson building in Salvador opened in September. At the same time, as we can see from the right upper chart, the patient service centers launched in 2011 and 2012 are accelerating the maturation curve. I would like to complement pointing that the offering to be increased in 2014 is mainly for Fleury brand, which normally has a faster pace of maturation.

About the chart at the bottom of the slide, the average price evolution is a result of the mix of service and the composition of brands. At the same time, the indicator also has the effect of inflationary recovery negotiated in late 2011, sorry 2012. Price negotiations for inflationary recovery during 2013, which are closer to 100% of IPCA, the consumer index, will have main impact on 2014.

Slide nine, details with more indicators that PSCs' revenue and the assets' utilization. Drivers indicating the search for efficiency in regional brands are demonstrated. One example is, revenue per square meter or revenue per patient service center in the bottom of the chart. On diagnostic operations inside hospitals in slide 10, there is a positive effect of reaching the mix of exams leading to a growth of 8.4%. This growth rate is lower than the previous quarter, but the effect is related to a comparative basis. Normalizing the basis, it would be reasonable to say that the organic growth of this business line has remained at low-teens for both quarters.

In other business lines highlighted on slide 11, the highlight is the positive growth of the health assessment service or checkup, while lab to lab has stabilized compared to the previous quarter. Going to the deductions on slide 12, structuring actions are underway to reduce its levels, but we have to be cautious about the level reached this quarter, since there are ongoing negotiations.

I will now comment on the evolution of costs, expenses and margins. On the costs of services provided on slide 13, I highlight some stats that impacted the increase of 736 basis points. First, there is the evolution of the portfolio of brands and businesses. The main ways are qualification costs and operational adjustments in Rio de Janeiro together with the effects of integration, which is in the final stages.

Additionally, a+ brand has attracted a lot of demand, but the maturation and profitability of new centers have not yet reached the optimal levels. Both should accelerate the benefits for the company next year as a consequence of choices we are making and this factor will be balanced as the expansion plans of Fleury brand evolves.

Secondly, we have ongoing accelerated adjustments to qualify revenues and gain operational efficiency, both short-term plans and medium-term plans. The initial effect of this adjustment is negative since there is temporary unbalance between revenue and costs.

Not only there is the impact of the mentioned non-recurring expenses and pre-operational expenses, but there is also initial costs to be broken. The fourth quarter, we will still have the negative wave of these adjustments, but our plan is to see positive effect evidenced in the following quarters.

The third effect of the growth of costs is explained in the next slide. I want to emphasize that we do not have the effect of medical inflation in our structure, but our cost inflation has effect of the country's inflation and among other things, we are also working on different operating models to deal with this effect.

On slide 15, we show the effect on gross margins. There is a potential for improvement as you can see, and the company is taking actions to collect that. Commenting quickly on slide 16, we see that even with marketing expenses concentrated in the second and third quarters, and excluding the positive effect of the reversal of provisions, there is a progressive dilution of SG&A expenses.

On slide 17, we open the effects on EBITDA, a quick exercise would lead to a figure closer to 18.2%. It's below the desired and potential level, but each line has directions for dilution in the subsequent periods. Regarding the financial results and leverage shown in slide 18 and the cash tax still under zero level as shown in slide 21, they keep in line with the previous quarters.

I like now to comment on the deferred tax, which is above 34% for the year. It doesn't affect the cash, but it has to be explained to you. We detail in the slide 22, the increase in non-deductible expenses as the main impact on the year. Most of these expenses are items resulting from ongoing adjustments and we expect they should normalize in 2014 to the 34% level.

On the cash flow, on slide 23, the project for conversion of profit in cash has made some progress, but still not on the best moment. We have a long way to go and we have stable plans to reach that. The qualification of revenues will also show gradual positive impact on the percentage of working capital as from 2014. The increased control of receivables shown in the next slide has been an important step in this direction.

Finally, I observe that the CapEx of approximately R$200 million in the year is under way. To finish, slide 27 shows some events that we will be participating in the coming months.

