Q3 2016 Earnings Call

Company Participants

- Adolpho Cyriaco Nunes de Souza Neto, Chief Financial Officer and Investor Relations Officer
- Carlos Alberto Iwata Marinelli, Chief Executive Officer

Other Participants

- Bruno Giardino, Analyst
- Joseph Giordano, Analyst
- Marco Calvi, Analyst
- Roberto Otero, Analyst
- Rodrigo Gastim, Analyst

Presentation

Operator

Good morning, and thank you for waiting. We welcome to the teleconference of the Fleury Group concerning the results of Q3 2016. We have here with us Mr. Carlos Marinelli, Chairman; and Mr. Adolpho de Souza Neto, CFO, and Investor Relations Officer of the Company.

We'd like to inform that this event is being recorded and all participants' will be in the listen-mode only during the presentation. Next we will have the Q&A session, when more instructions will be given. (Operator Instructions) This event is also being transmitted simultaneously through the Internet by webcast. It can be accessed at the website www.fleury.com.br/ri, where we have this presentation available. The slides will be controlled by you. So we will have -- we would like to remind you that the participants in the webcast may record and send questions to the Fleury Group.

Before continuing, we would like to clarify that any declarations that may be made during this teleconference concerning business perspectives of the Fleury Group, projections and operational goals, are also beliefs of the Company's management and also based on information currently available by the Fleury Group. Considerations about the future are not guarantees of performance. They involve assumptions, risks and they relate to future events and depend on circumstances that may or may not occur.

Investors and analysts should understand that economic conditions and also the sector and other operational factors may affect the future results of the Fleury Group and may lead to results that will differ materially from those expressed in these considerations about the future.

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

Carlos Alberto Iwata Marinelli {BIO 18884059 <GO>}

The teleconference for the results of 2016 is beginning. In these nine months of 2016 Fleury -- Grupo Fleury had consistent evolution as its results. Our projects and efforts have maintained our effort in capturing the existing demand for quality services through a good customer experience in our services and at the same time as we optimize the profitability of our business.

With attention to the execution of the strategy, we had another quarter of sustainable growth in our operations with a historical record in gross revenue, net revenue, EBITDA and net profit. In the third quarter, we had an increase of 9.5% in gross revenue. Even this considering the sale of five units of the Labs a+ which happened in October 2015 according to the agreement with CADE.

As a highlight, here we have the regional brands ex-Rio with an expansion of 12.4% and the Fleury brand, which also had a growth of 9.4%. The indicator of same-store sales for units, we had a growth of 10.1% and 10.5% in the brands in Rio de Janeiro, same-store sales of our operations in hospitals rose 8.6% in the comparison with other quarters.

In line with the strategy of increasing the return on our assets, we improved our indicator for bad debts which reached 2.7%, a drop of 51 basis points. Consequently, our net revenue had a growth of 8.9% or 10.2% if we exclude the units in Rio de Janeiro as determined by the CADE.

In the line, cost and expenses we continued to capture efficiency -- gains in efficiency especially in the accounts for personnel, general services, rent and public services. With this, our EBITDA grew 36.1%, registering recording BRL138.6 million. The margin, on the other hand, went up 512 basis points and reached 25.7% in this period. As a result, of a sustainable structure for results, net profit went up 79.4%, reaching BRL63.1 million.

We would also like to stress the reduction of seven days in the average accounts receivable collection effort which reached 66 days. This factor and the improvement in operational results brought the growth of 18% in our operational cash flow, totaling BRL152.6 million.

It's important to stress here that our constant investment in improving more and more our relationship and partnership with operators in all the steps of collection generated mutual benefits. The return measured by ROIC without premium reached 31.9% in the last 12 months, in comparison with 18.7% in the same period 2015. This result is the consequence of a permanent effort of the Company in obtaining a better usage of its assets through transformation projects, transformation of its structure, cost and expenses, productivity, efficiency and a direct result of the synergies generated by the national integration of our operations.

Like our financial indicators and reinforcing the sustainability of our growth, our metrics for customer satisfaction continue evolving. The Net Promoter Score advanced 894 basis points reaching 73%, with a highlight to the results in Rio de Janeiro, Bahia, and Pernambuco states. The NPS is the indicator that measures the level of recommendation and referrals after our service, and it's important to evaluate the performance of all the employees of the Fleury Group with attention -- with great attention given by management.

