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Q1 2016 Earnings Call

Company Participants

- Flavia Oliveira, Investor Relations Manager
- Pedro Thompson, Chief Financial Officer and Investor Relations Officer
- Rogerio Melzi, Chief Executive Officer
- Virgilio Gibbon, Chief Financial Officer

Other Participants

- Bruno Giardino, Analyst
- Rodrigo Gastim, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. Thank you for standing by. And welcome to Estacio's Conference Call to discuss the First Quarter of 2016 Results. This event is also being broadcast simultaneously on the Internet via webcast which can be accessed on the Company's IR website www.estacioparticipacoes.com.br/ir together with the representative presentation and the earnings release. We would like to inform that the company's presentation all participants would be in a listen-only mode. We will then begin the Q&A session when further instructions will be given. (Operator Instructions).

This conference call contains forward-looking statements that are subject to risks and uncertainties that could cause the Company's actual results to differ materially from those in forward-looking statements. Such statements speak only as of the date they are made and the Company is under no obligation to update them in light of new information.

I would now like to turn the conference over to Mr. Rogerio Melzi, CEO. Please Mr. Rogerio, you may proceed.

Rogerio Melzi {BIO 16212298 <GO>}

Well thank you very much, and good morning everyone. Welcome to our conference call to discuss our results for the first quarter of 2016. Next to me, our recently announced CFO, Pedro Thompson; our Director of Services, Virgilio Gibbon; and our IR Manager, Flavia Oliveira, who will help me with the presentation of our results. We will have a Q&A session just as soon as the presentation is over.

So let's go straight to slide number two of our presentation, which is also available on our website, where we talk about the first intake cycle for 2016. After the two years of the intakes turnaround process recognized by GP and the new executive board back in 2008, in the second semester of 2010 for the first time Estacio's student intake resumed growth over the prior year. It is worth remembering that FIES did not exist at the time and although Brazil was living a relatively a forge [ph] moment in the last year of ex-president Lula's administration, the world was facing a crisis of epic proportions, but even so Estacio grew.

From then until now much has changed. We had the elections of 2010, the arrival of Dilma Rousseff, the new FIES, the launch of Pronatec, the FIES explosion in 2014 followed by its implosion in 2015. The massive economic crisis that has engulfed the country and more recently the impeachment process in the Congress is all the volatility that this brings to any democratic regime.

But one thing has not changed. Since 2010, Estacio's intake has grown every semester with no interruptions on both the on-campus and the distance learning segments. Throughout this period, the company and its shareholders occasionally experienced slower growth than some of their competitors. They also experienced a more moderate adoption of FIES and Pronatec, are confirmed by a strategy based on an intense organic growth, margin gains, small and medium-size acquisitions and the parallel creation of a division entirely dedicated to new business and to the diversification of activities often in exchange of more intense M&A maneuvers or capital allocation decisions. But we did see growth every semester.

And much to our joy and the joy of all those who believe in long-term vision, disciplined execution, patience to build a long-lasting company, journeys without shortcuts and the construction of solid corporate fundamentals, we are once again seeing on-campus and distance learning intake growth despite a worsening of the crisis and ever-diminishing FIES numbers.

Our on-campus intake growth of around 2% was modest compared to previous periods. But we were once again in positive territory compensating with easy, a decrease of 12,600 new students with FIES which represents a reduction of more than 13 percentage points in the total proportion of entrants.

Our distance learning intake grew by a hefty 22%, thanks to the maturation of the integration of the UniSEB centers, the sales management improvements implemented throughout last year, the launch of a special campaign with former number one tennis player Gustavo Kuerten, the strengthening of marketing in Sao Paulo, the increase in the number of centers since the end of 2015 and product diversification.

Thanks to the intake growth, I have just presented and given that even during the crisis we decided to maintain the strategy of acquiring small and medium-sized institutions with three such acquisitions in recent months, FNC in Carapicuiba, FCAT in Castanhal, and FUFS in Feira de Santana. Our total student base increased by 11.4%, once again double-digit growth in the midst of a crisis of epic proportions.

