Q1 2017 Earnings Call

Company Participants

- Carlos Alberto Iwata Marinelli, Chief Executive Officer
- Unverified Participant
- Viviane Behar de Castro, Investor Relations Officer

Other Participants

- Bruno Giardino, Analyst
- Joseph Giordano, Analyst
- Luciano Campos, Analyst
- Marco Calvi, Analyst
- Rodrigo Gastim, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning and thank you for waiting. Welcome to the teleconference of the Grupo Fleury concerning the earnings of Q1 2017. We have with us today Mr. Carlos Alberto Marinelli, Chairman (sic) [Chief Executive Officer] (00:00:16); Mrs. Viviane Behar de Castro, Director of Investor Relations; and Mr. Fernando Augusto Rodrigues Leão Filho, CFO and Head of Legal Department. We inform that this event is being recorded, and all participants will be in the listen mode only during the presentation of Grupo Fleury.

Next, we will begin the Q&A session when more instructions will be supplied. This event is also being transmitted simultaneously through the Internet vie webcast. It can be accessed at the address www.fleury.com.br/ri where the presentation is available. The slides will be controlled by you. The replay of this event will be available right after the end of the conference. We remind that participants of the webcast may ask questions through the website to the Grupo Fleury.

Before continuing, we'd like to clarify that any declarations that may be done during this teleconference concerning business perspective for Grupo Fleury, projections, operational goals, financial goals are beliefs and assumptions of the management of the company and also based on information currently available to Grupo Fleury.

Future considerations are not guarantees of performance and are subject to uncertainties and depend on events that may or may not occur. Investors and analysts must understand that general market conditions, sector conditions, and other operational factors may affect the future results of Grupo Fleury and may lead to results that may differ materially from those expressed in future considerations.

I would like to pass the floor to Mr. Carlos Alberto Marinelli who will begin the presentation.

Carlos Alberto Iwata Marinelli {BIO 18884059 <GO>}

Good morning to all. I'd like to thank you for the interest and presence of all of you in our teleconference for the earnings for Q1 2017. First of all, I'd like to welcome Viviane Behar, our new Director for Investor Relations; and Fernando Leão, the new CFO and Head of Legal Department. The two are with us today during this teleconference, and they joined the company on April 10, as already informed to the market.

And let's see the results, the Q1 2017 show that clients, patients, and medicals continue to value and really to search for quality services in diagnostic medicine supplied by us. In this context, we continue with the goal of improving our knowledge in medicine and health, our brands, and our operational capacity to deliver value.

We continue producing knowledge, improving our NPS, and optimizing the use of our assets, as well as working strongly on our expansion plan. And in this direction, I'd like to highlight a few indicators that are listed on slide number 3. Our gross revenue grew 15%, reaching BRL 642 million, with a highlight to our business units. We registered double-digit growth in all our regional units. The brands in Rio de Janeiro had an expansion of growth of 21.5%. The regional brand excluding Rio de Janeiro had an increase of 20.3% and the Fleury brand grew 12.8%. The indicator same-store sales, the units grew 15.1% and with the highlights especially to our regional business, we registered a growth of 21.6% with the (00:04:17) brands in Rio de Janeiro and 19% in the regional brands excluding Rio de Janeiro as a consequence of the improvement of our processes and the expansion of our offers and also better use of our existing equipment.

Our cancelation index registered 2.3%, a reduction of 63 basis points in comparison with Q1 2016 confirming the continuous improvement of our processes and collection cycle. Also, the expansion of gross revenue, an improvement in the cancellation results and an expansion of net revenue of 15.7%.

Our EBITDA also reached 29.5%, an increase of 551 basis points. As important as this increase, also, the continuous management of cost and expense also contribute for the evolution of this indicator. Our continuous investments in the efficiency processes and the usage of resources through projects such as lean, telemetry and review of purchasing process gave us good results.

