Y 2017 Earnings Call

Company Participants

- Carlos Alberto Iwata Marinelli, Chief Executive Officer
- Fernando Augusto Rodrigues Leao, Chief Financial Officer, Chief Legal Officer
- Viviane Behar de Castro, Investor Relations Officer

Other Participants

- Joseph Giordano, Analyst
- Roberto Otero, Analyst
- Rodrigo Franca L. Gastim, Analyst
- Thiago Macruz, Analyst
- Tobias Stingelin, Analyst
- Unidentified Participant

Presentation

Operator

Good morning and thank you for waiting. We welcome to the earnings call of Grupo Fleury concerning the Results and Earnings of Q4 '17. We have with us today Mr. Carlos Marinelli, Chairman; Mrs. Viviane Behar de Castro, Investor Relations Director; and Mr. Fernando Leao, CFO and Legal. We inform that this event is being recorded and all participants will be in the listen mode only during the presentation of the Grupo Fleury. Next, we will begin a Q&A session, when more instructions will be supplied. (Operator Instructions). This event is also being transmitted simultaneously through the Internet via webcast and can be accessed at the address, www.fleury.com.br/ri and on the MZiQ platform, www.mziq.com, where you will find the presentation. The selection of the slides will be controlled by you. The replay of this event will be available right after the end of the call.

We remind you that the participants in the webcast may send via website questions to Grupo Fleury.

Before proceeding, we would like to clarify that any declarations that may be made during the earnings call having to do with the business perspectives of Grupo Fleury, projections, operation and financial goals are based on the beliefs and assumptions of the company's management, as well as information currently is available to Grupo Fleury.

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

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

Carlos Alberto Iwata Marinelli {BIO 18884059 <GO>}

Good morning. I thank you very much for your presence and interest for our earnings call for Q4 and 2017. I would like to begin highlighting the main financial indicators in Q4 and the year of 2017 on slide number three of the presentation.

Net revenue had a growth about 11.2% in the quarter and 13.7% in the year totaling BRL2.4 billion in 2017, a historical record for the company. Cancellations reached 1.5%, and the 41.7% in the year with a strong evolution of 90 basis points and 98 basis points respectively.

In the quarter, EBITDA grew 29.7% reaching a margin of 22.4%, which represents a growth of 320 basis points in relation to the same period in the previous years. The cost related to the expansion had an impact of 79 basis points.

We'd like to highlight that it is the ninth consecutive quarter with growth in the EBITDA margin when compared to the previous years.

During the year, EBITDA grew 28.1% reaching a margin of 26%, which represents a growth of 292 basis points in relation to 2016. This is the best margin since the IPO of the company. Our net profit reached 64.6 million in the quarter and 320.6 million in the year, which represents a growth of 40.2% in relation to the previous year.

Finally, we had a return on invested capital without premium 44.5%, a strong growth in comparison with 32.9% reported in 2016. This set of indicators confirms the sustainable growth of our results during the year of 2017 and correspond to our expectations for the period, marked by a consistent execution of our expansion plan.

During the year, we added 30 new units in Sao Paulo, Rio de Janeiro, Parana, Rio Grande do Sul and Braz Leme. These inaugurations include the brands Fleury, Felippe Mattoso, Weinmann and a+ reinforcing our portfolio. Now let's go on to slide number four, showing the evolution of our expansion plan between October 2017 and February 2018.

We delivered 12 new units, among them 6 fast sites in Rio de Janeiro with direct [ph] offering clinical analysis and ultrasound, 5 of these were labs a+ and one of them Felippe Mattoso. Three average units of (inaudible) in Sao Paulo were offering clinical analysis, image including MRI and a mix of women's test. One unit fast site a+ in Curitiba, 2 units -- average units, Vila Leopoldina, one in the Western zone of Sao Paulo and one in the City of Santo Andre with clinical analysis image, MRI and women's exams.

As you can see, we showed the pictures of the units in Rio de Janeiro and Curitiba. Next, we show the pictures of the units of Fleury and a+ in Sao Paulo. We would like to mention that between October 2016 and February this year, the company expanded its network by 34 units. These inaugurations correspond to a significant part of our expansion plan, which foresees inauguration between 73 units and 90 units until 2021.

