Operator:

Good morning, ladies and gentlemen, and thank you for waiting. At this time, we would like to welcome everyone to DASA's 3Q13 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 with us, we have Dr. Romeu Côrtes Domingues, Chairman, Mr. Dickson Tangerino, CEO, Dr. Octávio Fernandes, VP of Operations, Dr. Emerson Gasparetto, Director of Imaging, and Mr. Paulo Bokel, CFO and 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 3Q results conference call. Let us start on slide three, we would like to highlight aspects of growth, quality, and shareholders' return. Our gross revenue reached R$716 million in this quarter, an increase of 9.8% compared to the 3Q12. We expanded our lab-to-lab business with 19.1% growth. In hospitals, our growth reached 16%. The outpatient market continues growing strongly and the impact of price increase obtained will be seen more clear in the last quarter.

In this quarter, we delivered nine units refurbished and there are six refurbishing in progress. In addition, two MRIs and one CT scan were installed in this quarter. We also have 15 units under construction. This growth shows that the initiatives taken throughout this year are starting to generate results.

The process of medical relationship is intensifying and over 200 medical meetings were held in Brazil this year. We have started the operation of the Genetics Laboratorial Center in Rio de Janeiro, which is offering exams of neonatal screening and genetic disorders. Our call center is already showing quality improvement with a dropout rate of less than 5% in São Paulo and Rio de Janeiro.

We would like to take this opportunity to update the development of our INOVA system. Early this year, we moved forward with the implementation of the front-end system in some brands. In the 2H, we have decided to implement interfaces for registering, billing, and collections.

Regarding return to shareholders, our EBITDA reached R$120.7 million, compared to R$108.5 million in the 3Q12, a growth of 11.3%. In this quarter, EBITDA margin reached 18.7%, a constant and progressive growth. We continue with positive operating cash flow that reached R$47.5 million. Our net income is R$36 million. In October, we issued a R$450 million debenture that will be used to refinance our debt.

I will turn to Paulo to comment on the operational results.

Paulo Bokel:

Thank you, Romeu. I will go now to slide number four. Gross revenue reached R$717 million in the quarter, a 9.8% growth year over year. From January to September 2013, gross revenue surpassed the mark of R$2 billion, a 9% growth compared with the same period last year. In clinical analysis, there was a 10.8% growth compared to a 5.5% growth in image.

The growth in the 3Q13 reached 9.8%, of which 11.8% in clinical analysis and 6.2% in image. Concerning mix, we have 66% of revenue arising from clinical analysis and 33.6% from image. In this period, all markets presented growth.

In slide number five, PSCs revenues grew by 8.4% in the 3Q13. There was an increase of 5% in imaging and 10.8% increase on clinical analysis revenues. The same-store sales grew by 7.6% compared to the 3Q12. New contracts boosted highest growth in clinical analysis. We continue with growth in the number of MRI and CT exams in the mix of imaging, which was one of the components that raised the average revenue per requisition in R$8.40, or approximately 6%, despite the increase in clinical analysis share in the mix. We start having the impact of price increase obtained as we spoke in the last earnings call. These increases will have a greater impact from the 4Q on.

Now, I turn to Emerson to talk about image.

Emerson Gasparetto:

Thanks, Paulo. It is important to emphasize what Bokel just mentioned about mix of exams and its impact on the average of price per requisition of the components. The different imaging modalities, such as magnetic resonance imaging, ultrasound, endoscopy, and cardiology exams, have prices and costs totally different. We consider this information, as well as the demand for each type of exams, to define our mix strategy.

On the left, you see the increase on the number of MRI scans in São Paulo, as a result of our investment in 2012. On the right, the capacity of our equipment has been increasing, guarantying the growth of the next years.

Next slide, please. In addition, we begin to see the result of our initiatives focused on the relationship with the doctors in São Paulo. The more complex modalities such as tomography and Magnetic Resonance Imaging, which are more associated with medical reviewing, are those that show higher impact on our focus on the relationship with the doctors.

On the left, we see the growth of exams that are referred to our top radiologists. On the same way, at the right, there is an increase on the percentage of MRI and CT endorsed by the top referring physicians, corroborating the improvement of our credibility between the doctors. These numbers confirm our strategic focus on state-of-art equipment and top radiologists associated with efficient operation and relationship with doctors to support our growth in the next few years.

Now I will go back to Paulo.

Paulo Bokel:

Thank you, Emerson. Turning now to slide number eight, the revenue for the hospital market reached R$69.2 million, an increase of 16% over the 3Q12. The average ticket increased 32% in the 3Q, to R$68.9 million. We got this result even with the cancellation of hospitals over the last year, related to the strategy of focusing on profitability. The more complex mix coming from the new hospitals and deployment of new services increased image growth to 25.4% and revenue from hospitals to 16% in the quarter.

