Q3 2017 Earnings Call

Company Participants

- Carlos Alberto Iwata Marinelli, Chairman and Chief Executiv Officer
- Viviane Behar de Castro, Investor Relations Officer

Other Participants

- Gustavo Holzheim, Analyst
- Leandro Bastos, Analyst
- Luciano Campos, Analyst
- Marco Calvi, Analyst
- Rodrigo Gastim, Analyst

Presentation

Operator

Good morning, and thank you for waiting. We'd like to welcome you to the Conference Call of Grupo Fleury Concerning the Earnings for Q3 2017. We have with us today Mr. Carlos Marinelli, Chairman; and Mrs. Viviane Behar de Castro, Director for Investor Relations; and Fernando Leao, Executive Director, CFO and Legal.

We'd like to inform that this event is being recorded, and all the participants will be in the listen mode only during the presentation of Grupo Fleury. After that, we will begin the Q&A session when more instructions will be supplied to you. (Operator Instructions)

This event is also being transmitted simultaneously through the web via webcast. It can be accessed at the address, www.fleury.com.br/ri, and on the MCIQ platform, www.mciq.com, where you will find the presentation. The selection of the slides will be controlled by you. The replay of this event will be available right after the closing. We remind you that participants in the webcast may record via website questions for the Grupo Fleury.

Before we proceed, we'd like to clarify that any declarations that may be made during this conference call concerning business perspectives of Grupo Fleury, projections, operational and financial goals, are based on beliefs and assumptions of the company's management and also based on the information currently available to Grupo Fleury.

Future considerations are not guarantees of performance and involve risks, uncertainties and assumptions, because they refer to future events, and therefore, depend on circumstances that may or may not occur. Investors and analyst should understand the general conditions, sector conditions, and other operational factors, may affect the future results of Grupo Fleury, and may lead to results that will differ materially, maybe when those expressed in these future considerations.

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

Carlos Alberto Iwata Marinelli {BIO 18884059 <GO>}

Good morning. I'd like to thank you for your interest, your presence in our conference call for earnings in Q3 -- for Q3, 2017. I'd like to begin the conference call focused -- saying that we are focused on our strategy to differentiate ourselves in the technical and medical area and service, firm discipline and also expense management. We are also focused on expansion with innovation with new tests delivering precision and customized services for the benefit of people and also the better use of our financial resources.

We believe that -- we see that these main pillars are strengthening even more our competitive capacity and the sustainability of the sector. I would like to talk about the main indicators, financial indicators of this quarter on slide number three.

The gross revenue grew 12.7%, with same-store sales of 7.9%. Net revenue had a growth of 14%; EBITDA rose 17.9%, reaching a margin of 26.5%, which represents an expansion of 87 basis points in relation to Q3 of the previous year. These expansions had an impact on margin on -- with 97 basis points. Net profit reached R$86.6 million, and we registered the RIOC without premium of 44.2%. These sort of indicators confirms the sustainable growth of our results and corresponds to our expectations for the period.

We continue the presentation on slide four, showing the evolution of our expansion plan with the delivery of nine new units between July and October. They are, three units are Fleury units. Carlos Weber an average size unit offering clinical analysis and image including MRI and a mix of test for women. Also, Alameda Jau Fast site, with clinical analysis of ultrasound, and Morumbi, a large size unit with complete offered diagnostics, also clinical analysis and also services, Vila da Saude [ph], especially for pregnant women and also pediatricians.

Three new units, a+ in Sao Paulo, one is a fast site and two are average including clinical analysis, image and also MRI and MIX for women. Two units fast site in Brasilia, offering clinical analysis, reinforcing our presence in the capital of the country, where we're already present with the Fleury brand. And also one a+ in Rio de Janeiro. As you can see, we show on this slide, the pictures of the units, Alameda Jau in Sao Paulo, Morumbi in Sao Paulo, and Carlos Weber.

On the next slide, we see the other five units of a+ brand in Sao Paulo and Brasilia, and also the a+ in Rio de Janeiro. With these until October, we concluded the delivery of 24 new units, since we announced the program in December 2016. We'd like to mention that these deliveries are happening according to the schedule which we established for the expansion plan. We say that, this plan will deliver between 73 and 90 new units until 2021.

Continuing on slide six, we see that we have -- this growth is based on the recognition of the quality of our services, shown by our metrics NPS, the Net Promoter Score, which we followed continuously to guarantee the satisfaction of our clients. In the quarter, this indicator rose 395 basis points, reaching 77%. Also in Q3, we saw the exit of Advent, a private equity fund, they had 14.5% of the Grupo Fleury. It was done through a block trade in B3 on September 20th.

