Y 2016 Earnings Call

Company Participants

- Adolpho Cyriaco Nunes de Souza Neto, CFO and IRO
- Carlos Alberto Iwata Marinelli, Chief Executive Officer

Other Participants

- Bruno Giardino, Analyst
- Bruno Zanotta, Analyst
- Guilherme Muller, Analyst
- Gustavo Schroden, Analyst
- Joseph Giordano, Analyst
- Luciano Campos, Analyst
- Marco Calvi, Analyst
- Rodrigo Maciel, Analyst

Presentation

Operator

Good morning and thank you for waiting. We'd like to welcome you to the teleconference of the Grupo Fleury concerning the earnings of Q4 and the year 2016. We have with us Mr. Carlos Alberto Marinelli, Chairman; and Mr. Adolpho de Souza Neto, CFO and Investor Relations Officer.

We inform that this event is being recorded and all the 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. (Operator Instructions) This event is also being transmitted simultaneously on the web, on the Internet via webcast and it can be accessed at www.fleury.com.br/ri, where we have available the presentation. The slides will be controlled by you. The replay of this event will be available right after the end. We would like to remind you that the participants of the webcast may record through the website questions for the Grupo Fleury.

Before continue, we would like to clarify that any declarations that may be made during this teleconference concerning business perspectives of the Grupo Fleury, projections, operational goals, financial goals are based on assumptions and beliefs of the company's management and also based on information currently available to Grupo Fleury. Future considerations are not guarantees of performance and they involve risks and uncertainties and refer to future events and therefore depend on circumstances that may or may not occur. Investors and analysts should understand that general conditions, sector conditions and other operational factors may affect the future results of the Grupo Fleury and may lead to different results.

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

Carlos Alberto Iwata Marinelli {BIO 18884059 <GO>}

Good morning. I'd like to thank the interest in presence of all of you in our earnings teleconference for Q4 2016 and 2016. 2016 was a very important year for us. We celebrated the 90th anniversary of Grupo Fleury, which began in 1926 with the brand Fleury Medicina e Saude. We built a valuable reputation anchored on medical excellence and service excellence with our continuous search for excellence which began then. In 2016, we reached a landmark in this cycle of turnaround of the regional brands began in 2013 and resulted in the growth and evolution of our profitability of our operations in a consistent and sustainable way. In this -- so and in this context, we express here that we recorded an increase in all the results of Grupo Fleury.

I would like to highlight that among the other initiatives, the capture of the existing demand for quality services and the optimization of the profitability of the operations were the focus of the company. One project that I follow-up closely is the Lean project to redesign the processes and optimize service and increase the productivity of our employees and also reduce the waiting time of our clients.

We observed the 13 units included in the first part of the project the significant increase in NPS, Net Promoter Score and we will continue in 2017 the rollout of this methodology to other units in the Group. Also in 2016 we developed the Procurement project where we renegotiated contracts with our vendors and restructured processes in order to reduce costs and expenses.

Continuing the presentation as can be seen on slide three, I highlight the growth in 2016 of 11.7% in our net revenue with an improvement of 289 basis points in EBITDA margin closing the year with 23%, a growth of 82% in net profit which reached BRL228.7 million, apart from the record cash generation, operational cash generation of 0.5 billion. In Q4 2016, we had an increase about 11% in same-store sales in the units, a growth of 11.1% of net revenue and an evolution of 18.4% in EBITDA and 189.6% in net profit. So also a strong evolution, 32.7%. We had an evolution of 768 basis points in the evaluation of our clients through NPS reaching 72.3%, showing the sustainability of our results based on our demand.

Moving on to slide number four, I'd like to stress that we have begun two new hospital operations in February 2017. We began the clinical analyzes operations in the three hospitals that are part of the BP Hospital Group, the old Beneficencia Portuguesa in Sao Paulo. BP is one of the largest hospital centers in the country with 1,084 beds with reference and it is a reference in complex cases in cardiology, neurology, oncology and orthopedics.