As a result revenue increased by almost 10% over the same quarter last year, despite a loss of nearly BRL13.5 million in the Pronatec line, due to the substantial reduction in the program throughout 2015. Discounts, scholarships and campaigns climbed by 2.6 percentage points in the same period, which combined with the mixed effect generated an average increase of only 3% in the on-campus ticket and 2% in the distance learning ticket. Lower than inflation, but it's still positive and totally in line with our cost -- cost, volume and profit strategy.

We also saw an increase of around two percentage points in the on-campus dropout line, versus a one percentage points improvement in the distance learning dropout rate, due to the non-renewal of students who were unable to contract FIES in 2015. However, we believe the quality of the student base in 2016 when there were no more false expectations regarding FIES should improve from now on.

At this point, it is worth noting the growing contribution of the graduate segment, both on-campus and distance learning, which is steering the intake process as the entries schedule is timed to avoid competing with the undergrad segment. All-in-all, however the grad base grew by -- grew by almost 25% over the previous year, despite the adversities we are all aware of. It is also worth drawing attention to the growing contribution of the new business area, the result of a strategic decision made back in 2012 and also the result of substantial discipline in continuing to invest in the segment even in difficult times.

This area which virtually did not exist back in 2012, was responsible for nearly 6% of the company's net revenue in the first quarter of 2016 and continues with innovative projects to further expand this contribution in the coming cycles. Given all this, adjusted EBITDA came to BRL213.9 million in Q1 '16, 9% up on the previous year. On the positive side, we recorded an excellent result in the G&A expenses line with an increase of only 2% in nominal terms. On the other hand, we did not demonstrate the same efficiency in the personnel, advertising and PDA lines, causing our EBITDA margin to remain virtually flat over the last year.

As I will mention at the end of this presentation though these costs and expenses had certain non-recurring and seasonal characteristics allowing us to dream of a significant improvement in our 2016 results or even better, allowing us to dream of yet another significant improvements in 2016, as we have seen on a regular basis since 2010. After all, some things do not change.

I will now turn you over to Flavia Oliveira, our IR manager, and our CFO, Virgilio Gibbon, who will provide more details on our operating cash -- our operating results. At the end of the presentation, I will come back for my closing remarks.

Flavia Oliveira {BIO 20130905 <GO>}

Thank you, Melzi. Good morning everyone. Moving on to slide number four, where we talk about our operating performance. In the first chart, we saw the student base figures for the first quarter '16. We ended the quarter with 587,800 students, 11.4% more than last year, 410,700 of whom enrolled in the on-campus program and 164,200 in the distance learning program, as well as 12,900 students from the acquisition in the last 12 months.

Under the same-shop concept, our total students base presented organic growth of 9%. The distance learning undergraduate base increased by 14.8% over the first quarter '15, totaling 32,100 [ph] students mainly due to the substantial 22.1% upturn in the distance learning intake as Melzi has -- has already mentioned. As well as the -- the 1.1 percentage point increase in the retention rates which represented 83.3% of the renewable base.

In the charts on the right, you can see that the net operating revenue moved up by 9.8% over first quarter '15 to 792.9 million reflecting the growth of our student base in the 2.3% upturn in the average on-campus ticket, and as well the 0.9% increase in the average distance learning ticket.

Looking at the average on-campus undergraduate tickets only, the positive variation was 3.1%, below inflation strictly due to the change in the course mix, the decline in the number of subjects taken during the semester and the higher level of discounts and scholarship granted. Considering the average monthly distance learning undergraduate tickets only, there was a 2. -- 2% increase over the first quarter '15.

Moving on to slide five, where you can see a vertical analysis of our operating costs and expenses. The cash cost as a percentage of net revenue ratio improved by 0.6 percentage points over the first quarter '15, primarily due to the textbook materials and rental lines. The other lines remains relatively flat mainly due to the anticipation of the process of class formation, which impacted faculty cost in comparison with the same period last year. The selling expenses line represented 11.4% over net operating revenue with a four percentage point loss in the margin over the first quarter '15 due to the high investments in advertising and the upturn in PDA.

The advertising line continues to be impacted by the one-off effects that affected the fourth quarter '15, reaching 8.3% of net operating revenue well above our historical average. The factors that continued impacting the first quarter '16 advertising line included the launch of a specific business learning campaign designed to reinforce the perception of a truly national brand which began to have a more significant effect on attracting new students to the segment.