Net profit reached 82.6% increase reaching BRL 82 million. The operational cash flow registered BRL 86 million with the conversion of operational cash EBITDA of 49.6%. ROIC without premium reached 36% in comparison with 23.8% in Q1 2016. And very important to highlight our NPS, once again improved, reaching 72.7%, a significant increase of 657 basis points in comparison between the quarters. This showed the satisfaction of our clients during their experience in our units. And then the sustainability of our business, the client likes, comes, likes, refers to friends and family and comes back. Our relationship of expansion showed during the Investor Day in December 2016 continues. We're now implementing this expansion plan. We inaugurated here five new units, two of the Fleury brand in São Paulo and three in a+ in Paraná.

Here we show the cumulative year-to-date inaugurations since December 2016, totaling the addition of 937 extra square meters during this period. These inaugurations are part of the expansion plan which should add between 73 and 90 units until 2021.

Going on to the next slide, we highlight that our regional brands Diagnoson, Felippe Mattoso, Labs, a+ and Weinmann began inaugurated their own launch, their own webpages on Facebook in April. This digital reinforcement has a good effect on the positioning of our brand with regional information - with information for patients and potential patients.

It is our effort to really give in quality information and quality services being in contact with our clients, doctors and patients on regional level, and thus being close to their needs. Apart from this, we launched in March an app of the a+ brand with different versions for doctors and clients. This allows them to see the results directly on their cellphone, including access to the expert report. We'd like to remind you that we already have an app for the services of Fleury brand. These actions confirm our positioning as a digital company, always aiming at improving the customer's experience with the use of our services, facilitating the access to result in a convenient way for patients and for doctors.

During the quarter, Grupo Fleury signed the empowerment principles for women and this joint effort with UN Women and the Global Pact in order to promote equal conditions for gender for women, which is very important because our workforce is made up with the majority being women and this helps us. We want to use this as an engine for growth, the equality of the genders.

I would like to stress that we're very proud to give the news that the Weinmann brand have the best recall in the category Clinical Lab in the survey brands that design (00:09:17) in Rio Grande do Sul promoted by Jornal do Comércio newspaper and Qualidata.

Now, I'd like to pass the floor to Viviane for the presentation of the results. I will be back at the end.

Viviane Behar de Castro {BIO 16620272 <GO>}

Thank you, Carlos. Good morning to all. It is with great pleasure that I joined the team of Grupo Fleury and participate in this teleconference for the earnings of Q1 2017. So, as already mentioned by Carlos, gross revenue grew 15%, reaching BRL 642.1 million in Q1 2017.

On slide 6, we detail the composition of gross revenue per business line. On the graph on the left, we see that the Fleury brand in Q1 represents a 50.2% of revenue, with an increase of the significance in the composition of regional brands, including Rio de Janeiro which went from 16.8% in Q1 2016 to 17.6% in this quarter and the brands in Rio de Janeiro from 15.5% to 16.4% in this quarter.

On the graph on the right, we see the evolution of the revenue per business line. The growth of 15% in gross revenue was the result especially with the performance of the units that have an expansion of 15.9%. We registered a double-digit growth in all our regional brands, Fleury brand, 12.8%; and we see also growth of 20.3% of the regional brands, excluding Rio de Janeiro which are a+ São Paulo; a+ Paraná; a+ Pernambuco; a+ Bahia; Weinmann and Diagnoson a+ or 21.5% of the brands in Rio de Janeiro made up of Labs a+ and Felippe Mattoso. The hospital operations had an increase of 9.4%.

On the next slide, we show the indicators of revenue for the units. Here in the first graph on the upper left corner, we see the units' average price that had an increase of 3.4% in comparison with Q1 2016. On the graph on the left, we see a growth of 15.9% in gross revenue in the units, and this had a strong influence of the expansion in same-store sales which recorded an increase of 15.1%. On the lower part of the slide, we highlight the increase of efficiency of our operations, a growth of 16.2% in the indicator of gross revenue per square meter and 11.1% in gross revenue per unit.

Now, let's go on to slide number 8 where we detail indicators of gross revenue per brand for the units. So please look at the second line, same-store sales where we had a double-digit expansion in all the brands in spite of the drop in the number of lands registered by NS (00:12:32) in this quarter, showing that our model and especially the regional brands and Rio de Janeiro have been capturing a growing demand for our services.