This year, we should have more focus on the brands, a+ in Sao Paulo and labs a+ in Felippe Mattoso, in Rio de Janeiro.

Now on slide six, we see a -- that the growth is continuously based on the recognition of the quality of our services, evidenced by our NPS metric, Net Promoter Score. We follow this to guarantee the satisfaction of our clients.

In the quarter, this indicator grew 455 basis points and reached 76.8%. Among the highlights of Q4, we issued debentures for BRL300 million through a third issuance of debentures. This happened in November and reinforces the company's cash position in order to carry out its expansion plan.

In January 2018, we became part the IBOVESPA, the stock market index. This brand is the first in diagnostic medicine. It is the most important indicator of the most negotiated shares in the Brazilian stock market. Our rate is 0.70%, representing the 37th position in the Sao Paulo stock market index. Also in January, for the fifth consecutive year, we were part of the ISE, the Sustainability Index of B3.

The portfolio has only 30 companies and our presence is the result of the business model that includes continuously the concept of sustainability as a basis for decision making, and the way we work with our stakeholders, thus showing guarantee in the paternity of the business and maximizing the return for our shareholders.

In February this year, we include the operation -- clinical analysis of hospital, AC Camargo, the largest cancer center in Latin America. This confirms a recognition of the excellence of our diagnostic services in this area.

We announced the third profit distribution concerning the results for 2017, BRL204.2 million. If we add this to previous distributions, we will have BRL304.6 million representing a payout of 95% and dividend yield of 3.1%.

I highlighted in 2017, we used the distribution limit for interest on invested capital generating benefit for the company and its shareholders. We also informed the acquisition of 100% of the capital of Instituto de Radiologia de Natal, a traditional company in diagnostic medicine in image -- in the city of Natal in the state of Rio Grande do Norte in the North of the country.

This acquisition helps us to enter a new market for Grupo Fleury, reinforcing our presence in the Northeast of the country with quality assets aligned with medical excellence, technical excellence, excellence in good services.

I'd like to highlight the awards that the company won during Q4. We were recognized by the seal linked [ph] to Pro-Ethics 2017 from the Secretariat of Pro-Ethics linked to the Controllership Secretariat of the Government due to our commitment with ethics, integrity and transparency.

Only 23 companies received this recognition due to the actions internally to disseminate concepts that have to do with compliance and ethics between employees and doctors. For the second consecutive year, the Fleury Medicina e Saude brand was elected as best service in Diagnostic Medicine Services Category published by the newspaper O Estado de Sao Paulo.

And for the seventh consecutive year, we are part of the Guia Exame de Sustentabilidade due to the good practices and corporate responsibility. We were also highlighted as the most innovative company in a survey made by A.T. Kearney. These recognitions are due to our differentiated position in the health sector categorized by focus on excellence in our technical services and also other services.

To these attributes, we also have reached excellence in management, that can be observed in our results. After a robust corporate governance was installed and a strategy was executed, we developed a manageable system that guarantees differentiated results and specially sustainable results.

This is how we concentrate our efforts to make Grupo Fleury a company that is more and more relevant, generating results and benefits for all the stakeholders and the health sector.

Now I would like to pass the floor to Viviane, and she will continue presenting the results. I'll be available at the end for questions. Viviane, you have the floor.

Viviane Behar de Castro {BIO 16620272 <GO>}

Thank you, Carlos. Good morning. We continue with the presentation on slide seven, where we will detail the gross revenue for this -- line of business. First of all, we would like to say that apart from the gross revenue, we also have got net revenue and we highlight the positive impact of our management and accounts receivables.

These results were within the plans and with a strong -- we had a strong impact in the calendar with two long holidays and two work days less in relation to the previous years. And this had an impact on all our brands and segments. With this, we presented a growth in the quarter of 10.1% in gross revenue -- total gross revenue, reaching 630.2 million. The growth in total gross revenue was impacted by the performance of our service centers which grew 9.7%, 9% for Fleury brand, 14.3% for Regional brands, excluding Rio de Janeiro, 7.1% in Rio de Janeiro brands.

Our operations in hospitals had a growth of 12.8%. On the graph on the right, we see a comparison of gross revenue in 2017, where we had a growth of 12.4% with the highlight of the double-digit growth in all the segments and brands.

