

## Q3 2014 Earnings Call

### Company Participants

- Rogerio Frota Melzi, Chief Executive Officer
- Virgilio Deloy Capobianco Gibbon, Chief Financial and Investor Relations Officer

### Other Participants

- Maria Azevedo, Analyst

### Presentation

#### Operator

Good morning, ladies and gentlemen. Thank you for standing by and welcome to Estacio's Conference Call to discuss the Third Quarter of 2014 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](http://www.estacioparticipacoes.com.br/ir) together with the respective presentation and the earnings release. We would like to inform you that during the Company's presentation, all participants will only be able to listen to the call. 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 the forward-looking statements. Such statements speak only as of the date that they are made, and the Company is under no obligation to update them in light of new information.

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

#### **Rogerio Frota Melzi** {BIO 16212298 <GO>}

Well, thank you very much and good morning, everyone. Welcome to the conference on our results for the third quarter of 2014. And here is our CFO, Virgilio Gibbon, and also is our IR team. And we're going to open up for questions at the end of the presentation.

So let me start by showing in slide number two of our presentation, which is also available on our website. The main indicators for the year's third quarter, so there we have maintained and actually surpassed the solid growth base recorded in the first semester.

FINAL

Bloomberg Transcript

FINAL

We concluded another record high intake process, the nine in a row for the on-campus and distance-learning segments. The on-campus undergraduate segment brought 67.5000 new students to our base, a 6% growth in comparison to last year. Even considering the effect of the World Cup on the conventional rates from registration to enrollment. Especially larger cities where by the way we are mostly present.

Growth was even higher in this distance-learning segment. We enrolled 27,000 new distance-learning undergraduate students a 30% increase in comparison to third quarter '13. And I have also concluded a number of acquisitions that helped our student base to grow, which ended up climbing by an impressive 37.7%.

Excluding the acquisitions concluded in the period, we will have posted solid organic growth of 23%. This student base growth led to a substantial increase in net revenue, which climbed by 43% in comparison to third quarter last year.

Excluding acquisitions, the organic net revenue grew by 33%. At the same time, we continue to improve controls over costs and expenses. As a result our EBITDA totaled R\$164 million in the quarter up by 63% in comparison to last year with a margin of 26.3%, 3.3 percentage points higher than the year before.

Net income grew by 54% to R\$133 million in third quarter '14, generating earnings per share of 0.42, 45% higher than in the third quarter '13. As a consequence, we continue to maintain a good cash flow level, which has actually been good in every quarter. This time the operating cash flow was positive by R\$74 million in the quarter totaling 170 million in the year-to-date.

These reinforces our increasing ability to generate cash in a sustainable manner in the years to come. This quarter we also began the integration of our largest acquisition ever UniSEB. Besides the 39,000 students we added to our student base, UniSEB is indeed proving to be an excellent asset from both operational and an academic standpoint and more importantly, it provides us with sufficient scale of penetration to accelerate the growth of our distance-learning segment.

In third quarter '14, we also announced the acquisition of Literatus, an institution with 4.8000 students and 14.2 authorized seats, marking our entry in Manaus, one of Brazil's most important cities where we were still not present.

We now operate in 21 Brazilian states and the Federal District, and remain firmly committed to our strategy of painting Brazil's map blue through a small and medium-sized acquisitions in strategic locations, and then leveraging our growth from these platforms. Our Expansion strategy, does not rely solely on acquisitions though.

We keep growing organically through greenfields and in the second semester, we opened two new units, Venda Nova, in Belo Horizonte and Bueno, in Goiania, which will contribute to further leveraging our operation in these cities.

I'll now hand to Virgilio, who will give more details on our results for the third quarter and will return from a final remarks at the end of the presentation.

## Virgilio Deloy Capobianco Gibbon {BIO 16679141 <GO>}

Thanks, Melzi. Good morning everyone. To begin, I would like to draw your attention to slide number three, which shows our operating results.

The first chart shows the student base in the third quarter, 2014. We ended the quarter with 468.9000 student, up by 37.7% in comparison to the last year's same period. Under the same shops concept, not considering the acquisitions made in the last 12 months, the student base grew organically by 23.2%.

Our on-campus under graduate, same shops student base totaled 303.3000 students in September. The organic growth of the student base came to 17% confirming our expectations in the relation to the sustainable growth of our student base.

