Operator:

Good morning, ladies and gentlemen, and thank you for waiting. At this time, we would like to welcome everyone to DASA's 2Q13 earnings results conference call.

Today we have a simultaneous webcast that may be accessed through the website: www.dasa3.com.br. The slide presentation may be downloaded from that website as well. There will be a replay facility for this call on the website for a week.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of DASA and on information currently available to the Company. They involve risks, uncertainties, and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions, and other operating factors could also affect the future results of DASA and could cause results to differ materially from those expressed in such forward-looking statements.

Today we have with us Dr. Romeu Côrtes Domingues, Chairman, Mr. Dickson Tangerino, CEO, Ms. Cynthia May Hobbs, CFO, Dr. Octávio Fernandes, VP of Operations, Dr. Emerson Gasparetto, Director of Imaging, and Mr. Paulo Bokel, IRO.

Now, I will turn the conference over to Dr. Romeu Côrtes Domingues, Chairman. Dr. Romeu, you may begin your conference.

Romeu Côrtes Domingues:

Thank you very much. Good morning, ladies and gentlemen, and welcome to our Company's 2Q13 results conference call. Let us start on slide three, where we highlight aspects of growth, quality, and shareholders' return. Gross revenue was close to R$700 million this quarter, an increase of 12% compared to the 2Q12. We had a strong growth in some markets, as Lab to Lab with 21.5% growth, Hospitals with 16%, and Imaging with 9.6% in this quarter. This growth makes us proud as they show that the implemented actions are starting to generate results.

We had 53 abstracts approved for the AACC 2013 Conference last month in Houston, which is the main scientific meeting for clinical analysis in the world. These represent 61% of all Brazilian abstracts presented at this conference. One of these studies got a special recognition and was the only Brazilian awarded during the NACD Conference.

The process of medical relationship is intensifying and over 50 medical meetings were held in Brazil this year. We started the operation of the second fully automated conveyor belt in the central lab of Rio de Janeiro, making this lab one of the largest and most modern production plant of clinical analysis exams in the world.

We also would like to share that we were awarded the best company in the health care sector by the magazine Valor 1,000, which belongs to the newspaper Valor Econômico. In terms of return to shareholders, our EBITDA was R$110 million compared to R$103 million of the 2Q12, these represent a 7.6% growth. We continue to generate good operation cash flow, which reached R$87 million compared to R$65 million in the 2Q12. Net income increased 52%, reaching R$36 million.

Now, I will turn to our CFO, Cynthia Hobbs, to comment on the operational results.

Cynthia May Hobbs:

Thanks, Romeu. I will go now to slide number four, gross revenue was R$98 million in the quarter, an increase of 12% when compared to the 2Q12. From January to June this year, gross revenues totaled R$1.339 billion, an increase of 8.6% over the same period of last year. In clinical analysis, there was a 13.2% growth this quarter; we have had progress in our PSCs and hospitals, but mainly in the Lab to Lab business. In Imaging, growth was of 9.6% due to an increase in the number of agendas and an improvement of the call center service levels that now are operating at a dropout rate of one digit.

Note that we have 63 working days in the 2Q13 compared with 60 working days last year, a 5% difference. However, if we compare the entire semester, we have the same number of working days. The Confederations Cup that took place in Brazil, as well as the street protests, impacted our business this quarter.

Moving now to slide number five, PSCs revenues grew by 10.8% in the 2Q13. There was an increase of 8.2% in imaging and a 12.8% increase on Clinical Analysis revenues. The same-store sales grew by 9.4% compared to the 2Q12. The growth of MRI and CT exams is an imaging mix increased the average revenue per requisition compared to the 2Q12. In imaging exams, the growth was also due to expansion and renovation of equipment that was carried out during last year. New contracts with payers boosted clinical analysis growth.

Going now to slide number six, the hospital revenue reached R$70 million, an increase of 16.1% compared to the 2Q12, the average ticket went R$49.80 during the 2Q12, R$64.70 this quarter. We achieved these results even after the Company 12 hospitals last year, in light of the strategy to focus on profitability. We grew imaging revenues by 32.8% this quarter. The hospitals that we started operations in the beginning of the year contributed to this expansion.

Now, turning to slide number seven, the lab to lab market revenue was R$73 million, a significant increase of 21% compared with last year. The number of clients grew by 200 laboratories, surpassing for the first time the number of 5,000 service clients. In this quarter, revenues per laboratory increased by 16.7% and 22% in the number of tests requested. We are focused on enhancing our presence by seeking new clients and opening new logistics routes, as well as improving our product mix with new services and increasing the volume in certain specialties.