Service units had an increase of 12.5%, 10.8% in Fleury brand, 17.4% in regional brands excluding Rio, and 13% in Rio de Janeiro brands. Our operations in hospitals reached 12.3% growth. The net revenue in the quarter had a growth of 11.2% with an improvement in the indicator of cancellations which reached 1.5%.

In the year, net revenue had a growth of 13.7%. We closed the year with an important growth with the revenue of our brands and a good execution of the expansion plan to capture more growth in the following years.

On slide number 8, we see in more detail the growth of our brands. On the graph, we can observe that more than half of the growth came from the growth of Fleury brand, which represented BRL25.9 million growth followed by 14.3 million in the Regional brands ex-Rio, 6.7 million in the brands in Rio de Janeiro.

On the table below, we see the growth according to gross revenue and same-store sales for each segment. Beginning with the Regional brands, excluding Rio de Janeiro, we observe a growth of 14.3% in gross revenue with same-store sales of 9.7%. We can notice in this result, the beginning of the effect of the expansion of our units a+ in Sao Paulo, Parana which contributed 4.9 percentage points for the increase in revenue.

And in spite of the fact that they are in the beginning of their maturity phase, we highlight that apart from the negative impact of the holidays, longer holidays we have also the effect of the retrofit and substitution of large equipment for image in the unit in Sao Paulo. From now on, this unit has a new layout, new equipment, including two MRIs.

In the brands in Rio de Janeiro, we observe an increase of 7.1% in gross revenue and 7.4% in same-store sales. Apart from the calendar effect due to long holidays that we discussed, and Rio de Janeiro where the -- where the use of services is greater.

We had an interruption in the services of regional operator in one of the Labs a+. We'd like to remind you that, that of the six units we inaugurated in Rio de Janeiro in Q4 '17, four were inaugurated in December, and therefore, had an irrelevant impact on the revenue of the quarter. We would like to highlight that this shows that in the next quarter, we will have a better performance in Rio de Janeiro.

In the Fleury brand, we saw an increase of 9% in gross revenue with 2.1% in the same-store sales. The total growth of gross revenue is due to the new units. In spite of the fact that they are in the initial curve of maturity, they represented 7 percentage points of this growth. We'd like to remind you that about 60% of the new units are less than six months old.

The same-store sales of the brand reflects the problem of the long holidays, the strong effect of the expansion made in 2017, the inauguration of 10 units, 5.7 thousand square meters. This effect is related to the distribution of clients, old and new between the existing units in the same geographic area, that we call clusters.

Opening a new unit, we really plan again the existing units through a retrofit or by also altering the mix of services which impact same-store sales. The guidance and redirecting clients is supported by our call center and social media. Our objective is to develop the Fleury brand as a reference in the premium sector. These investments together with the calendar effect had an effect on the growth indicators.

Our attention [ph] will continue with focus on the growth in the clusters. We will make mix adjustments and also adjustments in offering clients according to our demand plan.

On the next slide number 9, as mentioned by Mr. Carlos, we carried out a significant expansion plan with 33 units inaugurated until December 2017.

This represents an extra 10,500 square meters or 10% more area. It is important to stress, as we can see in the graph that 68% of these new footage is less than six months old. Here we see per segment. The Fleury brands, 54% of the area is inaugurated and with less than six months of operation, 58% in the Regional brands, including Rio de Janeiro, and 100% of the brands in Rio de Janeiro, showing the beginning of the maturity curve and great potential indicator [ph] for these units.

On the other hand on slide number 10, we'd like to share with you the specific details about the Fleury brand with the analysis of the Clusters made up by two large units; Analia Franco and Morumbi in Sao Paulo, inaugurated in June and July 2017.

These units together represent more than 55% of the footage inaugurated in the brand and had a significant effect on the investments in the expansion. As can be noticed in the bars of the graph, these two clusters had a relevant growth in gross revenue generation immediately after the inauguration of these units.

Also the growth during the year can be seen here with a significant growth which before was as we can see 3% to 10% to more than 30% in Q3 and Q4.

Now slide number 11, where we highlight the cancellations in net revenue. In the graph on the left, we see cancellations reaching 1.5% in the quarter, a reduction of 90 basis, this is the result of continuous improvement in the processes and systems and also better accounts receivable.