The intake campaign designed to increase enrollment during the adverse economic scenario especially in Sao Paulo, where Estacio's brands is gaining increasing ground and the Rio 2016 Olympic Games campaign. Advertising expenses should return to the -- their previous levels in 2016. We expect expenses to be more heavily concentrated in the first semester, being subsequently offset in the second.

The PDA net revenue ratio recorded a loss of 0.9 percentage points due to the higher delinquency and a lower proportion of students with FIES contracts. General and administrative expense corresponded to a 11.9% of net operating revenue in the quarter, a 0.9 percentage points improvement over Q1 '15, mainly due to the 0.5 percentage points gain in the third-party services.

I will now hand you over to Virgilio Gibbon, who will present details of the adjusted EBITDA calculations.

Virgilio Gibbon {BIO 16679141 <GO>}

Thank you, Flavia. Good morning everyone. Let's move now to slide number six, which shows our operating performance by segments. As of this quarter, we will be presenting the operating performance of Estacio's business segment. The on-campus undergrad segment present an operating margin of 41.8%, representing 85% of the consolidated results. The distance learning undergrad segment achieved an operating margin of 52.5%, representing 11.5 of the consolidated results [ph]. And continuous education segment achieved an operating margin of 25%, representing 3.5% of the total results.

As of the previous quarter, we have been presenting our results adjusted by revenue from fines and interest related to overdue tuition, the inflation of FIES accounts receivable and discount granted in negotiations of overdue tuition. Thus, Estacio's [ph] adjusted EBITDA, which can be seen on slide number seven, totaled BRL213.4 million in the first quarter of 2016, an increase of 9% over the previous year. The adjusted EBITDA margin reached 26.9%, down 0.2 percentage points compared to the first quarter margin of 2015 mainly due to the increase in selling expenses already mentioned above.

On slide eight, we present our accounts receivable. Our net accounts receivable period including FIES receivables and FIES revenues reached 174 days, an increase of 67 days over the first quarter of 2015, impacted by the new FIES transfers and buyback scheduling effect in 2015. Excluding FIES net revenue and FIES receivables, the average receivables period was 96 days. The increase of seven days over the first quarter of 2015 was due to the lower proportion of freshmen students with FIES contracts and the worsening of the macroeconomic scenario.

As you can see now on slide nine, FIES accounts receivable totaled BRL1 billion, BRL329.3 million more than the last quarter of 2015, due to the FIES transfers and buyback scheduled during the first semester of 2016. As a result, the average FIES receivables term stood at 276 days in the first quarter of this year, an increase of 142 days over the same period last year. Consequently, of the BRL350.7 million in total FIES revs in the first quarter of this year, Estacio has received transfers from Ministry of Education totaling BRL16.9 million related to January, February and March of 2016.

Slide 10 shows our operating cash flow. We recorded negative operating cash flow of BRL86.5 million in the first quarter of 2016, due to the increase in accounts receivable which do not offset the low volumes of FIES transfers and buybacks during this quarter. It's worth to mention that in the second quarter, we have already received BRL380 [ph] million from FIES, following precisely the schedule announced in the beginning of this year what will result as expected in a positive cash flow generation by the -- by the end of this first semester of 2016.

I will now hand you back to Melzi for his consideration and closing remarks.

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Rogerio Melzi {BIO 16212298 <GO>}

Well, thank you, Virgilio. So slide 11, brings me to my closing remarks. Based on the company's history in the last years, the facts that we were able to increase our student base by 11.4% over the same period in 2015, should be enough in itself for us to expect a healthy result in 2016. However, there are other points that deserve greater attention which may result in an excellent performance this year despite all the turbulence our country has been facing, which include an intake in the second semester more comparable to the previous year in terms of FIES vacancies for entrants, reducing the impact of company's discounts and promotions for students who did not enter in the program.

Also in this quarter, we had a significant effect of Pronatec in 2015 which presented a revenue 13.5 million higher than in 2016. However, we know that these effects will be mitigated during the year as the Pronatec contribution will reduce throughout the year 2015, leading to more favorable comps in 2016. A substantial reduction in the ratio of advertising expenses over net revenue in the second semester which should converse towards the same level observed in 2015.

