Operator:

Good morning ladies and gentlemen and thank you for waiting. At this time we would like to welcome everyone to DASA 3Q10 earnings results conference call.

Today we have simultaneous webcast that may be accessed though the website www.dasa3.com.br. The slide presentation may be downloaded from the 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 Mr. Marcelo Barboza, CEO; Mr. Carlos Alberto Moura, CFO; and Mr. Tharso Bossolani, Investor Relations Officer. Now, I will turn the conference over to Mr. Marcelo Barboza, CEO. Mr. Barboza, you may now begin your conference.

Marcelo Barboza:

Good morning and welcome to our 3Q earnings call. Moving to slide number three, the highlights of the quarter, we start with revenues of R$428 million, but most importantly, our financial results, in terms of margins, significantly outperformed the ones of the last year. We have a gross margin of 42.5%; EBITDA reached R$108 million, up 28%.; cash earnings were R$67 million; and ROIC reached 19%. This is a record for DASA, remember that we are coming from under 10% ROIC back in 2008.

This quarter also had important acquisitions and mergers and that marks the new phase that we are now, focusing on growth. The first one was the MD1 merge, the MoU. This is a company that has large volume, very important brands and a high-quality team both in the technical side and also in the management side.

Also important was the Cerpe acquisition that we made in October. This is the leading lab in the Northeast of Brazil and we are quite confident that with these two deals we are going to have a very important platform for growth, not only in our traditional B2C market but also in lab-to-lab, hospitals and public.

With that, I would like to turn to Tharso Bossolani, our Investor Relations Officer, to comment on our operational results.

Tharso Bossolani:

Thank you, Marcelo. Good morning. Going to slide four we can observe growth in all of our three segments. This quarter we posted revenues of R$428 million. The lab-to-lab, once more, was the highlight in terms of solid growth and compensated for the lower volume of services in the outpatient and hospital segments due to slower market growth.

Moving to the next slide, page five, we take a closer look at the outpatient and hospital business and we can see growth of 4.3% in revenues years over year. This business line has been affected by the lower market growth rate recently announced by the Brazilian National Health Agency, the ANS, for the 1H10 consuming our hypothesis of a stronger control in the medical loss ratio by the payers and more ahead in 2009. Even factoring for that, we still posted growth above market average reflecting a better product mix and a result of the price renegotiation.

Moving to the next slide, page six, the lab-to-lab and public revenues. The lab-to-lab business once again surprised possibly on the upside with a 28.8% growth year over year. This growth reflects both the increase of the number of active clients surpassing 4,000 in this quarter and high levels per lab due to a larger share of wallet, product mix and price renegotiation.

In the public sector we can observe a better performance per collective site, once we saw efficiency gains by discontinuing some inefficient operation. As a consequence, the growth in the public sector reached 6.2% year over year. Also, we have added two imaging service contracts that are very important to differentiate us in service in the public segment in Brazil.

Thank you, and I would like to call in Carlos Alberto.

Carlos Alberto Moura:

Thank you, Tharso. Good morning. Moving to the next slide, page seven, the gross margin, we reached 42.5% compared to 38.8% in the same quarter of the last year. This evolution represents the facts of our efforts based on patient service centers benchmarking that improved our productivity, better efficiency in our procurement area and continued our improvements in the production process. Other actions have been adopted to sustain these margins.

Next slide, please. Matrix budgets, always we are reporting during this year the achievements of our matrix expenses control, as we have a global target divided in nine account groups. There are over 170 actions related and the chart shows our goals at each period. In this quarter we reached 62% of the targets and up to 58% in the budget.

Next, please, receivables. Exempting our past two balances over 120 days, it is the bad debt provision, actually, we have a coverage ratio of 82.7%. The receivables portfolio reached R$334 million which increased 16% if compared to 2009. These effects come from the B2G segments essentially, for the process of billing and payment in the governments is longer than the private. In this quarter, we put in place new improvements in this area, for example, the new deductions control system and the new authorization process in the São Paulo region.

Next, please, EBITDA, it rose 28% compared to 2009 with an EBITDA margin of 27.5% that represents our best indicator in our recent track record. Beyond the important gross margin growth, we kept the SG&A stable with the same amount of 2009. DASA has 12,300 employees compared to 11,900 in the last quarter. This improvement came from the call center operations. Our bad debt provision had a positive effect as a result of our good performance in the deductions and the renegotiation of past-due credits with certain payers.

Next, please. Cash earnings, slide 11. Our gross margin growth combined with the tax credit compensations, goodwill plus tax credits, and the cost of capital with a positive evolution presented a strong improvement in our cash earnings which rose 27.6% quarter over quarter, and 112.9% year over year.