In December 2016, we began operations of clinical analyzes in the Mae de Deus Hospital, one of the most traditional health complexes in Porto Alegre. With more than 370 beds, the hospital became in its 30 years of history, a reference in medical and medical and hospital services of high complexity in the South of the country.

Another, also another point we were included in the portfolio of the high Sustainability Index in BM&FBOVESPA. We are the only health company to be part of the Index, which shows our concern with sustainable development of our business.

Also in the area of sustainability, we were selected for the sixth consecutive year, one of the most sustainable companies in Brazil by the Guia Exame de Sustentabilidade, the largest survey of corporate sustainability in the country.

Among the awards that we received in Q4 '16, we highlight that we were recognized for the eighth consecutive year as one of the most hospitable companies in Brazil in a survey made by the Brazilian Institute of Corporate Hospitality. We were also recognized by Exame magazine and the (inaudible) as number five in a study evaluating the relationship between companies and consumers and the classifies the best companies in Brazil in this area. We are the only health company to be among the top five.

We'd like to stress that the year was marked with positive results in employee satisfaction. Our survey of organizational climate showed a favorable index of 79% among the employees. With these results the company becomes part of a select group of companies with high degree of satisfaction in relation to different aspects of the organizational culture and work environment. Certainly, the satisfaction of our employees is one of our great levers to retain our clients and attract new clients with direct impact on sustainability of our business. With these results, we are sure that the path and choices we have made have been key for us to reach the results that we're showing today.

Now, going on to slide number five, we highlight our expansion plan presented in December. We estimate to open 73 to 90 new units up to 2021. As can be seen in the table, we inaugurated seven new units between October 2016 and February 2017. And also we do a daily follow-up of the evolution of these new units. This expansion, organic expansion movement begins a new cycle of organizational development supported by a strategic plan defined together with the administration council and company management with focus on increased with -- an increase in the capillarity of our units. And at the same time, we will continue positioning ourselves as an innovative and digital company offering services and medical knowledge to our doctors and patients.

Now I will pass the floor to Adolpho and I will be available at the end. Adolpho?

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

Thank you, Carlos. Good morning. Now, we'd like to go on to slide six with data on gross revenue in Q4. The graph on the left, here we can see the breakdown of revenue with a highlight to the regional brands which in Rio which went from 16.5 of the total to 17.4% of the total in Q4 2016.

On the graph on the right we see the evolution of gross revenue by business unit. In the quarter, we recorded a growth of 10.1%. If we exclude the effect of the sale of units in 2015 due to a decision of CADE, the regional brands in Rio grew 15.5% in the quarter with a highlight to 20% increase here in the gross revenue of a+ Sao Paulo, 17% in a+ Parana. This can be explained due to the increase of tests and ultrasound and MRI in Sao Paulo, Pernambuco and Bahia, and the growing demand for the use of the equipment, and also growing demand in clinical tests in a+ Sao Paulo and Parana.

Also we inaugurated two extra units in Curitiba in October and December, increasing the offer critical masses [ph] in this region. And a+ Sao Paulo, we expanded the offer of MRI inaugurating new equipment in Alphaville in December and in Braz Leme in Rio de Janeiro.

In Rio de Janeiro, the growth of revenue was 9.9% excluding the effect of the CADE units, resulting mainly due to the increase in volume of clinical tests in labs a+ in Clinica Felippe Mattoso. The Fleury brands grew 9.1% in the quarter and hospital operations grew 7.9%.

On the next slide we see the breakdown and evolution of gross revenue by business unit in 2016. The growth of the Group was 10.7%. The regional brand excluding Rio let the expansion with 15.2%, followed by operations and hospitals with 10.5%, Fleury with 9.6% and brands in Rio de Janeiro with 9.4%.

On slide eight we detail the evolution of gross revenue of the service units. Apart from the growth of 11% of same-store sales, we are observe on the graph on the upper-right corner and also at the bottom of the slide the growth of gross revenue per square meter by 11.7% and by unit 12.3%. These indicators show a better utilization of the assets, one of the focus of the company.