On the next slide we stress it together with the Pink October campaign, Fleury launched the Women's Season, which is to increase awareness to take care of their health. One of the actions of this campaign is the launching of #healthispower. This will continue this campaign until the end of December and we will give information about preventive tests for women which are important. And also with focus and exclusive spaces for this public.

With the Advanced Diagnostic Center for Women in Republica do Libano and women's health space, in 15 other units. We also have the Pink Bra also campaign for young female clients, 16 to 25 years of age, to become adults that are conscious and also will influence the more mature generations with their great power and access to information. The video of this action was seen by 800,000 people and is available in the website www.sutiarosa.com.br. At the same time as we improve our services and products, we also invested in long-term projects that strengthened our position as pioneers in diagnostic medicine.

And we announced a partnership with IBM Watson Health in Latin America to test and validate Watson Genomics in Brazil as a potential tool that would allow us to make progress in customized studies and healthcare. This partnership brings together Fleury and the most advanced artificial intelligence technology and therefore we are pioneers to execute precision medicine and thus continuing to offer the best diagnostic solution for our clients and also doctors who are partners.

In order to improve the experience of our clients and partners, we inaugurated in September a center for -- in Rio de Janeiro for the brand Labs a+ centralizing the production of tests and also for RMI and also mammography. Thus, we're using our experience and now we have in Rio de Janeiro another quality lever and also better productivity based on knowledge and specialization of our local doctors' team. The model allows doctors to concentrate on the production of reports of their specialties exchange experiences and interact to benefit doctors and patients, apart from reducing very much the time to deliver the diagnostics.

Now, continuing with the portfolio of our operations hospitals, we would like to stress in the third quarter that we added Hospital Santa Helena in the capital Brasilia. It has 229 beds and shows our strong commitment to expand our services in a market with great relevance and knowledge in the country.

Also in the Q3 2016 we stopped rendering services in Copa D'Or Hospital, Rio de Janeiro. In the third quarter, the brand Fleury Medicina e Saude participated in the 50th Congress of Clinical Pathology in Rio de Janeiro sponsored by the Brazilian Society of Clinical Pathology. It is the largest event for labs in Brazil.

In our booth, 1,500 people participated in the workshops and also, for example, new antibodies and also Oncotype DX, only some examples of our positioning as the Company of knowledge.

Finally, I would like to comment that the shares of Fleury Group, for the first time are being part of the index IBrX-100, which has the 100 shares that have more sale and purchase. The Company's index is 0.53%. We are in position number 43 in terms of the current position.

Now, I'd like to pass the floor to Adolpho and he will continue with the presentation. I will be available at the end for the Q&A session. Adolpho, you have the floor.

Adolpho Cyriaco Nunes de Souza Neto {BIO 21636124 <GO>}

Good morning. Thank you for your participation in our teleconference. Now, we're going on to slide number five, gross revenue in Q3. In the graph on the left we can see the breakdown of the revenue. We see a growth in the participation of regional brands excluding Rio, which went from 16.8% last year to 17.5% of the total this year. And the Fleury brand, which went from 49.7% to 50.2% this year. As an offset, there was a drop in the participation of the brands in Rio de Janeiro, while the business B2B maintained its current level.

On the graph on the right, we can see the evolution of gross revenue by business unit, which explains this alteration in the mix. In the quarter, we registered a growth of 8.3% in consolidated or 9.5% excluding the effect of the sale of the units Labs due to the agreement with the CADE. The regional brands excluding Rio had increased by 12.4% in the quarter apart from the expansion of the average price; we also had an increase in the offer and occupation in image tests and especially a+ Sao Paulo and a+ Parana.

We would like to stress also the growth of 8.3% in the brands in Rio de Janeiro, in spite of the four holidays that we had in August as a result of the Olympic Games. The Fleury brand reported 9.4% expansion increasing the offer and the occupation of RMI in the morning, afternoon, and weekends, while the operation in hospitals had an expansion or increase of 7.3%.

The next slide, we see the same information for year-to-date, where we see that the growth of the Group was 10.9%, when we exclude the effect of the CADE units sold in 2015. The regional brands excluding Rio, led the expansion with 15.1% followed by operations in hospitals with 11.4%, Fleury brand with 9.8% and the brands in Rio de Janeiro with 9.2%.

On slide number seven, we detail the evolution of gross revenue of the units -- service units. Apart from the growth of 10.1% in same-store sales, we notice here on the upper left corner of the graph, we would like to stress the bottom of the slide showing the growth in gross revenue per square meter and per unit, 14.8% and 17.7%, respectively.