The Fleury brand presented a growth of 11.9%, the regional brands excluding Rio had a growth of 19% and the brands in Rio de Janeiro grew 21.6%. These indicators of growth in same-store sales reinforce our strategic positioning concerning the leadership and offering quality services in diagnostic medicine, development of differentiated services, and the commitment with innovation to create new portfolios with terms and protocols that are state-of-the-art.

This strategy guarantees the preference of doctors and patients for our services. And thus showing an expansion in demand observed in the existing units and also our NPS indicator. Having said this, gross revenue also had an impact of the increase of work days in the quarter in comparison with work days in the same period in 2016. This effect will be the opposite in the next quarter.

The next slide, number 9, shows the performance of B2B, gross revenue of hospital operations grew 9.4%, and this is due to the result of three hospitals in Beneficência Portuguesa beginning operations. Same hospital sales grew 2.5% due to the – had an increase in comparison with Q1 2016 due to the demand due to respiratory and infectious diseases, including Zika and H1N1 that we had last year. Gross revenue of Reference Labs grew 9.3% and Preventive Medicine had a revenue of BRL 1.6 million.

Now, slide number 10 where we show that the indicator of discounts reached 2.3%, a reduction of 63 basis points. This is the result of our continuous work on the part of the company to improve internal processes and efficiency in collections. This reduction, together with the strong expansion of gross revenue, resulted in an increase of net revenue of 15.7%, as can be seen on the graph on the right.

On slide number 11, cost of services rendered, on the graph on the left, we see the cost of services rendered growing 8.5% in Q1 2017 in comparison with the growth of 10.2% in Q1 2016, representing a reduction year-after-year of 16.9%.

On the graph on the side, we see the number of employees, which totaled 8,760 employees, rounded off to 8,800 in the graph, and we see an increase of 5.3% in this quarter in relation to 2016. On the second graph, we see that this number of square meters or floor space remain stable between the quarters although we increased the number of units by 6, totaling 145.

Now, let's go onto slide number 12 where we see the composition of the cost. We see a growth of 9.6% in personnel and medical services, our main line in cost and (00:16:17) 6% in rental, services, occupation and utilities. We stress that (00:16:21) in this quarter as announced last year we began a new grouping of costs and expenses in the earnings release and explanatory notes, with the objective of improving the understanding of our cost and expenses.

On slide number 13, we have a detailed analysis of each one of the cost lines. And when we look at the last line with the total, we see that the cost represented BRL 385.2 million in Q1 2017, an increase of 8.5% in relation to the previous year as already shown with a strong dilution of 435 basis points in relation to net revenue. The main gains and efficiency are in these lines, personnel and medical services represented 33.1% of net revenue. The dilution of 150 basis points in spite of the increase in head count which reinforces the increase of productivity of our employees.

In rental services, occupation and utility, they represented 18.4% of net revenue, a dilution of 162 basis points which shows our continuous effort in controlling fixed costs. And in depreciation and amortization lines, this represented 4% of net revenue, a reduction of 135 basis points due to the review of the life cycle of our medical equipment which we had in Q1 2016.

Now, slide number 14, a detailed analysis of each one of the expense lines. And when we look at the total, we see that expenses reached BRL 62.4 million in Q1 2017, a reduction of 5.7% in relation to the previous year, representing 10.6% of net revenue, a dilution of 240 basis points.

The main gains in efficiency are in the following lines. The first, general and administrative expenses which represented 8.2% of net revenue, a reduction of 63 basis points. This gain in efficiency can be attributed to three main reasons. First, the reduction in expenses related to consultancy services, second, corporate rental due to renegotiation of the contract, and third, expenses with electricity, a drop in expenses with electricity due a lower bracket.

And now, here, other expenses represented 0.8% of net revenue, a drop of 95 basis points. The reduction in this line is related to a drop in BRL 4.6 million in taxes to be recovered that we had in Q1 2016.