Considering acquisitions in the period, total growth came to 21.8% for the on-campus undergraduate segment. The distance-learning undergraduate student base grew organically by 24.2% and compares to the same period last year totaling 78.4000 students.

Considering graduate students, the total number of students came to 93.3000, a 38.4% increase. When adding the distance-learning students from UniSEB, the number totals more than 120,000 students in the distance-learning segment, which becomes increasingly important to our business.

This chart on the slide shows that the net operating result increased by 42.6% when compared to last year totaling R\$624.8 million. This increase is a result of organic growth of the student base, the positive variation on the on-campus average ticket and the integration of the acquired companies.

The table on the lower part of the slide shows that in the third quarter 2014, the average on-campus ticket went up by 13% reflect our continuous ability to increase prices sustainably as well as by the mix effect reached among other factors results from the fact that FIES students chose higher add value cost especially in the fields of engineering and healthcare.

The distance-learning average tickets dropped by 13.2% in third quarter last year -- this year, sorry. Mainly due to one, approximately 30% growth on intake, which impact the average given the higher number of discounts in the process of converting prospect. Number two, the substantial 84.2% growth on the graduate student-base. Three, the already mentioned recurring effects of distance-learning price adjustments in certain locations, in order to align prices with the local market profiles. And four, and the number of the students in the EAD Mais program an option which dilutes the course curriculum and, consequently, its value, over a further two semesters which, besides the maturation of its base register another strong intake this semester.

Let's move now to slide four, which shows the vertical analysis of our operating costs and expenses. In third quarter 2014, the cash cost to net revenue ratio reordered at 2.6 percentage point improvement over last year, mainly thanks to gains in the following lines.

Number one, 1 percentage point in rentals, which accounted for 7.5% of net operating revenue due to the dilution gains we have been pursuing in this item and in line with the results obtained in the first semester 2014. Number two, 0.8 percentage point in personnel reflecting the efficiency gains in faculty cost management, which more than offset the impact of labor convictions and agreements. And three, 0.6 percentage points in textbooks materials.

In third quarter 2014, commercial expenses represented 7.3% of net revenues, generating our margin gain of two percentage points because of the substantial two percents point improvements in PDA reflecting both the better management of our current receivables and the success of our strategy to recover older debt from our receivables portfolio.

G&A expenses represented 14.7% of net revenue, 1.4 percentage point worse than last year. Basically due to an increase of 1.8 percentage point in personnel due to the higher volume of grants related to our share-based compensation programs, the stock option plan and long-term incentive program essentially related to the launch of our 6th stock option program, which consisted of a new grant for the entire Executive Directors as of July 2014. Furthermore, we keep linearizing the bonus provision, so to better distribute throughout the year.

Slide five shows the evolution of our EBITDA and net income in the period. In the third quarter of 2014, EBITDA came to R\$154 million up by 62.6% by EBITDA margin of 26.3%. 3.3 percentage points above the EBITDA in the last year.

Mainly due to efficient gains obtaining COGS and SG&A in addition to the consolidation of acquired companies.

Thus we present yet another consecutive quarter of consistent and sustainable expansion in our operating margins without highs and lows, which allows us to keep improving quality aspects of our business at the same pace of our operational growth.

Under the same shops concept and excluding the acquisition of the last 12 months EBITDA in the third quarter 2013 totaled R\$151.1 million with organic growth of 49.7% and EBITDA margin of 25.9%. 2.9 percentage points above the numbers achieved last year.

Our net income totaled R\$133 million up by 54.1% in comparison to the same period the year before with a net margin of 21.3%. In the same shop concept our net income totaled R\$123.6 million for a net margin of 21.2%.

We'll now move to slide number six, which shows our accounts receivable. The number of net days receivable including FIES receivables and FIES net revenues rose to 83 days in

the third quarter, seven more than second quarter 2014 due to the students who are still contracting a FIES [ph] a common characteristic of all the quarters.

So at the end of September approximately 7.6000 students were still in the process of adhering to FIES. Excluding FIES, net revenues and FIES receivables the average days receivable was 81 days, eight days less than second quarter 2014.

Moving now to slide seven our FIES accounts receivable line in third quarter 2014 came to R\$222.2 million up by R\$93.6 million quarter-on-quarter, a normal result of the concentration of FIES contract amendments at the beginning of the first semester and the increase in the FIES student base.