We also, now going on to the next slide, we have the performance of the service units by business. We'd like to stress here the growth of the indicator same-store sales of the brands in Rio de Janeiro by 10.5% and the metrics of gross revenue per square meter and by service unit in the regional brands.

In Rio de Janeiro, this expansion was 24% and 25.2%, respectively, while in the brands ex-Rio the growth was 16.6% in the revenue per square meter and 15.5% in the revenue per units.

On the next slide, number nine, we will be seeing the operation B2B. We had -- in hospitals we had a growth of 7.3% or 8.6% if we consider the indicator same hospital sales. This segment of Reference Labs and Preventive Medicine reached a gross revenue of BRL7.4 million and BRL2.2 million, respectively.

On slide number 10, we show the evolution of the indicator deductions of the Company reaching 2.7% of gross revenue, an improvement of 51 basis points in relation to last year and contributed for a growth of 10.2% of the net revenue of the quarter as we can see on the graph on the right.

On the next slide, we see the evolution of the variation in costs, apart from the number of employees, square meters of service and number of units. We can see on the upper left corner that our cost of services rendered grew only 4% in relation to last year as a result of many initiatives of the Company including amongst others gains in efficiency in personnel, renegotiation of contracts with vendors and change in processes. In the graphs on the lower part, we see here a decrease of 5.7% in the area and 8% in number of units. We didn't make any change in the portfolio as of last year.

On the next slide, number 12, we have the evolution of cost of services rendered in the last 12 quarters. The evolution of only 4% in the costs in comparison year-to-year is the result of management of the main lines of costs and we see increases that are inferior to inflation. An increase of 3.7% in personnel, 1.8% in general services and a reduction of 1.3% in general expenses.

For a more in-depth analysis let's go to the next slide, number 13, where we detail the variation of the cost of services rendered. Personnel and medical services where we have salaries, wages and -- represent 34.9% of the net revenue, a reduction -- a dilution of 175 basis points due to a gain in efficiency in the units.

General services, rents and public services equivalent to 13.8% of net revenue, a reduction of 97 basis points. This is due to the renegotiation of the rents of the units -- rent contracts. Materials and outsourcing reached 9.6% of the net revenue, with a drop in 41 basis points especially [ph] as a result of the drop in the unit test that were outsourced to foreign labs. Finally, in general expenses 62 basis points less, 62 basis points of net revenue, while the depreciation, amortization went up 48 basis points.

On the next slides, we have operational expenses BRL62.2 million in the quarter, a drop of 3.5% in comparison with 2015. General expenses and administrative expenses had a reduction of 15 basis points in relation to net revenue especially due to the reduction of expenses with personnel. Depreciation, amortization continued on the same level as last year, while other revenues and operational expenses dropped by half, representing 0.3% of net revenue especially due to the effect of closing units in Q3 2015, which did not happen this year.

Finally, the accruals for contingencies was positive due to the impact that we -- the reversal of some accruals due to the end of labor court's lawsuits. Also beginning in this quarter we began to include in the historical data a new group of costs and expenses. This change has the aim of improving the understanding of the results for shareholders and investors. We're using the same groups as we use internally and therefore more aligned with the characteristics of our business. The inclusion of this new group in earnings and the presentation of results will be done as of Q1 2017.

Going on to slide 15, we have the evolution of the quarterly EBITDA, which reached 138.6 million with a growth of 36%, reaching a margin of 25.7%, 512 bps superior to the same period 2015. This evolution of the EBITDA margin is a result of the consistent cost control and expense control and operational leverage, which was -- which we had due to the growth in revenue. So, in year-to-date, we reached 382.4 million of EBITDA with a margin of 24.3% and growth of 29% in relation to last year.

On the next slide, we have the profile of our debt made up especially by two emissions of debentures and a loan from FINEP for strategic project totaling 982 million. The growth of our cash, which reached 830 million in the quarter, resulted in a reduction in net debts, which reached 152 million in September. Thus, the leverage measured by this indicator went to 0.3% in comparison with 1.2 times registered in Q3 2015. As a result of cash generation and lower indebtedness corresponding to 98.3% of the CDI.

On slide 17, we present financial results. We had a financial expense of BRL8.7 million in comparison to BRL16 million in Q3 '15 as a result of the growth of revenue from interest due to our cash position.