Now, we can go on to slide number 13 (sic) [slide number 15] (00:19:30), and we arrived at EBITDA which reached BRL 173.2 million, a growth of 42.3% in relation to Q1 2016, expanding our margin to 29.5% as a result of growth of net revenue together with a continuous effort to have efficiency gains. We'd like to remind you that the margin in Q1 2016 was the second best margin of that year which shows the margin during the year which can be affected by seasonality of demand as well as the calendar of events that effect our costs and expenses.

Now, we would like to go to slide number 16 where we see the gross debt which dropped by 16.9% in comparison with Q1 2016, totaling BRL 817.2 million especially due to the amortization of the principal of BRL 150 million of the first and second series of the first emission of debentures.

The cash gross reported (00:20:48) was BRL 337.2 million, a drop of 48.7% due to the amortization of the debt mentioned and the distribution of dividends and CDA interest on capital that were paid in 2016. Thus, the net debt of BRL 480 million in Q1 2017 and the leverage measured by net debt over EBITDA in the last 12 months was 0.9 times versus 0.8 times in Q1 2016.

Now, below we see the profile of our debt made up of BRL 700 million in debentures, a BRL 102.7 million in Finep loans, and BRL 2.8 million in FINAME loans. But average weight costs of the debts in the quarter with 99.5% of the CDI.

On the next slide, we see financial results. We had an expense of BRL 16.9 million with a variation of 19.1%. Apart from the reduction in gross debt, we had a decrease in the average cash balance due to the distribution of profit concerning 2016.

On slide 18, we have the LAIR (00:22:07) of BRL 123.2 million, 69.7% higher than the previous year. And as a consequence, income tax and social contribution tax had an increase of 49.1% totaling BRL 41.7 million. We had an improvement of 468 basis points in the effective rate which was 33.8%.

Now, slide number 19, we showed an increase of 82.6% in our net profit which reached BRL 81.6 million in comparison with BRL 44.7 million in Q1 2016. The net margin expanded or increased by 508 basis points, reaching 13.9% as a result of the operational performance of the company.

On slide 20, we see quickly the profile of our receivables, which had a continuous improvement during this period and also the profile of the aging and with the balances of

84.4% of total receivables and 121 days equivalent to 9.5% in comparison with 13.6% in Q1 of the previous years. We showed you a reduction of four days in the collection time which reached 69 days in Q1 2017 as a consequence of the continuous effort to improve our cycle of receivables.

Now, slide number 21, we see the operating cash of the company which recorded BRL 85.9 million, a growth of 10%. The investment activities were impacted especially by the increase in equity and intangibles as a result of investments in our expansion plan. Financing activities were impacted by the payment of dividends, resulting in a payout of 95% of the net profit of 2016.

On slide 22, we see the investments that were made during the first quarter. BRL 56.3 million in the period concentrated especially in expansion and improvement of our units and technical areas representing 64.8% of the total.

Finally, on slide 23, we show the performance of our shares which closed the quarter at BRL 42.30 per share with the highlights of a valuation or appraisal of 96.3% in comparison with Q1 of the previous year and a variation of 18.7% (00:24:56) during Q1 2017. We also reinforce the continuous evolution of the daily average volume which reached BRL 25.4 million in the quarter, showing the interest of the market due to our results in this quarter.

Now, we will begin the Q&A session. Apart from Carlos and I, we will have Fernando Leão also available to answer questions. Thank you.

Q&A

Operator

Thank you. Mr. Rodrigo from BTG Pactual Bank would like to ask a question.

Q - Rodrigo Gastim {BIO 19694950 <GO>}

Good morning. Two questions here. The first concerning the growth of same-store sales which is the highlight of the quarter in comparison with last year. Could you explain more the strategic reasons and if we can expect this from now on?

And the second question, I think that calls my attention is the aging of receivables. It's improving and more than 82%, very reasonable for receivables in excess of 120 days. And is there any space for improvement? With this dynamics, can we imagine (00:26:45) - could you have less accruals, less provisions or receivables? Could you lower your receivables - the accruals? Thank you.