Carry-forward credits dropped by R\$32.4 million in the third quarter '14 down to R\$50 million. This year, FNDE formalized the new monthly buyback program schedule, which has actually been effective since the end of 2013. According to this new schedule, we received the amounts referring to the buyback of the certificates only on the first few days of the subsequent month.

As a result, the balance of our carry-forward credits account is always higher at the end of the quarter, despite the fact that we received the amounts a few days later. In third quarter '14, the pending amount in September totaled R\$50 million, while in July this amount was R\$81.4 million. The average FIES days receivable adjusted for this new schedule, came to 86 days maintaining the trend to rise in all the quarters. When there is a concentration of FIES contract amendment.

The slide number eight highlights the aging of our receivables and agreements, which also again are helping the third quarter '14. We have maintaining our low percentage of agreement, thanks to our strict debt renegotiation policies. In this quarter, only 7% of our receivables came from negotiation with students, three percentage points less than in last year.

The percentage of receivables for renegotiations overdue more than 60 days accounted for 27% of the total agreements or only 2.1% of total amounts receivables.

Let's move on to the slide number nine, which shows our quarterly cash flow. In this slide we showed the main lines of our cash flow in the quarter without considering the adjustments for the new buyback auctions schedule.

In the third quarter, our operating cash flow was positive by R\$74 million up by R\$16.8 million in comparison to the same quarter in 2013. If we adjust the cash flow to the new schedule, which benefits the even quarter much more given the higher receptions in this quarter, the adjusted operating cash flows would have totaled R\$42.5 million in the third quarter 2014.

It's also important to keep in mind that the process of contracting FIES was late due to the impact on the World Cup on the academic calendar and one-off operating problems in

FINAL

Bloomberg Transcript

SisFIES in August. Therefore, cash flow generation fourth quarter 2014 should show positive results when compared to the third quarter. In fact, in October, we already saw a transfer of R\$148 million related to FIES.

Moving onto slide number 10, I would like to say a few words about the integration of UniSEB. We initiated the process immediately after we had closed the acquisition deal on July 1st. After having planned the takeover during the waiting period for CADE's approval. Among our initial actions the priority was to take over control of our (inaudible) financial operations with the goal of integration process system and people to discuss this model.

As a result, the main BackOffice operation, financial supplies and accounting have already been integrated with Estacio's Shared Services Center and the immigration we assume is a 100% concluded. In addition, we have already migrated 12 distance-learning centers to Estacio's on-campus unit, which still did not offer distance-learning.

Seeking to immediately leverage distance-learning operations we invested in action focused on the intake process. Number one media placement on Radio and TV in the UniSEB markets where Estacio did not have any business operations; two, enrollment campaigns for UniSEB through Estacio's website.

It's also important to highlight that in third quarter 2014, we opened up the Medical Course on the campus in Ribeirao Preto, with 76 seats with a ratio of 15.7 candidates per seat. We have also initiated the intake process for 2015 by concentrating on courses more aligned with the market demand and with the implementation of Estacio national curricula with the goal of maintaining the quality of the traditional course, yet at more competitive price.

In this context, we are very confident that the intake process should improve when compared to the first half of 2014.

Moving on to slide number 11 I will say a few words about system integration.

We started the first migration wave by fully implementing the SAP system in UniSEB and by transferring the students by 12 migrate centers to Estacio's academic system.

This process was successfully concluded at end of the third quarter of 2014. The success of this first migration provides us with the confidence to carry out future migrations with more centers and students.

The second wave comprising a higher number of centers will begin in November. The goal is to operate these centers under Estacio's academic system in the first half of 2015. We will have a third migration wave for remaining centers and students approximately 20% of the total, which should take place in the second half of 2015, ensuring a solid and seamless integration process.

FINAL

Bloomberg Transcript

FINAL

Simultaneously, we initiated the process to unify the curricula of the distance-learning undergraduate courses by combining this best features of Estacio's and UniSEB's programs. These actions will involve adjustment in the textbook materials and the evaluations process, and will provide the following benefits, better use and cost reduction of textbooks. Gains of scale related to academic and class occupation management.

At the same time we keep monitoring the authorization process of new distance learning centers for UniSEB. We will keep the market informed on the future develops on -- in this respect.

