

Q3 2013 Earnings Call

Company Participants

- Eduardo Noronha, Chief Executive Officer
- Natalia Lacava, Superintendent of Investor Relations
- Wilson Olivieri, Finance and Investor Relations Vice President

Other Participants

- Carlos Macedo, Analyst
- Josh Milberg, Analyst
- Rafael Frade, Analyst
- Scott Hendrickson, Analyst

Presentation

Operator

Good morning, ladies and gentlemen, and thank you for waiting. Welcome to Qualicorp's Conference Call to discuss the results of the third quarter of 2013. We have with us today Mr. Wilson Olivieri, the Finance and Investor Relations Vice President, Mr. Eduardo Noronha, the COO, and Ms. Natalia Lacava, the Superintendent of Investor Relations.

This event will be recorded and participants will be in listen-only mode during the company's presentation, after which we will begin the question-and-answer session, when further instructions will be given. (Operator Instructions)

I'll now turn the floor over to Mr. Wilson Olivieri, who will start the conference call. Mr. Olivieri, you may proceed.

Wilson Olivieri {BIO 17325685 <GO>}

Thank you very much. Thank you all for being here with us today on our third quarter results release. And I'd like to start the introduction that will be made by Mr. Noronha. So, Eduardo, please.

Eduardo Noronha {BIO 15227354 <GO>}

Thank you, Wilson. Good morning, everyone. Once again I would like to thank you all for participating in our conference call to present the results of the third quarter of 2013.

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In this quarter we reached 38.8% adjusted EBITDA margin, our best result in the past eight quarters. And in absolute terms it was the best in the company's history. In this quarter we had two main factors that allowed us to reach such a result. Seasonality and full impact of the measures taken to improve the efficiency of bad debt and churn implemented throughout the first half of this year.

Beginning with the seasonality, as you all know, we have a concentration of price adjustments to our Affinity portfolio in July, which benefits us in the short term both revenue and selling expenses because of the temporary reduction in gross sales.

Our net revenue increased 14.2% compared to the previous quarter and our gross sales declined 9.7% in the same period, both effects were already expected for the quarter, I mean no surprise for this result. The second factor is related with the results of the measures that have been implemented during the year and we're more effective in the third quarter of 2013.

Among them, I would highlight bad debt. The entrance of the collection agencies sending a sample of bad payers to the black list, another step we've taken to control bad debt, have allowed us to stabilize the absolute value generating a 100 basis point improvement over net revenue compared to the second quarter of this year even with the effect of the price adjustment in July.

This represents an impressive improvement especially which we consider that the third quarter is seasonally weaker. Second, cancellations. As far as bad debt, the peaking cancellation historically happened in this quarter and in 2013, it was not an exception, however, we are able to reduce the impact of the price adjustment by spending on the effort that began with the process of better communication the price adjustments to customers and professional association continued with the restriction of retention efforts and increasing our customer servicing capacity in this period.

In 2012, the increase in organic churn, in the price readjustment period was 37% compared to the second quarter of 2012, and in 2013, they were just 10% compared to the second quarter of 2013. It allowed us to get a net increase of 25,000 lives. Thanks to all our efforts within cancellation, as I said, and to keep our sales strategy.

And finally, but not less important we also had to combine the effect of the efficiency improvement measures that we have been implemented in the early 2013, which brought a positive impact in EBITDA margin.

I would like to also highlight the part of this efficiency gains, the efficiency gains we achieved has been reinvested in improvement of our internal processes such as contracting, consulting companies for example, developing our sales platform for lower ticket product and investment in our priority distribution channels among all others.

Before I turn the word to Wilson Olivieri, I would like to point out that the first nine months of this year; our absolute adjusted EBITDA was almost the same amount of the full year 2012. As a result of our revenue growth, which was 31% in the first nine months, and a 190

basis points increased in EBITDA margin reflecting the strength of our sales structure and the effectiveness we had on capturing internal efficiency and opportunity.

Now, I will turn the word to Wilson, who will discuss the results and providing details.
Wilson, please?