In the year, we had 1.7% of reduction of 98 basis points. On the right, we see net revenue which grew 11.2% in the quarter totaling 582 million in the year, an increase of 13.7%, reaching 2.4 billion.

On the next slide number 12, we see here our costs in the graph. In the quarter, an increase of 9.5% and a dilution of 119 basis points in relation to net revenue. During the year, the increase of costs was 10.2% with an even more expressive dilution of 221 basis points.

On the graph on the right, we see our expenses. In the quarter, we had a reduction of 8.8% [ph] and a dilution of 236 basis points in relation to net revenue. In the year, the reduction reached 1.1% with the dilution of 163 basis points.

Our strict discipline in managing costs and expenses with the evolution of our controls and incessant search for efficiency resulted in these important gains even with the expansion. We continue on slide number 13, where we show the evolution of EBITDA, which reached 130.7 million in the quarter, an increase of 29.7% in relation to Q4 '16.

The EBITDA margin grew 320 basis points reaching 22.4%.

The impacts related to the expansion represented 79 basis points in the quarter's margin. In 2017, EBITDA grew 28.1% and reached a margin of 26% in comparison with 23% in the same period 2016, representing a growth of 292 basis points. We highlight that the margin of 26% is the largest reached by the company since its IPO.

Now slide 14, where we show net profit which reached 64.6 million in the quarter, 320.6 million in 2017. Net margin was 11.1% in the quarter, 13.5% in 2017. For better understanding of the comparison of the net profit between the periods, we highlight in grey on the graph the benefit of the distributions of interest on invested capital.

So this was concentrated in a single quarter in 2016, the payment of interest on invested capital. In 2017, we diluted this recognition during the quarters. Therefore, if we exclude this effect, the profit would have grown 53.3% in comparison between Q4 '17 and Q4 '16. In the year, net profit had an increase of 40.2%.

On slide 15 we present a graph on the left with operation of cash flow, which registered 111.8 million in the quarter and 529.6 million in the year. The conversion of operational cash and EBITDA reached 85.5% in the quarter, and 85.6% in the year. In both the comparisons, we had a reduction due to the increase in working capital because of our expansion plan.

On the right, we see the evolution of CapEx which went up 12.4% in Q4 '17, totaling 101.1 million with concentration of 53.5% in expansion and improvements. During the year, CapEx grew 60.7% and reached 295.6 million with 61.5% concentrated in expansion and improvements.

On slide 16, we highlight our return on invested capital without premium, which reached 44.5% in the quarter with a strong growth in relation to Q4 '16. The growth of return on the invested capital shows that the investments have been made even with the beginning of the maturity of the new units that we are on the right track.

We'd like to say that the growth of Return on Invested Capital happens in all segments including the Fleury brands.

On slide 17, we see the performance of shares. We saw an appraisal of 0.5% in the quarter and 70.7% in the year. We can see here the graph on the lower left that the average volume of shares being sold negotiated reached 57.5 million, 2.6 times more than in the same period in 2016.

Also, our company shares now are part of the stock market index, Bovespa Index, which also contributed to more liquidity.

On slide 18, we see that the Council of Administration approved the Board of Directors a suggestion to pay dividends worth 204.2 million, which represents 0.65% -- BRL0.65 per share and the payment will happen on April 2nd, based on the shares owned on March 6. So this has to do with 2017, representing BRL0.97 per share.

For this last distribution, we distributed 304.6 million. At the end of slide 19, we include our agenda with events in the market.

Now we will begin the Q&A session and Carlos, I and Fernando will be available to answer questions. Thank you very much.

Questions And Answers

Operator

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

Q - Rodrigo Franca L. Gastim {BIO 19694950 <GO>}

Good morning, two questions. The first has to do with same-store sales, regional brands, we see an acceleration in Q4. I'd like to understand what really happened, and January, February was a recovery, what are the expectations for same-store sales in regional brands? That's the first question. The second, accounts receivable, we saw an increase year-after-year.

I'd like to understand what really happened if you can explain better, and what we can expect in the next quarters for accounts receivable.

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

Thank you for your question. Concerning same-store sales, regional brands, we have a great importance of a+ in Sao Paulo, a+ Sao Paulo in the last quarter, we did a lot of recruit [ph] actions, especially (inaudible) unit that has a large volume. Large equipment was installed, two MRIs, and doing this is not simple. You have to stop an important part, not only where you install the equipment, but you also stop other areas that are necessary.

