

Y 2015 Earnings Call

Company Participants

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

Other Participants

- Bruno Giardino, Analyst
- Rafael Frade, Analyst
- Rodrigo Gastim, Analyst
- Rubem Couto, Analyst

Presentation

Operator

Good morning, and thanks for waiting. We welcome to the teleconference of the Fleury Group concerning the results of the Fourth Quarter of 2015 and on the Year 2015. We have with us Mr. Carlos Alberto Marinelli, Chairman and Mr. Adolpho De Souza Neto, Financial Director and also Investor Relations Director. We'd like to inform that this event is being recorded, and all the participants will be in the listening mode only.

Next, we will begin the Q&A session, when more instructions will be supplied. (Operator Instructions) This event is also being transmitted simultaneously through the web via webcast. It may be accessed in the address, www.fleury.com.br/ir, where we have available our presentation. The selection of the slides will be controlled by you. The replay of this event will be available right after the closing words.

We would like to remind you that the participants in the webcast may register questions for the Fleury Group. Before continuing, we'd like to clarify that the declarations that may be made during this teleconference concerning business perspectives of the Fleury Group, projections, goals, operational goals, financial goals or believes and assumptions of the company management, as well as information that is currently available to the Fleury Group.

Future considerations are not guarantees of performance and involve risks and uncertainties because they refer to future events and therefore they depend on circumstances that may or may not happen.

Investors and analysts should understand the general conditions, sector conditions and other operational factors may affect the results in the future of Fleury Group and may lead to results that will differ materially from those expressed in such future conditions.

Now I would like to pass the floor to Mr. Carlos Alberto Marinelli, who will begin his presentation. Mr. Carlos, you have the floor.

Carlos Alberto Iwata Marinelli {BIO 18884059 <GO>}

Good morning. I would like to thank the interest and the presence of all of you in our results teleconference for the fourth quarter of 2015 and the year. It was a year that had a challenging macroeconomic scenario and a political scenario to us.

For us at the Fleury Group, it was a period of transformations and also victories, allowing us to recognize the sustainable growth of our business. Based on the plans, we have the growth and expansion of the Fleury services repositioning of the brand and evolution of business in Rio de Janeiro and expressive growth of operations in hospitals.

Our focus in 2015 was to establish the basis for a new cycle of growth for the company, supported on the reputation and strength of our brands and also in the better use of our assets and also constant capture of new opportunities in the market.

These guidelines together with other actions promoted by the company during the year, specially linked to a better management and better cost control helped us to evolve in a consistent way in our main financial indicators and also customer satisfaction indicators.

In other words, building a path for sustainable results. The growth of our operations delivered a gross revenue increase of a 11.6%, reaching R\$2.1 billion. The better management of the collection cycle also allowed us to reduce other areas, which allowed our net revenue to grow by 12.9%.

So we reached R\$382 million, with 27% growth in relation to 2014. Our EBITDA reaching a margin of 20.2% on net revenue, an important progress of 232 basis points in comparison with 2014. The adjusted net profit, excluding non -- strong expansion reaching 125.7 million and the results 72.2% above that of 2014.

Additionally, ROIC, adjusted ROIC reached 22.9% in comparison with 15.3% in 2014. Completing these results, we'd like to say our cash generation was record with R\$369 million, a cash -- operational cash conversion EBITDA of 103%.

Among the highlights of the year that contributed for us to reach these results are operations in hospitals that advanced 15.7%, the Fleury brand 12.4%, Rio de Janeiro with 10.9%, growth excluding the units a line aided because of the CADE and same store sales also 10.2% more.

This growth of top line came together with a project that reviewed the processes for collections and thus allowing the implementation of the series of improvements in our internal processes and also and also amounts payable and collectible and this really helped us reach an improvement of 90 basis points.

Also, we were able to improve customer satisfaction through the Net Promoter Score. In the fourth semester 2015, the NPS of the Group was 72.8%, 290 basis points higher in comparison with the fourth quarter of the previous year.

The Fleury brand report NPS of 83.4%, 392 basis points higher. Based on these indicators, we assure that the company evolved in a sustainable way in a complete cycle delivering consistent results, with technical excellence of services and also unique service to its clients, doctors and patients.

Additionally, in 2016, we were present in the ISE Index, the Sustainability Index of BOVESPA. It is the third year that we received this recognition because of sustainability and our practices. It's a recognition of our values and also company culture, allowing the company to really execute its process and strategies.

Now with this relationship in the market, we like to announce with enthusiasm that we signed an agreement to trend for technology transfer with Quest Diagnostics, also a transfer of technology, in three acronyms of exams that use methodology with mass spectrometry. And this will help us to internalize these processes. Currently, we send them to labs abroad.