Wilson Olivieri {BIO 17325685 <GO>}

Thank you Eduardo, thank you all again for being here, in this morning and if you are kindly following us with the presentation we made available at the website. I would please ask you to go to page number four, once that page number three Eduardo has made all the highlights that are important as an introduction. So then I am going to give you probably the next 15 to 20 minutes a little bit more details in some of the lines that are also very important to our business.

So we start with portfolio evolution, as you can see in page number four to your left hand side, we see that we have experienced a compounded annual growth of like 17.3% since 2010. Most of this growth is coming from our Affinity segment, which are the dark bars in the bottom, that actually grown by about 32% compared to the growth on the corporate and other segments at about 10.5%, and an important highlight here when you look at the portfolio evolution is that 60% of our total number of lives which have reached us, you'll see shortly, 4.6 million beneficiaries is still comes from corporate and other segment as now being 1.4 million from the TPA segment and the remaining amount of lives from our corporate segment.

Insuring number of lives, you please move to page number five; you will see a little bit more details and what we show here is basically that the number of beneficiaries has grown at about total number 6.6% to 4.6 million lives as I mentioned. We have experienced a growth of 284,000 beneficiaries when we compared with the second quarter 2013.

So just if you stop for a second to think that we have generated almost 300,000 new lives on private sector for the Brazilian Healthcare System. That shows how powerful our distribution channels are. So just to have an idea on the Affinity segment, we had grew at about a little more than 100,000 lives, which actually represents a much larger of our revenue and the remaining 183,000 lives have grown on the corporate and others segment.

If you look at the Health Affinity segment as I mentioned, that represents about 92% of our revenue in third quarter. We had added 111,000 new lives, and as we have been sharing with you in the recent meetings. We have been able to generate an average, which is higher than 36,000 new lives per month on the third quarter, which is as we said, a little lower than the record we reached in second quarter due to the price adjustments that we experienced in July, but it's still a little bit higher than our expectations for the average of the year.

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So we're very optimistic in terms of generating new gross adds for the system, and we have proven here on the third quarter that we are still targeting to higher levels than the average we expected for this year originally. It's also interesting to notice here that the churn level as you see on the third quarter here on this table, we have churn about 86,000 lives on this period, which represented a growth of like 49% if you compare with the prior year mostly to the financial conditions of the country as we have talked a lot, the level of investments of the Brazilian family in Brazil is still the highest ever, it has not reduced in the past few quarters.

But the good news on this segment is, if you compare the 86,000 lives on the third quarter with the 77,000 lives that we have churned on the second quarter. You would see a growth of like 12%. As Eduardo mentioned on his introduction, if we were to make the same comparison versus last year, last year we had experienced a growth of 37%, on the same period due to the price adjustment.

So that shows -- all of the activities that we have been put in place to reduce churn, they're already working. But unfortunately we are not back to the old levels because of the economic conditions. But as you will see when I talk about bad debt, we have a little bit more flavor on that indicator.

So if you please move to page number six, then we are going to give you some flavor on the operating net revenues as you see here we reached in the third quarter almost R\$320 million worth of revenue, R\$295 million of those meaning 92% coming from the Affinity segment and that shows a growth of almost 27% when you compare with prior year's same period, which is basically in line with the growth that we have been sharing with you that the combination of growth in number of lives and a price adjustment.

In page number seven, going down on our cost structure, we look at some details in the cost of service, and as you can see we had grown that indicator by 23% showing some leverage when you compare to the growth in that revenue, that was almost 27%. Even considering the fact that during this quarter we have seen a few activities that increased gross and I'll name three of those that we think as very important.

Number one, we have some expenses related to layoffs in the late third quarter, meaning September. We have actually laid-off some of our employees and that has generated almost a million reais on this specific account of additional expenses that we have not adjusted, we have left it in here, just for highlighting it to you.

We have also a collective wage increase that happens every year on the third quarter of 7.5% for the majority of the salaries on this -- specific group of expenses. And the latest not the least, we have experienced an R\$2 million increase in expenses related to the Datacenter outsourcing that we have actually migrated completely this quarter.