The members of the council that were indicated by Advent left their positions. The shares of the block trade pulverized in the market, especially among local funds. The shareholder position of Bradesco Seguros and the doctors that are members were maintained at 16.3% and 24.3% respectively. The other shareholders together have 59.4% of the total of shares of the company.

On September 14th, we announced the acquisition of 100% of the social capital of a company called Serdil, a company with 45 years of work and recognized with excellent reputation in diagnostic medicine, in the city of Porto Alegre, Rio Grande do Sul in the south of the country. Thus we are now well-positioned, we have a very good positioning with the complete portfolio of diagnostic medicine and this is very important for our operations.

Also during Q3, we launched the Genomica portal, which offers access to genetic tests in Grupo Fleury to clients in all of Brazil. And also with a lot of literature that can be supplied to doctors. This consolidates our leadership position in diagnostic medicine, precision diagnostic medicine in Brazil with a complete portfolio of tests, dedicated medical team and assistance to doctors that request this through additional e-commerce platform.

So now, the awards that we won. The Fleury Medicina e Saude was considered the brand that generates the highest value to its clients, according to Mais Valor Produzido, the survey promoted by a consultancy company DOM Strategy Partners. Also we won another award 17th Award Broadcast Empresas by Agencia Estado together with Economatica. And we analyzed companies with shares on the stock market that had the best performance in 2016. We won the leadership position in the Small Cap and also second place in the General Ranking, which considered 185 companies with shares on B3.

The company was also mentioned with honor in the Health sector of the Anuario Epoca NEGOCIOS 360 degrees among -- being among the 300 best companies in Brazil, having the first place in Corporate Governance. Also recognition was given by Transparency award, promoted by ANEFAC, FIPECAFI and Serasa Experian. For the second consecutive year, it was recognized as one of the companies that has very clear statements in its financial demonstrations.

So we continue to win these awards because of medical excellence, service and management. We believe that this way, we are promoting sustainable growth of the Fleury Group, thus strengthening even more our competitive capacity with value generation for the stakeholders in the health value chain.

Now, I would like to pass the floor to Viviane, and she will talk about the results. I will be available at the end for questions. Viviane, you have the floor.

Viviane Behar de Castro {BIO 16620272 <GO>}

Thank you, Carlos. Good morning. We would like to continue with the presentation on slide number seven, where we detail the performance of gross revenue by business line. Total gross revenue of the company grew 12.7% in relation to Q3 2016, representing R$667.7 million. The growth of total gross revenue was boosted by the performance of our units which grew 12.2%. We had double-digit growth in all our brands: 10% in the Fleury brand, 18.2% growth in the regional brands in Rio de Janeiro, 12.3% growth in the brands in Rio de Janeiro. Our operations in hospitals grew 17.1%.

The Fleury brand represented 49% of our revenue and we highlight the increase and the importance of the regional brands excluding Rio de Janeiro this compensation, which went from 17.5% in Q3 2016 to 18.3% in this quarter. The B2B operations also increased in importance reaching 16.5% in comparison with 16.1% in Q3 2016. The brands in Rio de Janeiro continued stable at 16.2%.

On the graph on the right, we see the comparison of gross revenue in consolidated year-to-data numbers, where we had a growth of 13.2% with -- and also especially the brands in Rio de Janeiro with the rise of 18.4%.

On the next slide number eight, we see on the graph that the Fleury brand had a relevant participation in the growth of gross revenue in the units. On the table below the graph, you can see that this relationship between same-store sales and gross revenue presents shows the effect of the expansion totaling for the units, 4.3 percentage points being the expansion here represent 6 point -- percentage points Fleury and 4 percentage points in the regional brands excluding Rio de Janeiro.

We will continue now on slide number nine, where we see the evolution of the efficiency indicators in the units. We highlight that the efficiency indicators in gross revenue were boosted by the expansion plan. Year-to-date, until September, we have a net increase of 6.6 thousand square meters of floor space, reaching 106.7 thousand square meters, as a result of 24 units that were inaugurated and 3 that were closed. These new units are still in their -- rising their maturity curves.

On the upper left graph, we have the growth of 5.2% gross revenue per square meter in Q3 2017. On the table beside, we have these numbers by brands. In the graph below, we show the gross revenue per unit which had a drop of 1.4% in Q3 2017, and beside it the growth per brand. In the comparison between quarters, the effect of the expansion can be seen specialty in the indicators of the Fleury brand because it is the brand with a largest number of new units and also with a largest number of square meters. Of the total added in the last 12 months, 70% were with the Fleury brand.