It is worth noting that in the first quarter the decisions commented earlier caused a margin loss of three percentage points in comparison with the previous year, so that if the argument of stabilization in comparison with 2015 is valid, we can say that in the first quarter we should have seen an expansion of three percentage points in the margin.

Similarly our PDA has been severely impacted by the recognition of provisions related to a group of students admitted in 2015, who counted on obtaining FIES financing, which as a result of the substantial reduction in the volume of the program throughout the year did not occur. Despite the company's intense efforts to offer these students an alternative, some of them opted not to continue.

In 2016, however, new students entering the admission process had much lower expectations regarding FIES, allowing us to assume that the quality of the student base is higher from the financial point of view than the one last year. On the other hand, given rising unemployment and the disappointment of the population, we are aware that therefore this is still one of our biggest challenges in 2016.

On the cost side, as already mentioned, our strategy to form the 2016 student base was based on more robust investments and on the anticipation of the entire process. We believed this was necessary to take such measures in the understanding that the deterioration in the economic scenario could make the conversion process more difficult over time. We therefore sought to accelerate the class formation process to the maximum, since it is necessary to conclude this step before the final starting enrollment process. Consequently we ended up anticipating a portion of faculty costs that would normally be recorded only in -- only in April retroactively upon confirmation of the last quarters [ph].

In this context, the benefits from the measures to ensure continuing margin gains in personnel costs should become increasingly apparent in the coming quarters. Finally, it is always wise to remember that since the beginning of the crisis and over the three semesters since then, intake, dropout, ticket increase, revenue growth, cash generation and margin gain comparisons have always been negatively affected by comparability distortions.

After all, comparing a 2015 market by economic crisis and FIES restrictions with an exceptionally healthy 2014 and record FIES as well as comparing the first semester of 2016 with the same period in 2015, when there was still a good deal of positive expectations regarding FIES and when the crisis had not yet affected the real side of the economy could lead to substantial errors of judgment especially if these comparisons are used for future projections.

In the second semester of 2016, however, for the first time we will be able to understand the effects of the crisis and the FIES restrictions in a more precise manner, since we will be comparing similar periods in terms of outside factors. It is also worth emphasizing that we have not for one instant halted our new business development processes or M&A activities. On the contrary, the pipelines on both fronts have never been so full and our teams have never been so motivated to add value through these initiatives.

Moving on to the last slide of the presentation. In addition to the more operational topics addressed in the previous slide, it is also worth noting, the evolution of a series of points affecting our company's cash. Beginning with the settlement of the financing line contracted at the beginning of 2015 from Itau in order to provide a financial cushion, given the educational sector uncertainties at that time, especially regarding the flow of FIES payments.

As the year went on, with the stabilization of the company's cash and the subsequent regularization of FIES payments in the second semester, we decided to settle this line and in parallel to enter into a new agreement with the IFC, giving us the option to contract $100 million in the coming cycles.

In addition to the fact that this line has a payment term of eight years, which may relieve our cash and improve our duration if necessary, we decided not to make use of this facility for now to avoid incurring the corresponding financial expenses. At the same time, we were more cautious with CapEx at the beginning of the year, while we awaited a clearer view of the formation of our student base and the behavior of FIES payment clause. FIES in turn has behaved as expected.

Amendment processes moving ahead normally with none of the problems experienced in 2015. At the beginning of the year, we signed an agreement with FNDE, Ministry of Education and the Office of the General Counsel to the Federal Government, AGU, establishing the payment conditions for the installments due in 2015 and reinforcing important issues such as equal treatment for all sector players.

In accordance with the agreement, the FNDE has already sent an analytical list containing all the details of the installments during 2015, which showed more than 99% compliance with our internal controls. It is worth noting that the discussion of the non-compliant portion will not prevent scheduling [ph] of undisputed amounts in accordance with the agreement entered into between the parties.

Consequently we expect to receive the payment of the first 25% of overdue balances by the end of June. Until now, all transfer and buyback activities defined by the calendar provision at the beginning of the year have been fully complied with so that the Ministry of Education through the FNDE has been meeting all the obligations and commitments assumed with the sector in an exemplary manner.