So, even considering those effects we still able to leverage expenses in cost of services, in such a way that our operational margins have reached 74.7%, as a percentage of net revenue. Moving to the next page, we will talk a little bit of administrative expenses. Here I think we can see the biggest level of leverage of all of these expenses. As you can see,

we have grown that number of expenses only by 8.4% and even considering growth in revenue of 26%.

So just there if we were to consider this number as a percentage of revenue, so they would have decreased from 29% in the third quarter 2012 to a 25% in third quarter 2013. So, just as you can see there is a leverage of almost 400 basis points in one year versus the same period last year.

Page number nine, we look at some details on the selling expenses and as you can see here they had grown at around 26%, which is very much in line with the growth on our revenues. But there is one specific point that we like to highlight on the expenses, this specific quarter we have participated in what we call that -- convention of the Unimed's in Brazil and we have invested approximately R\$1.3 million, which were part of -- group of expenses, but there were very important to streamline our relationships with the Unimed's System.

In page number 10, I think we would see one of the most important indicators of the company, which is the bad debt line. As you can see this quarter, bad debt was 7.1% of net revenue, which represented an improvement of 100 basis points when compared to the second quarter of 2013. Although, it has increased a bit versus prior year, as you see the churn in prior year also a little bit higher, but the more important thing here is some of the actions that we're taking and mainly sending people to -- bad payers to blacklist and collection agencies performance, they are already showing some results.

Especially, if you look in the table called bad debt breakdown; you see that line called recovery and in that line you can see that we had already recovered approximately in this quarter R\$2.5 million, which is increasing significantly from prior quarters. So we still expect that indicated to continue growing, so helping, keeping our bad debt and I would say not as low as historical rates of like 5%, but at least well better than the 9% that we have experienced in quarters before that.

We still in the same page, if you look at the other operating income and expenses, you'll see most -- an offsetting results on operational losses of R\$4.5 million that refers to reconciliation of our accounts payable and receivable with operators being partially offset by contingencies reversals of R\$2.5 million, which are typically the way these accounts are behaving. One is offsetting the other number.

Page number 11; we will talk a little bit about financial income and expenses, and I think the most important point to highlight here is in the monetary adjustment from call option of Alianca. As we experienced last quarter, we had made an adjustment this quarter again because Alianca had performed a little better than our expectations and then what we expected.

So, having said that we have to adjust our accounts payable for the remaining parts of the acquisition. So, that generated this R\$40 million. And, if we were to split that into the two segments that we required to adjust part of it, which is R\$13.5 million of this adjustment comes from the regular monetary adjustment and 26.8 million comes actually from a

review on the EBITDA performance of this acquisition, which has seen improving significantly.

In page number 12, getting closer to that, we look at adjusted EBITDA number and as Eduardo already said our margins went up to almost 39% with a nominal amount of R\$124 million, which were 35.6% better than third quarter 2012 and 26% better than the same period -- than the second quarter. Just to have an idea, we have generated 248 bps improvements on margins versus third quarter 2012, due to all of the actions, and all of the details that I have listed to you already.

Going down on the P&L. If you look at adjusted earnings results as you can see, if we were to extract the adjustment made for Alianca update and adjust a few stock option amount, you would see that we have almost doubled the size of our adjusted earnings from R\$29.4 million in third quarter 2012 to almost R\$59 million in this quarter. So, that's a very significant improvement towards the direction of dividend payments for future years.

Finally, if we look at page number 14, a quick look at our CapEx. As you can see in third quarter, we've invested almost R\$11 million, which is very much in line with the investments we've made prior quarters, but I have to highlight to you that due to the beginning of our new system features implementation, we should see that indicator increasing for the next few quarters, so we can have the new system fully implemented for the end of this year -- at the end of next year.

And finally our capital structure, as you can see, as the result of all of these actions in EBITDA numbers. We see that our net debt has decreased by 21% reaching levels of R\$350 million if you consider that in nine months of this year, we have generated R\$350 [ph] million of EBITDA if we extrapolate that for the full year we're leveraging our debt which are less than one year equivalent of EBITDA.

So, having said that I would like to turn it over to Eduardo for his final considerations, before Q&A session. Eduardo, please?