A - Operator

Thank you for the question. Concerning the growth of same-store sales it was impressive in Q1 2017 and we have more workdays in the year. And I can see that the revenue is the one that we mentioned in previous calls in previous quarters. We're working a lot on clinical test in Rio de Janeiro. You can see an important growth and this has a lot of focus. It is based on clinical test. From now on, we believe we will continue to have a challenging year and we see this. And we continue with the same strategy differentiated services, excellent services and (00:28:05) NPS, which is very important, NPS for Q1 as it was in the previous year.

And we have clients coming, liking, recommending and coming back. So, I believe we have good opportunities, although in terms of calendar, this Q2 will be more challenging. We will have more holidays and we can see that we have 145 units opened today, 22 hospitals. So, we have a challenging Q2, but we are making our - all our efforts to continue.

Now, I'd like to pass the other question to Leandro (00:29:04).

Rodrigo, good morning. Thank you for the question. As you saw during the presentation, this coverage is in receivable - the improvement in receivables is the results of the improvements we made for those in excess of 120 days. We have tried to implement new processes. We're always doing new reconciliations. This had a positive effect on the composition of our portfolio and with the better collection effort. I believe that in terms of provisions and accruals, we will continue using the policy we have observing the composition of the portfolio as I said.

Q - Rodrigo Gastim {BIO 19694950 <GO>}

Thank you. Carlos, do you see an important effect due to the mix of services in each clinical test? Do you see differences in the units which helped same-store sales and could continue to help same-store sales?

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

This is something we look at all the time. We do this all the time and we always give incentives to our business managers to optimize the portfolio, service portfolio. We're looking in detail the data - that we look at the data that is generated, the statistics that are generated to see what else we can do with what we have.

We look at each units day by day, service by service and we change our offers, our mix in order to optimize the capture of demand. One important thing is the issue of doctors relationship. In all the regions where we are present, we have differentiated services. Not only in the service given to clients but also and especially giving excellent services to doctors, and we have a relationship we clarify points that doctors have, patients, doctors have, and we try to have a good partnership with them.

So, there is no magic bullet. It involves a lot of work and a lot of analysis, and also better execution that we improve all the time.

Q - Rodrigo Gastim {BIO 19694950 <GO>}

Thank you. Very clear. Thank you, Carlos.

Operator

Mr. Bruno Giardino from Santander would like to ask a question.

Q - Bruno Giardino {BIO 15974970 <GO>}

Good morning. Congratulations for the results and we wish a lot of success to Fernando. For example, how many units are working with the lean process? I would also like to congratulate Viviane.

Second question, CapEx, we see that there was an acceleration in Q1. How will this behave in the next quarter's CapEx?

A - Operator

Thank you for the questions. First of all, the lean project, we have had excellent results. We had good surprises. Surprises because it's not a simple project, it's a complex technology. It involves concepts, practices. When we implement them, sometimes, we don't know how the effect will be. But we saw that employees liked and implemented very well the lean process.

In terms of how many - in how many units we implemented officially, it's a small number of units where we implemented. But since we stimulate the exchange between operations managers on a daily basis and weekly basis, it's natural that practices that are good, that are new, our exchange, these methods are passed on by managers to other managers.

And when you implement some concepts have already been - already there. There is - we still have opportunities in order to implement lean and by specialty within the units that some have not received this yet. Now, we are working on this and we have had good results in terms of the usage of assets.

Now, concerning CapEx, we are in this project, implementing the expansion plan that we mentioned in the last Investor Day. As you can see, we have an important number of units and we added an extra 1,000 meters of floor space recently. So, we have customer profile studies and offers specifically where there is demand. And this makes us see that we are doing well in expansion. We're on the right track and expansion continues, if at the end of Q2 and beginning of Q3, we have important investments to do in terms of CapEx, we will have complete units with MRI to be implemented. And this tends to increase the level of CapEx from now until the end of the year.

Q - Bruno Giardino {BIO 15974970 <GO>}

Thank you, Carlos.

Operator

Mr. Luciano Campos from Bradesco would like to ask a question.