In other words, despite all the prevailing difficulties, the facts mentioned above together with the stabilization of our operations at the close of 2015 may well result in a level of operating cash flow never seen in any of the 46 years of Estacio's history. It is also worth highlighting several corporate events that have strengthened our organization's -- sorry, our organization's long-term commitment to our shareholders and the continuity of the wining strategies adopted until now, namely the proposal of a single slate for the Board of Directors put together by the Board elected back in 2014 and the lack of requests for our cumulative vote or the presentation of company's slates. The election of the proposals laid with a substantial number of votes; the maintenance of five of the previous members, Joao Cox, Mauricio Luchetti, Chaim Zaher, Thamila Zaher, and Maria Helena Guimaraes; the election of four new independent members Amauri Olsen, Libano Barroso, Osvaldo Schirmer, and Jackson Schneider, all of whom quite recognized and highly successful professionals with full autonomy who to our joy [ph] accepted joining our Board to further enrich the work of the previous group.

The election of Joao Cox and Mauricio Luchetti, the two veteran members of Estacio's Board, as Chairman and Vice Chairman respectively for a two years term; the maintenance of the previously established committee structure included the academic, the people management and governance and the audit and finance committees.

The election by the new Board of Directors of Estacio's Board of Executive Officers also for a two year term of office. Well after all these relevant steps, last night we announced a change in the composition of our executive team. Our current CFO and IR officer, Mr. Virgilio Gibbon, who has been a great partner in this process of communication with the financial markets will from now on dedicate to the organization of a newer area totally focused on providing services to Estacio's business units.

I believe that the implementation of this area is absolutely key to the fulfilment of our vision 2020, which requires an accelerated organic and inorganic growth, an increase in our national coverage and also on the number of learning centers, a greater capacity to integrate new assets, the building of complete competitive advantage in service levels to our publics and the preparation of the company to migrate to a multi-business structure providing several services under the education umbrella.

To replace Mr. Gibbon as CFO and IR Officer, the Board chose Mr. Pedro Thompson, a professional with more than 13 years of experience in corporate finance particularly in private equity and financial markets. Pedro was an Executive Director at PDG and a Director in the private equity area of BTG Pactual, where he was also CFO of one of the funding invested companies, the retailer leader.

Over the next weeks, Pedro, you have the opportunity to interact with the financial markets. For now I would ask him to say a few words to get with you all.

Pedro Thompson {BIO 19803506 <GO>}

Thank you, Melzi. Good morning. I would like to explain you two reasons -- three reasons that attracted me to the Estacio's project. The first one is the recent history of Estacio which began in 2008, and today is one of the most successful business cases in Brazil. Second is the size and scale of Estacio. The company is present in 23 Brazilian states, represented by 93 campuses and 190 distance learning units with 590,000 students. The last one is the Estacio's future. Much of my professional career was in a investment bank driven by a meritocratic culture and here in Estacio's -- and here in Estacio's meritocracy is the main driver of internal culture.

Finalizing my speech, I would like to use a quote from Warren Buffett that you need to have passion in your job and I will follow carefully this as Estacio's CFO. Have a good day. And I hope to see you soon.

I will now hand you back to Melzi.

Rogerio Melzi {BIO 16212298 <GO>}

Well, thank you, Pedro. At the same time, I wish the best to Pedro who would like to make a positive [ph] recognition to Virgilio. who during his four years as CFO have contributed in quite a positive way to the success of our company including our growth during this very arid moments.

I also wish him luck in his new challenge as he now will have the mission to raise our company's level in a significant way towards our vision 2020. We are fully aware that our company is so firmly focused on the long-term on its mission, on its commitment to all its stakeholders and on the generation of substantial value for its investors be benefit greatly from the stability provided by the process we have just come through, as well as on the extremely high level of governance that all of us can expect from such a select group of Board members and as executive officers.

That brings me to the end of our presentation. So we can move on to the Q&A session. Thank you.

Questions And Answers

Operator

And ladies and gentlemen, we will now begin the Q&A session. (Operator Instructions) And our first question comes from Rodrigo Gastim of BTG Pactual. Please go ahead.