Eduardo Noronha {BIO 15227354 <GO>}

Okay, thank you, Wilson. Before we get into Q&A section, I would like to mention two things that might be in your agenda.

First on cap, we received this from the counselor; they meant to send additional information about Alianca acquisition which is due December 20. Therefore we don't believe there is time enough to have the case during this year. However, we are still confident that the outcome could be positive.

And secondly, on the recent announcement by ANS to suspend sales of healthcare plans which will take effect in October 8. We are still evaluating which product of our portfolio will suspend them, it's impacts in our sales and other options we submitted took them, considering that we worked -- with the main insurance companies in the country, which allowed us to offer similar products.

I would also remind that Uzbekistan, Pakistan, Venezuela, America are out of this list, and it can help us to compensate this suspension that we are facing. Thank you all and let's go to the Q&A section.

Questions And Answers

Operator

Thank you. We will now start the question-and-answer session. If you have any questions, (Operator Instructions). The first question comes from Carlos Macedo of Goldman Sachs. Please go ahead.

Q - Carlos Macedo {BIO 15158925 <GO>}

Hi, good afternoon gentlemen. Thanks and congratulations on strong results. Thanks for answering questions. A couple of questions and first is on the pricing that we saw for the quarter, of course, the readjustment was seasonal and healthcare revenues. So what I noticed was that the pass through for the re-adjustment this quarter seems to be higher than the previous quarters.

What should we work with going forward? Are you going to -- are you going forward, you're going to pass through more of the readjustment than you have in the past, or is that something that we should work with a similar one that happen in prior years?

The second one is related to your capital structure to some degree. You are much less lever than you have been and you're accumulating cash at a very first place. Are you can -- and dividend payments are still limited by a number of things. Are they any plans to distribute some of this cash, are you looking for additional acquisitions, or you thinking about buying back more shares, what are you going to do with the cash that keeps accumulating your balance? Thanks.

A - Eduardo Noronha {BIO 15227354 <GO>}

Carlos, thank you. I will let Natalia to answer your first question and I'll get back to you. Thank you.

A - Natalia Lacava {BIO 17175216 <GO>}

Hi, Carlos. The price increase -- the difference is that last year we had the acquisition of Padrao Administradora which made an effect in the price increase you have seen in the release. But, we always pass through exactly the amount of price increase that we'll see from the insurance companies. This year was not different, so the only difference is that is here we had a more clear quarter results, because we didn't have the impact of any acquisition being integrated.

A - Eduardo Noronha {BIO 15227354 <GO>}

Thank you Natalia. And Carlos, on the cash accumulation, yes you're right. We do accumulate a fair amount of cash and our expectations definitely are to create a dividend

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policy in a very short-term. As you've probably mentioned, technically speaking there are still few limitations, we had few net operating losses on the cash -- on the balance sheet of the holding company, which are expected to be finished by the end of this year.

So in 2014, the only comment we'd have regarding cash is that we still have a fairly high payable to acquisition of Alianca. Considering the current numbers, if they were able to reach -- let's say EBITDA of around R\$50 million for this year; we would be talking about acquiring a company that would be valuing above half a billion reais, out of which we have advances a 100 million and consider we acquire 60% that means we will have a cheque to write early next year of approximately R\$200 million.

So, I think that would be the last big use of cash that we have based on our best knowledge right now. So therefore, second half of next year, I would seriously considering paying dividends back by paying our dividend. Regarding buyback we have stated that condition a few months in the past when our share price went down for the first time in our history. But, I don't think that would be a practice if we continue pursuing prices of our shares at the level we are currently experiencing, but it is something that is also on the back of our mind, but we will never do that without sharing that with our shareholders and with our board. So, at this point in time what I can tell you is, yes, it is on our pipeline creating a dividend policy, so we can share with the investors very shortly.

Q - Carlos Macedo {BIO 15158925 <GO>}

Okay, thank you for your response, very clear.

A - Eduardo Noronha {BIO 15227354 <GO>}

Thank you, Carlos.

Operator

The next question is from Josh Milberg with Deutsche Bank, please go ahead.