Q - Luciano Campos {BIO 16181710 <GO>}

Good morning, Carlos. My first question involves same-store sales. You explained the calendar of events, maybe very good in Q1, maybe more negative in Q2. Excluding the calendar of events, do you see any risk for same-store sales as you had in Q1? Maybe the comeback of a competitor or people with healthcare plans, more healthcare plans or maybe even more acceleration due to the calendar for the rest of the year? That's my first question. Thank you.

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

Concerning same-store sales, what I see is that we have a very good execution. We have our employees that are heavily committed, engaged with customer service. For example, today, it's a day with general strike but all the units are opened. Employees are committed. This is very important. Well, the clients are coming, liking, recommending, coming back as we see.

Now, in terms of competition, we're doing our work. If we have competitors with a comeback, we are monitoring this all the time. But the growth we're having especially if you consider the number of square meters by square meter. So, it's not the result of luck. No. I believe there are many elements that are responsible for this. The growth in same-store sales and the main one has been the customer experience. Viviane can also comment on this.

A - Viviane Behar de Castro {BIO 16620272 <GO>}

Just a comment to supplement what Carlos said, Luciano. I believe that it's every clear that outside São Paulo where we take our convenience model, the comfort for clients in clinical test or image test, this has been important and this has increased also the number of test in these regions. I don't know if I answered your question, Luciano.

Q - Luciano Campos {BIO 16181710 <GO>}

Yes. I see that you don't see a risk of a drop. Do you see opportunities to increase same-store sales?

A - Operator

We had a drop in demand. We monitor these things on a daily basis, and we want to understand the effect of the levers we introduced and also levers that we test focusing on this point that Viviane mentioned very well in her first response. We look at Rio de Janeiro and the growth that we had in Q1, and we see that the model is being very popular with clients. And we identified that our model in São Paulo would be a success in Rio de Janeiro for clinical test. We have a quarter that had many workdays and we will continue our efforts to have good results also in the next quarters.

Q - Luciano Campos {BIO 16181710 <GO>}

Just a question on cost and expenses. Could you remind us of the expenses with consultancy services in 2016? And also projects, electricity, the change to the spot market, have you already done this? Can this help in controlling electricity costs? Thank you.

A - Operator

Well, consultancy expenses in 2016, I don't have the total here for last year. What I can tell you is that we used a lot of consultancy services in 2016, and we had gains due to this. And we will use consultancy services when we do – when we look at the valuation and if we see that we will have results in the same calendar year.

So, we have an amount allocated for consultancy services. And we look at the valuation, we see if we will have a return on investment in the same year or the next year, and then we do the investment. Right now, we're looking at some opportunities for consultancy services, but we don't have the details yet.

In terms of electricity, we have some opportunities to buy electricity in a different way, including models for generation in our network. We have done this reaching – with 145 units, many units don't have this capacity to generate. In others, I have a critical mass that I can use in this line. In terms of this highlight, we are now on a different price bracket, so the costs in our budget it is very well controlled but there are effects if there is – it's the cost of electricity should grow in Q2.

Mr. Joseph Giordano from JPMorgan would like to ask a question.

Q - Joseph Giordano {BIO 17751061 <GO>}

Good morning. In terms of efficiency could you give us an update in relation to last year? You made important efforts showing this in the regions with the implementation of standards in the regions. You said that the level of efficiency, the best levels of efficiency where in São Paulo and the South. So, what were the results, how did these progress, is there more space to have gains in the regions? And also in terms of result, I'd like to understand if we're seeing gains in margin, you said the margin was stable, were there any gains in the efficiencies?

A - Operator

Thank you for the question. Concerning efficiency, we have a model that improves as we have a growth in revenue, with fixed cost. São Paolo has a very good model. This is for clinical test, so with a variation in revenue. I have also the variable cost and we have cost involving rental, personnel, labor cost, where it's easier to monitor and control.

Now, how this is growing in the regions, we see clearly that there are opportunities. Rio de Janeiro is a large city. There are many opportunities there to implement the lean project. We have gains, made gains in efficiency. And for example, we have opportunities in (00:46:44) and we continue.