Let us move now to slide number nine. The revenue from the lab-to-lab market reached R$76.5 million, an expressive growth of 19.1% compared to the 3Q12. The number of customers grew by 136 labs. In this quarter, revenue per laboratory increased by 15.8% and the number of tests requested increased by 22%. We keep the strategy on increasing the capillarity with new customers' perception and opening up new logistics routes, in addition to attempt to improve the mix of products in the existing customers with new services and increasing the volume of certain specialties.

Now in slide ten, in the public market, we achieved revenue of R$47 million, 4.4% higher than the 3Q12. The revenue per collecting site increased 26% in the period. This growth is due to the new contracts, which became effective during the year. We remain very selective in choosing new customers.

Now, slide number 11, we are going to talk about costs, emphasizing that, according to the Company's business model, we work in a fixed cost and expense structure, which is high when compared with the proportion of net revenue. A material part of this cost, such as personnel and rent, is directly impacted by inflation, usually the general market price index in Brazil.

Due to the revenue growth above inflation, we could minimize the inflation pressure to which we are exposed through dilution of these fixed costs. Given this cost structure, the price increase is very important. In the 3Q13, the cost of services rendered totaled R$413.8 million, an increase of 9% compared with the 3Q12, reaching 64% of net revenue.

The main driver of this increase was the personnel account, but in relation to revenue remained at 19.5%, the same as last quarter. Costs continued pressured by high employees for new and existing units, in addition to the collective bargaining agreement. Regarding the cost of materials, increased by 8.9% this quarter compared to 11.8% growth in revenue from the clinical analysis. Octávio is going to make a detailed description about this.

In cost of services and utilities, we had an increase of 8.4% upon comparing on a quarterly basis, in which the main increases were medical compensation, increase in occupation expenses due to rental adjustments above inflation, commission of representatives of the lab-to-lab business in line with the revenue growth. The cost of services and utilities decreased from 25.9% of net revenues to 25.6% in this quarter.

Now, I turn to Octávio, our VP of Operations, to comment about cost of material and operations.

Octávio Fernandes:

Thank you, Paulo. On slide 12, you can notice that the 78% increase in volume since 2009 was followed by a 29% increase in productivity, due to the technological initiatives that were implemented at the conveyor belts we installed in CientíficaLab in São Paulo and also in in Rio de Janeiro.

The conveyors installed in CientíficaLab in São Paulo allow an increase in productivity of 13%, considering the overall structure of direct costs linked to this hardware. And the conveyors in Rio de Janeiro have been responsible for an increased productivity of 29% in numbers of exams per employee and 37% in number of tests per collecting sites.

The new Central Lab in Cascavel to the lab-to-lab business is nearing completion and is scheduled to open later this year, and the two automation in Brasília will be implemented in 2014. This movement consolidates our planning developed in 2009, bringing full automation to São Paulo, Rio de Janeiro, Brasília, and Pernambuco, allowing cost controlled clinical analysis.

Upon comparing the same period of 2012, we have a 1% growth in the unit cost of exams due to change of mix. The growth of the lab-to-lab business of 16%, including the expansion in Cascavel, in Rio de Janeiro Central Lab, has changed our mix of exams to a greater complexity when compared with the previous year.

Now, I turn back to Paulo.

Paulo Bokel:

Thank you, Octávio. Now on slide number 13, our general and administrative expenses amounted R$111.7 million in the 3Q13, compared with R$100.4 million in the 3Q12. Our G&A expenses, which personnel and rent expenses among others are included, totaled R$112 million compared to R$101.6 million in the 3Q12. Internalization investments in the quality of the call center operation impacted this line. In addition, personnel costs and rents also remained pressured.

Other operating income amounted to R$8.2 million in this quarter. In this amount, we have R$7 million related to the gain with renegotiation with equipment supplier. We also carry a provision for payment of Profit Sharing Program in the amount of R$7.8 million.

On slide 14, we can see that our EBITDA reached R$120.7 million in this quarter, compared to R$108 million in the 3Q12, an increase of 11.3%. Our EBITDA margin reached 18.7%. The chart below the slide shows that we are within our expected sustainable margin growth quarter by quarter.

In slide number 15, we approach income and social contribution taxes. Assuming a rate of 34%, the goodwill amortization and use of tax benefits allow us to work with a cash effective rate of 12.1%.

Going to slide 16, we have maintained our provision policy, where 100% of past-due receivables over 360 days are provisioned. Day sales outstanding is 84.4 days, the same as the 3Q12. Various actions have been conducted to reduce this average term and also impact the current level of allowances. The level of allowance for doubtful accounts was 4.2% of gross revenue this quarter compared to 3.2% in the 3Q12.