On the next slide we detail better the performance by brand in Q4 '16. We highlight the growth of the regional brands and the indicators same-store sales reached 14.6% in the brands excluding Rio and almost 14% in Rio de Janeiro brands. We stress also the metrics, gross revenue per square meter and by unit in Rio de Janeiro, the expansion was 13.6%, 17.5% respectively; while under regional brands, excluding Rio, the growth was almost 19% in the revenue per square meter and 15.5% in units.

The growth seen is a consequence of many factors, with continuous improvement of service and diagnostic medicine that we deliver to our clients, patients and doctors in all our brands.

We continue now on slide 10 where we detail the performance of the B2B operation. In hospitals, we had a growth of 7.9% in Q4, 10.5% in the consolidated 2016. In the indicators same hospital sale, the growth was 8.8% in the quarter. Now the segments of preventive medicine labs, reference labs, we had a gross revenue of 6.9 million and 1.4 million respectively. In all of 2016, 29.2 million and 5.7 million respectively.

Now going on to slide 11, we see an evolution in the deductions. In the quarter, we reached 2.4% of gross revenue, an improvement of 73 basis points in relation to the previous year. Now, in 2016, we had this indicator was 2.7%, resulting from a savings of 72 basis points in relation to 2015. As a consequence, the gross revenue increased by 11.7% in the quarter and in the year, we can see on the graph on the right.

On the next slide, the evolution of the quarterly variation in the cost line due to apart from number of employees, square meters and number of units. We can see that on the upper-left corner that our cost of services grew by 9.3%. On the graph on the right, the company closed the year with 8,410 employees, a reduction of 1.6% in comparison to last year. Now, on the graph on the lower part, we see that we're practically stable in services and we added three new units and closing 2016 with 141 units.

On slide 13 we see the evolution of the main cost lines in the last 12 quarters. The evolution of 9.3%, in total cost is made up of 9.2% increase in services and doctor cost, 8.2% in general services rents and public services and a drop of 1.4% in general expenses.

For a more detailed analysis, let's go on to the next slide, number 14. On the upper chart, we see a quarterly analysis, where, also personnel and medical services represented 37% of net revenue. Here, we notice that even with the growth of the volume in the operations and salary increases, we had gains in efficiency with a reduction in the number of employees that we mentioned previously.

General services rent and public services represented 15.2% of net revenue reduction of 34 basis points. The gain in relation to net revenue can be explained by the reduction in rent values of the units, electricity and cleaning and transportation services.

Now materials and outsourcing were stable in relation to net revenue, representing 10.6% and in general expenses represented 6.5% of net revenue, an improvement of 80 basis points impacted especially by savings in the contact center, after redesign of processes and lower prices in printing contracts. On the lower chart, we can see the same analysis for 2016 where we had a reduction of 214 basis points in total costs and also concerning net revenue.

Now, let's jump two slides and go on to slide 16, since 15 have the explanations I just gave. We detail now the operational expenses that represented 68.6 million in the quarter and an increase of 13.6%, especially due to general and administrative expenses that represented 11.5 of net revenue, an expansion of 76 basis points. This is due to the increase in expenses with consultancy, especially for the procurement project to reduce expenses and also promotions and events with the marketing actions in the campaign Fleury 90 years and Pink Bra apart from surveys with doctors and activation of clients. We'd like to say that these expenses with the procurement project ended in Q4 2016 while the benefits continue to be seen in 2017. The line depreciation remained on the same level as the previous year while other revenues and operational expenses registered revenue of 1.2 million versus an expense of 846,000 in Q4 '15. Finally, the line of accruals for contingencies represented 728,000 in the quarter.

Now, slide number 17, the evolution of the EBITDA, which reached 483 million in the same year margin of 23% which means an evolution of 289 basis points in relation to 2015. In the quarter, EBITDA reached almost 100 million with a growth of 18.4%, reaching 19.3 in margin, 127 basis points higher than that of Q4 2015.

This evolution in the EBITDA margin is a result of consistent cost and expense control, operational leverage given by the better usage of our assets and a qualified growth of revenue as explained in the previous slide.