Small details applications, telemetry, and we are implementing and having gains in efficiency. Also, we have other processes to work on. So, once again, as I said previously, we haven't implemented lean in all the units. There are opportunities in this area.

Now, concerning what you said in terms of having a more stable margin - what was your question? So, in Fleury brand and the regional brands, yes, we have this effect. We have a decrease in fixed cost in the Fleury brand. And thus we had gains in margin, and the margin was always good. It continues to be good. We have had gains with improvement in the margin in the Fleury brand but we have worked very strongly on the 120 units in all of Brazil. So, we have a Fleury brand that continues strong and regional brands that we're working on to improve margin.

Q - Joseph Giordano {BIO 17751061 <GO>}

Thank you. One more question concerning the campaigns at the end of last year with doctors to activate more specialties. Can you measure if you have more referrals? And the healthcare plans, are they using the Fleury brand to improve their sales?

A - Operator

Yes. The a+ brand, especially in São Paulo is a very respected brand by the medical community, doctors community. So, it is an endorsement to use our labs by healthcare plans, and we see doctors trusting and recommending the a+ brand. This is due to the work we have been doing continuously in education and informing doctors, conveying knowledge to doctors.

We have shown what's the a+ brand has done, the differentiation and showing how a quality diagnosis can help the doctor in his office, can help the doctor to confirm his diagnosis and helps also the doctor to be more successful in the therapy. So, it was (00:50:11) is doing this very well, and it is recognized by the local doctors' community.

Q - Joseph Giordano {BIO 17751061 <GO>}

Thank you, Carlos. Good morning.

Operator

Mr. Marco Calvi from Itaú BBA would like to ask a question.

Q - Marco Calvi {BIO 19854632 <GO>}

Good morning. Congratulations for the results. My question has to do with the Rio de Janeiro. In my opinion, we see a strong acceleration in Rio and consequently expansion and consolidated operational margin. My question, should we understand that most of this expansion, the main contribution in the increase in margin came from the acceleration in Rio de Janeiro and decrease in cost in Rio de Janeiro.

Second, during the last 12 months, you have been talking about offering new tests in the Rio brand. Can we expect this level of growth in top line continuing? Should we expect more growth during the year in Rio de Janeiro?

A - Operator

Thank you for your question. I will answer. Concerning the capacity of contribution in Rio, it is a city where our model has been very well accepted by the population. And including doctors, when you have integration of the results, this facilitates the doctors' lives in their office. You facilitate the clients' lives too with the consolidation. So, we have manufacturers – for example, if it's better and easier for the doctor, they recommend. If the client likes, they also recommend and come back. And so, that is the reason for our expansion in offers. (00:52:48) close to 20% in Q1, and we believe, and we continue to believe in AC (00:52:58). So, we have had a positive experience as I said, and we continued believing in growth with this model in Rio de Janeiro. We have evolved the (00:53:19) Rio de Janeiro is the second largest city with units for us and decreasing fixed cost in Rio de Janeiro. And with this growth, we have a better margin.

Now, the issue that you said the growth of top line in Rio, the same thing we do in São Paulo, the monitoring of demand, understanding days of the week and different tests, we're doing this in Rio de Janeiro and we're having success this monitoring.

And Felippe Mattoso brand for example which has a limited presence in the south zone of Rio de Janeiro. We've seen a brand that the new doctors (00:54:21) for image services, clients are saying can I do everything together? Can I take all the results? This helps. It's convenient. So, it's good for patients, doctors, and this has given us growth. And thus, we have had this offering.

We will continue adding more offers.

Thank you, Carlos.

We'd like to conclude the Q&A session. Now, I'd like to pass the floor to Mr. Carlos Alberto Marinelli and Mrs. Viviane Behar de Castro for their final comments.

A - Unverified Participant

I'd like to thank once again to all the participants for their interest. And as I said, we continue working with focus on the execution of our expansion plan to expand our offer of diagnostic medicine and with excellence. And this contributes in a significant way for the sustainability of the supplementary healthcare sector. Thank you.

Operator

The teleconference is concluded. Thank you for your participation.