Q2 2012 Earnings Call

Company Participants

- Fabio Marchiori, CFO
- Omar Hauache, CEO

Other Participants

- Andrea Teixeira, Analyst
- Josh Milberg, Analyst
- Rafael Frade, Analyst

Presentation

Operator

Good morning, everyone. Welcome to Grupo Fleury 2012 Second Quarter Conference Call. Mr. Omar Hauache, CEO, and Mr. Fabio Marchiori, CFO and Head of I.R., 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 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, I wanted to mention that forward statements are based on 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 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 will turn the conference over to Mr. Omar Hauache, CEO of Grupo Fleury. Mr. Hauache, you may begin your presentation.

Omar Hauache {BIO 16579589 <GO>}

Okay. Thank you very much and good morning, everyone. Let me start by giving you some highlights of our Second Quarter of '12 results. In spite of the slowdown of our economy with reduced estimated GDP growth for this year unless net formal jobs created during the first six months of 2012, our organic growth of 13.3%, even higher than the 12.6% growth we observed in the Second Quarter of 2011 when the Brazilian economy perspectives were different.

We anticipated that it would be hard to keep the same growth (we file) during the last quarter, but still at 13.3% organic growth, we'd be considered a strong growth considering the current macro environment. Growth in patient service centers is fully dependent on our actions and strategy. In this context, PSC's organic growth was higher than 15% and this was true for all brands. Same store sales hit 14.6%. Fleury continues to grow over 15% as well as the national brand a+ Medicina.

Weinmann, the premium brand we are acquired in 2009 in the South of Brazil showed its best results in the acquisition. Gross in our diagnostic operations inside hospitals is more dependent on the hospital growth. Many of the top tiered hospitals we are in are undergoing a clear expansion of its facilities and this should benefit the expansion of this business line during the next quarters.

If we exclude the effect of acquisitions and cancelled contracts, growth would be 12.1% for this business. Lap-to-lap business grew 9.1% year-over-year versus a decrease of 8.2% in the First Quarter of 2012. This is in line with the fact that now this business is deserving more focus. Its full new strategy will be applied by the end of the year when we expect to see even better results.

Quality's a must for Grupo Fleury. We pursue goals to improve our productivity as long as our quality remains intact, only improving even more. For example, we have recently decided to move our call center to another site and to hire more people to work at our call center. We out serve the call center structure, but people who work at the call center are part of our work force since we consider call center as core business.

We constantly train the staff and we understand that this is one of our differentials. The reason to move our call center to another site has to do with opportunities to increase both our quality and productivity and the timing of this move is quite perfect. All our brands have been receiving an unexpected superior number of calls to schedule exams and from now on, we will be more prepared to capture this gross. We consider that we have already overcome this challenge.

We continue to expand our work force, hiring qualified professionals in several areas including physicians and, as I said, call center personnel. This would enable our organizational structures to support the ongoing double digit organic growth.

Needless to say, it's important to highlight that the Company has already developed and started the execution of action plans aiming to increase productivity and virtualized activities needing the new PSCs and speeding up the maturation of new services.

Labs D'Or operations are fully consolidated and this quarter we start to see the first results coming from our ongoing integration of Labs D'Or. Asset usage. One of the group's strength which can be measured by PSCs revenue per square meter continue to increase towards a level recorded before Labs D'Or acquisition. We still see many opportunities to enhance our productivity, thanks to this integration effort.

Full integration is expected to happen by the end of 2012. We already want to keep our EBITDA margins at 21.9%, similar to last quarter, at 80 basis point higher than last year's Second Quarter. Based on our long-term strategic projects such as the integrated diagnostic centers, which have questionably expanded Fleury (inaudible) gaps to traditional competitors as well as new entrants, coupled with continuous product needs improvement, effective price negotiations and customer portfolio rationalization, margins are expected to progressively move upwards.

Net income remains stable when compared to the First Quarter of 2012 at BRL32 million. In this case, higher depreciation levels due to the recent aggressive expansion plan and the big Labs D'Or acquisition combined with higher financial expenses are the result of increase net depth, both are major impacts.

One other highlight has to do with cash. Cash generation remains one of the business strengths as both operation and free cash flow were positive during this quarter. I have been saying that one of our main goals is to improve our cash recovery and our cash generation. You'll see that cash from operations reached BRL74 million this quarter and our cash conversion rate improved a lot. It's important to mention that the mix of receivables have improved and receivables due for more than 120 days are now reduced.

Once more, I would like to stress that this ongoing effort to improve our receivables and go for all cash will continue to deserve our attention. Fabio will give you more details later on.

CapEx achieved BRL36 million in the Second Quarter or almost BRL100 million in 2012. More than two-thirds of this total has been invested to acquire imaging equipment. This is in line with all those of further increasing imaging participation and improving even more the productivity of some current PSCs.