And also, there's the issue of regional brands, some brands have clusters. In Curitiba, we had agreed an expansion also in the Clusters. So we have to look at these regional brands. It was just happened in Q4 once, and we're very happy with the effect we had in Q1, 2018 in line with our plans. Apart from this, also there is the -- we had long holidays, we had the calendar effects and this also had an impact on us, and had an impact on other companies too as we saw. Now, we will hear about the other part, the next question.

A - Fernando Augusto Rodrigues Leao {BIO 20171823 <GO>}

Good morning. Thank you for the question. In Q4, we had an impact on accounts receivable, but this did not result in losses for the company. And what we're observing at the beginning of the year, we're going back to normal levels and we hope to conclude Q1 with numbers in line with our plans.

So this was a negotiation in Q4 with healthcare plans and it will become normal in Q1. Yes. And we don't expect any new impact. There will be no other impacts in the next quarters.

Q - Rodrigo Franca L. Gastim {BIO 19694950 <GO>}

Thank you.

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

Thank you.

Operator

Mr. Thiago Macruz from Itau BBA, would like to ask a question.

Q - Thiago Macruz {BIO 16404924 <GO>}

Good morning. I've two questions. First, cost of material. I saw a positive impact in Q4, I'd like to understand better if the cost with vendors, is it a new -- is it a one-off case or higher costs?

Also looking forward, can we suppose that you will expand with the speed you are expanding, is this a scenario we should expect? Thank you.

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

Macruz, thank you for the questions. Well, concerning the cost of material, we're working all the time to make this account more efficient. In 2016, when we had a larger project, we gained efficiency in materials, we've been working with our vendors to have more efficiency and usage and also price and the impact that you see on this line is this trying always to increase the efficiency.

What we have ahead us, we will not have on this line, we will continue to use resources in a better way aided with a less resources and negotiations that will be more and more important. Due to our size and volume, our operations allow us to have activities like this. In terms of expansion, we can have other comments too.

Now concerning expansion, there is no doubt there is pressure on margin because of expansion. You know that the dynamics of our business has fixed costs before the beginning of the operation of the units. We have to hire people, also we have to have an inventory material before the inauguration. So, there is pressure because of new units, but we have done this with great care and good planning in order to have a minimum impact.

Now, when you inaugurate 34 units like we did with this expansion plan, there is no doubt that these units will have pressure on margin in the beginning.

But you know that we don't have guidance in relation to margin.

The company's objective as a whole and we're focused on this to avoid losing what we want. And the margins we have, we know how we worked to reach them, and we will continue to maintain and give these margins and these returns to shareholders.

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

Good morning. To supplement Carlos' point on materials, this is aligned and it's very sensitive. We have invested a lot to gain efficiency with vendors. But the effective control, the effective management of consumption of materials is important, we have worked on this. We have a project where we're rolling out inventory control at the hedge in the same units.

All these controls contribute for the improvements of this line. And concerning revenues, we hope to continue to stay on this level or even better.

Q - Thiago Macruz {BIO 16404924 <GO>}

Just a follow-up question. Is it reasonable to expect a more dramatic plan, maybe revisiting technical centers to reach a different level in terms costs, is it possible in the next few years?

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

Macruz, we have very strict controls in this area. When we look at costs of operations, we're always thinking of everything we can do in a different way to have gains, more significant gains. You can be sure that our team in supplies and our technical team, they are looking at many possibilities and alternatives.

Now having a lower unit cost recently, we bought equipment which -- that can help us to increase production in comparison with the past. So with this, we have the cost of infrastructure that is lower use of less space, so we have a clear path ahead of us, for reduction in costs, we have a very lean [ph] process, this was born in our technical areas within the company, and then went to all the units, and we have a partnership especially with our vendors. So this is what we see right now. You can be sure that if there are new opportunities, we will be looking at them. This involves a lot of work, a lot of adjustments in process, some small variables that help us have gains. We're working on this right now.

Q - Thiago Macruz {BIO 16404924 <GO>}

Thank you for the answers. Congratulations.

Operator

Mr. Joao Martinez [ph] from Santander Bank has a question.