On slide 10, we see the bad debts received -- bad debts reached 1.7% in the quarter, a reduction of 100 basis points. This is due to the continuous improvement of our processes and systems related to collections. In the consolidated year-to-date, we have 1.8%, a reduction of 101 basis points. On the right, we see that net revenue had an expansion of 14% in the quarter, totaling 615.6 million. Year-to-date, growth of 14.5%.

Now, on slide number 11, here we detail the cost of the services rendered. In the total of the quarter, we see that the costs totaled 422.4 million, an increase of 12.7% in comparison with the previous year, which represented a dilution of 82 basis points in relation to net revenue, which reinforces the operational efficiency of the company.

Personnel and medical services, which make up the main cost of the company represented a growth of 15.6%, which represented an increase of 48 basis points in relation to net revenue. This increase can be explained due to the hiring of new employees for the expansion plan and also more demand in our operations. And also our -- the price increase in healthcare plans for our employees and wages as a result of union agreements, approximately 8%, 4% being in the second part of -- from second part 2016, 4% 2017. We'd like to say that the new wages began in September corresponding to 2%.

Rents, services and utilities grew 10.3% and presented the dilution of 64 basis points in relation to net revenue. This gain in efficiency in due to several renegotiations with vendors. Direct material and tests had an increase of 18.1% in their constant comparison between quarters and 34 basis points in relation to net revenue explained by the mix of exams and the strong growth of clinical tests after the new inaugurations. Depreciation and amortization dropped by 9.9%, especially due to a review and the end of life of some medical equipments.

On the table below, we see the composition of costs year-to-date nine months, which recorded a growth of 10.4% at a dilution of 251 basis points in relation to net revenue.

On slide 12, we have the details of operational expenses, which represented 65.4 million in the quarter, an increase of 5%, but with a dilution of 91 basis points in relation to net revenue. General and administrative expenses grew 2.1%, a dilution of 104 basis points in relation to net revenue. This gain in efficiency can be explained by the reduction in the expenses with consultancy services, legal services and rents. Depreciation and amortization grew 29.1% due to an increase in the amortization of software developed internally and the re-implementation of SAP in 2016. The lines other expenses -- operational expenses and accrual for contingencies and equity maintained practically stable.

Here on the table below, we have a composition of operational expenses year-to-date 196.7 million similar to the previous year level, similar to the previous year, and with a dilution of 139 basis points in relation to net revenue.

We continue now on slide 13, where we show the evolution of EBITDA, which reached 163.4 million in the quarter, an increase of 17.9% in relation to Q3 2016. This result is due to the growth of net revenue, together with the continuous effort for gains in efficiency, operational efficiency, and despite the impacts related to expansion, including preoperational expenses. EBITDA expanded 87 basis points reaching 26.5%. The impacts were related to the expansion represented 97 basis points in the margin of the quarter.

In year-to-date, EBITDA grew 27.6% and reached a margin of 27.1% in comparison to 24.3% in the same period 2016, representing an expansion of 280 basis points.

We continue now on slide number 14, where we detail the financial results and the debt of the company. In the quarter, the financial results had an improvement of 28.9% and reached an expense of 11.2 million, and this impact due to reduction in financial expenses -- and expenses and financial also revenue, reflecting the reduction in our cash position, and also interest rates. In the consolidated year-to-date, financial results reached an expense of 40.8 million, a growth of 7.6% in relation to the same period last year.

On the graph at the bottom of the slide, we see that net debt totaled 367.7 million in Q3 2017, representing 0.6 times EBITDA the last 12 months. On the right, we see the composition of the company's debt with debentures which represent 84% of gross debt and financing from FINEP and FINAME government organizations. We have a new loan from FINEP worth 50.8 million in this quarter for innovation projects.

On slide 15, we see the taxes on profit. Income tax and social contribution had a drop of 2.8% in the quarter and the rate reached 25.8% in comparison to 32.9% in taxes that we paid in Q3 2016. Year-to-date, the rate also was 25.8%. As informed in Q2 this year, the better tax management and foreseeability and the use of tax benefits on interests, on our capital will allowed the company to adopt accounting norm CPC 21, which determines a better usage of estimates for the annual rate. In this way, in the quarter we have 25.8% in taxes, which shows a better estimates for the annual rate.