In the next slide we have the profile of our debt made up especially by two emissions of debentures and a loan from FINEP for a strategic project, together 832 million. The cash closed the year with 406.8 million, resulting in a net debt of 425 million and leverage measured by the EBITDA net debt of 0.9 times. The reduction in equivalent cash observed in the chart between the third and fourth quarter of 2016 is due mainly to the distribution of results made in December 2016, which totaled 331 million in the payment of 176 million in principle and also interest in our debentures.

On slide 19, we see the financial results that total an expense of 6.6 million compared to 13.4 million in Q4 2015. The increase in the balance of the cash and the reduction in debt resulted in this improvement in 2016. The financial results were negative by 44.5 million and 16 million in the previous year.

On slide 20 we'd say our income tax and social contribution on profit. In the quarter, the income tax rate and social contribution were positive in 32.3% in comparison with 36.8% negative in the previous year, the rate of the Q4 was impacted in a positive way by the benefit of 37.5 million generated with the distribution of results in the form of interest on the capital in December. We closed 2016 with a consolidated rate of 22.3% versus 37.8% in 2015.

Now, going on to slide 21, represent the expansion of 189.6% of net profit in the quarter, which reached 75 million, a consequence of a better operational result and a strong reduction in income tax and social contribution. Net profit reached the consolidated 228.7 million, an increase of 82% in comparison with 2015.

On the next slide 22, we have the profile of accounts receivable, and we can see the improvement in the profile of aging with balances to be collected representing 78.6% receivables in comparison with 73.1% in the previous year. Also the terms of collections dropped by seven years, the collection terms the continuous improvement of our receivables is resulted from many efforts made by the company to improve internal processes and resulting in a better efficiency in managing receivables.

On the next slide we see the cash generation of Q4 and year-to-date. We highlight here the operational cash generation in Q4, 125 million, resulting in a conversion of 124% of EBITDA in the quarter. For 2016, we reached a cash operational cash generation of this record. We see here and the conversion operational cash and EBITDA reaching 106%.

On slide 24, we see the investments made in Q4 '16 and in the year of 2016. Q4 we invested 90 million concentrated especially in the expansion and improvement of our units, strategic projects and renovation of equipment. The total in 2016 investments reached 184 million.

On the next slide we see the investments made in expansion and improvements in the last quarter apart from renewing equipments, which together represented 62.5 million. In expansion and improvement, we invested in CapEx, 47 million, divided in 26 million invested in new units which includes construction and improvements in medical equipment, 9.5 million in the purchase of new equipment for existing units and expansion of offer for image in the brand a+ Sao Paulo, 3.6 million in improvements in the 22 units in Rio Grande do Sul as a result of the branding of the Weinmann brand.

In equipment renewal, we had 15.1 million, 9.2 million to substitute three MRIs and two in the Fleury brand and one in the Labs a+, 3.1 million for the renewal of ultrasound in the brand Labs a+ and 1.3 million in the substitution of equipment for fetal medicine in the brand a+ Sao Paulo. These investments show the commitment of the company to execute its expansion plan and improvement of our services apart from the search for return on the capital invested and always more and more.

On the next slide, number 26, details about the performance of the shares with highlight to the evolution of 122.8% of the price of the shares in 2016, closing the year at BRL35.65. During the year, we also had a significant improvement in daily volumes almost 22 million in Q4 '16.

Finally, on the next slide we see the events with investors and analysts and where we will be present in the first semester in 2017.

Now, we'd like to begin the Q&A session. Thank you very much.

Operator

The the the the the

Questions And Answers

Operator

Thank you. We'd like to begin now 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. Thank you. My first question has to do with Rio de Janeiro. You said that most of the increase in revenue in this quarter came from AC in the mix in the re-operation. My question, where are we in relation to your plans to offer more of these services in Rio? Is there an opportunity to increase these services in 2017? What is the size of the opportunity?

The second concerning working capital. We saw once again a better working capital, especially coming from receivables, which was the trend during the whole year 2016. So my question, are we where you hoped to be or is there space for improvement in terms of receivables in 2017? Thank you.