Turning now to slide number eight, in the public market we achieved revenue of R$47 million, 6.1% higher than the 2Q12. This growth is due to the new contracts which became effective during this year.

On slide number nine it is important to notice that due to the business model of the Company, we operate with high fixed costs and expenses structure as a percentage of net sales. Due to our growth above inflation rates, we were able to minimize the inflation pressure we were exposed to by diluting fixed costs. In the 2Q13, the cost from services totaled R$410 million, an increase of 12.6% when compared to the same period last year, reaching 64.9% of net revenue. The increase in services and in utilities were the main responsible for these results.

Personnel cost in relation to revenue decreased from 20.4% to 18.8% when comparing year over year, due to the gains in productivity from patient services centers and in central labs, where clinical analysis are processed.

Regarding the cost of materials, there was an increase of 8.8% in the quarter despite the increase of 13% in clinical analysis revenues. We were able to keep costs under control despite the strengthening of the USD against the Real. These are the consequence of productivity gains in our laboratories and the strong partnership with our suppliers.

The cost of services and utilities have increased 24% year over year, and the causes for this increase are doctors' fees, data to provide redundancy, contingencies systems to increase availability, increase in occupancy costs, since rent rose above inflation, and commissions paid to lab-to-lab representatives in line to revenue growth. The cost from services and utilities increased from 24.5% of the net revenue in the 2Q12 to 27.6% in the 2Q13.

Now, I will turn to Octávio Fernandes, our VP of Operations, to comment about cost of material.

Octávio Fernandes:

Thank you, Cynthia. The 2Q13 was one of accentuated growth in revenues from clinical analysis, reaching 13%, which corresponds to a monthly average of 18 million tests. The Real depreciation did not affect our cost structure, and our cost per test remains the same as in the other quarter and less than in 2009 by 5%. Regarding innovation, as Romeu has already mentioned, DASA presented 61% of the Brazilian scientific production in the most important congress in our sector, the American Association of Clinical Chemistry.

One of our abstracts received the National Academy Chemical-Biochemistry Award, who recognized only 3% of the studies submitted, and ours was the only Brazilian study to be honored. This shows our innovative potential in clinical analysis. Only in 2013, we offered 156 new tests to our customers, including several genomic tests.

In the same spectrum, we would like to emphasize the revenue growth in clinical research, which was approximately 18.4% when compared to 2012, with the implementation of 39 new protocols in clinical files. We finished our technological contribution to the central lab in Rio de Janeiro, and have seen improvements in productivity in various aspects, coherent with what Cynthia has just mentioned, such as savings in materials at a value of R$400 thousand per year and an increase of 40% in productivity, in terms of number of exams per full-time employee, when compared to the previous scenario, which was not fully automated.

We will launch the new genetic laboratory center in the next quarter and, in addition, the new central laboratory of Cascavel will be launched by the end of this year, and we have already initiated the planning of full automation of the central laboratory in Brasilia, which should be implemented in early 2014.

Now turning back to Cynthia.

Cynthia May Hobbs:

Thank you, Octávio. Turning now to slide number ten, our SG&A was of R$110 million in the 2Q13, compared to R$104 million in the 2Q12. Our G&A expenses totaled R$105 million compared to R$98 million in the 2Q12. We continue to work with rigorous headcount control. We have an increase in the number of employees, mainly in the call center, in order to improve service level. Until mid-last year, this service was provided by a third party. This quarter, we made a R$6.9 million provision for employee profit sharing payment.

On slide 11, our EBTIDA reached R$110 million this quarter and a margin of 17.6% compared to 18% in the 2Q12. We are in line with the sustainable margin improvement quarter-after-quarter that we have planned.

On slide 12, income tax and social contribution at the rates of 34%, the amortization of goodwill and tax optimization allowed us to work with an expected rate of 20.2%. It is important to know that although we are gaining the benefit from goodwill in the purchase of MD1, some companies have not yet been incorporated, pending the decision of CADE and continue to pay income taxes. This effective tax rate is primarily the result of the payment of taxes of companies originated from MD1.

Going to slide 13, we have maintained our provisions policy, where 100% of past-due receivables over 360 days are provisioned. During this quarter we wrote-off R$15 million of overdue bills over 720 days that were fully provisioned and which impacted our coverage ratio. The level of accrual for deduction and allowance for doubtful accounts was 3.4% of gross revenue, compared to 2.9% in the 2Q12, an increase due to the specific additional non-recurring provision over receivables.