Next, please. Balance sheet management, we continue to present a good cash generation, our capital expenditure was R$20.3 million related to patient service center and corporate infrastructure, IT projects and image equipments. We are still reducing our more expensive debts.

On the next slide, I would like to present our material fact that we sent today about our financial optimization. When we announced the debt restructuration through a tender offer of the current notes issued by DASA and due in 2018, according to the conditions, we are establishing an additional premium over the offer that considers the dismissal of all the covenants.

At the same time, we established the new debt line up to R$600 million with Banco Itaú, considering specific conditions that we are presenting in this slide. Our objective is to reduce volatility and additional costs from the actual debt structure to sustain our capacity to invest, and to maintain an adequate level of cash for the business. In the next weeks, according to the time table below, we will report the evolution regarding this operation.

Next, please. Return over invested capital, our comparison considers standard tax rates over the profits, and we reached 19% that represents a sustainable level of ROIC.

Now, I would like to call again Marcelo Barboza to continue the presentation.

Marcelo Barboza:

Thank you, Carlos. Slide eight provides an update in our restructuring process, started after the new Board took charge in April of last year. We started in last July and throughout the next 12 months, I mean, last year, and the next 12 months, our big focus were efficiency gains, and in this July we started a new growth process, a new growth phase, focusing on M&A. We did two important acquisitions, one acquisition, one merger as we mentioned, MD1 and Cerpe, we are also exploring opportunities in franchising to grow in smaller cities, and also marketing is a big focus right now, we have important projects right now to streamline our portfolio of brands. Also we see tremendous opportunities in public, hospitals and lab-to-lab and we are working to integrate these three operations commercially.

Moving to the next slide, to address growth, we would like to point out that our base market grows faster than the economy, and this is because we have three important aspects that drive this.

The first one is the population is aging, statistics in the Brazilian market show that the population over 60 years old will double in the next twenty years. As we all know, older people do more exams per year than younger people so this is a very important driver for market growth.

Second one is growth in formal employment, this is clearly seeing in health insurance penetration, going from 19.1% in 2005 to 22.4% in 2009. As more people are formerly employed, the higher the penetration rate for insurance in Brazil.

And then there is a third aspect, related to the growing awareness of medical diagnostic benefits as physicians and also patients get more used and demand more exams to really work on early detection of diseases. The annual tests per capita increases as seen in statistics going from 6.6 exams per year in 2002 to 8.9 in 2007.

However, it is important to note that this market growth that has been above GDP growth has an asymmetric growth profile, growing more in years of crisis such as last year, when the market grew 19%, and this year the market is growing as a consequence only 2.9% in the 1H according to official data from the Brazilian Health Care Agency.

On the next slide, we indicate why we are confident DASA can outperform the market. Two factors that are related to addressable market growth, the first one is hospitals and small labs are outsourcing a larger share of their tests, as the cost advantage of large labs such as DASA increases. The second one is public hospitals are engaging in more medical diagnostic partnerships with private companies, it makes a lot of economic sense for state hospitals and municipal hospitals to outsource their production of clinical analysis, and we have important examples here in São Paulo and also in Rio de Janeiro, and we believe this trend will spread throughout Brazil in the next few years.

And then there is a third driver that is related to M&A, we are actively pursuing new deals. We still believe we could add over R$1 billion in annual revenues over the next few years.

Before we move to Q&A, I would like to point out that this team is proving that it delivers. Our big focus this year was margin, and we are delivering over 350 b.p. above last year. We will now prove that we can outperform in synergies of the MD1 deal, especially in the revenues side.

We will now be open for questions.

Andrea Teixeira, JPMorgan:

Hi, good afternoon, everyone. Congratulations on the margin expansion. I just want to explore more what Marcelo, you just said on your last remarks now, saying that you see potential for R$1 billion annual revenues through acquisitions in the next few years. I know, DASA has delivered in the past, but what makes you more comfortable now that you will be able, because I am assuming you are going to be doing larger acquisitions, at least in the similar size as MD1, what makes you believe that the market is more prone, or the sellers are more prone to sell at current levels?

Marcelo Barboza:

Andrea, hi. We are, as I mentioned, actively pursuing new deals, we are now working more midsized deals, we believe they are a very nice assets either in major metropolitan areas, or even some major cities outside capitals, either in cities that we are not present at this time, or in cities that we are present but have a very strong operation in imaging or clinical analysis, so it would make sense to us to acquire an additional company, even in some cities that we are currently operating.

So the focus is more midsized deals, several like R$40 million to R$60 million a year, and, I am not going to promise the completion of any deal soon, but I am comfortable that at least two or three deals we can do in the next 12 months.