Organic expansion is under way but we insist that this year our focus is on productivity and profitability. Our current priority is to increase returns on our existing assets rather than only expanding its footprint. The majority of the 14,000 square meters in area growth should take place in 2013.

Finally, some perspectives. It's hard to predict how our economy will behave in the next quarters, but for now, our company keeps its business as usual. We continue to invest in organic growth, improving our mix of services and preparing new PSCs launches that will be mainly concentrated in 2013. Labs D'Or operations are less optimized in Fleury's and we consider this as an opportunity to continue to improve our results.

As we have already mentioned, our PSC efficiency has been improving, but there is still room for additional improvements. Price negotiations with health plans have recently started aiming to balance medical inflation and we expect to see its influence in our results in the next coming months.

Now, let's go to the presentation on page -- on slide three. Now, here I'll give you some operational highlights. On April 13th, the Company launched a new PSC in Sao Paulo which is called, Fleury Granja Viana. This is a wealthy region located in the macroeconomic region of Sao Paulo where were still not present.

On May 24th, a+ Medicina celebrated its first anniversary. a+ Medicina organic growth higher than 15% during the Second Quarter has been exceeding our expectations and we are very happy about that. A new marketing campaign was launched in order to increase brand awareness and reinforce its attributes. a+ Medicina is a child friendly, accessible, modern and sustainable.

On May 28th, Fleury excellence in customer service program was awarded by Grupo Padrao and the GFK Institute. Company's CEO and Customer Intimacy Director were recognized by their continuous efforts towards customer service excellence.

On June 11th, we integrated Diagnostic Medicine Center for the musculoskeletal system initiated its operation. This center is another result of the medical specialty strategic plan initiative. Including the center, we now have eight different types of integrated diagnostic medicine centers.

Integrated Neurologist Center and center for sleep disorders, advance gastroenterology and endoscopy center, lymphoma center, center for investigation and rehabilitation of urology disorders, phytomedicine center, center of complex diagnostic procedures, pediatrics integrated center and the new center for investigation of musculoskeletal disorders.

On July the 2nd, Labs D'Or back office operations were fully integrated to SAP and this was a major accomplishment for our company and now, the group runs a single instance ERP platform.

Let's move to the next slide, financial highlights. So as I said, gross rates continues to accelerate. Gross revenues increased by 59.4% year-over-year to BRL426 million and organic gross achieved 13.3%. Patient service centers, its gross revenue increases by 59% driven by both organic growth and acquisition. Organic growth achieved 15.3% of this business line, and as I mentioned, strong organic growth was good for all our brands.

Diagnostic operations in hospitals already represent 13% of the group's total revenues. Its revenue increases by 86% year-over-year to BRL55.4 million, excluding acquisitions and concept contracts, growth would be 12.1% year-over-year. I have already talked about most of the net highlight such as EBITDA, EBIT, net profit, cash and receivables and Fabio will give you more details later on.

Please, let's move on to page five -- to slide five. Here represent our total gross and net revenue gross comparing quarters, semesters year-over-year. Last 12 months data is also shown. Both gross and net revenue have been growing strongly and consistently. The next quarters we aim to reduce the gap between gross and net revenues.

Let's move to slide six and here we present our EBITDA and EBIT growth comparing quarters, semesters and year-over-year. EBITDA margin increased from 21.1% in the Second Quarter of '11 to 21 -- end of -- in the First Quarter of '11 to 21.9% in the Second Quarter of 2012. I apologize. EBITDA margin increased from 21.1% in the Second Quarter of 2011 to 21.9% in the Second Quarter of 2012, which is about the same margin as observed in the First Quarter of this year.

LTM EBITDA margin also shows a clear improvement when compared to 2011 results. Mainly due to high depreciation levels, EBIT margin was lower than last year's margins. The absolute EBIT volumes increased more than 31.1%.

Let's move to slide seven, please. Let's talk about gross revenue breakdown. Here, we breakdown our growth and illustrate a stronger organic growth when compared to the Second Quarter of '11. The table shows the gross evolution according to business lines and once more reinforces this good performance quarter-over-quarter. Please note that total organic growth continue to be strong for PSCs.

We would also like to highlight the reference labs business starts to improve its results with a 9.1% growth. Again, if e excluded that was a loss of contract for diagnostic operations in hospitals, its growth would have been 12.1%.

Slide eight. This slide illustrates how well we are doing regarding the objective of increasing the participation of imaging results. Now, we have a more balanced portfolio with a 50/50 participation for clinical analysis and imaging in our PSCs. As for hospitals, imaging now corresponds with 16.8% even when we talk about clinical analysis mix of specialized exempts is very favorable.