Going now to slide number 14, our operating cash flow in the quarter reached R$87 million. This quarter, our working capital was impacted by an increase in accounts receivable, consistent with an increase in debt. We withdrew R$39 million from other accounts of working capital, due to the payment of ICMS that, according to the terms of the Special Installment Program for ICMS debt with the State of São Paulo, and also added R$9.3 million to financial expenses in relation to the financial gain for joining this program.

We are very focused on having our CAPEX aligned to the operating cash flow generation, which allows us to maintain our net debt stable at R$850 million, and our covenants closed the quarter at 2.17x EBITDA.

Now on slide 15, our return on invested capital in the quarter was 7.8%. We are starting to improve our return due to the maturity of the investments.

Now on slide 16, our CAPEX in the quarter was of R$29 million. We created a governance process for managing CAPEX, which makes the approval of investments more rigorous.

And now, I will come back to Romeu, who will make the closing comments.

Romeu Côrtes Domingues:

Thank you, Cynthia. During the last year, we faced great challenges, such as the increase in the call center service level, effectiveness in building new units, and maintenance of public contracts, focused on a structured commercial process, including hiring a new commercial director, and emphasis on return on investments in the imaging sector and its impact on growth. In this quarter we started seeing the results of all these actions translated in growth of our major product lines, imaging and clinical analysis.

DASA's challenges are not limited to the points mentioned before, we are focused on improving the service cost level in all our brands and we still have some challenges in IT, including the hiring of a new IT Officer. The IT team remains the same, and they are very motivated to meet the goals previously established by the Company.

The growth showed in this quarter is motivating and drives us to be even more focused on solving operational issues to reach even more sustainable results to the Company.

Thank you very much for your attention. Now I would like to open for questions.

Clarissa Berman, Credit Suisse:

Hi. Thanks for taking the question. I actually have two points I wanted to touch upon, so the first one, on the revenue side: I think you mentioned at some point you are foreseeing an increase in the utilization rates of the equipment, can you comment a little bit more on that? So, where we are now in terms utilization, where do you expect to go and in which time frame and also, which equipment in specific are we talking about and what is going to be the driver behind such higher utilization? That is my first question. Thank you.

Emerson Gasparetto:

Thank you very much, Clarissa. First of all, most of the equipment that have been installed last year are in full ramp up now, we are gaining the returns of this new equipment, still we have new investments, not for replacing, but for new equipment for discussion for the next month until the end of this year, and we are pretty happy with the results that we have with these machine until now.

Clarissa Berman:

OK. Can you give us a little bit of color on where we are of utilization rates today and where do you expect for it to go, please?

Emerson Gasparetto:

In terms of the new MRIs and CT that we installed, we have an occupancy higher than what we previewed in the analysis. So, we are around 70% in MRI occupancy right now. So, still we have some space to grow in the next months until the end of this year.

Clarissa Berman:

OK. Thank you. My second question is on the operating expenses. We looked at services and utilities line, even though this is considered mostly a fixed cost line, the increase on the quarter was quite high. So, I wanted a little bit more color and what happened on this particular cost line and how you expect it to behave going forward. Thank you.

Cynthia May Hobbs:

We are working on a number of different initiatives to operate at the same level that we had in the 2Q12 as a percentage of net sales. And mainly, what we have in these lines are doctors' fees links, IT links, occupancy costs, which are growing, especially in Rio de Janeiro, much above inflation, as well as commissions that we pay for lab-to-lab representatives, which this quarter grew 21%. So, all of these factors helped this increase in services and utilities costs. And we expect, again, for the 2H all these initiatives will bring as percentage of net sales back to what we worked in the 2Q12.

Clarissa Berman:

OK, great. Thank you.

Josh Milberg, Deutsche Bank:

Good morning, everyone, and thanks for the call. My first question just relates to the upward move that we saw in bad debt deductions to sales. I was just hoping you could comment a little bit on what you are seeing there and what you expect going forward.

Paul Bokel:

Josh, how are you? We had an impact of, I would say, a non-recurring amount this month, so basically we expect to go back to around 3%, 3.2% that we have. This year we have a little bit higher than that, but we changed the way that we charge some plans, and basically that is the impact of it. So, basically it is a non-recurring item of around 0.3%, 0.4% on debt. So, going forward we should back to the same level we had in the 1Q, 4Q of the year.