Andrea Teixeira:

OK. Great. And can you also tell us in terms of the overall market, I know from your prepared remarks in the Portuguese call that you were saying things are going to improve, or what was a tough comparison for you in 2010 will be an easy comparison for 2011, but can you tell if there is any specific problem that you have seen, you know, in the 2.9% that the market grew, do you have any perspective of why this may have happened, besides the tough comparisons?

Marcelo Barboza:

Yes, Andrea, we see the market growing faster than GDP growth, and the average growth if you compound for the last four years, on the private side was 15%, and we believe this trend will continue because of the drivers we mentioned, aging population, higher penetration of private insurance and also more and more awareness of medical diagnostics.

But what happened last year is, our growth was throughout the year higher than we initially expected, and after all when ANS published the numbers we saw that the actual market growth was 19%, this is reflecting this year, so people are using less, so on top normal hazards, we have been talking to insurance companies and the insurance companies indicate to us that the usage of medical diagnostics last year was very high, so they did everything they could to slow down that, so it was double effect, tough costs and also a more intense job form the insurance companies to control this.

We do not see any reason why the market, the markets should go back to normal, the market should go back to probably not 15%, but we think that it is very reasonable that the market grows 1.5x GDP and we plan to go together with the market, plus exploring opportunities in lab-to-lab and in hospitals, and also in smaller cities through franchises, we are deep believers of franchising.

Now, with the integration with MD1, MD1 and Sérgio Franco has a very successful model in franchising, they have strong processes, they can control quality, the perceived quality by patients is the same, and there is also the added benefit that you have an actual owner that owns the patient service center, which is the franchisee that is usually a senior manager that has some skills and we have seen that for instance turnover in franchise operations is lower than in normal operations.

So, lots of opportunities, we continue to believe that we can outperform, that medical diagnostics market can outperform GDP and we can outperform medical diagnostics market.

Andrea Teixeira:

OK. Marcelo, this is very interesting, thank you very much and congratulations again on the results.

Taryn Silvestre, Credit Suisse:

Hi, good afternoon, everyone. My question is regarding what you guys are expecting for 2011 in terms of margins and also organic growth? Like, if we exclude the MD1 acquisition, how much do you expect your portfolio to grow just organically? Thanks.

Marcelo Barboza:

Hi, Taryn. Well, we are still keeping our confidence that for next year DASA, DASA without Cerpe and without MD1, we are going to be able to deliver an EBITDA margin of over 27.5%, so we are keeping it.

As of growth, we are evaluating opportunities right now, what we can commit and that we will, again, organically outperform market growth. So we are not going to commit for specific numbers, our commitment is that we are going to grow above market growth.

You asked about MD1, we are in the phase, we are dividing the work we are doing related to MD1 in two areas. One area is making sure that we complete the deal. We have auditing working with lawyers, auditing companies and we expect to complete this deal in the next months. A second area is working, we have a weekly integration committee, we have several working groups, we are making sure that as soon as we have the transaction approved we can quickly integrate the operation, start getting synergies out of purchasing, fixed cost reduction and also integrate systems and also integrate our teams.

We do not have all the information because, as I mentioned, the deal is not completed so we do not have access to all the information, but what we can tell so far is that we are very confident we can outperform the synergies that we indicated to the market when we announced the deal two months ago.

Taryn Silvestre:

OK, thanks.

Tyler Brown, Artha Capital:

Hi. I was essentially going to ask the same question about what your organic growth potential is. So, did I hear you earlier that you think that the diagnostics can grow 1.5x GDP going forward?

Marcelo Barboza:

Yes, we strongly believe that this is a market that is growing faster than the GDP because of the facts that I mentioned, aging population, we have more awareness of medical diagnostics, higher penetration of private insurances. There is also an additional factor that is related to the growing middle class in Brazil. All the consumer researches we read indicate that middle class is consuming TVs, refrigerators, and has been consuming over the last few years, and one of the big priorities right now is healthcare.

So we are seeing growth even stronger in the area of people without private insurance, what we call the popular segment is people being out of pocket in our standard brand.

We see this market growing well above GDP, even this year that this market is growing slow.

So on top of these factors there is also the factor of growing addressable markets, more outsourcing from small labs, more outsourcing from hospitals, and also more outsourcing from public hospitals. All these factors combined make us comfortable about indicating to the market that we can outperform medical diagnostics growth, and medical diagnostics growth can outperform GDP growth.

Tyler Brown:

Got it. Together with that, you have been able to outperform you margins targets on a weaker than expected revenue growth. So if your revenue picks up to the levels that were initially expected this year, like 12% to 15%, do you still have a lot of operational leverage in the business? I mean, have you been able to grow revenues where you thought you would be able to grow at the beginning of the year, I mean, where do you think you margin is going to be?