Apart from these, we will advance more rapidly in the development cycle for mass spectrometry, thus generating operational efficiency and expansion in our production capacity in establishing new and better quality levels in our diagnostics and state-of-the-art technology group.

Fleury was the first company in Brazil to make these exams using mass spectrometry. Apart from being the first and only one in Latin America to conquer the IFCC, International Federation of Clinical Chemistry and Laboratory Medicine certificate.

The technique of mass spectrometry guarantees high level of detection from a quantification of molecules even in low levels of concentration, it is for proteins, hormones, vitamins and other substances. These are actions like these position through the group with as an innovative company using its knowledge base and growing its business, since its creation 90 years ago.

Our culture with technical excellence and service has evolved constantly to answer these also excellence and also company management. We improved processes, integrated operations, restructure teams and reconnected even more with the pillars of our culture and values where we trust that we have the structure for a new cycle of growth in our operations and the results are already been reached. Even knowing that the period is challenging for the Brazilian economy in 2016, we are sure that we are better and better prepared for this scenario with a resilient strategy.

Finally, I'd like to stress also that it was approved by the administration council, the distribution of 35% of the net profit in the second semester to be sent as dividends.

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 questions. Adolpho, you have the floor.

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

Thank you, Carlos. Good morning. Now we can go on to slide number five. In the graph on the left, you can observe the breakdown of the gross revenue in the fourth semester. In the comparison between these periods and observing the participation of Fleury with the regional brands excluding Rio de Janeiro.

On the graph on the right, we see the evolution of the gross revenue in the fourth semester in detail. I'd like to show here five units. We see here the effect of the sale of five units in accordance with the CADE had a progress of 11.9% in Group Fleury and 12.4 in -- also in our installations.

All the segments had a growth above two digit, had two digit growth. I'd like to stress that we reinaugurated (inaudible) in fourth semester with 251 extra square meters.

In the next slide, we will see the gross revenue for the year. The growth is also consistent and we'd like to stress the operations in hospitals that grew 15.7%. The Fleury Brand had consistent growth of 12.4% and Rio de Janeiro closed the year with 10.9% higher numbers. In slide number seven, we see the gross revenue indicators. The revenue by square meter increased by 17%.

Now we see the evolution in the main indicators too. Per square meter, the revenue went up 17%, while the revenue per unit went up 18.2%, resulting because of gains in efficiency in these units and also maturity of these units that were inaugurated in the last quarter.

This efficiency can also be seen in the same store sales in the graph on the top a 11.4% higher consolidated. Finally, we'd like to see that the average price went up 6.2% and we can see this. We have this has really shown growth.

Now going on to slide number eight, we would like to detail the performance of the units per business and highlighting 2015 and the indicators of same store sales with double-digit growth, 10.7%, and Rio de Janeiro 10.2% in Fleury and 10.1% in regional brands.

In the regional brands, we'd like to see the indicator of revenue per square meters went up 15.8% and 14.7% respectively. In Rio de Janeiro, we had a drop of 0.7% in the average price as a consequence of the increase in the mix of exams.

So if we leave aside this, we will have a growth in chemical analysis and also image services. In the next slide, we have the operations B2B. Gross revenue went up 15.7% in the year and 9.8% in the quarter. In the comparison of same hospital sales, we had an increase of 11.6% in revenue in 2015, which reflects strong market in the hospitals where we are present.

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The segment of Reference Labs, we had a gross revenue of 26.9 million and a strong growth in the average price 69% in the fourth quarter, 31.3% in 2015, is due to the repositioning of the business with a better mix of exams and also price increases.

On slide number 10, we detail the net revenue, which is expanding more than the gross revenue of 12.9 in the year and 11.9 in the quarter. This result is due to the direct management of issues by the company with actions aimed at improving the collection cycle, which is being reviewed.

These actions really are the results of great effort. These actions as I said have decreased cancellations, which reached 3.4% of gross revenue, with a drop of 90 basis points in comparison with 2014.

The next slide, number 11, we see the evolution of the company's cost apart from indicators concerning the number of employees in each unit. The cost of services rendered, increased 10.6% in the quarter. Half of our costs are concentrated in medical and personal services, which had an increase of 12.1%, due to an increase in cost related especially with benefits. So we had an impact due to healthcare plans for employees. So this was also impacted in the fourth quarter.