Moving to slide nine, here we show the gross and net revenue breakdown. PSCs correspond to 83% of our revenues and operations in hospitals answers for 13%. Below the pie charts, we can see the growth for each business line.

Moving to slide 10. Let's talk about patient service centers. So growth in patient service centers is truly dependent on our actions and strategy. In this quarter, PSCs organic growth was higher than 15% and this was, again, true for all the brands we have.

Same store sales hit 14.6%. Fleury continues to growth over 15%. The national brand a+ Medicina and all the regions have been growing over 15% as well. And Weinmann, the premium brand that we -- that is present in Porto Alegre in the very south of Brazil showed its best results since the acquisition.

Labs D'Or operations have fully consolidated and this quarter we start to see the first results coming from our ongoing integration of Labs D'Or. As seen here on the right side of this slide, asset usage, which can be measured by PSCs revenue per square meter continues to increase towards the level recorded before Labs D'Or acquisition.

Moving to slide 11, again, talking about diagnostic operations in hospitals. As I said before, gross here is more dependent on the hospital's growth where the gross revenue increases by 85.9% year-over-year achieving BRL55.4 million.

Net revenue growth was 77.2% year-over-year. Operations in digital hospitals are fully consolidated and now, this business line represents 13% of our group's net revenue and many of the top tiered hospitals as I said before, they are undergoing this clear expansion and this should benefit the expansion of this business line during the next quarters.

Moving to slide 12, reference lab. (Natural) lab business grew 9.1% year-over-year. This is in line with the fact that now this business is deserving more focus and it's full new strategy will be applied by the end of the year when we expect to see even better results. As you may see below, we are improving revenues and profitability per test.

On slide 13, we talk about preventative medicine which includes chronic disease management, health promotion and health assessment and this currency corresponds to 2% of the group's revenues. Gross revenues for this business line increased 16.4% in the Second Quarter of 2012.

Now, I will pass on the word to Fabio Marchiori. Fabio?

Fabio Marchiori {BIO 16680005 <GO>}

Thank you, Omar. Good morning, everyone. So let's start with slide 14 about the cost of services and in order to be able to understand the main variations in the cost of services when we compare the Second Quarter of 2011 to the Second Quarter of 2012, we need to analyze slides 13 and 14 altogether.

Let's then start with the expense by type breakdown show in the slide 13. The first line, personnel and medical services, we can depict that cost has increased by 520 basis points to 35.8%. The main elements of this variation can be explained as follows. First, as from 2012 on, variable pay expenses from operational personnel, which were previously allocated as SG&A will now be recorded as cost of services. Impact in this quarter is 116 basis points.

Second, the increasing demand for human resources in the health care sector during 2011 and the beginning of 2012 has impacted hiring costs and union negotiations regarding both salaries and benefits to employees. Impact fell by the group represents 150 basis points, which is 50 basis points higher than our initial forecast for the year. Third, Labs D'Or strategy of higher services dispersion to a larger number of PSCs have an impact in labor productivity increasing this ratio by 100 basis points.

Fourth, the Company continues to expand its work force, hiring qualified professionals in several areas with special emphasis to physicians and cost center personnel and enabling organizational structures to support the ongoing double digit organic growth. This has accelerated over the past year and the impact in this quarter is 150 basis points.

At this point, it's very important to highlight that the group has already developed and started the execution of action plans aiming to increase productivity and rationalize activities mainly in new PSCs and also is speeding up the maturation of new services in order to reduce this by 75 basis points over the next nine months and by 150 basis points in 18 months, returning these efficiency gains to gross margins.

Going to the next slide, materials and outsourcing. Quarter after quarter over the past 27 months, the group's supply chain continues to improve relationships with our strategic partners. As a result, this cost line has decreased by 36 basis points as a percentage of net revenue.

Moving on to general services, rent and utilities, the cost has reduced it by 46 basis points. As we continue to pursue high levels of asset utilization not only due to the obvious financial effect, but also to utility growth, the already high levels of customer satisfaction related to the one-stop shop concept.

Next is general expenses and cost is now by 253 basis points due to the fact that in the Second Quarter of 2011, the group reported no recurring expenses related to the retrofits of our PSCs regarding that to the launch of a+ which happened on May of last year.

Next, the depreciation. As from the First Quarter of 2012 on, the depreciation of clinical analysis and imaging equipment, as well as of PSCs buildings is reported as cost of services. Cost is up by 224 basis points and most of this increase is the result of recent investments which are expected to fully mature during 2013.

Moving to the next two slides, let's move to the gross margin reconciliation. Slide 15. As a result of the elements mentioned in the previous slides, the reported figure in the Second Quarter of 2012 is 400 basis points lower than the Second Quarter of 2011 margin and at this point it's important to reinforce that the group has several initiatives in a+ Medicina implementation stages which are expected to improve the ratio between net price and cost of services efficiency.