On slide 18, we have the income tax and social contribution. In the quarter, the effective rate was 32.9%, an improvement of 290 bps as a -- in comparison with 2015.

Now going onto slide 19, we have an expansion of 79.4% in the net profit, which reached BRL63.1 million as a consequence of an improvement in financial and operational results and also the income tax that we saw. In the consolidated in the year, profit reached BRL153.9 million.

On the next slide, number 20, we have the profile of accounts receivable and we can see the improvements of the aging with balance receivable 78.6% and 73% in the same period last year. The above 121 days went down 15% and the average number of days for collections went from 74 days to 66 days. This continuous improvement is due to the efforts made by all the areas of the Company involved in the process, and we call this the collection cycle. Apart from interdependence among the areas, the detailed management of information and indicators and improvements of systems have been the reason for this evolution.

On the next slide, we have the cash generation of the Group with a highlight for cash flow -- operational cash flow BRL152.6 million a growth of 18% and in comparison with last year with a conversion rate of 110%.

On slide 22, we have CapEx, which totaled BRL33.6 million in the quarter concentrated on strategic products including expansion and improvements in the technical areas and service areas. Year-to-date we reached BRL94 million within the investments in strategic projects we have the reimplementation of SAP in the back office of the Company and the go live will happen in the first quarter next year. This is being planned and executed as a launch as it deserves.

For Q4 2016, we will have an acceleration of CapEx especially due to construction already in progress of the new units Fleury Morumbi and Fleury Analia Franco and the purchase of image equipment for substitution of existing equipment or to -- also to increase our offer.

On slide 23, we have details about our performance in the stock market. And here we see the price and daily volume of 22.3 million in Q3 2016.

Finally, on the next slide, we have the events with investors and analysts that we will have in the next few months.

We will now begin our Q&A session. Thank you very much.

Questions And Answers

Operator

Thank you. Now we will begin the Q&A session. (Operator Instructions) Mr. Marco Calvi from Itau 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 personnel and medical services. In costs, you mentioned this line has been growing below inflation, but when you compare the number of (inaudible), you had an increase in important tests and you dilute this part and you have a growth in cost per test that is very low. It has been flat in the last three quarters. So in the beginning you mentioned efficiency gains, so I would like to understand better what are these efficiency gains and where are we in relation to your goals, where you can get?

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

Hi Marco, it's Adolpho. I will begin answering the questions, then Carlos can supplement. First, we must say that we are continuing our efforts to rationalize expenses. We have 12 units less, five were sold due to the agreement with the CADE, seven were closed, and we're always closing the units where we don't see recovery.

In terms of personnel, I would like to mention, we have been working to rationalize the work, especially those who render services to clients, patients. This work will be strengthened with a project that has begun and we will have a standard way of rendering services.

We have an element that is very important, which is the issue of the assets. When we look at the numbers of growth of gross revenue per square meter, per units, per location, we have a cost -- fixed cost that is diluted and with this growth that we had 18% per location. What we're doing, we are using the same square meters, but we have more clinical tests. We are using our assets in a more efficient way without sacrificing quality.

And to conclude, concerning average cost of tests, we have worked a lot, made great efforts in supplies, negotiations with vendors. We have had a great stability in this line in the last two years and always below inflation, but there is also the issue of mix. We had a strong growth this year in clinical tests, especially if you look at Rio de Janeiro, Felippe Mattoso. Clinical test analysis have a lower ticket but also a much lower test although the relative margin is higher. So these are the main factors that explain this result in the line of costs.

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

From Marinelli now. Thank you for the question concerning what else we can expect in these lines. I can tell you that we will continue to strive to gain efficiency. Right now, we have an important project of the Company, the lean project for service, we are rethinking our service processes to have more efficiency and also greater satisfaction from our clients.

And this what we have seen, the units that went through this and where we learned, we learned a lot in the last few months. Without exception, they improved their productivity and also NPS, the score. So this really gives us thrust to continue not only in clinical analysis but other services too using better resources, giving better service to our clients, so they will be more satisfied with the service we are rendering and consequently a better usage of our assets and resources.

Q - Marco Calvi {BIO 19854632 <GO>}

Yes, thank you. If I can add a second question concerning bad debts, we had an improvement in bad debts constantly in the last quarters. Can you show how you see this line next year? What kind of improvements we can have apart from what you have already delivered? Thank you.