On the graph at the top you can see our employee base, which decreased 2.6% result of initiatives, increasing efficiency. In the graphs on the bottom -- at the bottom, we can see the evolution of per square meter 4.9 and 5.9 respectively. Here we see the impact of the (inaudible) of five units of labs in Rio de Janeiro October 2015, as agreed with the CADE in 2014.

On the next slide, we have the evolution of the costs which totaled 358.2 million. Apart from that cost with personnel and doctors and employees, we can see the costs with rents, general services and public service.

On slide 13, we have the details about the cost and how they affect the revenue. Personnel and medical service which make up the main cost of the company represented 37.5% of net revenue in the quarter, same amount as in the fourth quarter of 2014.

In general services, rent in public services, we had 90 basis points drop, reaching 15.5% of net revenue in the fourth quarter of 2015, impact with savings and -- there were savings, but also expenses with rents and efficiency and cleaning also had an impact.

Materials and outsourcing represented 10.6% of net revenue versus 10.2 in the fourth quarter of 2014. Although, these costs went up in the fourth quarter of 2015, this category was stable due to lower contract readjustments below inflation numbers.

Here we have expenses, represented 7.3% of net revenue and in last year 7%. Loss of provisions here in this line is related especially to the growth of expenses with IT maintenance and increase in also exams and also other expenses.

On slide 14, we detail the operational expenses. Here a reduction of 190 basis points in general expenses and administrative expenses due to better -- due to greater efficiency of the expenses with salaries and also which went down by 1.9%.

Now going to slide number 15, we see the evolution of the EBITDA. In the year, we had an increase of 27.5% reaching 382 million. The adjusted margin was 20.2%, resulting -- result of the consistent control of costs and expenses during 2015. In the fourth quarter, EBITDA margin was 18%, an increase of 23.2% in EBITDA.

On slide 16, we have the profile of our debt, it is made up of two emissions of debentures and the loan from FINEP, together they total 990 million. The average weight cost of this debt is 98.1% of CDI. We have two installments that have already been paid.

We can also see that the cash balance at the end of the quarter was 625 million, a growth of 24% in relation to the previous year, resulting in a net debt of 365 million and the leverage measured by the net debt and EBITDA adjusted of one in comparison with 1.8 during the same period in 2014.

Here are the -- on the next slide, financial results. Excluding non-recurring defects, we had financial expenses of 60 [ph] million, a small reduction in relation to 2014 when we had 61 million.

Now getting to slide 18, we'd like to detail the taxes. In the quarter, income tax and social contribution was 36.8%, totaling a tax of 15.1 million, being 3.2 million in current taxes. In 2015 this was 37.8% resulting in 65.1 million in taxes. We'd like to stress that the company has used benefits -- tax benefits to amortize its acquisitions and also losses, resulting 15.9 million during 2014.

On slide 19, we have the net profit, they had an expansion of 108.7% in the year. The adjusted net profit reached 126 million, an increase of 72.2% versus 2014. The improvement of operational results and stability in the financial results have helped to reach these numbers.

On slide 20, we have the profile of our accounts receivable and we can see an improvement in the profile of the aging 73 -- here we have 73.1% and to receive 58.6% in 2014. Also above 121 days collections, we have 18.1%, it went from 18.1% to 14.7%. Thus, we were able to do this by improving the sending of our employees.

On the next slide, cash flow. In 2015 cash -- operational cash generation reached historical record 369 million, an increase of 29.1% in comparison with 2014. And the operational cash conversion in EBITDA was 103%. We see therefore a positive impact on working capital as we saw on the previous slides.

Now, slide number 22, we have CapEx. During the year, it totaled 111.7 million, especially concentrated in the expansion plan for the Fleury brand, which delivered two new units and continues in 2016 with strategic projects in IT and re-implementation of SAP.

To conclude, we can go to slide number 23 and 24, detailing our performance in the stock market and also events in which we will participate in the next few months.

Now, we'd like to begin the Q&A session and I'd like to thank you for your attention.

Questions And Answers

Operator

Thank you. We'd like to begin now the Q&A session. (Operator Instructions) Our first question comes from Mr. Rafael Frade, Bradesco Bank.

Q - Rafael Frade {BIO 16621076 <GO>}

Carlos, good morning. Two questions. First, could you talk about the outlook for 2016, new project expansion, what can we expect in terms of growth, maybe not wanted to, but in qualitative term.

Second question, the tax. I believe that you have benefits, you -- I believe you could have taken more advantage due to the payment of interest on your own capital. So, how should we look at this in for 2016.

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

Good morning. Carlos, I will answer the first question and then Adolpho will answer the issues relating to. 2016, we are coming from a year of strong recession in 2015 and 2016, we also have challenges.