Q - Unidentified Participant

Good morning. Thank you. Two questions. The first in hospitals, how is the average tickets and volume with A.C. Camargo Hospital that was included and also the acquisition. Could you tell more about the acquisition, the profile and possibility of growth?

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

Joao, thank you for your question. Concerning hospitals, average tickets, we have within the contract with A.C. Camargo Hospital. They are a high complexity hospital. What do you expect from a high complexity hospital? So has that a more advanced clinical tests that have to do with customized precision medicine? So, then these are more complex tests in average. On the other hand, as you know, they also work with social security of the government.

So we have to find the balance that will be feasible for the hospital and for us. But it continues to be important for the company in terms of expectation of return on investments. So we're very happy to be in this hospital. It's a reference hospital for all of Brazil in cancer treatment and we already worked there in the past, now we're back.

And we have a good contact with the medical community and we're working with them to win the battle against this complex illness, and we are very happy to bring our excellence in services to help them.

Now concerning pipeline, we're very active in pipeline. It's a business that is very important for us. It brings a lot of knowledge for our day-to-day operation, the knowledge for our doctors, also we're working in different geographies with the acquisition in the Northeast and so this adds value to us and we have a strong pipeline in hospitals.

We will continue growing in hospitals this year. Concerning your question about the acquisition. It had an excellent reputation, the company we bought in the city of Natal in the Northeast of the country. We have 36 doctors, almost 350 employees working in this company, and they have a positioning that is intermediate and premium.

They have a city that where segmentation is not as strong as in Sao Paulo. So intermediate and premium, and it is a city that has a considerable volume of healthcare plans. There were also private clients there is (inaudible) healthcare plan, and we have a good relationship with the doctors there, and the reputation.

And the equipments they have are very important for the city for the medical community of the city of Natal and they have 6 MRIs in the four units that are very advanced.

I was there in the beginning of the negotiation. I liked very much what I saw, the installations and the processes are very good. There was a positive surprise to see the organization and we want -- we're very happy to be in a new geography in Brazil, the Northeast of the country.

Q - Unidentified Participant

Thank you, Carlos.

Operator

Mr. Joseph from JP Morgan, would like to ask a question.

Q - Joseph Giordano {BIO 17751061 <GO>}

Good morning. I'd like to go back to same-store sales and understand the issue of the maturity of the new units. We see there the activity in the Clusters, but it seems that we haven't reach the potential, the full potential. I'd like to understand how much revenues these units generate in the first year in comparison with your projections.

So how much same-store sales can increase, especially after the middle of the year? And looking at margin expansion, I'd like to know about the seasonal movement this year. Last year, we had new units inflation and I'd like to understand how things should look in margin expansion in Q1 with more efficient expenses and an inflation of three [ph] . Thank you.

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

Yes. If I don't cover all your questions, tell me. What you said about maturity curve, we're working on this. We don't have thousands of units, we have hundreds of units. And we have these new areas that are similar to the current areas.

So sometimes, we send clients to the new units, so we can re-vamp older units and change the equipments in order to be equivalent to the new units and this affects a little same-store sales. Our focus when we do this, when we do these expansions is never related to a specific unit, we always aim at the cluster.

So you can total, I'm adding value, when we're very comfortable with this. And we look at the portfolio of the brands and expansions, and we do this every month. We have indicators in all the lines and we make these comparisons.

Every time we look at the portfolio, we are aware of these movements specially in a sector like ours where new units don't generate the demands, the demand already exists.

So we offer our services, maybe some people did not know clearly in that region now, when we have a little-by-little also these new clients. Now we -- how much we can win with the increase in satisfaction, the doctor's preference for our services and due to the fact that we have new advanced units.

Concerning the maturity curve that you mentioned, we always look at this maturity curve. It is not like in other sectors of the economy, we can say, where you have impulse buying. Everything I do at the unit, I need a doctor's prescription, we're -- and in reality we want to capture these services and we believe that we will continue growing.

Now concerning margin expansion. As you mentioned, in Q1 2017 we had purchases -- as you said, last year we had the highest margin of the company and this is -- has to do with demand, but also other factors as the a + brand. So, now with the -- we implemented SAP, we had a cut-off date in January and this brands [ph] affected many processes in the company. We were well prepared to install SAP and we prepared ourselves not only with technology, but with physically. We took inventory in advance to the units, we guaranteed some payments in order not to reduce the services.