Important to say, without jeopardizing one of our most important and recognized value drivers, customer intimacy. Therefore, we are still projecting a short-term scenario where gross margins returns to a range which will remain relatively stable between 30% and 32% during 2013 since two important landmarks will be achieved by then. The first one is Labs D'Or integration which is impact -- expected to happen until the end of 2012, generating revenue synergies as a result of the closer relationship between our brands in Rio de Janeiro.

At the second landmark, the maturity of the new PSCs and also from the recently launched services. Also, based on our long-term strategic projects, for example, the integrated diagnostic centers, which unquestionably expand the differentiation gap to traditional competitors as well as to new entrance, coupled with continuous product mix improvement, effective price negotiations and customer portfolio rationalizations, margins are expected to progressively move upwards entering the 32% to 35% range as from 2014 on.

Moving on, let's take a look in the operating expenses of the Company. So moving to slide 16, we'll analyze what happened with operational expenses during the Second Quarter. Overall, there is not too much to say in this quarter, operational expenses has achieved BRL45 million or 12% of net revenue.

As a general rule, our expectation for operating expenses is to stay below 13% of net revenue and this has been achieved sequentially over quarters.

Moving to slide 17 to talk about EBITDA, EBITDA has achieved BRL82 million in the quarter which represent the 21.9% margin on net revenue. Although the group choose not to disclose information by brand, we believe it's important to highlight some important contributions made by each of them during this quarter which have already been highlighted by Obama and his speech.

Fleury continues to outperform both in terms of growth rate, which is above 15% per year, as well as return on investments since its unique position continues to attract a disputed positive reaction from patients as well as physicians.

a+, the recently launched brand has already proven that it has the ability to grow in all macroeconomic regions where it is present. Speaking specifically about Sao Paulo where it has recently absorbed another brand, Campana, during the Second Quarter of 2012 its gross revenue has also increased above 15%.

Also, for the first time since its acquisition back in 2009, Weinmann's in Rio Grande do Sul growth rate have outpaced all other brands as a result of the consistent investments made in this diagnostic medicine icon over the past 18 months. Following the same path, Diagnoson in Bahia, have also accelerated growth during the quarter as it continues to be a leading and referenced brand in Salvador.

Finally, Labs D'Or and (Felipe Martozzo) are being integrating according -- integrated according to plan. Although they haven't yet delivered EBITDA margins higher than group's average, we firmly believe that the gains are rising from the contribution with a+ in Rio de Janeiro will ensure a sustainable market advantage in the medium and long-term.

Even considering the already mentioned higher inflationary pressure on some P&L components, the Company continues to believe that can keep its commitment to stay within the 23% to 24% range for a recurring EBITDA, even considering the implementation of fundamental and strategic initiatives as brand consolidation, expansion of PSCs, Labs D'Or integration, physicians retention, continuous work force training and technological innovation.

Moving to slide number 18, let's take a look in operating profit or EBIT. Operating profit has achieved BRL56 million in the quarter which represents a 15% margin on net revenue. Despite the 250 basis points margin reduction as a result of the recent investment depreciation, we confirm our permanent commitment to expand businesses scope and market share without hurting medium and long-term profitability levels.

This balancing act between the already mentioned cost of growth and efficiency improvement in the application of increasingly more expensive resources as labor, technologies, equipment and facilities, continues to be one of management's primary points of attention and a critical success factor. Although this doesn't represent any sort of guidance, we will also dedicate our best efforts to bring EBIT's markets back to a range between 17% and 18% over the next four to six quarters.

Moving to slide number 19, net income. Net income remains stable when compared to the First Quarter of 2012 at BRL32 million or 8.6% of net revenue. Effective tax rates close to zero is a consequence of Labs D'Or goodwill's fiscal authorization and also the effect of a leveraged balance sheet. The ETR will remain close to zero in 2012.

Still about net income, the group has a positive outlook about its acceleration in the second half of 2012. Considering that, the board has just approved the distribution of BRL20 million as dividends which represents more than 30% of the first half of 2012's results.

Moving to slide number 20, talking about CapEx and investments, CapEx, which has accelerated over the past five quarters, achieved BRL36 million in the second half of 2012 or almost BRL100 million in 2012. More than two-thirds of this total has been invested to acquire imaging equipment, reinforcing our historical approach to the one-stop shop concept developed by the group more than a decade ago.

The estimated CapEx for the year is currently under revision as our expectation is to increase this figure within the BRL130 million and BRL150 million range in order to regulate the foundations for 2013 growth. Final number will be confirmed close to year-end.

Moving to slide number 21, just to take a look at our debt position, total debt of the Company is at BRL709 million and is under control, BRL143 million will be due over the next 12 months and our current cash position of BRL236 million is enough to ensure liquidity. Just to remember, during the Fourth Quarter of 2011, the group has issued BRL450 million of debt in order to reestablish our financial flexibility, improve the balance sheet efficiency and ensure availability of funds for future investment activities either organically or through strategic acquisitions.