Now, I pass the word back to Vivien's final thoughts before the Q&A session. Thank you.

Vivien Bouzan Gomez Navarro Rosso {BIO 16579525 <GO>}

Thanks, Joao. I would like to conclude this speech highlighting our strategic focus for this semester, which are qualified revenue effort, accelerate Fleury's expansion plan in order to capture the profitability and accelerate the restructuring of processes and new business models to capture operational efficiency in a higher way.

And the last one is to focus the conclusion of Labs' integration process and operations turnaround in Rio de Janeiro. For this specific point, I would like to point out that we decided to no longer work with our huge client in Rio de Janeiro, Unimed Rio, and this was our decision and was based on our focus on profitability for our business in Rio and for the whole group. We expect to replace these revenues with the qualified revenues coming from other players. By qualified revenue, I mean revenues associated with a higher profitability.

One other consequence related to this move is expected to increase on the average price and to decrease in our levels of disallowances. The replacement of disqualified revenues, already it's happening. During October, we already witnessed a one-term replacement and we will still keep waiting to increase the participation to other health plans in Rio de Janeiro. This is important to point out that we had clients waiting for some weeks to be able to schedule some imaging exams, for example, and now we are able to attend.

One other consequence of this move is that they are underway is that we optimized our fixed-cost structure and this has to do with the shifting down our PSCs in Rio de Janeiro and reversing the number of employees in Rio de Janeiro too. Part of this rationale also applies for a+ in Sao Paulo. This movement drives substitution, replacement of business for other plans and also we expect to -- already have the first indicators of recovery in October.

This choice made on purpose to pursue this strategy impacts our results in the second semester and they are mandatory to ensure and enhance Grupo Fleury's profitability for 2014 onwards.

Our commitment is to balance all the elements in order to increasing profitability and sustainability for the portfolio and for our company.

I would like to thank you all and we are ready for answering all questions you may have.

Questions And Answers

Operator

Ladies and gentlemen, we'll now begin the question-and-answer session. (Operator Instructions) Our first question comes from Mr. Rafael Frade from Bradesco.

Q - Rafael Frade {BIO 16621076 <GO>}

Hi, good afternoon, everyone. My question is a little bit about what you expect from 2014. I'm not asking for an official guidance, but I would like to understand, all these measures to increase company's profitability and margins, what we can expect on it?

In the past, Fleury used to have -- the company used to have EBITDA margin more close to 23%. I would like to understand if this level is achievable, it's something that we can expect, maybe not in 2014, but more in 2015, or if there is a change in the mix of business, there is a different environment that this is not more a level that you believe that you can come back to have?

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

Thanks, Rafael. This is Joao. I will begin answering. Let's see if I can complete the full -- of your question. First, we don't believe that there is any structural change in the sector or even in competitive environment that doesn't allow us to reach again these levels in the future. So, we still believe there is room for that.

Of course, the challenge that we have added in the last two years is about our portfolio of businesses and of brands, but still so there is room to improve profitability as a whole and to reach that levels. But as you mentioned, it's not yet for next year, it's an ongoing process. We began the plans to start and to accelerate this process, mainly the plan that we are taking is to be shorter on this movement and be able to achieve part of that already in 2014.

So, 2014, we expect to see a movement. We expect to have the impact -- the negative impacts of these plans restrain us to this second semester of this year. If something else is needed to do in the first quarter of next year, we expect to finish that, then, but to begin to have the benefits of all the movements starting from the beginning of next year. So, 2014, we expect to see improvement of margin compared to this year, of course, even if you compare the normalized one, if you take out the one-off effects.

Probably, when you see the chart of gross margin, you see the possibility that we have, the potential that we have. The chart for EBITDA also we show that there is a potential. So to be back on the level that we were in 2012, it's possible to do that along the year. But this is a process, we will be evolving on the maturation of Fleury brand. We will also be adding more basis points to the other brands, they are beginning to recover their profitability next year, but it's a process, it's not the end in next year.