Q - Josh Milberg {BIO 2004065 <GO>}

Good afternoon everyone and congrats on the results. Thanks for the call. My questions are on the point you made about the Alianca having outperformed your expectations and then also on your overall estimated growth.

Can you provide some added color on the factors that are behind this outperformance and also disclose the rough percentage of your gross adds that came from Alianca this period? What we can expect in 2014? And then on the issue, the larger issue of your growth, I was hoping you could share some perspective on to what extent you think the higher pace of additions has been driven by the withdrawal of some of the larger plan providers from the individual market if at all.

A - Eduardo Noronha {BIO 15227354 <GO>}

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Thank you very much, Josh for your questions. So if I forget any answers, you please jump me again. So in terms of Alianca outperforming, I think we have a few good news on that front. Number one, I think we had been able to streamline the cost to integrate the processes within Qualicorp, and generating probably better synergies on that acquisition that originally we expected on the business plan.

So, as you well know, the way we do that accounting adjustment, it is based on expectations of EBITDA so the auditors come to us and they look at expectations and valuation of the business is done at a 9.5 times EBITDA of 2013. So, once we generate better margins, we have to review that. So that's one of the things.

Second thing that's very positive on the Alianca side. Organically speaking and I'll answer two questions that you've asked. Number one, they are already producing on the average between 2,500 to 3,000 lives per month in terms of gross adds to the system. And that has also helped generating those benefits and if you look at our notes, which I missed sharing with you, so I'll take advantage doing that. Especially on the third quarter we had accounted for a retroactive revenues from Alianca regarding a few customers that -- we are still discussing revenue was approximately R\$1.7 million that have been added to our results. But if you look at our total average number for Qualicorp 1.7 million, might not mean much but if you look at specifically to Alianca, which is currently representing about 10% of our total EBITDA just to give you another reference then it affects the account of results.

So for the fourth quarter of this year we still expect Alianca to contribute, of course, within the limitations with some additional revenue. So, I will name it for you, it's not a secret that Unimed center and Tocantins, that's called in Brazil (inaudible) Unimed.

They have gone into a ANS surveillance program and so we are migrating a lot of lives from that Unimed to other companies that we have as a provider. So what every time we do that, we have to commissions of new sales paid, so we expect Alianca to come up with some additional revenue coming from that migration that has happened due to conditions of Unimed COTO [ph].

So I think on the Alianca -- those were the questions you asked. Is that right?

Q - Josh Milberg {BIO 2004065 <GO>}

Yeah. That's right. I mean, the other question I have had was on just to the larger point of growth. If you could provide some color on how much, some of the higher growth you are saying has been fuel by the withdrawal of Amil and further cost from the Golden Cross rather from the individual plan market.

A - Eduardo Noronha {BIO 15227354 <GO>}

Right, that's a great question. I would love to have a very specific answer to your question, but unfortunately, every time our brokers they sell new lives to new customers. They never ask where these customers came from. All they are concerned -- so we will need to engage going to a survey, so we would call those customers and ask them where are you

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coming from. Our feeling here is that Amil, at the same time they announced they were not going to sell individual plans anymore. They also extended the coverage of one of their beneficiaries administration partners called Unifocus to the Sao Paulo markets.

So part of the individual lives, they left on the table. We not only addressed by Qualicorp, they are also addressed by these other competitor in the market. Net, net we do believe that we benefited from that fact, but to be honest, I don't have a specific data that I could tell you a percentage number of how much that would have been.

Q - Josh Milberg {BIO 2004065 <GO>}

Okay. Now you just quickly, are you still at least with the regulatory implications of those movements in the sense that you think that the regulators pretty comfortable with the status quo or do you think that the fact that what some people qualify as a broken individual system means that there could be some changes there in the future.

A - Eduardo Noronha {BIO 15227354 <GO>}

Yeah. To the best of our knowledge, at this point on time and there hasn't change from other times that we had to make that statement. We do not see any movements towards that direction. I will not say, I can't talk on behalf of the regulators.