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

Marco, it's Adolpho again. We're still working on the objectives we want to continue improving. In the long-term, we believe we can reduce at least another 100 bps, 150 bps next year, not all of this next year, but we continue with our internal efforts to improve the process, improve the work with operators and the interdependence between the areas in order to reduce this to lower the amount on this line.

Q - Marco Calvi {BIO 19854632 <GO>}

Thank you.

Operator

Mr. Rodrigo Gastim from BTG would like to ask a question.

Q - Rodrigo Gastim {BIO 19694950 <GO>}

Good morning. Two questions. The first concerning profitability. These gains in profitability come from the regional brands, but I would like to know quality wise the evolution of the Fleury brand. So, do you believe that the operation has arrived at its peak without sacrificing quality or is there a space to improve the Fleury brand?

Second question, I would like to understand the CapEx from now on. Year-to-date is well below in relation to what we expected at the beginning of the year. You said it will accelerate in Q4, will we get close to 150 million and your expectations concerning CapEx for 2017?

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

Rodrigo, thank you for the question. I will begin talking about Fleury and Adolpho can supplement the issue of CapEx. Concerning profitability of the Fleury brand, of course, Fleury has a positioning we work with prices that are higher differentiated and also costs that are different from the rest. So the structure, the total offer of Fleury has many elements that put pressure on the costs.

Now, in terms of quality, Fleury has a margin that is interesting for the Company. And this margin continues to be part of the results in a very healthy way. As you said, what we're doing in the last periods is to increase the profitability of regional brands. The gains we have had right now are the result of intense work on our regional brands and this didn't begin yesterday. I always stress this because those who have followed our results recently, in the past we made a decision, a courageous decision in 2013, especially in Rio de Janeiro, where we gave up volume to begin to operate on levels that would be interesting. And everything that happened and we implemented many changes in the Company, in the relationship with those who pay for our services, sometimes giving up some sectors where we had no agreement, but always doing this in a partnership with operators. So the result that we are reaping today in our brand is still a result that is evolving.

The regional brands, if you look at everything that is ex-Fleury. So less than 50% of our brands in market positionings, geographies where we have interest in growing our business, there are opportunities to increase volume, to dilute in a better way local costs and therefore, it's a mix of actions that helps us to be on a path of growth.

So, summarizing, Fleury continues healthy. We intend to keep it this way. It is a brand where we want growth, and this through new units with different ramp up, we have to take care of this very well to balance growth with profitability. And in regional brands, we're also beginning a growth cycle in the Company, a healthy growth, sustainable growth. And we have a structure including capital and operational model and delivery of services to clients that we believe are sustainable. So this is our direction.

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

Supplementing Rodrigo concerning CapEx, we have 94 million, a little more than 31 million per quarter. I believe we will have more in Q4. It's not going to be much greater. We will begin the acceleration and this also has to do with the expansion that Carlos mentioned.

Looking at 2017, we can expect recurring CapEx as we had in the last few years, around 110 million and 120 million, plus an additional amount due to our expansion project. I believe we will see this more clearly and with more data.

In the future, we will be able to see this more clearly. This positioning for growth takes into consideration lessons learnt, the return and also when these units begin with their business model mix and also link we're learning a lot with its location of the units, contract negotiations. So we're positioning ourselves for a new growth phase, organic growth, and this takes into consideration everything that we have done until now.

Q - Rodrigo Gastim {BIO 19694950 <GO>}

Excellent. Excellent. Thank you.

Operator

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

Q - Bruno Giardino {BIO 15974970 <GO>}

Good morning. Congratulations for the results. My first question has to do with expansion. Is there any way for us to have an idea of the costs in this period before expansion? In the past it was something that lowered margins. Do you believe that these effects could happen from now on?

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

Bruno, Carlos. Thank you for your question. We have to remember the recent past to make choices. As we said, in Q3 2013, we made a decision, we chose the model we would follow and then we began an optimization effort to optimize in each location. We're continuing this and at the same time with a strong cash generation reducing debts and placing us in a very healthy situation.

And now, what we want to do once we believe that we're at a very interesting point of this evolution, we want to once again have growth. Now, what will happen in the future inevitably or the units, we have our operational expenses.

Today, we have many levers that really have an effect on the results, which is having a more healthy model and a process. We are reviewing the cost from A to Z, we continue working on them, we continue to challenge this model with new units, the expenses, the investments in new units. And we want to operate them from day one with efficiency and a better ramp up, especially elements we have been working on recently linked to customer satisfaction and also doctors' satisfaction in relation to our services.