Josh Milberg:

OK. Very helpful. And I think on the Portuguese call you made some comments on the outlook for price increases, inflation-based price increases, so I was just hoping you could go over your comments now.

Paulo Bokel:

Can you just repeat your last question, please?

Josh Milberg:

I was just hoping you could address the whole issue of inflation pass-throughs. What you expect as far as price increases going forward, and talk a little bit about the timing and the basis of those expectations.

Cynthia May Hobbs:

Thank you for your question, Josh. We have hired a new Commercial Director, and if we look back historically, we have been able to raise prices at 50% the inflation, and what we expect in 2014 on is to have prices increasing in line with inflation. So, the past negotiations that we had, we saw that there is space to have this aggressive target in 2014.

Josh Milberg:

And, Cynthia, what do you think the basis is for a better scenario for price increases going forward? We have heard similar outlooks from one of your competitors, and I just wanted to understand a little bit the dynamics that would allow a better environment for price increases going forward. And if you could also just touch upon the timing of negotiations, and when in fact you could have adjustments defined for next year, that would be great.

Cynthia May Hobbs:

There are some changes going on in the market right now, like the ANS, which has established a timeframe where the plans need to schedule exams. This is something that we did not have in the past, so of course to reduce the time to schedule exams you need to hire more doctors, so these are all things that are being negotiated with the plans, as well as we have, as Octávio mentioned, new exams and an innovation of that. So, this is also giving us more and more arguments to sit down with the plans and negotiate better prices.

Josh Milberg:

And then just the timing for negotiations that will define 2014 price adjustments?

Cynthia May Hobbs:

We have started this work, but it takes time. It is not something that you start working and you get the price increases immediately. So, that is why we are being more conservative saying 2014, but this has started already.

Josh Milberg:

OK. Thank you.

Carolina Ratto:

I just want to talk a little bit about, as you mentioned, the doctors' fees and all these costs that are associated with the number of lines of the services and utilities. I would like to understand why do you think these costs will likely decline to the levels you had in the previous year? Because it seems that the pressure continues to be high in the market. I just want to understand why you will be able to decrease them.

DASA:

Thank you very much. The pressure over the doctors' fees exists. We talked last quarter about the lack of doctors in the market, especially in ultrasound. But the way of solving this is not only increasing salaries, but we also have better doctors, we have better productivity. You have ways of decreasing that cost, so you increase quality and you decrease costs, better than having doctors with a very high salary. That is not the factor. You work on the salaries, but also you increase productivity and quality. So, we are pretty sure that in the next quarter we will see improvement in the doctors' fees compared to this quarter.

Carolina Ratto:

OK. Thank you very much.

Romas, NAU Securities:

Hello. Thank you for taking my question. It is very encouraging to see some of the productivity improvements coming through. I wanted to ask you about the call center and the effectiveness that seems to be taking hold there. Would you be able to point any metric that will help us to get a handle on the tangible improvement, such as decline in dropout rates and what you expect for the balance of the year?

Cynthia May Hobbs:

Thank you for your question. When we look at the dropout rate that we worked with in 2012, it was very close to 30%, in Rio de Janeiro and in São Paulo as well. In the 1Q13 we were able to reduce that to around 20%.

In the 2Q it was below 20%, it was actually 18%, and right now we are at one digit, actually. We are around 5% of dropout rate. That is why we think that the problem that we have is call center is something that is a problem solved. It is not something that we are going to discuss more than growth has been impacted by the call center dropout rates.

Romas:

And just one other question, if I may. You mentioned that you are looking to keep CAPEX aligned to cash flow over the course of the year, in order to keep the net debt level stable overall. And I believe in your earlier call, the Portuguese call, you reiterated your CAPEX targets for 2013. I am just wondering if, by implication then, we should expect your targets for overall units at the end of the year to be in line with what you previously guided.

Cynthia May Hobbs:

Yes. The key for projecting the R$200 million in CAPEX for the full year, and the R$200 million will be invested in building and renovating units, 1/3 of this amount; equipment will be 25% of the total investment of the year; and IT, another 20%. So, basically that will be the numbers for the full-year CAPEX for the Company.

Operator:

This concludes the question and answer session. At this time I would like to turn the floor back to Romeu Côrtes Domingues, Chairman, for any closing remarks.

Romeu Côrtes Domingues:

Thank you very much, everybody, and I look forward to meet you in the next conference call in November. Thank you very much. Bye-bye.

Operator:

Thank you. This concludes today's DASA's 2Q13 earnings results conference call. You may disconnect your lines at this time.