Say if he is comfortable or not, I mean based on what we know now, we are pretty much comfort with the fact that we don't see regulators moving towards changing debt scenario at this point on time. And among several reasons, one of the most important of those, are the fact that there are still 10 million Brazilians that are carrying an individual plan. So any movement on that front has to be very careful, because it could somehow either benefit or hurt, others are on that segment.

So based on the best of our knowledge right now, we feel that the market is pretty much supplied with a lot of products. Because although, we don't have a big brand in the game, we still have all of the Unimed system offering individual plans all over the country.

And if you look at ANS, is still have approximately 1,500 different operators in Brazil, out of which the big ones are not selling individual plan, but they might charge of the small ones are, so we still find individual plans of smaller operators. So we don't see any reasons why that scenario would change in the short term.

Q - Josh Milberg {BIO 2004065 <GO>}

Okay that's great perspective. Thanks.

A - Eduardo Noronha {BIO 15227354 <GO>}

Thank you.

Operator

The next question comes from Rafael Frade of Bradesco. Please go ahead.

Q - Rafael Frade {BIO 16621076 <GO>}

Hi, good afternoon everyone. If you would like to comment on the -- it's not clear or the deals that you've made in the quarter and in October with regarding Victoria (inaudible) if you make some comments about the idea of these deals.

Also if you could make comment on the operational loss related to reconciliation with health plan operator for this quarter, it was something above the normal level or what we can expect going forward?

A - Eduardo Noronha {BIO 15227354 <GO>}

Rafael, thank you very much for being with us and for the questions. So on the deals that you have mentioned, we had basically two deals that we've got this quarter. One is Victoria, which is an agreement that we have made with Victoria regarding -- absorbing some revenues they had on the -- some Affinity lives that we're carrying if you remember we acquired Victoria back in 2010, if I'm not mistaking. I'm sorry Afinidade I'm changing the name of the company, Afinidade. We acquired Afinidade in early 2011, though that acquisition we actually acquired 75% of the revenues and that was through our partners, our exclusive brokers and they were still generating 35% of the revenue. The contract we had with them had a prudent call condition that we could acquire the remaining 25% I would say about 18 months from today. The reason why we decided to anticipate that is that with Alianca in the Brazilian market -- they were mostly effective in Brazilian. With Alianca in the Brazilian market and with our own sales force in the Brazilian market, we felt there were too many distribution channels on that front.

So we decided to anticipate the acquisition of the remaining 25%. So we anticipated prudent call conditions from 18 months to this quarter and we now have 100% of the revenue of Afinidade and they no longer had any leftovers in a recurring basis and they became regular brokers as any other broker we have all over the country.

That was your first question, the second question was regarding --

Q - Rafael Frade {BIO 16621076 <GO>}

(Technical Difficulty) We will make about -- but also in your foot notes, there are some details a new agreement with Victoria that was from 2010 and that you reach in July some kind of agreement?

A - Eduardo Noronha {BIO 15227354 <GO>}

Yeah that was from the last quarter, right.

A - Natalia Lacava {BIO 17175216 <GO>}

Rafael, that was an agreement we did on last quarter and we paid this quarter.

A - Eduardo Noronha {BIO 15227354 <GO>}

Yeah.

Q - Rafael Frade {BIO 16621076 <GO>}

Okay.

A - Eduardo Noronha {BIO 15227354 <GO>}

Okay. Yeah, go ahead.

Q - Rafael Frade {BIO 16621076 <GO>}

The second question related to operational loses due to reconciliation.

A - Eduardo Noronha {BIO 15227354 <GO>}

Right, right. Just to have an idea for our budgets in 2014, debt line is expected to be zero, this is our main challenge here. What are these adjustments, let me give you a couple of examples just to make it very clear.

So let's say we have Mr. Smith, as a Qualicorp customer and he has a due payable to Qualicorp that will cut off on the 20th of the month, so we will send to this gentleman's house a bill of let's say R\$1,000, there is a difference on the cutoff of dates between our cut-off dates and the operator's dates for operational reasons.