Q - Rodrigo Gastim {BIO 19694950 <GO>}

Yes. Thanks. Good morning everyone. Two questions from my side today. The first one is related to this new disclosure of operational metrics per business. Will that include Virgilio [ph] to start comparing results from now on, but I would like to know if you could share with us more details on how the operating margins of both on-site and distance learning segments behaved already in this first Q when compared to last year?

And the second question regarding the announced change in the management team, I just would like to -- to get more details on what should change from now on under a strategic and operational standpoint? That's pretty much it. Thank you.

A - Virgilio Gibbon {BIO 16679141 <GO>}

Hi, Rodrigo. On your first question about the operating performance by segment, we don't have many figures to compare because we change a lot the way we recognize between cooperative and business unit during 2015, so we change all this distribution. But having the same comparison, the same data together, we are both leveraging distance learning also on-campus operation year-over-year, something close to one percentage points to two percentage points. And when you are reducing all the cooperative and overhead areas including the commercial expenses that we grew during this first quarter of 2016, we go to the final numbers that we have right now.

So, yes, we improved our margins in -- our contribution margin in on-campus operation this first quarter and also in the distance learning sector more than compensating the PDA levels, even in the distance learning when you compare to the second -- first quarter of 2015.

A - Rogerio Melzi {BIO 16212298 <GO>}

And as for your second question, the truth is that nothing changes, I think it's a natural evolution. When we think of this new area, this services area, it is something that we already had in the past and then at some point we joined with the CFO, under the CFO responsibility, but it is something that had been in my mind for almost a year and a half.

Even before this crisis, I had been thinking about you know getting back to this services area, because I think it's absolutely key that a company that intends to keep growing, even during these bad times, these hard times, a company that will consolidate that we will make acquisitions therefore needs to integrate a lot, a company that is all about service, (inaudible), a company that needs to learn to improve the way we are servicing our internal public so that this internal public can serve -- service even better.

Our external public, our clients, our students, a company that wants to be a multi-business company which by definition has an implication of developing new ways of delivering our -

- our content of -- of distributing our products and so forth. So we need to focus a lot on these services strategy. And when I look it inside at my team, I saw that Virgilio was by far the best option we had, because Virgilio has a huge background on services processes, as he used to be a partner, a consultant in TOTVS Consulting here in Brazil.

As for the CFO side, I think Pedro will add a lot to us, for the main reason, that Pedro has been doing that for his entire -- entire career. And this is different from Virgilio and from myself, I was the previous CFO. I think Virgilio did the best he could, but at the end of the day it's not our core skill, so Pedro is going to bring this, you know a set of skills, I think he can, for example, add a lot to our efforts to improve our receivables, our collection, our you know credit score here in Estacio, as he brings all of the experiences from his time in the retail industry. And I think because Pedro will not be you know concerned with this part of the business, I mean, technology and services, Virgilio will be taking care of that. Chances are that Pedro have much more time to look, for example, at you know the relationship with investors, so chances are that he will spend more time with you, talking to you, helping you to understand the business. Chances are that he will have more time to help me to think about you know the future strategies for Estacio. So I'm truly confident that it is the right move you know to make, it's not going to change, but I think it is again a natural evolution for our business.

Q - Rodrigo Gastim {BIO 19694950 <GO>}

Yes. That's excellent. Thanks Melzi, thanks Virgilio.

A - Rogerio Melzi {BIO 16212298 <GO>}

Thank you, Rodrigo.

A - Virgilio Gibbon {BIO 16679141 <GO>}

Thank you.

Operator

(Operator Instruction) Our next question comes from Bruno Giardino of Santander. Please go ahead.

Q - Bruno Giardino {BIO 15974970 <GO>}

Hello, good morning everyone. Just a quick follow-up from the FIES. I think today was the day than the companies were expected to receive the pass-through of May related to April on the FIES receivables, you mentioned a volume of BRL222 [ph] million. Is this -- is this a 100% of volume you were expecting for -- for this month?

