

Q2 2018 Earnings Call

Company Participants

- Carlos Marinelli, Chairman
- Fernando Leao, Executive Director, Chief Financial Officer and Legal
- Unidentified Speaker
- Viviane Behar de Castro, Director for Investor Relations

Other Participants

- Joseph Giordano, Analyst
- Luciano Campos, Analyst
- Rodrigo Gastim, Analyst
- Thiago Macruz, Analyst
- Unidentified Participant

Presentation

Unidentified Speaker

(Foreign Language)

(Foreign Language)

Carlos Marinelli

(Starts Abruptly) I highlight our main indicators for the period. Net revenue presented a growth of 12.7% totaling BRL673.4 million in this quarter. For the first time we consolidated in our results the acquisition of Institute of Radiology of Natal, market leader in the region, in addition to Serdil reported already which had already been consolidated in Q1 this year. Denials reached 1.4% in line with the number presented before. EBITDA expanded 18.1% reaching a margin of 26.6%, which represents an expansion of 122 bps. Our net income has reached BRL86.6 million. The variation as compared to Q2'17 (inaudible) the effective rate in that quarter in comparable basis, our growth would have been 14.9%. Operating cash flow is BRL111.9 million, an increase of 31.3%.

ROIC without goodwill has had an expansion of 213 bps, a growth of 41.9%. Lastly, I would like to highlight that the Board of Directors of our Company has approved to the payout of BRL57.6 million regarding the results of the first quarter of 2018 through interest on equity.

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On slides three and four or rather four and five, we are showing the new units that we have opened as part of our Expansion Plan. Between April and June, we opened seven new units, six of the a+ brands in Sao Paulo and one in Pernambuco.

I would like to highlight the strong expansion of the a+ brand in Sao Paulo. In addition to the large unit in Guarulhos [ph] with a full (inaudible) announced had the opening of five fast sites in important regions of the city of Sao Paulo, in the Brasil, Alphaville, Ipiranga, Vila Olimpia, and Vila Andrade in Morumbi. These new units are strategically located in regions that have an important share of our target audience for this brand and which did not have our services offered close-by.

In this manner, we have reached a total of 41 new units opened ever since we started our Expansion Plan until July this year thereby totaling 13.5 thousand sqm of service area that's ready to provide services to our customers with comfort and convenience.

It's important to highlight that in strengthening of our capillarity includes new openings (inaudible) especially for a+ brand in Sao Paulo and the brand Felipe Mattoso and Labs a + both in Rio De Janeiro.

Now moving to slide six, you can see the operational highlights of the quarter. Once again, the extension of our NPS, an indicator of quality of the provision of services, we have reached 76.5% in the quarter, a high of 186 basis points. In May, we have expanded our portfolio of the hospitals with the beginning of operation of clinical analysis in traditional hospital Vera Cruz, referenced in the city of Campinas in the State of Sao Paulo. With about 800,000 tests a year, this is in line with our diversification strategy for the portfolio of our customer hospitals and our entrance in new regions, at the same time, with advancing strongly in our digital transformation with the aim of improving the customer journey in utilization of our services and also to expedite even further our internal processes of management and efficiency. Of the many different initiatives in development and implementation, I highlighted after launching the pilot phase of a+ Carlos Weber [ph] unit. The digital reception project is also available in a+ Morumbi, both units in Sao Paulo over the next few months, This new model will be implemented in other a+ units in Sao Paulo and Fleury and afterwards it will be expanded to other brands of the Group in Brazil.

It's also important to highlight the launch through the genomics platform the Oncofoco, the first genomic test developed with the use of artificial intelligence in Brazil in partnership with IBM Watson Health. This test is capable of assessing the abnormalities in genes associated to different types of tumors being directed for oncology patients who have complex conditions and its objective is to indicate an alternative treatment. This is another innovation conducted by our Research and Development team among many others that are on the way.

As I already mentioned, in June, we have signed a partnership with Grupo Sabin for technical scientific cooperation, it will be international, we are jointly investing in cure, venture capital in startups in healthcare arena as well. This initiative is an evidence of our strategic vision in the face of the changes in the innovation ecosystem. In addition to the

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close approximation that we have always kept with universities to produce knowledge and develop new medical solutions, we have increasingly more incorporated partnership models with technology company startups and other companies that share with us the strategic vision of this industry.