Q - Rafael Frade {BIO 16621076 <GO>}

Okay, Joao. If you allow me a follow-up, just I would like to understand a little more about this, the impact of the portfolio in your margins, because for example, you have been discontinuing some business that you mentioned that were less profitable like Chronicle Management Disease, you reduced a lot of your lab to lab business, you ended contracts with hospitals that you had in the past that were not profitable.

So, I would like to understand what's in the portfolio has been lower margins that has been compromising the margin of the whole Group? Is it mainly attributed to Rio de Janeiro operations given that Fleury seems to have the same margins and also the other businesses?

And just if you allow me also another question related to hospital operations. This quarter, we saw a sharp deceleration compared with the last quarter. In fact, we saw a decrease related to last quarter. I remember that you mentioned that you would be discontinuing some business with some hospitals, but I thought it would be more in the fourth quarter. We already had something in this quarter?

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

Well, Rafael, first of all, talking about the portfolio, as you mentioned, we began to discontinue some non-profitable operations or some non-profitable locations. We closed some patient service centers that were small and no potential for profitability, higher profitability. We finished this movement in this October. So, what we expect from this portfolio is to begin to react positively on the next year.

When we ask about where is the main focus, of course that in the balance of the portfolio, we are still in the maturation process for a+ brand, we launched it two years ago, on its mature level, a+ margin is not the same as Fleury brand margin and at the same time, we have not reached yet the optimal level for a+.

So, in this balance, even considering only the organic portfolio after 2011, we could say that a+ is still growing more than Fleury in the last two years and adding more pressure. That's what we are trying to balance for the next year by growing more Fleury brand.

At the same time, yes, there is a bigger wave for Rio de Janeiro operations. We had to concentrate our efforts last two years in integrating the operations to add qualification there, to add structure there to be able to get the benefits in the long-term to be a sustainable brand, to be sustainable assets for us there in Rio, but in this period, the costs are higher and were higher than expected. And that's where we are mainly concentrating this turnaround. In some sense, it's a turnaround going on in Rio de Janeiro operations.

Going to your second -- and just to complete on this Rio de Janeiro, part of this process, the qualification of revenues that we are mentioning and what we are doing, it's our choice to do that. The big plan operation that we finished the contract since October, the purpose of that movement is to substitute the revenue along time.

Of course that we don't do the substitution of revenue in the first moment, but one good news that it's already happening. We are seeing in numbers last week that we could notice some substitution that part of the volume that we lost in this choice has been positively substituted by other operations, by other plans.

Answering to your other question about hospital operations, yes, we have not started yet this. This negotiation, we have a partnership with the owner of these hospitals and part of this negotiation and this partnership is not to discontinue these operations at a sudden. So there is a process. We will begin this process, but no effect yet on the third quarter, but at the same time, Rafael, the effect is not big. Don't expect -- at the same time that you don't have to expect decrease in revenues. We are not talking about decrease in revenues, we are talking about the reduction on the growth rate, but not about decrease in revenues.

So, the same happens in hospital operations. There is not a decrease in revenues. It's a reduction on the growth rate, but still not on the third quarter. Third quarter is, as I mentioned, is more about a comparison effect to the second and third quarter of last year. So, when we normalize the basis last year, we could say that the growth would be the same in second and third quarter, close to the low-teens.

What we expect in the hospital operation is the same as we expect in Rio. A reduction of the growth rate, but not a reduction on the revenue itself.

Q - Rafael Frade {BIO 16621076 <GO>}

That's clear, thank you. Thank you, Patah.

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

Thank you.

Operator

Our next question comes from Mr. Victor Natal with Itau BBA.

Q - Victor Natal {BIO 20260564 <GO>}

Hi. My question is regards to TISS 3.0 that you have mentioned earlier in the Portuguese conference call. When do you expect the system to be fully operating? When do you expect to see the first impacts and what would be these impacts both in cancellation and in the working capital for the company? That's it.

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

Can you repeat the first part of your question? It was not clear to us.

Q - Victor Natal {BIO 20260564 <GO>}

I'm sorry. When do you expect TISS system to be fully operating? When do you expect to see the first impacts in the company and what would be these impacts for you?