At that time, two covenants were offered (as safe) (inaudible) to investors. The net debt to EBITDA equal or less than three times as interest coverage equal or higher than 1.5 times. Those ratios are under control as well.

Moving to slide number 22 to speak a little bit about the working capital, as we have been reinforcing over the past four quarters, the Company has established a thorough process to evaluate the quality of its receivables and to negotiate and collect all debts. Also, we started to adopt a more comprehensive set of perimeters during negotiations in order to mitigate credit risks and uncertainty about collections in the future.

Based on this new commercial approach and improve the controls related to our accounts receivables, companies manage decide in January to adjust provisional levels to reflect the potential increase in payment terms. As a result, this quarter as well as revenue was offset by BRL24 million related to provisions which are mostly expected to be withdrawn within the next two to four quarters.

Considering this adjustment, and more important, the accelerated recovery of all debts resulting, for example, in a BRL74 million cash in-flow for operations in the Second Quarter, provision coverage for debts older than 120 days has increased from 48% by the end of 2011 to 72%. And now, these debts, the older debts 120 days, represent only 16% of total receivables.

Summarizing, through cash collection measures, coupled with an ongoing process to review clients' portfolios reflecting defensive measures against overall credit conditions deterioration and specific cash cost tradings faced from the relevant players, we can now foresee deductions reducing to a level which would be equal or slightly lower than 4% during the second half of 2012 and then 3.5% over the first half of 2013.

Moving to the next slide to see the cash flow where we present the breakdown of this indicator, we can easily depict that cash generation remains one of -- one of the business strengths as both operation and free cash flow were positive during this quarter. We can extrapolate a similar profile for at least the next two quarters.

Finally, moving to the capital market slide, slide number 24, the next slide shows some public information about our share's performance, redline compared to the Brazilian stock exchange index, green line, until the end of the Second Quarter of 2012.

Finally, to finalize this presentation, on behalf of Group Fleury's management, I would like to reinforce our invitation to the 2012 Fleury Investor's Day, which will take place at company's headquarters on August 23rd. We truly believe that this will be an excellent opportunity for analysts and investors to meet company's management, visit some of our facilities and PSCs and, more important, to discuss the existing opportunities and future challenges facing the private health care sector in Brazil while understanding how Group Fleury develops and executes its unique differentiation strategy based on unparallel medical knowledge arrive with customer intimacy.

Now, I would like to move to the Q&A session.

Questions And Answers

Operator

Excuse me, ladies and gentlemen. we will now begin the question-and-answer session. (Operator Instructions) And now, our first question comes from Andrea Teixeira with JPMorgan.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Hi, good after -- well. Good afternoon now, everyone. Thank you for taking the question. Omar and -- just to -- and Fabio -- just to get some color on what you explained and, I guess, one of the things that we have been seeing if we step back about the whole industry, it has been a working capital problem that we have been seeing that the companies have been -- the payers have been delaying the payments.

So I was just wondering if you can give us some perspective. It's something that I've been questioning you for a long time, but -- and if it -- there is -- it's -- that's something that is chronic or we're seeing some improvements as you negotiate? And I wanted to also get some color on what Omar had mentioned in the beginning of the call that he's already seeing -- he's sitting down with the -- who are the payers and trying to pass on part of that 150 basis points that he saw in the -- in the cost of providing services going up.

So above the cost going above inflation. So I appreciate that you have all these separated items. So if you can give me some idea of how -- what's happening in terms of the working capital at this point in the Third Quarter, you've seen the worst and also on the price negotiations. Thank you.

A - Fabio Marchiori {BIO 16680005 <GO>}

Hi, Andrea. It's Fabio. Yes, sure, we can give some color. Just to repeat something that I said during the presentation -- sorry to be repetitive -- no, we don't see it as a chronic problem. So it's not something that will affect the industry in the medium and long-term, but it's affecting in the short-term. It relates to management players and small players as well and as you see, the National Health Agency is taking measures to ensure the financial instability of the health care system and we have reinforced that this is the right measure to be done at this point.

So what we are doing since generally as a low we have changed our policy for provision and we are being very strict to this policy. Let me explain you in details. What we are doing right now is that everything is provision based on the agent. There is no discretionary elements anymore.

And even when there is a delay on payment or some kind of doubt about the receivables, we go and we talk to the HMO or to the company or to the other clients, we discuss the payment there, sometimes we extend the payment terms, and even if we get a hybrid agreement above this recovery, I don't withdraw the provision until I see the money coming to catch.