We continue now on slide number 16, where we show net profit, 86.6 million in the quarter and 256 million year-to-date nine months. The net margin was 14.1% in the quarter in comparison with the 11.7% in Q3 2016. Year-to-date, the margin was 14.2% in comparison with 9.8% in the same period 2016.

On slide 17, we see the operational cash flow, which recorded 170.5 million in the quarter, an increase of 6%. The conversion of operational cash/EBITDA reached 104.4%, due to more investment in working capital especially in accounts receivable. Investment activities increased by 39.3% due to the acquisition of assets especially in relation to the execution of the expansion plan. The financing activities had a drop of 37.8%, with a liberation of 50.8 million through FINEP loans for innovation projects which I mentioned previously. The cash generation in the period was R$4 5.1 million, already considering the payment of JCP in August of 58.9 million. Finally, I'd like to stress that our receivables, the average term of our receivables was 67 days.

On slide 18, we see on the left, the graph with a growth of 109.2% of CapEx during the quarter increased 70.3 million, reflect the investments in the expansion plan representing more than 65% of this number. The CapEx, year-to-date, we registered 194 million, a growth of 106.8%. On the same slide, on the graph on the right, we see ROIC excluding the premium of acquisitions with a strong evolution reaching 44.2% in the last 12 months.

On slide 19, we show the performance of the shares, which had appreciated by 10% in the quarter and 65 .3% year-to-date. We would like to stress on the graph on the lower left corner, the daily volume of negotiation of shares R$54.4, 2.5 times greater than in the same period in 2016.

Continuing with slide 20, we show the structure of the company after the block trade of Advent, totaling 14.5%, which now is part of the free float. The Bradesco Seguros' position and the doctors' position continued stable 16.3% and 24.3%. This way, the free float now represents 59.4% of the shares of the company.

Finally, we'd like to -- before we open the Q&A session, I'd like to highlight that on October 10th, we had our Fleury Investor Day in the auditorium of our headquarters in Sao Paulo, where we had a record public more than 170 investors who came and more than 90 during the transmission. The events also have the seal of APIMEC for the 8th consecutive year. And I'd like to stress that the presentation and video of the event are available on our website.

Now we would like to begin the Q&A session. Apart from Carlos and I, Fernando Leao, our CFO, will be available to answer questions. Thank you very much.

Questions And Answers

Operator

Thank you. We'd like to begin now our Q&A session. (Operator Instructions) Our first question comes from Mr. Rodrigo from BTG Pactual Bank.

Q - Rodrigo Gastim {BIO 19694950 <GO>}

Good morning. The first question has to do with the Fleury brand. I'd like to understand the same reasons for the acceleration and two things the drop of 6% in same-store sales, how much is due to inflation and how much is due to a lower volume? In the lower volume, do you believe that the strong growth of the a+ brands could cannibalize the growth of the Fleury brand? And concerning the rest, we have difficulty in seeing the evolution. So could you give us an idea how you see the evolution of the premium segment? Thank you.

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

Thank you for the questions. Carlos Marinelli. First, Fleury. When we talk about growth in same-store sales, there are some details to be seen. What are they? We consider same-store sales, the ones that were opened in the two previous months. When we are opening new units, inevitably we have some people coming from other units, closer units. There now, we have a little of cannibalization and also new clients who come to this unit, which is closer to their homes. And apart from this, another detail, when we're opening new units, we add capacity and we -- to Fleury and we also have other businesses because we invest also in the existing units.

Of course, I have an analysis. I see those that are suffering impact and if I'm adding too much capacity in that region, I can also exchange equipments, I can retrofit the units and other actions that will be done in the units and also the ramp up in the new units. So, looking at these indicators, we see the impact in the region with the new units. Some units don't suffer when we open new units. And when we analyze this internally, we see that we have a superior growth in same store sales in units that don't suffer any impact from new units. So that would be the first answer for the Fleury brand.

Another, you mentioned volume, a+ cannibalizing. Our strategy was always the following. We would have Fleury as the premium brand and a+ positioned, very well positioned as the best option for diagnostic medicine services, apart from Fleury. And we have seen the results. We are going through a recession. One thing that is said in the markets, we don't have official statistics for this, but we talk to our friends and one of the things that is happening is some clients downgrading. They say, look, for example, companies offering a+, so we know this is a reality and this shows our strategy. We have premium and premium ex-Fleury. And the growth of the a+ brand which is very strong. We have been very successful in our strategy with the a+.