In slide number 17, our operating cash flow for the quarter reached R$47.5 million. In this quarter, our working capital was impacted by the increase in the accounts receivable compatible with the increase in volume, which grew R$30.1 million from accounts of working capital due to the payment of sales tax debt accounting for the terms of the special installment program, and also added R$2.7 million to financial expenses in relation to the financial gain for joining this program.

We are very focused on having our CAPEX aligned with the operating cash flow generation, which allow us to maintain a stable net debt around R$850 million, and our covenants closed the quarter in 2.1x EBITDA.

In slide 18, we present the Company's debt profile. In December 2010, we conducted a tender offer to repurchase bonds issued in May 2008, through which we repurchased 87% of a total of R$250 million. In August, we exercised a right to repurchase the remaining part and canceled the issue. We completed the fourth issue of debenture last month, in the amount of R$450 million, with amortization of principal in the fourth and fifth years, bearing interest of CDI +1.5% per annum. The funds arising from this issue is intended for refinancing the debt. This fund would be enough to pay all debt and interest up to April 2016, according to the amortization schedule table.

The treasurer and legal team of DASA conducted the entire Company restructuring process. This team participated since the restructuring, renegotiation, and execution of operation. During this period, the Company's rating was increased in two levels by S&P and Fitch, both agencies that cover the Company.

During the process, we recorded hedge higher than R$200 million in the balance sheet, the debt cost that amounted approximately CDI +8% per annum, when considering the bond cost plus hedging, was reduced to CDI +1.2% per annum, a reduction of 7% per annum. This reduction brought to the Company of approximately R$35 million per annum. We reduced our exchange exposure to less than R$10 million in the 3Q13, and the trend is to eliminate this exposure.

Now, in slide 19, our return on invested capital in this quarter was 8.3%, with a clear trend solid in group improvement. We are improving our results quarter to quarter, and focus on maintaining our capital employed at levels compatible with the continuous ROIC expansion for levels above our cost of capital.

In slide 20, our CAPEX in this quarter amounted to R$31.4 million. During the year, we focused on improving operational performance and increasing the utilization of existing investments. Thus we were more restricted in the volume of investments. Regarding the unit expansion, as Romeu previously mentioned, we have 15 new units under construction.

Now, I turn to Romeu for his final comments.

Romeu Côrtes Domingues:

Thank you. Thank you, Paulo. In recent years, DASA faced various challenges. Our team has one single purpose that is to improve the performance of DASA, which has already been shown by the improvement of our numbers. We want to continue to grow, but in a sustainable way, want to continue to control cost and expense, and especially the amount invested in key working capital to enable continued improvements of our ROIC.

Thank you very much for your attention and, now I turn to the Q&A session.

Josh Milberg, Deutsche Bank:

Good afternoon, everyone, and thanks for the call. Just a few follow-ups on some of the issues that were discussed on the Portuguese call, just first regarding CAPEX. You mentioned R$150 million number for this year. I was just hoping you could review the factors that have led to that lower than previously anticipated investment amount. And also just talk about what we might expect for 2014. And also, if the large scheduling availability that you highlighted in the presentation could imply the ability to reduce CAPEX on the imaging side next year? That is my question.

Paulo Bokel:

Josh, basically, what happens is that we focused on the utilization of what we have. So, basically we made a lot of progress in terms of improving efficiency in the assets that we have. So, basically that was the focus, instead of installing new equipment, we try to drive the clients to the existing machines that we have, as easy as that.

For 2014, basically we are going to see around R$200 million in terms of CAPEX. We are going to expand again more strongly.

Josh Milberg:

And what is motivating that? Is there no longer room to carry on with expansions of existing units and renovations of existing equipment? Has that whole process run its course?

Paulo Bokel:

Not really, Josh. We are going to keep renovating the units and also installing new equipment. What we are doing basically is we are trying to just improve the capacity utilization of what we have instead of just spending a lot of money in new units and everything. We mentioned also that we have today 15 new units under construction already. So basically, we have a very strong base for growth for next year also. What basically we want to do is to focus on increasing return on invested capital, nothing is over-investment. We think that we can, before investing, really increase the capacity utilization of what we have.

Josh Milberg:

OK, Paulo, thanks for that color. And my second question is if you just could comment a bit further on the outlook for pricing increases and also for the disputed account receivable charges. I just want to understand a little bit better what the status of your negotiations are with payers and what you are targeting or what you see is attainable in terms of price increases.

Paulo Bokel:

Josh, I am going to answer your two questions. First, it is about deduction. Basically what happened is that we are seeing a little bit delay in terms of payments; the disputes are higher. So basically, when disputes are higher and we have to do the provisions, we do provisions today with 90 days. We have to provision 25% of the doubtful accounts, and it goes on 90 days, 120 days, 180 days, and that is what basically you have seen in terms of increasing deductions now 4.2%. And pricing, we are going to have some price increases coming in this 4Q and they are going to come progressively going on throughout 2014.