So a big piece of these receivables have already been negotiated and we have silent terms from the payer telling us that they will pay and there is the payment terms that are described in this, but I don't withdraw. I only withdraw when the cash enters the company, again, to avoid this kind of discretionary elements when doing provisions. I want (Peter Boocey), which is our auditor, to come here to take a look at the provision and to have no question about that, no interpretation, no qualitative measure about that. It's everything quantitative.

Said that, I believe that now we have achieved a very good level of coverage of all the debts that are older than 120 days. As you see, we have more than 70% of these debts covered by provisions. So what I see is that progressive this situation will improve not only because of all of that that I've described, but also because our commercial area when negotiated in the new contracts or when renewing contracts, we are reinforcing the clause that protects the Company, something that has to be made at each negotiation, but we are doing that.

So what I see in the future is an increase or improvement in this situation and as I said, I believe that for the second half these levels will stay equal or lower than 4%, which is too high, and then from 2013 on, 3.5% or less because we're increasing the level of the electronic communication with the space, we're improving the controls, we are reducing the payment terms in order to reflect this movement.

So I think that this is a positive scenario. And so to finalize all of that, there is a strong synergy inside the Company to make this happen. So it's the financial area together with the commercial area, together with the PSCs, because as you know, in this industry we have to provide a lot of documentation to the payer in order to receive the money and the documentation has to be all set, everything has to be in order.

So we put everyone in the same room to discuss this on a weekly basis to be sure that every single contract has all this clause respected to that we ensure the collection in the final of the period. I hope to have answered your question.

Now, I'll pass the word to Omar to talk about the other point.

A - Omar Hauache {BIO 16579589 <GO>}

Thanks, Andrea, for the questions. So regarding pricing negotiations with the HMOs, it's exactly what I said, is that we have already started with rounds of negotiations that usually happens at this time of the year, right? The second semester of the year.

And what we -- what do we expect from that? You know that NHS, the National Health Agency, approved the price increase of almost 8%, 7.93%, for individual health plans which represents about 20% of health plans in Brazil and we know that with health plans, they -- we have discreet negotiations with the companies that higher the health plans for their companies.

So what we expect is that we should be able to negotiate with the health plans trying to increase our prices, of course, because we have -- we have this news about the National Health Agency that we have been pressured by inflation, but suppliers and renters have also been increasing their prices. So we expect to be successful in trying to increase our prices.

We have just started the round of negotiations. We started in July. This will go through August and September. So we may have the interest of these negotiations during this second semester and the -- and the next year.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Okay. Thank you very much. But going back to Fabio's point in terms of the -- how much you can get from the delayed -- you know, the delayed payments, like, these delayed payments are coming from this, you know -- HMOs are being intervened by NHS or it's throughout?

One of the questions that I have is that in general if it's becoming more of a common practice in the industry, you might need to continue to have those provisions increased because as you grow, you need to make those provisions or you are definitely seeing that coming from as you pointed out, Fabio, that you have from the -- from those guys -- the smaller guys who do not have electronic -- you don't have electronic claims, I guess, and then you have all these bureaucratic process which has been cleaning out for the past few quarters.

If you can try to just explain what the source of these delays could be, it's pretty regulatory or it's becoming a common practice?

A - Fabio Marchiori {BIO 16680005 <GO>}

Hi, Andrea. Thanks again. No. It's not directly linked to the regulatory issue from NHS. To be honest with you, regarding these 268 plans that have the sales suspended, we are not very exposed to them. We have a small exposure, but not relevant.

I would say that this is not across the industry, no. There are very good payers that accomplish the payment terms at the right day to the right prices. There is not a problem regarding business. It's not structural but there are some relevant payers that use this as a cash management strategy, we feel, because there would be no other reason for that since we presented the accommodation when we do the services.

That -- it's different from a hospital. You know, a hospital, of course, they will be questioning their auditors asking if this procedure or that procedure, this material, that material should be used.

In the -- in the -- in the case of diagnostics, it's not, like, a mammogram is a mammogram everywhere, the price is set. So this seems to us like a cash management strategy and we are happy to discuss cash management strategy as long as they are discussed in advance during the negotiations of everything.

So what I can tell you though, there is some players in this market that are trying to balance their cost with their revenues. I'm talking about medical ratio and I'm talking about some other circumstances, but it's not a chronic problem, but it affects relevant players for sure.

So it's not related to NHS, although we are paying a lot of attention about their measures, but it's more related to our conservative approach at this point because of the macroeconomic conditions because of the credit conditions affecting the market that we said, okay. Let's put a conservative approach and let's only withdraw provisions when we see the cash entering.

So I want to reinforce to the market that this is not a loss. This is a provision which is different from a loss. I hope I have answered your question.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Yes. Fabio, just going back -- and I'm sorry to insist on this -- but when we discussed before you tried to see if the industry could go into -- starting to charge see if they're using your work in capital, basically that's what's happening, start to charge interest rate if they delay and obviously that's not in the contract.