You asked about the evolution of premium healthcare plans. What we see clearly is that there is inside the companies more scrutiny about healthcare costs in companies. And we see that some companies try to remove premium healthcare plans exchanging and some who did this went back and are now offering once again the Fleury brand because there were many complaints when they removed Fleury healthcare plans. So this market is resilient and what we see to in the premium market is that with all these factors that -- and also the recession, we are gaining market share. We have grown consistently 10%.

Now, in terms of prices, yes, there is a trend because we have the inflation 12-month inflation. When you re-adjust prices, you consider inflation. We will see a strong -- we have a strong drop in inflation and we will have even more greater drop in inflation next year. So we have to see that we will have less inflation than in the past.

Now, the trust that we have in the premium markets and in the other market we continue innovating, and show this with Genomica, the announcement of Genomica. It is a product that comes through the Fleury brand, very differentiated in price. It has to do with precision medicine and we see that it is in the field that has intense growth, will continue to have intense growth in the next few years.

And with a complete -- we have a complete portfolio and we have a leadership position in terms of precision medicine in genetics. And we're well positioned with the Fleury brand with many areas where we are growing. Now we are expanding today. We have the 10th unit that we inaugurated in the last 10 months with a very good situation in these new units.

And there is no doubt that the Fleury brand continue strong although you can see that its share in the company is dropping. This is macro; this is our strategy, because it will continue strong, but we have more markets to occupy with the other brands, as you saw with the growth of the regional brands. And an important growth in margin in the regional brands. So, the company is becoming a company with regional brands that are very strong. It was a long answer and I hope I clarified the points that you asked.

Q - Rodrigo Gastim {BIO 19694950 <GO>}

Thank you, Carlos. Very clear. Thank you.

Operator

Our next question comes from Mr. Thiago Macruz, Itau BBA.

Q - Marco Calvi {BIO 19854632 <GO>}

Marco speaking. Two questions. The first, a follow-up of Rodirgo's question. Trying to understand better the 90, the negative effects of 97 in the expansion plan. Is this link to cannibalization, the drop of revenue in units due to the expansion plan or you just exclude the results of the units that are being opened?

Second, concerning hospital units. In Q3 -- in Q4, actually you began, for example, new contract in the hospital, the net effect of hospital operations, especially these two announcements that you made in the last quarter? Thank you.

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

Marco, thank you for the question. Marinelli speaking. We consider only direct investments, direct expenses related to the expansion plan. Only the expenses dedicated to new units are posted. We can see the P&L, the profit and loss statements of these new units, discounting this number, which shows that we have a growth, recurring growth in margin that is very robust.

Concerning hospital operations, hospital units, we have Vasconcelos new unit in hospital. I don't have the numbers. What I hear, that it is -- these operations are becoming more and more interesting. When we leave the hospital, it's not something we desire. We like that we have tried to have a better mix. In the case of Vasconcelos hospital, it's a situation similar to other hospitals. We have only image there and we had same-store sales in hospitals that would -- hence, an increase in the last quarter. Thank you.

Operator

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

Q - Luciano Campos {BIO 16181710 <GO>}

Good morning, Carlos. Just a question. We continue seeing an improvement in the efficiency, and also more tests per employee, and also NPS is also improving. What kind of visibility do you have comfort that the mature units can -- do you believe the mature units can continue increasing efficiency of the employees without compromising NPS after ramp up? The mature units, how is this metric, number of tests per employees is improving, can it improve?

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

Thank you for the question. This is very important. Efficiency has been an important topic especially with the margin going up. I can see that we have a sustainable operation, and exactly because of what you said. We're improving all the time in number of clinical test per employee. We have invested continuously. This was the focus that we had in the past in all the units. We used to talk a lot about this. We have -- it is not something stable. You have some peaks and valleys in the results.

And another point that we're working on we want to become a more and more digital company. So, we have evolved a lot in terms of being a digital company, not only inside the units, but in all the administrative processes of the company, and we have still red tape. We still have a lot of manual processes, but we're working on this. And I have no doubt that this digital mindset we're creating will bring more efficiency inside and outside the units. We have evolved lot of robots, better processes, and also we have a vision for the future for easier services with support from technology, increase in efficiency, but working on customer satisfaction and we will never lose also the good service that we give to our clients. So we have brands where we have young people, people who have -- who want more efficiency. You can see our website -- on our website, trying to facilitate things for clients generating more efficiency. This is our efforts, and improving our service.