Josh Milberg:

Paulo, can you just talk about what the magnitude of those increases is?

Paulo Bokel:

Josh, it varies a lot, but on average, I would say something between 50% to 80% of IPCA.

Josh Milberg:

OK. Thanks very much.

Bruno Giardino, Santander:

Hello, everyone. I have a question in terms of average ticket. When we broke down to clinical analysis and the imaging, we see that the impact of clinical analysis was 8% up year over year, but imaging was only 2% up year over year, and during the Portuguese call, you mentioned a lot of that you have focused on the specialties in this segment. So, I just want to understand why are so low year-over-year increase in the imaging side.

Emerson Gasparetto:

Bruno, the same way we mentioned before, the mix of exams in imaging is variable, when you talk different modalities. And we have been focusing on increasing the quality of our mix and, as a result, in the next nine months of this year and the end of last year, we discontinued some modalities that we consider are not working or performing as we believe they should. So, as a result, as we mentioned before, we are investing in these modalities that we consider more complex and have better margins and better potential. But still this is not something that we have do in one month and we have result in the next one. It takes time to do that and we consider the result that we are having are competent and we will increase and we will be better month by month.

Bruno Giardino:

OK, thank you. And one additional question, if I may. Have you revised your plan of opening new units, I would say this soft growth you had in this quarter and perhaps a scenario of macrodeceleration next year, or do you plan to keep with the same opening of schedule for next year?

Paulo Bokel:

Bruno, basically, we keep the same schedule. Next year, probably we are going to see a little bit more than the average of what we did this year, because we delayed a little bit in terms of opening new units. So basically, we are talking about 15 units until probably March next year. But 20 units more probably next year, also probably going to have around, if you say from here to the end of next year, something around 35 new units.

Bruno Giardino:

OK. Thank you very much.

Bradley Wilds, Trilogy Global:

Thanks for taking my question. I was wondering if you could talk a little bit about the competitive dynamics of the Patient Service Center market amongst your different brands? And then within the Patient Service Center results, you said your clinical analysis volume is higher due to new payers. I was wondering if you could give me a little bit more color or information on what you mean by that? And then I was interested if, internally, you have a target for your return on invested capital, if you expect longer term, your return on invested capital get to levels where they were before in the mid-teens, is that the target?

Octávio Fernandes:

Hi, Bradley. Let us start talking about the PSCs and how they work here in Brazil. You know that it is a customer-driven market and at the end of the day, that is the reason why service level is so important, because the patients choose where to go. And we have seen that since we started doing several investments regarding improving service level, we have seen that the growth is coming back into the Company. So, we are facing this, this quarter, in the way that we have already shown you, and we understand that this is the way that we have to pursue to keep on with the sustainable growth and we are sure that is going to be shown in the next quarter as well.

Regarding the growth of clinical analysis, you are right. We have been facing higher growth of clinical analysis when you compare it to imaging. And we are talking both in number of exams per requisition and also in terms of number of patients going to our PSCs. So, that is a reality that we have been facing and we have been beating record by record in terms of number of steps being carried out by our production area. And just to give you some color in that regard, these days we are carrying out something around 19 million tests per month, that is one of the records of the Company regarding test and clinical analysis.

Paulo Bokel:

Bradley, I am going to answer your question about the return on invested capital. Basically, we do have internally a return on invested capital target. We do not disclose that to the market. What I can tell you is that we are not comfortable at all to have a return on invested capital that is less than the average cost of capital of the Company. So basically, you are going, for example, next quarter already another progressive growth and that is basically what we are trying to do, to control all costs and improve margins and improve working capital, basically also investments and everything to improve return on invested capital, that is one of the focus that we have here in the Company. We think also that return on invested capital is a better measure than just looking for strictly EBITDA.

Bradley Wilds:

OK, great. I would agree with you on your last point there on the return on invested capital being a better measure, I would agree with that. I just had one last question. I have not heard any mention on this call about anything that is going on with CADE and MD1 acquisition, is there anything of note going on there at all that is that important any longer?

Paulo Bokel:

Bradley, basically, what is going on is that we are answering all the requests from CADE and basically, we are doing everything we can to solve this issue as soon as possible, and we are just basically waiting for CADE's decision.

Bradley Wilds:

OK, great. Thank you very much for taking my questions. I appreciate it.

Operator:

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

Romeu Côrtes Domingues:

Thank you very much, everybody, for your attention, and we look forward to meeting you again in the next earnings call next February. Bye-bye.

Operator:

Thank you. This concludes today's DASA's 3Q13 earnings results conference call. You may disconnect your lines at this time.