I also highlighted as a reflex of our ongoing commitment for technical excellence, we have renewed and updated according to new rules our certification ISO 9001 and 4001 including for the first time the brand Felipe Mattoso and our technical area in Rio de Janeiro. In July, for the ninth year in a row, we have published our annual sustainability reports, which can be accessed in our Investor Relations website. This is an important report of the performance and the main actions whose objective is to continuously reinforce the concept of sustainability of our business model.

Lastly, I would like to highlight, the awards that the company won along the second quarter. We were recognized for our actions in digital transformation innovation by the Award Valor Innovation Brazil winning a highlight position in its category of Medical Services. For the 17th time in 19 editions, our company was elected the Excellence in Customer Service Award in the sector of diagnostic medicine from the magazine Consumidor Moderno. And Weinman brand was the most recalled brand in terms of Clinical Analyzes Lab.

As I said before, we had many operational challenges that were caused by the truck drivers strike and by the FIFA World Cup. However, the company was able to demonstrate its competitive power mitigating adverse events -- effects of these events and once again we have solid results of growth and business evolution. Special mention for the advancements that we have been building for our main financial and quality indicators in our entire portfolio of brands always based on the pillars of positioning, technical, medical, service and management excellence.

Now I turn the conference over to Viviane for her to start talking about the results. At the end, I will be available to answer your questions. Viviane, the floor is yours please.

Viviane Behar de Castro {BIO 16620272 <GO>}

Thank you, Carlos. We continue, on slide seven, where you can see the results of our business lines. We have had a growth of 12.6% in the total gross revenue adding BRL728.1 million. The growth in total gross revenue is a reflex of the solidity of our robust brand portfolio. If we discount the units coming from acquisitions and the Natal Radiology unit that were consolidated in Q1 and Q2, 14 [ph] respectively, the gross revenue in the quarter has presented an organic growth of 9.8% with the highlight for the regional brands excluding Rio De Janeiro with 20% and Rio De Janeiro brands with 16.4%.

This result took place in spite of the effects of the truck drivers strike and the World Cup which impacted demand in all our segments of operation, in addition to smaller demand for tests on the days of strike at the end of May, and even though we kept all of our units in normal operation during that period, we saw a prolonged impact in June due to the reduction of test orders resulting for fewer medical appointments during this period. At

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the end of the quarter, we noted a similar effect during the World Cup which led to the delay of medical appointments and demand for test. The brands with predominance of imaging tests which require previous scheduling had a smaller impact. Additionally, I will highlight that our annual price adjustments were significantly below as compared to the same period in the previous year, reflects our lower inflation as measured by ITCA.

Within this context, our service units grown 13.3% in the quarter with the following breakdown, 4.1% Brand Fleury 36.2% regional brands including Rio de Janeiro, 16.4% for Rio de Janeiro brand. If we discount the units coming from acquisitions Sertil and IRN, the gross revenue of units in the quarter has had an organic growth of 9.9%. Our operations in hospital have presented a growth of 9.9%. As we can see on the chart on the right hand side, in the quarter, the total gross revenue grew 11.3% totaling BRL1.4 billion. Likewise, discounting the units coming from our acquisitions Sertil and IRN, gross revenue in the quarter presented again a growth of 9.5% with the highlights for the regional brands excluding Rio de Janeiro with 18.8% growth, and the brands in Rio de Janeiro with 12.5%. The full breakdown of the gross revenue can be seen in the chart.

On slide number eight, you can see more details about the growth of the brands in our portfolio. The chart shows that most of the growth is a result of the advance of regional brands excluding Rio de Janeiro, which accounted for BRL41.4 million of the increase, followed by BRL17.4 million of brands in Rio de Janeiro, and Fleury brand contributed with BRL13.3 million. In the table below the graph, you can see the growth as expressed in gross revenue same-store sales for each segment. Starting with regional brands excluding Rio de Janeiro, you can see a growth of 36.2% of the gross revenue with same-store sales of 10%. In these operations, we highlight the brand a+ in Sao Paulo, which presented a strong organic growth of 30%, which also counts on the effects of the new units that we opened.