So I'm just trying to see if what Omar had said in terms of negotiating prices if you are being able to go back as you enter the negotiations with a bunch of them also negotiate this portion of the contract, right? Because it would be good to get pricing increase, but also most importantly to get paid, right?

So if you can during the negotiations in most of these cases, try to put a very more rigid -- given that it's becoming a common practice -- a more rigid penalty for delays in the payments. So that's one question.

And also a quick question on your presentation. You had mentioned something about 17% to 18%. I just want to confirm that you meant the CAGR for EBIT. I know you said that it's not a guidance, but I was just wondering. You said that they could be in the range of 17% to 18% and I was confused if you meant CAGR in EBIT. Thank you.

A - Fabio Marchiori {BIO 16680005 <GO>}

Andrea, okay. I will answer about EBIT and then Omar will answer your first question. About the EBIT, just to be very clear, although it's not a guidance, no, it's not the increase in EBIT. It's the range of EBIT margins, EBIT means operating profit that we want to stabilize the Company. So we want to stabilize the margins of the Company, the EBIT margins, between 17% and 18% of net revenue. Okay, you want to --.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Okay. And that's for the period already in 2012 or what is the timeline?

A - Fabio Marchiori {BIO 16680005 <GO>}

No. We are talking about next four to six quarters. We want to move back to this range over the next four to six quarters.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Okay. Perfect. Thank you, Fabio.

A - Omar Hauache {BIO 16579589 <GO>}

And Andrea, just to go back to that question you asked, when you sit down with the health plans in this field of basis, we usually explore all the topics that we need to explore. Yes, recap of this topic: Price increases and the receivables and the cancellations and all that. We usually explore everything.

And not only that, it's important to mention that the -- that even the National Health Agency may help us out to regulate these concepts, but there is an effort coming from the National Health Agency towards regulating the constructs between the health plans and the providers and we think that this is a very good initiative.

So every time we're sitting -- we're sitting with these guys, we're talking about twice increases, obviously we also explore the issue of cancellations, of debt and all -- everything that is related to this topic. And in some cases depending on the size of the health plan and on the impact in our results, I myself and Fabio, we go together to sit down with the other side and to negotiate the best way to collect this cash back to Fleury.

Q - Andrea Teixeira {BIO 1941397 <GO>}

But in -- realistically you don't have any major contract that has provisions for past due receivables that would be -- that could be used for the other contracts? So like, how many of them, or let's say, like, where is a percentage of sales that you can -- to ensure that you can get paid back for these -- for these delays?

So I mean, it's not a common practice in the industry, right? I understand that it's not common to request for them and to go to court against one of your clients or even to charge them interest, right?

So realistically, that's something that would have to be regulated or reinforced by everything including your competitors, right?

A - Fabio Marchiori {BIO 16680005 <GO>}

Andrea, sorry if don't sound a little bit to topic, but we expect to recover all this money. We never give up recovering this money because we have all the elements to show to the provide -- to the payer -- sorry -- that is money belongs to the Company.

So to be honest with you, we expect 100%, then the ranges I will leave to the market to evaluate how much they believe that we can recover, but I -- we work here in the scenario to recover all this money. We don't give it as a -- as a loss. We give it as just an application of -- a strict application because Fleury governs -- it is very strict to no elements including accounting and we just applied the concept (into).

I'm sorry, Andrea. Just because we have other persons in line for questions, I will ask you if you want to continue discussion, I'll be more than happy to do that over the next teleconference at 1 o'clock in the question and answer sessions. Are you okay with that?

Q - Andrea Teixeira {BIO 1941397 <GO>}

Yes, sure. Fair enough. Thank you.

A - Fabio Marchiori {BIO 16680005 <GO>}

Okay.

A - Omar Hauache {BIO 16579589 <GO>}

Thanks, Andrea.

Operator

And our next question comes from Mr. Rafael Frade with Bradesco.

Q - Rafael Frade {BIO 16621076 <GO>}

Hi. Good afternoon. I would like to explore a little bit the deceleration that we saw in PSC growth. It's still at the high level, was in a lower than in the First Quarter. I would like to understand a little bit if this came more from demands. How much was the impact from this change in call centers, if you can give us some color on that?

And my second question would be about the new -- the expansion for this year in terms of new square meters if there's any change? And in fact, the last time, if I'm not wrong, we will -- you mentioned that they expect more than 10.5 thousand square meters for this year. If it's -- already have a number for that, it is more than 10.5 or if anything changes? Was this change in the CapEx plan?

A - Omar Hauache {BIO 16579589 <GO>}

Hi, Rafael. This is Omar. Thanks for your questions. Regarding the deceleration in the PSCs, what actually happens is that as I anticipated in the last call, we had a very strong First Quarter, especially the months of March was typically strong.