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

Thank you for your question. I'll talk about Rio de Janeiro now. Adolpho will talk about working capital. Rio de Janeiro we have an important evolution in AC. It is a city, as you know, during -- after the acquisition, we had a strong servicing image. And then we did an integration and we identified all the opportunities for growth in clinical tests.

We are very enthusiastic with what is happening there in clinical test. We will continue in 2017, expanding with new opportunities using the units we have with more clinical tests using the space in these units and increasing especially the productivity that we have in our units. This is something that we saw in Sao Paulo with the units that participated in the project and we're taking this knowledge to Rio de Janeiro. So the expectation is to continue growing in clinical tests in Rio with an interesting profitability.

Adolpho will talk about working capital.

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

Hello, Marco. The answer to you is that, yes, we intend to continue improving our working capital, not with the same results that we had during the last year-and-a-half, but our objective is to continue with continuous incremental improvement in working capital. And I'd like to say that we implemented SAP at the end of the year.

So, our numbers in December, the inventory was higher and vendors was hired through to the cutover SAP. We may see some of the effects of this in Q1 and these are all the effects that happened once. Then in the future, we will see the continuous improvements again. Thank you.

Operator

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

Q - Joseph Giordano {BIO 17751061 <GO>}

Hello, good morning. Thank you for -- I have two quick questions. The first, please quantify the additional expenses concerning the consultancy services and the marketing of celebrating 90 years of Fleury.

My second question, going back to cash generation, which is robust, very robust, the company distributed lot of dividends. What will change in the capital distribution policy and what we can expect in terms of CapEx during the year, and if we should expect a level of leverage to go back to 1.5 times, which was the target of the company?

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

Joseph, good morning, Adolpho. I won't give you the specific values, but looking at the explanatory notes, you can see that consultancy in Q4 '16 in comparison with Q4 '15, 4.2 million. And including promotions events, 5.2 million, both together 1.5% of net revenue in the quarter. It's important to mention we will continue to look at consultancy with the project that should give a good payback and certainly the work has been very positive. So, we're using consultancy services, but they should give us a quick payback and bring benefits in the long-term for the company.

Concerning CapEx, I believe that with the results of Q4, we have an increase as a result of our expansion program. This is something that should continue, we don't have a guidance, but we're observing an evolution which naturally will happen with the investments being done in expansion. And in terms of distribution of results and leverage, you saw we have a target to continue improving our capital structure with a conservative position and working on net debt EBITDA 1 to 1.5 times -- net debt EBITDA. And we should -- this is what we should be doing during the year. This is the goal during the year. Thank you.

Operator

Mr. Rodrigo from BTG Pactual like to ask a question.

Q - Rodrigo Maciel

Good morning. Two questions; the first concerning the expansion plan. If you could share with us talking about the evolution of the seven units opened since October in the last few months. In terms of quality, was it less than expected, more than expected, do you see an effective -- a marginal effect of cannibalization due to the units?

And also bad debt, another point that is calling our attention for some quarters, improving for some time based on the restructuring of the company. After the end of 2016, where can this get without depending on more aggressiveness of the healthcare clients? So bad debts where can this get in 2017? Thank you.

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

Okay. Carlos, I will comment and then can Adolpho can supplement. The expansion, we're very satisfied with the seven units we opened. These are units, some of them are in geographic regions where we are present, we identified that there was potential or that we weren't serving our clients in these locations and they are very successful. So these are units the greatest highlight not only due to the growth plan we had, but the highlight has been our capacity in really inaugurating in a shorter period of time.

We are able to rent this space, negotiate with healthcare plans in a very short period, much shorter than in the past and open the units and thus leaving it ready to operate and clients have come. We have a policy to open units in places where there is a lot of traffic. So what happens is that you have many times new clients that come and also clients that went to other units. And sometimes they were closer to their homes and now this new unit is closer. We control this daily volume cannibalization in the new units. We control number of new clients and we also do advertising in the region. So it involves lot of work beginning early. When we're looking for a location and these that we open. I personally visited each one of these units. We reduced costs with a structure we have, also advertising before we open the units and then we continue doing this. So this work includes a lot of intelligence. So these units will deliver the value that we expected.