So let's say this gentleman has a SulAmerica product and SulAmerica cuts his bill against Qualicorp on the 21st and just happened in 22nd he had a new baby. So when he announced his new baby to SulAmerica directly, SulAmerica will charge Qualicorp his bill including the new baby. But we had sent him a bill because of the cutoff date previously without the baby, this is just a very common example.

So we have to reconcile the timeline difference with all of our operators on a monthly basis. And every now and then it happens, I will give you another example. There are certain customers they go to court against price adjustment. So let's say an operator charge Qualicorp a R\$1,000 but because that customer went to court and the judge gave him a benefit of the doubt -- we will only collect from him R\$900. So that difference of R\$100 goes into that reconciliation account as well. So there are probably I would say more than a dozen reasons why there are differences of balances.

Every now and then when we close the quarter, the auditors look at that amount and if they feel the amount is either too old or is still being negotiated or the operators (inaudible) they request us to write off that balance. So this is typically what happened.

The reason why I'm saying our target for 2013 -- 2014, I mean that account is zero, is because we are with the new system we are putting a lot of those transactions that are currently manually made or through excel spreadsheet into the systems. So that -- those amount should be automatically reconcilable. So our expectations are not to have those amount anymore or why we still have manual reconciliations with excel spreadsheet we might face situations where we have to write off balances.

Q - Rafael Frade {BIO 16621076 <GO>}

Okay. That's perfect. Thank you.

A - Eduardo Noronha {BIO 15227354 <GO>}

Thank you very much, Rafael.

Operator

The next question comes from Scott Hendrickson with Permian Investment Advisors. Please go ahead.

Q - Scott Hendrickson {BIO 16142394 <GO>}

Hi, good morning and congratulations on strong results, which look like your are definitely coming from solid management execution. Here is my question. So looking at Bloomberg, I'm seeing a consensus estimate over that a billion foreign sales for next year and 492 in EBITDA, which adjust the 35.2% margin, I think you just reported a 38.8% margin or 36.3 on an annual adjustment basis, am I missing something or consensus 2014 numbers substantially below the level that which you are currently tracking?

A - Eduardo Noronha {BIO 15227354 <GO>}

Scott, thank you very much for being here, it's great talking to you. And to be honest I haven't seen the consensus in Bloomberg. But I would say the way we've been setting ourselves here and we would still -- either with 38.8% margin in third quarter.

We will still be looking at a -- if you look at nine months year-to-date 2013, you'd see that we're running at a 36.5% level. So assuming fourth quarter that we feel certain flexibility to possibly increase some investments so we would start-up next year with probably a stronger -- but we're still making that decision. But if we could stick with what we've been saying which is an additional 150 base points this year versus last year, we would still be targeting next year for an additional of 100 base points, I mean versus 2013. So, if we were to put them a perspective, I'd say 2012 at 34.5, 2013 at around 36 and so, and maybe next year at around 37. These are number that we are looking generally here and that seems to be very feasible and reasonable.

A - Natalia Lacava {BIO 17175216 <GO>}

Scott, this is Natalia speaking. Probably, the Bloomberg consensus that does not account for -- our PGA as low as 7%, they account for closer to 9% and that the difference.

A - Eduardo Noronha {BIO 15227354 <GO>}

Great point.

Q - Scott Hendrickson {BIO 16142394 <GO>}

Yeah. That's helpful. And even what you just laid-out seems good and easily achievable if not too conservative. Thank you.

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A - Eduardo Noronha {BIO 15227354 <GO>}

Thank you.

Operator

(Operator Instructions) As there are no further questions, this concludes our question-and-answer session. I would like to turn the conference back over to Mr. Wilson Olivieri, for any final considerations.

A - Wilson Olivieri {BIO 17325685 <GO>}

So once more I would like to thank you all for being here with us, to follow us all along and as usual if you have any further questions or anything, we can help, Natalia, myself, Gabriel, and Josie, the whole IR team are here in the call and we will be available for any part of questions.

Thank you all for being here. I'll just say a note tomorrow is holiday in Brazil. So hopefully we enjoyed very much. Thank you very much. Have a good day. Bye.

Operator

The conference is now concluded. Thank you for attending today's presentation. May you now disconnect.

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