Q - Marco Calvi {BIO 19854632 <GO>}

Carlos, one more question. Concerning what I had, the square meters added is higher than I expected. So you must have a good visibility of what should happen in terms of new earnings and the number of square meters added in relation to the previous quarters. Do you have a guidance? I'd like to understand in Q4, we have had less volume. We will now Q4, the next Q4 with even more square meters. Couldn't this affect the margin, because the margin of Q4 last year was very good?

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

Thank you for the question. You are right, we had a great acceleration. We added 8,000 square meters of floor space, and we don't give guidance on this. We have everything planned in the pipeline, but you know that in Brazil, there is a lot of red tape when you add more space. And we don't give a guidance in relation to these numbers.

As you said, looking at the average, you will see that we have an expressive number of units with good amount of floor space that was added. And we have almost a third already inaugurated, but we are looking at the markets and this you can see what we have reported. When you look at the regional brands you see even more activity. This area that we added, we know that Q4 seasonally is a little weaker. But we need to have trained people and we are looking forward to Q1 when we have a lot of demand. So we trust a lot in the market, we trust in our brands, we trust in our capacity to give good services. And anything else?

Q - Marco Calvi {BIO 19854632 <GO>}

Thank you.

Operator

Our next question comes from Mr. Leandro Bastos, Credit Suisse.

Q - Leandro Bastos {BIO 21416405 <GO>}

Good morning. Thank you. Just one question. Could you comment on the accelerated growth 3% in Rio de Janeiro, the competitiveness of Rio de Janeiro and the growth mix? Thank you.

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

Thank you for the question, Leandro. Yes, in Rio de Janeiro we had an important growth in the market in Rio de Janeiro. I don't want to be repetitive. We have had progress in the units there. We have more units in Rio. Recently, we inaugurated two units -- two new units in Rio de Janeiro market, where we were already present, and we increased our penetration.

Now concerning Felippe Mattoso, it was very positive. We have new units because the demand for our services has grown. We are seeing a change in paradigm in Rio de Janeiro. In Felippe Mattoso, this is very clear. A brand that had only diagnostic medicine, and now they have clinical tests, everything, and we saw a good response from clients. We bring convenience to the clients in Rio de Janeiro. We know the problems that the city has, with security, safety and even the economic environment with the recession, and the economy of the state is not doing well.

So when you have a good brand with a good service, yes, of course, there will be growth. So Rio de Janeiro, in -- so for example, in 2014, we analyzed whether we had to sell, and three years later, we see clearly that it is one of the regions that grows the most with a very good profitability and it can -- there is space to improve. So we trust a lot in Rio de Janeiro. It's a lever of growth for the company and in terms of competition, when we have this kind of growth, we see that we can continue, we're well prepared, in terms of structure equipment and our personnel.

Q - Leandro Bastos {BIO 21416405 <GO>}

Thank you.

Operator

(Operator Instructions) Mr. Roberto Otero from Bank of America would like to ask a question.

Q - Gustavo Holzheim {BIO 19892243 <GO>}

Gustavo. A question about bad debts. We saw a drop. How do you expect, what do you expect to see in the future can we lower this even more, bad debts?

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

Thank you for the question, Fernando, Gustavo [ph]. We have been working and we have had continuous improvements in this indicator. What I can say about the future, we hope to improve this even more, but not -- but with less robust numbers, we have reached a good level of maturity. We have projects to implement still. So we hope you have improvements, but not as large as the ones that we had during the previous quarters in relation to last year.

And for 2018, we have good numbers this year. So the level of improvement shouldn't be as strong because we made a lot of progress and we have a more efficient flow now. This allows us to concentrate our efforts in other areas. For example, older debts and also negotiations with healthcare plans. Looking forward, we have other areas to capture improvements, even improving our collection efforts.

Q - Gustavo Holzheim {BIO 19892243 <GO>}

Thank you.

Operator

We'd like to close the Q&A session. Now I'd like to pass the floor to Mr. Marinelli for his final comments.

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

As you were able to see in the presentation, we continue to focus on the execution of our expansion plan, based on our strategy with technical excellence, medical excellence and service excellence, as we have done in the last nine decades. These factors together with our discipline in cost management will allow us to have sustainable results. More than this, we want to expand even more our competitive capacity with innovation and generation of solutions for the benefit of people's health, medicine and better usage of the company's financial resources.

Thank you. We hope to see you again in our conference call and MDRs that we have in the future in the next few months, and we want to wish you a good year-end. And we will then have the results of Q4 and full year in 2018. Thank you.

Operator

Now, the conference call has ended. Please disconnect the lines. We wish you a good day.