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

Hi, Victor, this is Adolpho. The TISS protocol is expected to be online from April 2014 onwards. It's mandatory. In theory, all service providers and all the health insurance operators should comply to it. And our expectation is mainly on decreasing the time for resolving the negotiations regarding the disallowances.

So, we expect to see an improvement in our total days sales outstanding and a decrease of a few days related to that. Together with that, we also expect that with the faster understanding of what were the motives of the disallowances between the health insurance providers and us. We can focus on resolving the problems at source and having a quick response on that, therefore, decreasing the disallowances percentage.

Together with that, the selection of health insurance plans and customers should also have a positive impact in our P&L, not in the short-term because we still have the open accounts receivable related to them, but we see that happening beginning 2014.

Q - Victor Natal {BIO 20260564 <GO>}

Okay. Thank you.

Operator

Our next question comes from Mr. Josh Milberg with Deutsche Bank.

Q - Josh Milberg {BIO 2004065 <GO>}

Good afternoon, everyone, and thanks for the call. I wanted to pursue a little further the question I had on the Portuguese call. You mentioned that there is repressed demand and that you are already making up a portion of the loss Unimed revenue with business from other customers.

I understand that Unimeds are a distinct kind of payer just given that they serve substantial individual beneficiaries. Because of that, do you think that the risk that you would be compelled to terminate other contracts or contracts of meaningful size is low at this point?

And related to that, is it your sense that most other diagnostics players are going along with the push you are making to raise prices in line with inflation? Those are the questions I had.

A - Vivien Bouzan Gomez Navarro Rosso {BIO 16579525 <GO>}

Josh, this is Vivien.

Q - Josh Milberg {BIO 2004065 <GO>}

Oh, hi.

A - Vivien Bouzan Gomez Navarro Rosso {BIO 16579525 <GO>}

Yes, have you finished your question?

Q - Josh Milberg {BIO 2004065 <GO>}

Yes, I have finished my question, thanks, Vivien.

A - Vivien Bouzan Gomez Navarro Rosso {BIO 16579525 <GO>}

Okay. Well, our decision on Unimed, this important player in Rio de Janeiro was completely related to the profitability side regarding the disallowance rate we had with this contract and also with the lack of expectation to make it happen in other way.

By this time, we have got the risk to do this movement, but the risk is not complete because as we have some hidden demand waiting to use to be in our PSCs and to ask for our services, this risk was calculated for some rate of replacement and this is where we have been watching in the last three weeks. What we expect is with this replacement, the payer replacement, is to recover with this hidden demand in a more effective way. What I mean is that, those PSCs now are ready for receiving this visit, this client in a more efficient processes and also systems.

And so, we have two effects here, to grow with a more sustainable contract, higher profitability and also at the same time doing all the operation in a better way, in a more efficient way and this is what you have to expect from this movement.

We had already captured around a third of this expected loss and we are only in the first three weeks of this decision implementation and I am very optimistic regarding to stay capturing. This is an opportunity to strengthen our relationship with the older health plans at the same time. As a consequence of this participation in Rio de Janeiro with the health plans that result in profitable revenue, we will increase, but regarding other contracts.

Q - Josh Milberg {BIO 2004065 <GO>}

Okay, Vivien, that's very helpful color, but one of the things I just wanted to get a little more clarity on if possible is, do you see other payers that are problematic today that present situations where you feel like you might be asked or compelled to terminate those contracts as well just as you did with Unimed Rio and I think also with Unimed in Sao Paulo? Or do you feel pretty confident that with this cleaning of your base, let's say, of payers that there is no more potential large-scale clients or payers that you would have that you could potentially need to terminate in the future?

A - Vivien Bouzan Gomez Navarro Rosso {BIO 16579525 <GO>}

Josh, absolutely. The major movement or the major problem we had have already been addressed, this one specifically. We have also made some other small movements in Sao Paulo, for example a few months ago and we do not expect to have more movements in this direction, because we are pretty comfortable to be solved this kind of issue with the Unimed Rio. I don't think we will have some kind of impact in the future on this issue. This is concluded.