I'll now hand the presentation over to Melzi for the final comments and conclusion.

### **Rogério Frota Melzi** {BIO 16212298 <GO>}

Well, thank you Virgilio. Moving on to slide number 12, let's talk a little bit about our strategy during this past two years and also about the way we are seeing our current moment. As we have mentioned on several occasions, we like to device Estacio's timeline in four different stages. The first stage, which goes from the creation of the company to GPs arrival in 2008 is marked by a lot of pioneering, entrepreneurship and innovation, which result in very rapid growth, but with no focus on internal processes that every great company with an accelerated growth pace usually needs.

The second stage, which comprise the period between 2008 and 2011 was characterized by a staff's turnaround. A period whenever we recorded a low growth rates and decided to reorganize the entire operational along the tripod, we believe to sustain any successful business, product, processes, and people.

Such turnaround not only helped us to foster the organizational culture (inaudible) but also provided us with a series of competitive advantages that has been allowing us to experience a period of excellent results, which started in the beginning of 2012.

We believe much of what is happening today is a direct result of what has been done here during -- or what was done here during the turnaround years. With the eventual help from an external positive scenario for our segment.

However, we cannot sit on this positive perspective and relax based on what we achieved under this favorable conditions. Indeed we don't want to get accommodated precisely because we know we are reaping the fruits from seeds planted a few years ago.

So we are aware about the need to plant new seeds for the future. While over, we know that the future is quite uncertain and thus will may face different conditions regarding for example, new competition dynamics, new technologies, and possible adjustments to the current public [ph] policies.

In this context, we have decided to take this time of calm waters to prepare our Company for a new phase, which even though has not date to begin at this point, we're for sure be

Bloomberg Transcript

more challenging several aspects.

To achieve this, we are currently working here on two major fronts. The first is to accelerate our growth in the several fronts in which we already operate without losing neither our main characteristic of being male and organic player, more our focus on our core business.

The second front is to create plan, implement, and build gradually a series of attributes that should become great differentials as the years (Audio Gap) education. Besides the entire new businesses area, which every quarter gains importance as it gives new fronts in both these partnerships. More importantly, we must mention that while we were building all these new (inaudible) we have improved our quality, satisfaction and brand perception indicators year after year.

This is why we may, extremely building the foundations that will differentiate us in the near future. Such projects do not come to life overnight. Since they usually need some time to be absorbed by the entire organization.

For example, it is not enough to have the (inaudible) or a limited investment resources for a company to become truly innovative recurring [ph] effect, a true innovation culture only exists when they're part of the core of the institution and happens everywhere on a continuous basis.

For this reason, we feel great satisfaction to our legacy at this point some concrete results from projects we have been implementing in a (inaudible) since the end of 2012.

Slide 14 and 15 shows some samples of this project. So our investors can have a brief idea of the depth of these things for us. Please note the live photo of -- 14 showing a lecture on our entrepreneurship and innovation achievements we gave for an audience of more than a thousand young entrepreneurs in an innovation meeting with people from the whole country.

Still on slide 14, we can see some example of our efforts to build a national brand through our association with the Flamengo basketball team, with the Schurmann Family Expedition and Rio 2016 Olympic games, which are only possible given our strategy to adopt to one single national brand.

Moving to slide 15, we can see (inaudible) dedicated space for training and development. Our corporate university named Educare and the size of our Annual Faculty Forum which this year brought together a thousand professors in Rio de Janeiro. Thus creating the perfect feeling of belonging and pride to be part of Estacio, which is essential to our branding strategy. We must also comment that we have Brazil's largest (inaudible) for institutions for all over the country and also won an international award based on the performance of our scientific papers linking it to our masters and PhDs programs.

FINAL

Bloomberg Transcript



FINAL

Still better, we need to talk about ADITEC, our applied research agency which seeks to match the supply from our researchers, both professors and students to the demand for hundreds of companies in Brazil that didn't have solving their specific problems. In a nutshell, there's a lot being on at Estacio right now, always (inaudible) on the present and the other on the future.

After all, if on one hand we have all the indications that 2015 has everything to bring another set of great results as the recent earning (inaudible). We must remain focused on our 2020 vision, which you can find on slide 17. After all our vision keeps reminding us day after day that it is our desire for the coming years to become the best choice for our three main stakeholders, our students, of course the employees and you our investors.