We had higher demand and a better cost composition because of our efforts in this area. And in the end, SAP was a success and we were able to have a differentiated margin in the first quarter of 2017.

Now in relation to 2018, with our analysis, when we do planning, more than looking at the quarters, we're also looking at the year. So quarter-by-quarter, we look at profit, building the profit and capturing demand and we're also looking at the year, as I said. We're in line with what we had planned.

Operator

Mr. Tobias from Credit Suisse, would like to ask a question.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Good morning, Carlos. I was surprised with the strong control. Will you continue with the strong control? How we should look at this line and in Rio de Janeiro, we know that there were calendar problems. Do you believe this is back to normal, after the long holidays? Do you believe in a quick recovery in Rio de Janeiro?

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

Tobias, thank you for your question. Concerning G&A, we work here in -- we are very concerned. We're always looking at this in all the processes of the company, and there's always something we can do better or in a more efficient way.

And we as a company are changing processes, making adjustments in some expenses that we have using better the resources of the company. We're always finding something to do better. I can tell you that the level we reached now is totally sustainable. And concerning expansion, you will have more of this stuff the name of the gain [ph] . We have the new units and we're always controlling costs, corporate costs and we can do this.

We're on the right track in all the units and we have worked in a more and more efficient way. And thus, we want to have more and more gains and efficiency, we're working on this. Concerning Rio de Janeiro, I can tell you that we had this variance. It was a single case, local operator that takes care of some units and this was the reason. But now in Q1, we are back, we're working strongly to compensate offering services, capturing demand, and in Q1, we're okay, and we will be within the plan.

Q - Tobias Stingelin {BIO 18290133 <GO>}

You are opening many units, are you working on the efficiency of the units, are they learning faster in the new units, is there a difference in relation to the previous year?

Do you believe you're more efficient now? Preparation, timing, purchasing, you can be sure of that?

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

The issue is experience as you said, we were a company that opened one unit every four months. We opened 34 in 15-16 months, so we learned a lot with this process, faster inauguration of units. We have more standardized units now, we are seeing more opportunities and even in the implementation.

I was visiting our units in a + in Sao Paulo, a little before the inauguration. Everything was ready, we were checking the equipment, the vendors making final adjustments in ultrasound but -- everything was ready, the rest was ready, we are inaugurating 15 days before the official date.

And in the end, we won 15 days of billing, we opened in advance the units, and it's there and we can use it. There are other things too, for example, the plan for hiring employees and training. So, you begin -- when you have this pipeline, you begin to adjust, you mix employees from older units with new units for a faster learning.

Some units for example begin working only in the morning. So with these details, we decrease costs, and optimize the generation of revenue.

So after inaugurating 34 units, we learned a lot will these many new units.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Thank you.

Operator

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

Q - Roberto Otero {BIO 16689399 <GO>}

Good morning. My question has to do with cancellations, and from now on, what are the plans, what are the expectations?

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

Thank you for the question. Yes, we're working with improvements -- continuous improvement in this area. We saw a great difference in the last quarters. We hope that we will continue this way lowering the (Technical Difficulty). So as I said, we have new projects, we have a pipeline, new units and we hope to continue improving but not at the same speed. We may have some cases, it's a level that is sustainable with marginal improvements in the processes.

Q - Roberto Otero {BIO 16689399 <GO>}

Thank you.

Operator

Thus we conclude the Q&A session. Now I'd like to pass the floor back to Mr. Carlos Marinelli for his final comments.

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

Well, thank you very much for being with us during this earnings call. 2017 was a challenging year in terms of evolution for the company, but also a very good year with growth in margin that we had. You saw in the numbers, distribution of dividends and also in our numbers concerning expansion.

I'm very happy that we did all of this. And with all the problems we had in the economy of the country, we were able to grow and we're really rendering excellent services to the clients with our valued proposal and you can see this in the recognition we have and as thus we will continue in this way. As I said, a challenging year, but a year when the company's management showed that it has a robust plan and an excellent execution with results. And in 2018, we hope to have another year where we will really have good results, higher than the expectations in the market. So on April 26th, we will have the next call and you can see in our presentations. Once again, thank you.

Operator

Thank you. Thus we conclude the earnings call for Q4, 2017. We thank you very much for your participation. We wish you a good afternoon.