A - Rogerio Melzi {BIO 16212298 <GO>}

Bruno, hi. It's actually a bit above, so we did a 100% [ph], so we are pretty happy with that. We think it was a great sign from the Ministry of Education. Actually the expectation was for today, they did that last night indicating that they are pretty serious about what they are doing. Yes, you want to add something?

A - Virgilio Gibbon {BIO 16679141 <GO>}

Yes, just adding, why is it a little bit above, Bruno, because we're always considering which would be the day that the Ministry of Education will read all the contracts that they have already confirmed in April. So we consider -- every month we consider something between day 20 and 25th of each month, and depending on the day that they confirm the -- the reading, the transfer will be higher or lower what we are expecting, so -- from what we are expecting, so we expect something close to 200 million and we are receiving BRL222 [ph] million right now.

Q - Bruno Giardino {BIO 15974970 <GO>}

Okay. Understood. Thank you.

A - Virgilio Gibbon {BIO 16679141 <GO>}

Okay. Thank you.

A - Rogerio Melzi {BIO 16212298 <GO>}

Thank you, Bruno.

Operator

(Operator Instructions) We have a follow-up from Rodrigo Gastim of BTG Pactual.

Q - Rodrigo Gastim {BIO 19694950 <GO>}

Yes. Thanks for taking my -- my question. If I may, I just would like to know what are your capital allocation plans going forward, I mean with this mid to small-sized players eventually struggling with this economic downturn, I believe that the consolidation is again one of the most important drivers of growth in the sector. So I just would like to -- you to share your thoughts with us on future M&A activities and also if you intend to increase eventual payout or -- or make some like buyback programs, in other words, what to do with the cash, right? Thanks very much for -- for -- for my -- that's my last question. Thanks.

A - Rogerio Melzi {BIO 16212298 <GO>}

Well, I thank you for your question, it's quite an important question because this is the kind of problem everybody wants to face, right, what you do with cash especially after an year like we had in 2015. But it is true, it is happening, it is something we somehow expected, and we are happy to confirm that this is just about to happen.

Yes, there are these two possibilities, M&A is one. We have been doing M&A in a very, I would say, intense way, a lots of things in our pipeline. But the truth is that if we keep going with this small and medium-sized acquisitions, and again by medium-sized acquisitions, we not necessarily are small in terms of capital needs, but the way we've been negotiating these potential acquisitions is to split these payments into installments, three, four, five years, whatever is possible. And if this continues, the truth is that it's not going to consume a lot of cash in the -- in the next years.

Obviously this changes if we have a more sizeable opportunity, especially if this opportunity doesn't take in account the possibility of using you know our own shares, which by the way with this current level, it will be a really difficult for us to do anyhow. So unless there is a more sizeable acquisition, the truth is that we're going to have a lot of excess of cash in our hands which brings us to a payout. I think payout is a very real possibility we're going to face from now on.

And when we look at the possibilities you know that we have in our hands, when you consider the level of evaluation Estacio is trading right now, which is absolutely in our view at least not related to the things we see here inside the company. Payout is likely to be the best option we have in our hands. Obviously we need to bring this to our Board. We already have a program, it is up and running. We can obviously work in that program, but if we want to go further, if we want to go ahead or beyond that actually, we need a further authorization, which I think the Board will take into account in a very careful way. So, yes, the -- the answer is that we are going to take this as a one of the best possibilities in our hands.

Q - Rodrigo Gastim {BIO 19694950 <GO>}

Yes. That's very clear. Thanks very much, Melzi.

A - Rogerio Melzi {BIO 16212298 <GO>}

Thank you for your question.

Operator

And since there seems to be no further questions, I would like to turn the floor back over to Mr. Rogerio Melzi for his final remarks.

A - Rogerio Melzi {BIO 16212298 <GO>}

Well, I would like to thank you all for taking part in our first quarter call. Just like to emphasize that we remain confident in our capacity to generate significant results even in difficult times. Thanks to everything we did during those years when the scenario favored the education segment.

I would also like to emphasize that in these hard times well prepared company shall be able to show the results of their work in a more effective way. In our case that means keeping marching steadily our 20-miles year-after-year. Our IR team department is always available for further questions. I hope to see you soon in our next call. Thank you, and have a good day.

Operator

And this concludes Estacio's conference call. You may disconnect, and have a good day.