Additionally, we observed an increase in gross revenue in the region of Rio Grande do Sul with 19%, a result of the acquisition of the brand Sertil consolidated since Q1 '18 and the region of Northeast with 72.3% because of the acquisition of IRN consolidated in Q2 '18. And Rio de Janeiro brands (inaudible) a strong increase of 16.4% in gross revenue with 14.6% of same-store sales. We could also see in this quarter a trend of a slowdown in the growth as compared to previous quarters as a result of different factors which includes an increase in services provided in clinical analysis, expansion and optimization of offer with expanded scheduling for imaging tests.

(inaudible) of new carriers that started in Q4 '17, expansion of mobile services routes, medical relationship and more services provided to the carriers that are partners of our company. For the Brand Fleury, there was an increase of 4.1 in gross revenues, same-store sales of minus 2%. Brand Fleury was the one that suffered the highest impact of the effects of the truck drivers strike both on the days when we had shortage of fuel and also right afterwards, in addition to the World Cup.

Fleury brand has a higher proportion of clinical analysis test, that's one of the most deeply affected test in this period. Because they do not require previous scheduling in contrast with imaging tests and because of they do not need for pre-scheduling they had the smaller impact. It's also important to mention there was a smaller impact in the price

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readjustment level because of the expressive fall in inflation. The total growth of gross revenue has contributed of new units that are still maturing. As a reminder, approximately 73% of the square meters of services that opened is less than 12 years old.

These new units are performing as planned, advancing in their revenue potential and providing better care in regions and neighborhoods where our service offer needed to be operated. Same-store sales of Fleury brand suffers the impact of new units. This effect is related to customer distribution both old and new between the existing units and new units within the same area of geographical (inaudible). Additionally, in this quarter, we had several substitutions of equipment by adding state-of-the-art equipment especially in the unit (inaudible) in Sao Paulo, the largest unit of our brand.

On slide number nine, we demonstrate the execution of our Expansion Plan, which added the total of 38 new units by June 2018. This represents 12.7 thousand sqm or about 11% incremental area. On the chart, we highlighted 73% of the total new area open is less than 12 months old. And then on slide 10, you can see our denials and net revenue. On the chart to the left, you can see the Rio de Janeiro indicator reached 1.4% in the quarter, stable as compared to 2Q '17. Discounting the specific effect of negotiations of paying sources in this quarter, the indicator would have been 1.6%. This result is a reflex of the continuing improvement of our processes and systems related to accounts receivables and its cycle. In the first six months, this indicator reached 1.4%, a reduction of 44 bps as compared to the first half of 2017. The net revenue reached 12.7% in the quarter totaling is BRL673.4 million. In the quarter, the growth was 11.9 reaching BRL1.3 billion.

On the next slide, on the left hand side chart, you can see our costs. In the quarter, we have had an increase of 12%, which represented dilution of 42 bps as compared to net revenue, especially impacted by personnel and medical services where we gained efficiency by reducing costs of health plans of our employees with management and more efficient utilization of this resource, and also our salaries that had an adjustment of about 1.7% as a result of collective bargaining processes just started in May 2018.

In the first six months, there was a growth of 13.1% in total cost with an increase of 68 basis points. On the right hand side, there was an increase of 14.3% in our expenses, which represents a growth of 16 basis points as compared to the net revenue, especially due to increasing operational expenses, related to the increase of different provisions. In the first six months, our expenses have grown 14.3%, an increase of 23 basis points in the relation with the net revenue. We keep our strict discipline in managing costs and expenses involving our controls and a tireless pursuit for efficiency even considering that we are executing our Expansion Plan.

This can be seen on slide 12 where you can see the EBITDA margin has reached 26.6%, an expansion of 122 basis points even with the opening of new units and the specific effects of the strike and the World Cup demonstrating the strength of our brand portfolio, and our continuing efforts to gain operational efficiency. EBITDA has reached to BRL178.8 million in the quarter, an increase of 18.1% as compared to the previous year. In the first six months, EBITDA has reached BRL364.8 million, a growth of 12.4% with a margin of 27.5%.