For example, knowledge, we have invested a lot in knowledge. So we have many levers within an expansion process. They want -- they will help alleviate pressure with a better ramp up and with lower implementation costs.

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

And supplementing Bruno, I believe that what hurt us in the past was the time that it took between decision-making and the hiring, the purchase of the land and opening new units. We have prepared ourselves to decrease this time. How are we doing this? First, we work with people who have experience in the market. We have an expansion Board of Directors for this and we will have a better price for rents.

We're analyzing also regulatory issues in detail, because this caused tardiness in the construction and we have a standard where the average is lower. We're investing on a project for a lot of clinical analysis, some image tests and a better return on investment.

In a nutshell, we have a business model that works. We have focus on a type of unit that is different from the past, and we will execute this with more quality, because we have the right people to do this now. This reduction will have a good impact in order to minimize these pre-operational expenses.

Rents and personnel, and personnel these are the people who will work in the units and we will hire them one or two months before. We're creating a process in order to execute this growth with more quality and with less risk.

Q - Bruno Giardino {BIO 15974970 <GO>}

Thank you. Very clear. And also second topic concerning income tax in Q3, you were below 34% different from previous quarters. Can we think that 34% is sustainable? This line 34% is sustainable?

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

I would say yes. We have worked a lot very strongly in reviewing our internal processes in terms of taxes, in terms of compliance and also looking for opportunities to decrease the tax burden. What we're seeing there in the result is linked to two lines; tax incentives for technological innovation and also maternity leave. This will continue existing, the Group will continue investing in innovation and we have also women, a large number of women in our workforce. These things will continue. We will look for other opportunities.

Q - Bruno Giardino {BIO 15974970 <GO>}

Thank you.

Operator

Mr. Joseph Giordano from J.P. Morgan would like to ask a question.

Q - Joseph Giordano {BIO 17751061 <GO>}

Hello, good afternoon, good morning actually. So the question concerning the business in hospitals. I see a churn, Copa D'Or a relevant hospital was closed, the operation was closed and another begun. What happened to cause this change considering that you have strong focus in Rio de Janeiro?

Second question, normally companies renegotiate healthcare plans at the end of the year. So how is this going on? These negotiations, are they better than last year?

And the third question, the increase in wages was extended. So what do you expect in terms of expenses with personnel in Q4? Thank you.

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

Thank you for the question. Let's begin with the first part. Hospitals. We have a volume of hospitals in our portfolio, that is it's normal to have this kind of churn. So this is a process with the volume we have, it is a natural process to close operations in one hospital and begin in another. At the end of the day we left a hospital and we began working in another. Sometimes this involves negotiation, logistics, so there are many factors and elements that make part of these negotiations with hospitals and also regional factors. We're no longer in Copa D'Or Hospital, but we're offering services in two other hospitals in Rio de Janeiro. Normally, we're offering continuously services in two other hospitals.

Concerning the negotiations, yes, it's a time of the year when we begin to negotiate with healthcare plans and insurance companies. One point that is important, we have a cost structure. We have looked for efficiency in all of the lines, a dilution of cost and expenses, but in a year that was very challenging in terms of inflation. And we have had already two years that have been challenging concerning inflation.

So, when we talk to the operators we want more than an operation looking at inflation. We want to have a constructive negotiation understanding their needs, if there are different contracts they have, what should be done. And they understood our situation too concerning the pressure on cost and expenses.

And, as you said, wages are one of the components. We have recurring gains, real gains in terms of inflation and wage negotiations. And I believe it is positive. This, we know puts pressure on us, in this line, personnel, employees. This year we were able to distribute these increases. We will have the second part in November. Last year was in August. So of the -- we have gains in the total cost of the year.

But if you compared January with January, you will see this again. I have to look at the whole year. I have to look at all the efficiencies and all the transformations and the changes in internal costs and then we see the efficiencies.

So, in a nutshell, hospitals, it's a low churn rate. In comparison with others, renegotiations were in a period that we have a partnership with the operators trying to recover the prices, working together because we have pressure from inflation and our cost, especially wages, salaries and this is important. I hope I covered all the points, otherwise we can talk more about this.