March is usually the -- one of the strongest months of the year. Its analogies really place its flow in March. But anyway, March of 2012 was even stronger than we usually see. But anyway, this contributed to low results. We have nothing to complain about that, but we anticipated that to be very hard to repeat this kind of performance in the -- in this current quarter, the Second Quarter.

And what actually happens is that we grew 13.3%, which we consider a very good preserve, as I said, especially if you consider the macro environment, which is not that good as it was last year, for example.

You asked about call center. I even described some of our call centers initiatives that we had recently made here at (inaudible) which included hiring more people and moving sites. Now, we are in a more updated site, technologically speaking. So we are more ready and more prepared to absorb, to capture all the growth that will come, certainly -- is coming because of the high demand.

And this high demand, we started to see -- we started to feel like the end of last year when it started to hit hard in the First Quarter. So this is why we decided to hire more people and to move to another side.

It's contributed a little bit for our -- we could have -- we could have grew even more in the Second Quarter because of these call center challenges, but as I said, what makes me feel really confident about this topic is that we consider that we have already overcome completely this challenge. So now, we are in a -- in a very good shape to capture all this growth.

And regarding the expansion, the expansion term that you asked, what we are doing this year, we are pretty focusing on productivity. You remember that we launched 14 new square -- 14,000 new square meters last year and almost 70% of these new facilities of these new square meters was launched in the Fourth Quarter of last year.

So we want to accelerate the maturation of these new patient service centers. We are investing a lot of time and efforts towards this objective, towards this goal. But not only that, the expansion plan that we are planning for this year continues, but for this year we plan to deliver something around 2,500 square meters. And next year, 2013, and this is one of the major reasons that we increased our CapEx estimates for this year, that would be around BRL130 million to BRL155 million as Fabio described, we are going to deliver more square footage.

We plan to combine 2012 and 2013 by we are going to deliver 14 new -- 14,000 new square meters combining 2012 and 2013 with the major part of this delivery will happen next year.

Q - Rafael Frade {BIO 16621076 <GO>}

Okay. Thank you, Omar. If you could just repeat for 2012, I think that I lost the number.

A - Omar Hauache {BIO 16579589 <GO>}

2012 will be around 2,500.

Q - Rafael Frade {BIO 16621076 <GO>}

Okay.

A - Omar Hauache {BIO 16579589 <GO>}

But --.

Q - Rafael Frade {BIO 16621076 <GO>}

Okay. Thank you.

A - Omar Hauache {BIO 16579589 <GO>}

Thank you.

Operator

(Operator Instructions) And our next question comes from Mr. Josh Milberg with Deutsche Bank.

Q - Josh Milberg {BIO 2004065 <GO>}

Good afternoon, everyone, and thank you for the call. Just a follow-up on this -- on this last point with respect to CapEx and your square meter expansion, what you -- what you made it clear was that you're basically deferring a lot of this space expansion until 2013.

So I was just hoping you could give a little bit more color on the justification behind the upward revision in your CapEx because it would seem if a lot of that square meter expansion isn't coming until next year, then there wouldn't be a reason to see such a meaningful move up in your level of investment. So if you could just provide a little more color, that would be very helpful. Thanks.

A - Omar Hauache {BIO 16579589 <GO>}

Sure, Josh. Thanks for the question. Yes. No. That's a -- that's a very good question. This will make things clear here. Where are we investing and what are we investing in the current CapEx? One big piece of this investment is related to the acquisition of equipment.

The new equipment such as MRIs, current CT scan, of course, we are also investing in our current facilities, to expand the current facilities, to add more servicing to the current facilities, to -- and to relocate some of these current facilities, but why are we expanding the CapEx for next year? Because we are already laying foundation for the next year.

Some of these CapEx that we are expending is already being used to build up new structure that is going to be delivered and launched into next year. We already have the areas, we already started some of the construction and we need CapEx for that. This is the -- this is the major reason behind the increase of the CapEx this year.

Q - Josh Milberg {BIO 2004065 <GO>}

Okay. Thanks for that clarification.

A - Omar Hauache {BIO 16579589 <GO>}

Thank you.

Operator

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

A - Omar Hauache {BIO 16579589 <GO>}

Okay. Thank you very much. Once again, I'd like to thank everyone for the -- for the participation in this call, your interest in our company and just to take advantage of this -- my final speech here to mention again our Fleury Investor's Day that will take place here in Sao Paulo at the Company's headquarters. This will happen on August the 23rd and I'd like to invite all of you to be here with us. It would be a pleasure to see you here at Fleury.

Thank you very much. Have a good day.

Operator

That does conclude the Grupo Fleury audio conference for today. Thank you very much for your participation and have a good day. And thank you for using chorus call.