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On the next slide, number 13, you can see the net income, which reached BRL86.6 million in the quarter, a reduction of 1.4%. Net margin was 11.9% as compared to 11.7% in the second quarter of 2017. So that you understand better the comparison between the net income between periods, we highlight in grey in the chart, the effect of linearization of the effective rates with the forecast of the tax benefit of interest on equity. On the result of 2Q '17, this effect reflects the accumulation of two quarters which led the effective rates to 16%. Therefore, considering interest on equity, the net income would have presented a growth of 14.9%. In the first six months, the net income totaled BRL183.1 million BRL, an increase of 8.1%.

On slide 14, to the left hand side, you can see our operating cash flow that had -- that was BRL211.9 million in the quarter, 31.3% increase as compared to the previous year. The conversion of operating cash in EBITDA has reached 118.5% in the face of 106.6% in Q2'17. In the six months, the operating cash flow has reached BRL315.8 million, an increase of 27.7% as compared to the previous year. Cash conversion was 86.6% in the face of 76.2% in the second quarter of 2017.

On the right hand side, you can see the CapEx for the quarter, which totaled BRL51.1 million, a reduction of 24.7% as compared to Q2'17. Of this amount, 51.9% are concentrated in expansion and improvement of service units. These investments in expansion will become -- will be intensified in future quarters with the opening of new units especially a+ in Sao Paulo and the brands in Rio de Janeiro. In the quarter, CapEx has reached BRL83.7 million, a reduction of 32.6% as compared to Q2'17.

On slide 15, we highlight our ROIC without goodwill reached 41.9% in the quarter with strong evolution of 213 basis points as compared to Q2'17. The growth of ROIC is an evidence that investments that we are making in spite of the initial stage of maturation of our new units are on the right track. On the same slide on the right hand side, you can see the evolution of NPS that reached 76.5% in the quarter, an improvement of 186 basis points. NPS is the metrics used to measure the recommendation of our services by our customers. This evolution demonstrates that continuing evolution of ROIC is sustainable and is related to the basic of principles of medical, technical and service excellence which differentiates our services and are notably recognized by our customers.

On the next slide, number 16, we highlight on the chart, the average daily trading volume of our shares in B3 that reached BRL50.4 million and then on that is 76% greater than in the same period of 2017. On slide 17, we highlight that our Board of Directors has approved yesterday the payout of interest on equity the amount of BRL57.6 million corresponding to BRL0.1826 per share. This will be paid based on the shareholding structure of July 31st and shareholders will be paid on August 15th. On slide 18, you can see our agenda. We've already confirmed events with the market. Now, we are open for questions and answers with Carlos, myself and Fernando Leao, our CFO, who is available for -- to answer your questions. Thank you all very much.

Questions And Answers

Operator

Thank you. We are now going to start our Q&A session. (Operator Instructions) Mr. Rodrigo Gastim from BTG Pactual is in to ask a question.

Q - Rodrigo Gastim {BIO 19694950 <GO>}

Good morning, I have two questions. The first with regards to the truck drivers strike, for the brand Fleury, I would imagine that it suffered the most with the strike because of your mix of services. What is the trend? So, how was the brand growing until mid-May? This would be very important. And the second question regards clusters. There was a slight slowdown with same-store sales for the Fleury brand. And I would like to hear more about clusters both in Morumbi (inaudible), do you think these clusters are likely to reduce in growth?

A - Carlos Marinelli

Hello, good morning. This is Carlos answering your question. As to the truck drivers strike, it had an impact -- impacted the whole economy and since last week we have seen many indicators of the quarter, there was a variation and worsening of the monthly GDP and you can see economic activity, it was starting to grow, but then it showed a downtrend in May and definitely this was something that had an impact. When we compare the different services, we need to think the following. The audience and Fleury strategic positioning is different.

Fleury audience has more flexibility in terms of going to have these tests. For a+, they schedule the test, they have a period, they are scheduled to go, do the test and they have even been authorized by their health plan. So there is a pending authorization that needs to be used. So it's more difficult for them to miss the opportunity of going and having their test. For Fleury, it's slightly different with a different positioning and they feel more free to do their tests whenever they have the opportunity. For Fleury, so we have a quite relevant share of clinical analysis tests. But they are the one that suffered the most because you might not do it today and do it tomorrow because you'll be free specifically in the city of Sao Paulo and we are likely to forget these things very fast.