Q - Joseph Giordano {BIO 17751061 <GO>}

Thank you. It was very clear. Our last question, going back to expansion. You mentioned that you made some small M&As, organic growth. What do you see in terms of the competition in M&A, mergers and acquisitions? So, when we look at the market leader they have made some small acquisitions, so I would like to understand, do you see any risk of having high prices and so, how are you seeing mergers and acquisitions? Do you believe that prices can be too high for acquisitions? Thank you.

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

This helps us to explain our strategy. If you take between 2002 and 2010-2011, we made 26, 27 acquisitions. So, we made a lot of acquisitions and we learned from this process. Why do I see that we learned? If you look at the recent past, we have to make adjustments. We had to include these acquisitions, improve their model and have them work the way we believe is the correct way. Right now, we have the learning of the past and an operational model when we look at our results. We have concentrated on efficiency. There are some points to be improved.

So what we look for today when we think of M&A, we're looking at opportunities to grow. We want quality assets, we want quality assets. So, we have many quality assets in the market, and you also have assets that are not -- with quality that is not very good. So, we have to analyze to see if it adds value to us or not, or how much we would have to change or invest in the operation.

So, right now, we're using all the knowledge that we acquired in the past. Especially after acquisition, we're looking at assets that are truly quality assets and logically to pay the right price to generate value in the future. This is what we want, this is what we do every time we look at the markets.

Q - Joseph Giordano {BIO 17751061 <GO>}

Thank you.

Operator

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

Q - Roberto Otero {BIO 16689399 <GO>}

Good morning. My question is about the regional brands. We saw a very strong performance in a+ Sao Paulo, Parana. So, can you share with us the strategy behind this growth products prices or installations? We understand that it's a continuous improvement process but if you can share something with us, I would be very happy.

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

Gustavo, thank you for your question. Yes, we had a healthy growth in the regional brands and especially -- and also I like to say sustainable. If we look at a+ Sao Paulo and a+ Parana, these are two operations where we have dedicated a lot of time and effort to improve the quality of the services for patients and also for doctors with an effort to understand the needs, understand the dynamics, and what helps the doctors and their patients and deliver the right services to the doctors.

Now talking about a+ Sao Paulo, it's a brand that as you have seen, we have repositioned this brand in the market, a+ Sao Paulo, with a more complete offer in terms of services and operations, units in locations that are in the intermediate and upper side of the market, and deliver a service for this public. As I said, Fleury is premium and a+ is intermediate. It has -- we have a good service in terms of doctors and also the unit, but it is not premium like Fleury. And we have some very interesting clients. It's an operation.

We look at the NPS and especially those units in this intermediate high segments, we have had growth of the perception and customer satisfaction in relation to our services. So you have to join efficiency, good location, differentiated services, especially doctors and we know how to do this. This is what we're delivering in a+ Sao Paulo.

In the state of Parana in comparison with other regions, it's good, but it's an operation that we see. Our client in the state of Parana likes our operation. They have desired our services, our operations even with the market concentration that we find there. So we went into this market with acquisitions, now we have the a+ brand and we're doing this.

In the last year, I went twice to events in the state of Parana with doctors and events with differentiated types of tests with a strong participation of doctors. So taking this knowledge to doctors that can see this has leveraged our strength in Parana.

And Parana specifically is a region where we want to have important expansion in the future, because right now it has a small footprint. We want to open new units, having an important impact. Although it's a region that is very healthy for to have an operation.

Q - Roberto Otero {BIO 16689399 <GO>}

Thank you. One more question. In accounts receivable, we see an important improvement, especially above 100 collections above 121 days. Your customers have a good quality. What is the strategy that improved these numbers?

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

Adolpho. There is no change in -- significant change in the process. We continue improving all the processes continually. Also you have certain balances that fluctuates in the portfolio, they navigate in the hedging and finally you have a solution and then you have a great improvement. So this is part of the business. Sometimes we have one area increasing, other decreasing, as a whole, the portfolio is always improving.

Q - Roberto Otero {BIO 16689399 <GO>}

Thank you.

Operator

Right now, we'd like to close the Q&A session. I'd like to pass the floor to Mr. Carlos Marinelli for his final comments. Okay. Sir, you have the floor.

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

I'd like to thank you all once again for being with us. And I'd like to invite you to participate in Fleury Investors Day on December 8, here at the headquarters of the Fleury Group in Jabaquara. More details about the agenda will be sent to you. It will be a pleasure to have you with us. Thank you and a good day.

Operator

The teleconference is ended. We'd like to thank you for participating.