And even if there is an improvement of the situation, this will take some time in terms of the economy. So we include this also as one of the factors in terms of expansion. We continue to invest, we'll continue expanding the Fleury brand. We will continue our work in Rio de Janeiro, not only capturing the opportunities, but also new ideas, adapting our business model, current business model in order to leverage increased revenue in Rio de Janeiro. We will continue in the intermediary segment and also the strength of the Fleury brand with expansion.

We want to continue to reap the results of what we did well in 2015 and counter these gains with growth and other things. It's a year that requires attention. We have a strategy that is very resilient in the sector, especially in the premium. We have solid numbers in all the indicators, but 2016 has more uncertainties than certainties. So, we intend to grow and guarantee profitability.

Now Adolpho will answer the second question.

Q - Rafael Frade {BIO 16621076 <GO>}

Just a follow-up, Bradesco as and the initiative with Novo Med, if I've not mistaken you're working together. I'd like to hear about these initiatives apart from expansion. And also as

you mentioned clinical analysis, clinical exams has been -- has had growth in Rio de Janeiro, I would like to know for example, if you have more units focused on the image, if you could increase clinical exams and whether, if all of the units already have these services, an overview please?

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

The issue of the initiative with Novo med, yes, we rents their services to them, imaging clinical exams were some units of Novo mandates project that is strategic. And we as partners, its strategic for us to and also for Bradesco we will continue giving support as one of the main partners together with Bradesco and Novo med.

Concerning Rio de Janeiro, you are totally right. One of the great levers that we have for growth is the segment of clinical exams. We must remember that we have been capable of promoting changes in the customers' behavior in Rio de Janeiro and now they go and they make all the exams at the doctor request.

So this does -- it is now more live, the service is more logical. We have seen improvements. In the past we had two independent systems. We have the clients coming to one unit for some exams and then to another unit for other exams.

Now we have a very aggressive policy, it is a growth lever, it is also a lever that helps us in our margin. And we're taking advantage of this lever that we have to make a difference in Rio de Janeiro and we will continue with our efforts in Rio de Janeiro.

Adolpho, would you like to supplement as you saw in our numbers. If you look at the results of 2015, we see 35% of net profit being distributed, part of this has already been given. The decision on the amounts and type of distribution is based on the balance for the company and the benefits for the company.

For example, the cash benefit, bearing in mind that we have the premium. This is determined by the administration counsel and we're doing these analysis to decide on the amount and also the way we'll distribute.

Q - Rafael Frade {BIO 16621076 <GO>}

Thank you, Adolpho. Thank you, Carlos.

Operator

Our next question comes from Mr. Rubem Couto from Itau BBA.

Q - Rubem Couto

Good morning. You talked about 2016, we have seen some epidemics in Brazil, but everything that is happening plus unemployment, do you see an increase in volume in the short-term, in the first months of 2016? Do you see anything different from what you

expected to give us an idea of the revenue in the first quarter, whether it will continue as it was in the last quarter.

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

Rubem, thank you for your question. There are many comments in the press about unemployment and the effect on services, health services in general. As I already mentioned in previous calls, there is no doubt that the recent economic logic behind these results, people still have their jobs and they're using the services now.

We cannot know how much of our growth came from this. And also, I'd like to remind you, that our strategy today is focused on the intermediate and high end of the market. And these -- their volume is being less affected than other sectors below them. Those who cannot afford go to the government hospitals. So and for example our clients even if they lose their job, they have resources to continue paying for their healthcare plans.

So what we see is this scenario, but I would like to stress another point, I have been saying this for some time. The issue of the social security, we're talking about an entity also the indicators that measure our performance, especially the ISE.

So our growth is also based on this, clients come, they see, they have good services they come back and also recommend our services. So our plans continue improving services and as I mentioned to Rafael, it's a year when we have to be very careful, but as I said we have a new growth cycle, and we want to take advantage of all the opportunities in the market.

Q - Rubem Couto

Thank you. One more concerning working capital. You showed a positive trend, and we saw the improvements. What we saw at the end of 2015, do you believe this will continue, is it sustainable or can we improve receivables and other areas? Please.

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

Adolpho speaking. The improvement that we had, the most significant part has already happened. The drop from one year to another as a result of the work done. It is sustainable, we should look for more improvements, but not at this level, it will be more gradual as time goes by, both for clients receivables and also for vendors, suppliers.

Q - Rubem Couto

Thank you.

Operator

Our next question comes from Mr. Rodrigo from BTG Pactual.