But truck drivers affected supply, gasoline and everything, but all that being with transportation of children to school, many schools canceled their classes. So we need to remember and we are likely to forget this. Well, the city really stopped and was very chaotic. So we feel much more comfortable. Now, this also applies to your physician. Sometimes you delay that. So in the end, this affects very much. So we were evolving a program and the strike, you should remember the following. It's not but the timing of the strike. And slowly just as they're more flexible, sometimes it's easier for them to go for an appointment. And when we look at them, so it sort of and then right afterwards, there was a World Cup and there was a period which definitely was unfavorable for us. As to the clusters that you asked, according to what we have, the growth between 3% more or less that we already have, this is going on, they are keeping that, fortunately soon we're going to be able to include that in our total growth in our total numbers of same-store sales, because it will be for more than 12 months and the plan is evolving as we had planned.

I hope I have answered your questions.

Q - Rodrigo Gastim {BIO 19694950 <GO>}

Excellent. Carlos, thank you very much, you are very clear.

Operator

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

Q - Thiago Macruz {BIO 16404924 <GO>}

Hello, this is Marco asking the question. I have two questions to ask. The first one regards Rio de Janeiro operation, we saw a significant increase in growth year-on-year and in the quarter, is this more related to the acceleration of offer in the units something that had already been happening, or are you seeing a gain of market share in the region?

And the second question regards the increase in payments of (inaudible), which in the end benefited the working capital. So is this a trend or is it a one-off event that you saw an opportunity during the quarter? Thank you very much.

A - Carlos Marinelli

Hi, Marco. Thank you for your question. So in Rio de Janeiro, there are many factors influencing Rio de Janeiro. Rio de Janeiro is an operation that, as you said, that suffered the law because of exogenous factors, the overall economy and other factors specifically for the State of Rio de Janeiro has been going through very difficult times, we cannot say that they are past that, things are slightly better, and we did very intense work in Rio de Janeiro especially towards (inaudible) most critical moment to assure that we could continue identifying opportunities for growth. One of the items as you mentioned is that we worked very well the expansion in terms of offer, but we kept growing. Especially, for example, in terms of Felipe Mattoso and also our a+ brand. For a+ brand, we still have many opportunities in terms of offers of services, and as you know, all of these depends on physicians, so there is an issue of structure, of availability. In Rio de Janeiro, it is a difficult and dispersed market, we have quite peripheral operations and we cannot -- all right if we want to have good schedules, sometimes it's difficult.

Sometimes doctors don't want to travel so far, they don't want to work at certain times, because this means that they would need to drive through some regions that they don't to at certain times. So the logistic aspect of our offer is very difficult, so we worked day-on-day period-to-period and physician-by-physician and different connections with different physicians in terms of their occupying. So we tried to improve the coverage of our schedules in the diagnostic centers. So sometimes the A, C and the C,D there is a cultural issue and we are changing the cultural aspect of having A, C together with C,D.

And so in terms of payment, there has been an evolution and that we managed to have an increase that was helpful and we held back in some cases. In specific negotiations, we don't see that as a line that reflects a trend. But for these negotiations even for us to work with current prices, our inventory has also grown a little bit, there is an effect and this is an opportunity for a purchase or acquisitions at times which were translated in gains.

And Leao is here with us. Would you like to add anything else?

A - Fernando Leao {BIO 20171823 <GO>}

I think that in reality the supply team is estimating some specific opportunities in terms of pre-negotiation of prices with suppliers and as Carlos mentioned, there was also an increase in inventory, considering the working capital, there was also a negative effect in inventory, the net effect is a positive effect in the working capital with a gain within this environment where we are discussing supply. Have we answered your question?

Q - Thiago Macruz {BIO 16404924 <GO>}

Very clear. Thank you very much.

A - Fernando Leao {BIO 20171823 <GO>}

Thank you.