Marcelo Barboza:

We still have important opportunities, and one of them is related to systems. We still have several different systems, and we are working very hard to have one frontend system to integrate our call centers, our patient services center. This is a system that will give us better productivity, we will start to roll out at the beginning of the last here.

The issue here is also mix. Remember we play in several markets and the markets that are growing faster are the ones that we have lower margins, specially lab-to-lab. Lab-to-lab is a very competitive market, low-margin market, mid to low-margin revenues. But the good news is that this is a market that requires very little capital; it has lower margin, but also have a very high ROIC.

So mix may play a role in the mid to long term, so that is why we do not feel comfortable at this moment to promise even higher targets. We are comfortable at this time indicating for next year that a 27.5% up is what we are going to deliver.

Tyler Brown:

OK. Fair enough. Thank you.

Bruno Giardino, Santander:

Good afternoon, everyone. Just a quick question on the public segment and also on the PSP, do you expect this cancelation on services and contracts to remain in the 4Q and so on, or it is already finished?

Marcelo Barboza:

Hi, Bruno. Good question. Yes, but we will continue to see that. We started this efficiency initiative in the B2C in the beginning of this year, both looking at profitability by patient service center, and also looking at profitability by product.

We shut down some products such as rehabilitation, we decreased the agendas of low margin, but necessary products, such as x-ray, we shut down a few patient service centers. This was a very successful move, helped us to get the leverage of fixed costs. And in the middle of this, we started to look also in the public sector.

In the public sector we have some low margin contracts, we started doing this move in our portfolio in the beginning of the last quarter, and we will continue to do that. But we won two important deals, one in the middle of the 3Q, the CT mobile. We also won MRI mobile, and this will help us in the 4Q, and we are expecting for one very important project that is going to be announced any time, and we are confident that our chance to win is a good one, and it will not help us a lot in the 4Q, but will certainly help in the 1Q11.

So just to summarize, 4Q is still going to be tough for public sector, but we are very confident that this trend is going to be start shifting in the 1Q11.

Bruno Giardino:

Thank you. And if you could please repeat how many targets are you currently analyzing in M&A in pipeline.

Marcelo Barboza:

Around 20.

Bruno Giardino:

20. OK. Thank you.

Pedro Montenegro, BTG Pactual:

Good morning everyone. My question is related to your CAPEX plan. Do you still expect to reach R$100 million this year, or the lower than expected market growth should make you hold investments? And also, what is your target for investments for the next years? Thank you.

Marcelo Barboza:

Hi, Pedro. We will follow this a little under the R$100 million that we have indicated to the market. Still, we are investing in very important infrastructure projects, and one of them is the IT system I just mentioned.

The IT system is not only a software system, but also involves upgrades in the infrastructure of communications between servers and patient service centers. There are several projects also to improve our capacity in our clinical analysis lab, the anatomic pathology for instance, and we are working to automate the sample reading.

But overall probably it is going to be a little under the R$100 million, unless we rent some major deals either in hospital or public sector, we are negotiating some important deals in both markets that may involve CAPEX. But it will be close to R$100 million.

For next year we are still discussing plans internally here in our team. Our zero base budget process involves both P&L and CAPEX. To be honest with you, next week we are going to be selecting the projects to present to the Board in a few weeks, but we will certainly be above the level of this year.

We have very good projects, especially with the imaging area, now with MD1 we have a very good platform for growth in imaging. They have a more robust process of adding physicians, and paying these physicians, getting skilled physicians. So we see big opportunities to revamp growth in the imaging area, especially here in São Paulo, increasing the premium segment. So certainly above this year's level, but we still do not have the final numbers at this point.

Pedro Montenegro:

OK. And to the follow up, this further revenue that should be presented next year already considers the MD1 merger, or only considering DASA standalone do you think you would invest more?

Marcelo Barboza:

The P&L figures revenue expectation growth, and also EBITDA margin is DASA before MD1, and even before Cerpe.

Pedro Montenegro:

OK, perfect. Thank you.

Operator:

This concludes the question and answer session. At this time I would like to turn the floor back to Mr. Marcelo Barboza, CEO, for closing remarks.

Marcelo Barboza:

Thank you very much for your participation. We look forward to see you in the next call after 4Q closing. Just to finalize, we are very confident with the platform we are creating this year, not only the internal process improvement that we have been doing at DASA, but also now with the additions of MD1 and Cerpe. So we very strongly believe that next year is going to be a great growth year.

So, thank you very much for your participation, and our investor relations team will be ready to take any further questions. Thank you.

Operator:

Thank you. This concludes today's DASA's 3Q10 earnings results conference call. You may disconnect your lines at this time.