These are our comments, we now open up for the question-and-answer session. Thank you.

## Questions And Answers

### Operator

(Operator Instructions). Since there seems to be no questions, I would like to turn the floor over to Mr. Rogerio Melzi for his final remarks.

### A - Rogerio Frota Melzi {BIO 16212298 <GO>}

Well, thank you for taking part in this conference call. Since there are no questions, I like to make some points I made in the previous call in Portuguese just to give everyone the same kind of perspective. Well, first of all, let me tell you all that, Estacio lives a wonderful movement, it's been like that for a while now. And it keeps, I mean, the scenario and everything we are doing here keep giving us a lot of confidence when it comes to our future perspectives.

We had another set of outstanding results. In our view, we are very happy with what we achieved in the third quarter. Even while we consider that we did have some one-offs in these results, for example, we did launch some provisions for our future stock option plans and this is kind of a one-off effect because they tend to be smaller, starting in April 2015. Also in our integration efforts with UniSEB in Ribeirao Preto, we right now have a lot of duplication going on. People from Estacio working together with people from UniSEB as we like to usually adopt to very gradual and responsible approach when it comes to integration. But really at some point this event and we'll be able to eliminate this kind of duplication, therefore increasing our margins on a faster pace.

I think we also have another great news this morning. And it is a great victory for the entire segment, and this was the announcement of the publication, the official publication of the renewal process for the PROUNI, ensuring that all of us will have the right to renew our PROUNI problems for the next 10 years. And again, this gives us a lot of confidence and comfort when it comes to (inaudible) planning for the coming periods.

FINAL

And finally, when it comes to planning our expansion for the future years, I would just like to give you some quick numbers to show how confident we are in terms of bringing and keeping the students in our student base. Just to give you a flavor. In

2013, we had approximately 3.6000 classrooms. This number right now is close to 4.1000 classrooms and we expect this number to grow a little bit above 5,000 classrooms over 2015.

We currently have 645,000 square meters of area in all of our campuses and we expect this number to increase by almost 100,000 square meters to something close to 740,000 square meters. And this is without considering any kind of acquisition, because obviously we can count on things that haven't happened yet.

I think these numbers show a little bit of our confidence when it comes to keep growing this company in a gradual, responsible, but still very interesting way.

With that, I think we can close our call here. Once again, thanking everyone for joining us and hoping to see everyone in the following -- sorry, there is a question? Sorry, one question came here. Well, I'll hand you over back to the operator.

## Operator

Thank you. We have a question from Maria Azevedo, UBS.

### Q - Maria Azevedo {BIO 16178885 <GO>}

Hi, congrats on the numbers. My question relates to price adjustments above inflation. Are there any indication of this comfort from the government side in terms of institutions increasing prices for the on-campus segment much higher than inflation or are you seeing any (inaudible) players using this practice, any concerns in terms of price cap regulation or anything on that front? Thank you.

### A - Rogerio Frota Melzi {BIO 16212298 <GO>}

Well, many thanks for your question. We haven't seen any kind of sign from the government regarding that. But I think on the other hand we are -- and I think, when I say we, not only Estacio, but especially the bigger players, we kind of have this association, we speak a lot about that. And we are acting very responsibly when it comes to passing prices especially because, you know, what happened in US in the past years.

So we don't want to follow the same kind of or find the same kind of situation happened in the west. So what we are doing at Estacio, we have passed the inflation through eventually one or two extra percentage points we did add over the last two or three years. But these effects we're seeing, this price increase around 13% on-campus has a lot to do with what is happening with the mix as the student with this possibility of using FIES are likely to choose more expensive programs, especially programs related to engineering and health. Obviously because they give better perspectives for them in future.

Bloomberg Transcript

And obviously that also brings this kind of a mixed effect, which explains why we are growing to this extend [ph] in terms of price for on-campus. That doesn't mean whatsoever that we are passing all this increase to our student base. But again having said that, I think everybody is quite aware of our responsibility when it comes to taking care of our prices without abusing of this possibility FIES is bringing to all us. Okay.

**Q - Maria Azevedo** {BIO 16178885 <GO>}

Okay, perfect. Thank you.

**Operator**

This concludes today's conference. Thank you for attending, you may now disconnect.

*This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.*

FINAL

Bloomberg Transcript