Operator

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

Q - Joseph Giordano {BIO 17751061 <GO>}

Good morning, everyone. Carlos, Viviane and Fernando. I have a few questions, especially regarding the expansion of a+ outside Rio de Janeiro. I would like to understand what you're thinking in terms of your expansion strategy from now on. Are you going to look more clusters, so to have a denser expansion or is your focus geographical expansion? So, are you going to open more units in the Northeast? What's your challenge in that region, both in terms of competition and also in terms of new carriers that might be a niche for some players in this industry? And when we look for the M&A of the company looking into the future, what is your competitiveness for assets and is there relevant prospective acquisitions in the market?

A - Carlos Marinelli

All right, Carlos -- this is Carlos, I am going to answer your first two questions, and then talk about M&A and market competitiveness. Expansion of a a+, so our strategy obviously is to expand our businesses wherever there is a competitive -- a favorable competitive environment with good prices for us to practice considering that we have a quality standard that we need to meet and also wherever there is competitiveness in terms of paying sources of -- when we have extreme conditions in terms of paying sources, it's very difficult for us to go in, even if we buy an operation that an existing operation, sometimes there are pre-existing conditions that make it more difficult. And today we are in other geographies. Today, there are some geographies that may be in the best -- we did not have operational structure to be competitive. Today, we have already managed looking in some regions and become competitive in those regions. So it's not impossible for us to expand the number of regions that we provide services to go into the markets where we are not present today. However, this is going to be inorganic, this is going to be

done through acquisitions, which is how we go to the regions where we are not providing services; in the region that we are already, we are taking all opportunities.

For example, you can see what we did in (inaudible), so there was a significant acquisition last year there, some units that are providing better services to customers, we did not manage the credentialing of all carriers for all units, but even though we have been growing, which demonstrates in terms of organic expansion that this is the right strategy because that our customers which are not being served as they should. So talking more of the expansion of a+, this has been our strategy. As to the Northeast, of course, we are talking about a region that today as a vertical player that has been growing significantly and at the end of the day, we have very interesting solutions in terms of demonstrating quality, differentiated services. Our relationship with the medical community, something that agrees with what health carriers want, healthcare is need and it's also increased which strategic positioning of health service carriers that have different market positions with vertical structures.

In the Northeast, we have been expanding with a more modest expansion than here in the South and Southeast or the regions where we started our expansion plans. But this has not been a problem. We are levered to help in their positioning in terms of offering differentiated product. In contrast, we're vertical health carriers and then we'll talk about M&A.

A - Fernando Leao {BIO 20171823 <GO>}

Joseph, this is Fernando, I'll be talking about M&A. Well, in terms of acquisitions, yes, we have been talking with relevant players in the market, always observing that the players that really fit our company in terms of quality and brands with an image that is very much committed to service quality in terms of the services that are delivered to customers. That are relevant to prospects and not so much in terms of size, but in terms of being strategic players on a given region or in a given segment. So these are our preferential options. So you talked about prices, so there is more pressure on our numbers and prices.

In our discussions, they are demanding that and what we have been doing is to equate very well demand with effective diligence that is more careful and we've been discussing with sales people. So that whatever we announce in the future so that they add value to the company.

Q - Joseph Giordano {BIO 17751061 <GO>}

Thank you very much.

A - Fernando Leao {BIO 20171823 <GO>}

Okay, have I answered?

Q - Joseph Giordano {BIO 17751061 <GO>}

Yes, thank you very much.

Operator

Mr. Juan Marcos from Santander would like to ask a question.

Q - Unidentified Participant

Good morning. I have two questions. The first regards expansion. In a year-and-a-half, you opened 41 new units and the guidance is 73 until 2021. So what we understand, you're going to advance that guidance or are you going to review up your guidance? And the other question about a+, that grew 30% and of course there is an expansion in units here. Do you see any cannibalization with brands maybe because you're close-by?

A - Carlos Marinelli

Hi, Juan, this is Carlos, thank you for your question. Yes, in fact, there has been a speed in expansion that was very significant. If we look only at 2017, on average, there's one new unit every 11 days. The company was not used to doing this. We learned how to do that. And always delivering units faster and faster and better units, so traditionally speaking, cheaper, both in terms of rent and physical structure, well negotiated, meetings and needs of customers in terms of convenience, well-being and that it was better and better, and we are very proud of that.