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

Now going back to the answer I gave to Marco, we had great gains in the last few years, we removed almost 200 basis points in the last three years in deductions and discounts and we see that yes there are improvements to be gained in the future not with this magnitude of course. What we're looking at is that in the medium term two to three years, we should be working with deductions that are normalized with the exception of events. We expect to go to 1.5%. We're working with this number.

Operator

Mr. Bruno Zanotta from Credit Suisse would like to ask a question.

Q - Bruno Zanotta {BIO 19926481 <GO>}

Thank you. Could you comment and tell us more about this dichotomy of the margin expansion program in regional brands and the acceleration of the expansion program? How do you see this in the future? Do you believe you can increase margin in 2017?

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

Well, as you know, in our expansion plan, we have an aggressive expansion planned in the next few years. In this short period of time, we inaugurated seven units, but we have a large installed footprint, we not only opened new units but we're looking for new opportunities, new services or to increase the number of services using in a better way the current footprint. We have a very well-installed footprint. We recognize that the clients like to go to our units. So this mix between new units and old doesn't mean that we have total maturity. We continue to look at opportunities to improve the profitability in the old units.

For example, with Six Sigma, it's a project that is in its infancy in the company. We have some initiatives. I do a follow-up of this closely. Last Friday, I was with a group of managers working on this project, and I'm very enthusiastic with the results of this project in many regions in Brazil. It is still restricted to some cities we know. So in the next quarters we will have a good balance between new units we want to open, places where clients are requesting services with quality services and margin.

Just supplementing, let's remember that our expansion plan foresees a balance to maintain the current business. We have the regional brands, but we have a strong investment in the Fleury brand and we continue with these investments. We have two large units to be inaugurated in the second semester of this year and also the current footprint where we see opportunity to improve results, especially in the regional brands. Thank you.

Operator

Mr. Gustavo Schroden from Bank of America has a question.

Q - Gustavo Schroden {BIO 17051676 <GO>}

Thank you. I'd like to mention income tax you had a credit. Will you have the same next year, credits and income tax?

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

Good morning. Adolpho. Well, we will continue every time we have an opportunity to evaluate the best configuration for all the stakeholders, the company, the shareholders. What I can say is that we will be working hard to make the best decisions to maximize the value for everyone. Thank you.

Operator

Mr. Luciano Campos from Bradesco has a question.

Q - Luciano Campos {BIO 16181710 <GO>}

Good morning, Carlos. My first question, I have been following the service and the square meters. I see that there was an acceleration in some numbers due to the macro scenario and the situation. I know that the loss of the unemployment in high-end positions is lower. Could you show problems with competitors that helps or the actions that you took that are producing these results, maybe you can give us examples of what is being done and what this can additionally generate in the beginning of 2017 where we still have a crisis.

And Adolpho please comment on the decision to increase the coverage rates on receivables. It was 66% in Q4, went up to 71%. What motivated this?

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

Concerning your question in service per square meter, we want the clients to come, have good service. We have a good offer of services. We want clients to find the services when they call our contact center on the date they want, at the time they want. We have worked a lot on this, the efficiency. We give a lot of attention. We have analysis statistics and models internally and this allows us to improve the level of service we have and consequently we have for example we give good service to clients, so they will recommend us. And thus, we do this continuously. I remember in 2014-15, we said at the beginning of the year, the clients is coming because sometimes we look at the crisis and other issues. Actually, we can see that we're doing a good job. We're expanding and clients are recommending us. This depends on hard work of our 8,590 employees in 140 units, giving good service to clients with a smile, good morning, and this in all including the regional brands and clients are finding what they need and we're overcoming the expectations and they are recommending us. This is what we do every day and we're happy that these clients have come more and more and are recommending more and more our services.