Q - Rodrigo Gastim {BIO 19694950 <GO>}

Good morning, Carlos, Adolpho, two questions. First, the issue of growth. Do you have any internal studies concerning the health care plans in your segments.

So, how this market behaved in 2015 and in the beginning of this year, was there a drop in the market, we see resilience weather. The second is on Advent. Please -- the main contributions that Advent brought to the business and what you expect it can continue to bring. Thank you.

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

Well, Rodrigo, concerning the growth and also health care plans, as I said previously, there are no doubts, I have no doubts that this segment -- our clients are more resilient, our segment is more resilient.

We were talking about lack of labor in the past. Those who trained new employees, they want to maintain this qualified labor. So -- because companies know that conditions will eventually improve.

So in this segment intermediates and upper intermediate and premium healthcare plans, the volume that they have is more resilient than the lower segments, where some people were people who lose their healthcare plan, lose their job, go to public hospitals.

So, premium, we have the premium segment and their desire is always to -- if they leave premium to go back. Concerning service, we talk about these issue. There are -- we know through conversations that many have continued and some have even grown in our area.

Now in terms of market share and other analysis, but we see our segment has been very resilient.

Concerning your second question Advent, joined the group in October last year fourth semester, fourth quarter, sorry, and it has given a good contribution.

The first item, it has a new management. We have the knowledge that was acquired and this is very important for us, for our strategy to help us to find new ways for the future. And in this new growth cycle, in practical terms, I can mention, well I think that is important for company like ours. For example, some -- they have clients that there are many items, that we're using their information as a benchmark.

So we can work better based on this knowledge, using it as a benchmark. And also a key point with the gain of Advent, for example this is what doctors wanted, we were looking for a strategic partner and they have been a strategic partner, they have brand knowledge, strategic discussions that are have been very good, they have broad characteristics, including follow-up that are very interesting and we have taken advantage of this.

So we've had an intense relationship and a very good relationship with good results and we can ask them also, we hope that we also have done the same to them.

Q - Rodrigo Gastim {BIO 19694950 <GO>}

Thank you.

Operator

Our next question comes from Mr. Bruno Giardino from Santander.

Q - Bruno Giardino {BIO 15974970 <GO>}

Good Morning, Carlos, congratulations for the result, a question concerning the cost of materials. I believe there was a lot of pressure in this area. Can you tell us, if the exchange variation that happened last year is included in the numbers of the fourth quarter or whether this will happen in the next quarters, the exchange rate variation.

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

Hi, Bruno. Adolpho, going back to materials. We have purchases in US currency, some materials we import and then this is already -- the effect is included in the results.

We see here 7%, the other 93% are purchases in local currency. In local currency, you have an indirect effect of the increase of the exchange rate in these materials. So some of the - some materials are imported by local vendors too, so some have imported components in domestic purchases and in the negotiation the issue is not only price, volume is important, and we have had constant growth in the volumes that we buy.

So the answer for this is not all the exchange variation is embedded in the fourth quarter, we should have additional effects in 2016, but the increase is inferior to the actual exchange rate variation.

Now as we said, we calculate the general impact of the materials line in 2015 and I'm including everything, local purchases and also from a broad less below inflation, the increase was below inflation and in 2016 we expect an impact of 10% to 15%. We're working with these numbers.

Q - Rodrigo Gastim {BIO 19694950 <GO>}

Thank you. My second question has to do with expansion CapEx. Do you expect something similar this year in the stores?

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

Well, we have important expectations for CapEx, and certainly because of expansion. We are alerting new opportunities. We have to launch units that will begin their activities in the next few months, but we have worked on other alternatives too with lower entry barriers and exit barriers in other areas.

And this is something we're working on. We know there is space or extra services based on the demand we have had. To give you an example, we have had success in Rio de Janeiro with our new brand, the clients with new systems and new services. We have been able to leverage growth in Rio de Janeiro.

So in terms of expansion, we are investing, we will have some inaugurations for 2017, but others we can accelerate in 2016. And the investment volume will be similar to 2015, I expect, maybe higher investment volume.

Operator

(Operator Instructions) We'd like to close the Q&A session. Now I pass the floor to Mr. Carlos Alberto Marinelli for his last comments.

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

Once again, I'd like to thank you all for your patience and attention. In 2015, we had good results, we trust that we're in the right track and we're even better prepared for 2016. So the solid foundations we have, we now turn the company to 90 -- we have our 90th anniversary with good services, unique good services and this really will allow us to continue growing in a sustainable way in the long-term. Thank you. We wish you a good day.

Operator

The teleconference of the Fleury Group will now be concluded. Thank you.

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