We don't see the prospects of changing our guidance or reviewing it up. We're opening our new units according to the opportunities that come up and as we believe is appropriate. In other meetings that we have had, unlike last year, we favored the brand Fleury, now we are focusing on a+ which has proven to be strategically correct or good strategy and so the growth of a+ in Sao Paulo has been really significant.

In terms of what you said in terms of cannibalization, I don't think there is cannibalization of Fleury to a+. What happens and everyone knows this happens is that we have been having a few years of recession and slowdown with very small growth in some years and everyone is suffering in pressure and this sometimes leaves us to have some sporadic -- some specific movements. I don't see this as a major trend, I say this is adjustment that the market makes, just as it does often times an adjustment in terms of us having negotiations with Fleury. Fleury is a brand that is interesting, that is designed to differential for certain portfolios and then we change customers.

So definitely Fleury is not a brand that only loses customers. We also gain -- win new customers because there are specific negotiations with certain companies and health plans that bring in new customers. We work with these components to make Fleury be very strong and relevant in the market considering its strategic positioning also because requesting the physicians considering their occupation. Thank you very much.

Operator

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

Q - Luciano Campos {BIO 16181710 <GO>}

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Good morning, Carlos. Good morning, everyone. The first question, going back to the brand Fleury, and the consolidated. So we think of increase in footage that was 8% comparing this year to last year with an inflation of 3% or 4% in the first quarter this year. The feeling I have is that 6% in the first half is kind of a low number, I would like to where you are looking in, I think your growth was low, was there any effect? Sometimes you use the opening of a new units to renovate older units, do you think you could explain the total growth of the brand Fleury, which is kind of low and you may agree with it or not? And this is my first question and the second is a follow-up on the previous question.

Considering that you are well advanced in delivering the guidance of organic expansion, but currently did you find the right way to do this, I don't know if you already have enough time to focus your attention on other things and what would be the other things be, so what would you tell investors to play attention apart from organic growth that you have already announced? Thank you very much.

A - Carlos Marinelli

Thank you for your question. It's good to talk to you again. As to Fleury, well, we can make many calculations, so you can put the numbers and think well growth is small, because it's in the area increased 8%. I think that there is still a significant growth, inflation is very low and we have a very premium positioning in this market, which if you talk to all carriers, this is a premium market where there is higher income, of course there is pressure, reducing costs to rationalize cost and many things that might lead easier solutions or taking a good quality base player that is differentiated and putting in another one is an easier solution.

I believe that we did the expansion of Fleury in the right way and if we had not done this 8% expansion, we might not be seeing the total growth since that is the most important for same-store sales, because it's such a small basis, it's not really relevant and then we would not be seeing this growth and it's been growing at the rate, I have mentioned with an economy that is not shrinking, but it's not really evolving. So this is a winning solution in terms of growth but not just that if we think the relative importance that has been dropping in the total scope of the company, and so we were a portfolio company and if relates to your second question, it shows how the portfolio is working to benefit the whole organization, also in terms of us gaining margin, it does not depend just -- not just on Fleury, Fleury is important brand, we are differentiated. Of course, this the flagship, for example, but in terms of cost management, people management and as we have just said, average payments times, average receivables time, many things have made this to work in a way that the whole company had a benefit, especially regional businesses that this gained scale, we've benefits for Fleury too where we have more diluted cost in managing a+ and Fleury.

If I could summarize the answer to you, the two themes that you've mentioned in terms of expansion, if there is the right expansion, this has provided benefits for the company, both in terms of gaining market share, customer services both economically speaking and also in the other brands, I don't think we've done everything that we could.

But we have a very good model and we're improving it more and more which has contributing to improve the company's numbers and we are talking about four quarters.

That every quarter for every line, we've been improving. I don't know whether I have answered your questions.

Q - Luciano Campos {BIO 16181710 <GO>}

Just one follow-up, in the second question, what else in addition to the Expansion Plan that you are executing? What else should we pay attention to, some scene that the markets or analysts haven't been observing appropriately? What's missing in terms of other projects in addition to expansion?