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

Luciano, thank you. It's clear that we did not change our policy for accruals for bad debt, it's the same as before. There are some natural events during the quarters concerning the speed at which you write off these accruals. So you have the accruals, but sometimes you anticipate the write-off. You execute a write-off in different periods too. So what's happening is that we're seeing this. We're following the normal policy, but we don't write off everything that was accrued according to the policy.

Q - Luciano Campos {BIO 16181710 <GO>}

Just a follow-up, okay, I'd like to understand is there any change in payments in the quarter. Did you have any problem with competitors that helped increased traffic?

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

We see here some changes in the market, but we work in our units. We have an interesting footprint. We have a product that is recognized very well by the doctors and also with high reliability and especially with our good practices. So it's the result of having 90 years of history based on well-established practices and partnerships and high reliability of our doctors, high trustability of our doctors, this is what we saw in Q4, and this is what we hope to continue seeing in the next few years. Thank you.

Operator

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

Q - Bruno Giardino {BIO 15974970 <GO>}

Good morning. My question has to do with hospitals in February. You will begin an operation in Beneficencia Portuguesa. And I understand it's a hospital that has a high number of beds. How much does this represents of the total number of beds that you service? How do you see the dynamics of this operation in 2017? And how much does this represent in your portfolio, number of beds?

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

Okay. Purely, BP has 1,084 beds in Sao Paulo, and they represent -- we had 3,000 beds before this. But BP has a different -- requires different type of services. It's a well-known hospital, a hospital the largest volume of heart surgery in Latin America is in this hospital, very competent doctors, but they have a mix of services that is different from the rest.

BP has a volume, for example, from social security that is important in our contract with BP. We found a way even when it's social security to have a package of services that could be interesting for them, for them to continue, especially being a high complexity hospital.

And at the same time, with a financial position that would allow us to charge prices that are interesting for us.

So number of beds, yes, represent a very large number of beds and in the mix of services we have a large participation of social security in our contract. We have this which is interesting for us and for them that with growth.

And an interesting point Bruno at the end of last year we began in the (inaudible) this is Health Ministry program which allows hospitals with excellence to continue with philanthropy through investments that will return to society. Development this is shows that the mix in BP will change as time goes by in a positive way.

Just supplementing, so in 2017 as you asked it will continue being very important for us, our hospitals have a -- we have a large volume of hospitals but much more than volume they are a reference in each geography where we are.

So, in Sao Paulo this is clear with the brands, Porto Alegre, also reference hospitals. So in any city where we are, we go to win with quality and excellence. This is what we have done until now and this is a business line that you will continue seeing that we will grow in this area.

Q - Bruno Giardino {BIO 15974970 <GO>}

Thank you. Just a follow-up question concerning CapEx. In the last few years, we've seen clearly with lower CapEx in the first three quarters and then accelerating. Is this what we expect in 2017 or will the expansion plan change things?

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

There should be a difference in new dynamics. It will depend on the execution of the investments in the units. We as we said before, we have units under construction and I believe that from what we have seen, it will be more linear this year than in previous years. Thank you.

Operator

Mr. Guilherme Muller from UBS would like to ask a question.

Q - Guilherme Muller {BIO 19810734 <GO>}

Good morning. A question on B2B. You had a drop in EBITDA in Q4. Could you mention more about the performance?

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

Hello, Guilherme, Adolpho. First, we should say that when we look at the total EBITDA margin in the year of B2B, it improved 100 basis points, 16.3% in 2015 to 17.3% in 2016. What happened in Q4 is that we had some non-recurring events that improved the results of Q4 2015 and then there was a drop in Q4 '16. We reversed an accrual in 2015 almost

BRL500,000; in 2016, we have part of the cost of integration in the hospitals that we are adding affecting our results. So the analysis of Q4 was penalized. We have to look at the whole year -- the numbers for the whole year and you will see an improvement of 100 basis points. Thank you.

Operator

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

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

I'd like to thank once again to all those who participated in our release. 2016 is a landmark in the turnaround effort and we are ready to have larger and greater challenges in 2017 with knowledge and quality. Thank you.

Operator

The teleconference for Grupo Fleury has ended. Thank you very much.