Q - Josh Milberg {BIO 2004065 <GO>}

Okay. That's very helpful. And my second was just on this issue of, do you feel that other diagnostics players probably are going along with your push to raise prices? Or just a little bit of color on that and how important it is to have other market participants moving in the same direction?

A - Vivien Bouzan Gomez Navarro Rosso {BIO 16579525 <GO>}

Yes, I think this is a movement, the market movement. Of course, in the short-term, this demand will be driven to other players, of diagnostics players, but the problem, it keeps here. They will have the same problem we already have. So, I think the movement, the market movement is on direction of qualifying services, qualifying relationships, qualifying contracts.

The National Health Agency in Brazil goes in this direction in order to implement and to promote this kind of relationship and procedures in the market. So, I think we are moving in the right way and we will capture the results of this planning from now on.

Q - Josh Milberg {BIO 2004065 <GO>}

Okay, very helpful, thanks.

A - Vivien Bouzan Gomez Navarro Rosso {BIO 16579525 <GO>}

Thank you.

Operator

(Operator Instructions) Our next question comes from Mr. Ruben Couto with Brasil Plural.

Q - Ruben Couto {BIO 19172367 <GO>}

Hi, good morning, everyone. Thank you for taking my question. I would like to get more color on your expectations regarding PSCs ramp-up. In the beginning of the year, I remember the expectation was at the maturation of PSCs opened in 2011 and 2012 would partially offset pre-operating costs from this new investment cycle that we are going through right now.

And in page eight of the presentation, you show that new PSCs are indeed ramping up, but are still far from the major PSCs. So, these new PSCs from 2011 and 2012, they still have to kind of double its efficiency to reach major PSCs. So I wanted to know how long do you believe it will take to reach this level? Thank you.

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

Ruben, just to explain a little bit, there is nothing changed in this expectation of maturation. This is happening. This was 2 years, 2.5, it's happening a long time. It is helping the company, not yet on the optimal levels. So most part of then just to remember were opened at the end of 2011. So, we could see that we are not yet on the best maturation peak, but we are going there.

And just to make clear one comparison here, when we compared the maturation of the PSCs launched two years ago with the already matured, we have to be careful about the brands that we are talking about. The matured ones have a lot of brands, and mainly, Fleury brands that are already matured in the average. And when we talk about the new ones launched two years ago, we are talking mainly about a+ brand, because that was the cycle that we did two years ago.

When we are talking about the new cycle, we are more concentrated right now on the expansion of Fleury brand. The maturation, the peak of the curve of Fleury brand have more velocity than the others. It's more concentrated on Sao Paulo metropolitan area. We know the demand. We have a compressed demand. It is not about conquering brand awareness.

We already have the best brand awareness in the premium segment. So, it's different velocities and different levels. Fleury brand, when it matures, it will reach above R$5,000 per square meter per quarter, a+, when it matures, it will not reach the same level as Fleury brand. So, it's different comparison. What we want to do on that graph is mostly to show the curve, not to compare and to state that the not matured will reach the same level as the matured ones.

Q - Ruben Couto {BIO 19172367 <GO>}

Okay, got it, that's helpful. Thank you.

Operator

This concludes today's question-and-answer session. I would like to invite Ms. Vivien Rosso to proceed with her closing statement. Please go ahead, Ms. Vivien.

A - Vivien Bouzan Gomez Navarro Rosso {BIO 16579525 <GO>}

Well, I would like to conclude this conference telling you that those choice made on purpose to pursue the strategy impact our results in the second semester. They are mandatory to ensure the enhanced Grupo Fleury's profitability from 2014 onwards.

At the same time, we have to be very cautious with the sustainable value creation, enhance our competitiveness and differentiation positioning for preserving quality, the culture and the intellectual capital we have inside and our commitment is to balance all those elements in order to increasing the profitability and sustainability for the portfolio and the company at the same time. Thank you very much for your attendance and have a nice day.

Operator

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