A - Carlos Marinelli

I think that's what lies behind expansion is the company's portfolio. When I talk about portfolio, there is the growth of brands in the total mix and this is a company and then those who have been watching us for a long time. Last year we suffered with issues like the acquisition in Rio de Janeiro that was very difficult to manage and there weren't many unanswered questions about our capacity in terms of generating value, that was not the super premium and this is what we're seeing of improving our engine working on the business intelligence, offers, demands, medical relationship and innovation.

For example, today in terms of genomics, in terms of revenue, we are most likely the largest national players in genomics. Genomics is something that has been growing exponentially in the company. There is a potential for example of being even bigger than some of our smaller regions, this is a market that I would say to you that has a differentiated in submission chain of the segment, because we have the relationship and investing in high cost relationships, this is very important for them. So there are many different components and the physical expansion in traditional businesses.

For example, innovation in terms of genomics and looking at market segments where we are not present in terms of geography and even other market segments where we could add value, it's something that we will be doing all the time. This is a company that has innovation in its DNA, we practice innovation and most importantly, we constantly bring innovation to the market and this generates value for shareholders, patients, and our requesting physicians, and as a consequence to shareholders too. So these are the components that we're missing in this equation and we are walking a path that seems to be a path that has been providing good results.

Q - Luciano Campos {BIO 16181710 <GO>}

Thank you very much, Carlos.

A - Carlos Marinelli

Thank you.

Operator

We have a question in English. Mr. Daniel Alza [ph] would like to ask a question.

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Q - Unidentified Participant

Hi, good morning. Thank you for taking my question, I just wanted to get more color on the cost improvement and especially in the personnel -- on the personnel improvements. I have three questions on that front. First I would like to get more color on the execution of the healthcare benefits of employees, from the outside it looks like the reduction would be I know, I mean it looked like there would have been a reduction in the healthcare benefits for the employees. But I don't think that's the case, right. And second, the 1.7% salary adjustment you mentioned, is it real or nominal? Thank you.

A - Unidentified Speaker

Personnel view regarding the healthcare benefits and the aggregation of it, you are totally right we are improving our costs on the healthcare benefits, we have been implementing a series of actions inside the company that have reduced this cost. So, the total loss ratio in terms of our healthcare plan, it dropped from 140 a few years ago to less than 75% right now. So we have been implementing a lot of -- executing a lot of things that are improving the actions on prevention on healthcare. So helping our employees to better use the resources on the healthcare.

And this is something that it's very important when you have more than 9,000 employees, and if you have initially considered not just the employees, but also the family of these employees, this number comes to 17,000 people. So this is very important and it is something that our people area -- the human resources area have been implementing lots of action in different areas of the company, in different places of the country. So, we are improving this a lot and this is coming to reality in terms of the reduction of costs in the numbers that you have seen.

The second question regarding the salaries, the compensation of the employees. This is something that we have been improving the utilization of the resources. As you know, Brazil has some laws, so we have to give annual increases negotiated with the unions. This (inaudible) this year. It happened in most of the areas of the country in May. Of course, because inflation was so low comparing to the year before, this inflation pass-through on the salaries was low too.

But the most important part is regarding the utilization of the human resources. So we have implemented lots of projects regarding for example Lean Six Sigma how we improve the processes and the execution of those processes in the patient service centers, how we utilize sources inside the corporate areas and we are improving, not just the usage, but also the results of these resources regarding the efficiency of the company.

So this is something that is not a matter of nominal or real impact on the salaries of the compensation but the usage of the resources, better processes and the implementation of let's say on a promotional workforce management across the whole company. I guess these are the two questions that you made. I don't know if I missed something here.

Operator

(Operator Instructions) As there are no further questions, we now end our Q&A session. I would like to give the conference back over to the company for their closing remarks.

A - Carlos Marinelli

I would like to close by reaffirming the company's commitment with sustainable growth through growth, innovation and digital transformation, now that as you saw, as you could see, our foundation of excellence in execution capacity has been advancing with full steam. We are confident in the current prospects and also future prospects for the company. Once again, we thank you all very much for attending our conference call and we hope to meet you along the events that we're going to take part in the second half of the year. Have a good day.

Operator

The conference call of Fleury has now ended. We thank you very much for participation and wish you all a good day.

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